Fit for Partnership with Germany

Management Skills in the Business Practice of German Companies

MANAGER TRAINING PROGRAMME OF THE GERMAN FEDERAL MINISTRY FOR ECONOMIC AFFAIRS AND ENERGY

Corporate Management

The Principles of the German Economy

International Project Management

Human Resource Management

Business Plan

Preparing a Contract

Intercultural Management

Quality Management

Corporate Communication

Search for International Business Partners

Global Business Process Management

Innovation Management

Marketing and Logistics

Leading Negotiations with International Partners

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Preface

Dear Readers,

This publication is primarily intended for participants in the Manager Training Programme (MP) of the German Federal Ministry for Economic Affairs and Energy (BMWi), who take part in their training in Germany and in German companies. The MP strives to help foreign executives build business relations with German companies, making them 'fit for partnership with Germany', as the motto goes.

The GIZ and its partners in Germany and MP partner countries have defined core competencies that foreign executives must master to be able to cooperate with German companies and successfully conduct business on the German market. These are leadership, HR management, quality management, marketing and logistics, innovation and change management, international project management, global business management, intercultural communication and corporate presentation, sourcing for international business partners, negotiation skills, contract drafting, and business plan preparation. Familiarity with the German business practices is also crucial. Methodologically, these competencies are at the core of training and can be directly employed during the practical component of the training when the executives begin approaching German companies. During company visits and negotiations with business prospects in Germany, the MP participants can experience German business practices first-hand. The present publication provides some preliminary insights into these.

The authors outline how the different competencies are implemented in German companies and essentially reflect intrinsically 'German' characteristics, approaches and attitudes. They moreover make clear that different strategies exist within German industry whose implementation often depends on the company size and traditions as well as the industry within which the company operates. The authors' background being in companies, consulting firms and educational institutions with close links to industry, they are all recognised experts in their respective fields. Their contributions moreover take a variety of different formats, ranging from a lecture style through expert articles to field reports. All have in common their extremely practical focus and contain specific examples, recommendations for action and suggestions for further reading to enhance the benefits for readers. The contributions reflect the personal opinions of the authors.

We wish you an enjoyable and interesting read!

In the name of the Manager Training Program
Reimut Düring, Program Director at GIZ

Content


QUALITY


MARKETING
INFORMATION
BLOG
RELEASE


PROCESS
MANAGEMENT

The Principles of the German Economy

The German economy is based on the concept of a social market economy. It combines the efficiency of the free market economy with social policies. A targeted economic policy includes the promotion of competition, representation of business interests and the dual training system. In general, Germany's current economic policy is based on two principles: sustainability and promoting investment. Promoting private and public investment is an important principle, because this includes promoting the so-called Mittelstand (mid-sized sector). The German economy has a huge focus on foreign trade.

GERMANY'S POLITICAL STRUCTURE, INTERNATIONAL LINKS AND ECONOMIC PROFILE

The Federal Republic of Germany has existed in its current form since 3rd October 1990. Although the Federal Republic was founded on 23rd May 1949, this only included West Berlin and the ten federal states in West Germany at the time. The 10 states were: Baden-Württemberg, Bavaria, Bremen, Hamburg, Hesse, Lower Saxony, North Rhine-Westphalia, Rhineland-Palatinate, Saarland und Schleswig-Holstein. In 1990, West Germany (Federal Republic of Germany) and East Germany (former German Democratic Republic, founded 7th October 1949) were reunified and the number of federal states increased from 10 to 16.

The six new states, the so-called "neue Bundesländer" are Brandenburg, East Berlin, Mecklenburg-Vorpommern, Saxony, Saxony-Anhalt und Thuringia. East and West Berlin were also merged into one state. Because of the different economic and social policies of both the former republics and their very different situations at the time of the reunification, the political discussion about the East-West divide continues to this day. The aim is to even out living conditions in the East and West, and this is also enshrined in the Basic Law of the Federal Republic of Germany. The quick transformation from a planned economy to a market economy resulted in the abolishment of state-owned enterprises, which had dominated in East Germany until then. While many industrial enterprises had to close, other companies were successfully restructured and are now able to compete internationally.

Political structure of the Federal Republic of Germany and the distribution of the political powers

The Federal Republic of Germany is a federal, organised parliamentary democracy with a pluralist array of parties. In a federal system, the individual state parties do not completely retain their sovereignty, unlike in a confederation. The Federal Republic of Germany is made up of so-called partially-sovereign member states – the federal states (Bundesländer). This partial sovereignty is maintained as a result of the distribution of legislative powers, among other things. This means that the Basic Law governs which political level – either the federal government or the federal states – can make sovereign decisions or adopt laws for specific fields. In principle, the federal states can enact laws as long as the Basic Law does not expressly stipulate something else.

International politics and international trade (trade policy, air transport, communication, nuclear energy, border protection) and foreign affairs in particular are exclusively matters for federal legislative powers. In the case of so-called "competing" legislative powers between the federal government and the states, the states are allowed to legislate independently until the federal government exercises its jurisdiction. This concerns civil law and criminal law, environmental protection and nature conservation, admission to higher education, maritime and road transport, trade union and labour law, research funding as well as laws about food, feed and animal protection. The states are responsible for all other areas.

At the same time, the principle of separation of powers holds sway in Germany, dividing power into the executive, legislature and judiciary. This principle is respected both at a federal and state level. This means that every state also has a state constitution, political institutions legitimised by elections, and the state-specific executive, legislature, and judiciary. The principle of the separation of powers is used to mutually keep the bodies in check. This means that at a federal level, the constitutional court (part of the judiciary) can check that the Federal Chancellor, the federal government and the ministries (parts of the executive) as well as the Federal President, the Bundestag and the Bundesrat (parts of the legislature) act in accordance with the Basic Law. This process also applies in the same way at state level. The distribution of the legislative powers between the federal government and the states is also a part of the separation of powers.

International political links

Germany is a particularly influential country in Europe. It is also the strongest economy in the EU and in the eurozone. As a member of the most important international organisations, associations and confederations such as the UN, NATO and G7, Germany is also very influential on a global level. However, many commitments have been made which affect Germany's sovereignty. In particular, membership of the **European Union** (EU), and of the European Economic and Monetary Union (EMU) since 1990 and eurozone membership since 1999. The eurozone is intended to serve as a counterbalance to the American and Asian markets with the creation of a large European single market. The EU and the EMU, which have roots going back to the 1950s, are supranational associations of 28 European member states, which were formally sealed with the Treaty of Maastricht in 1992. 19 of these member states created the so-called eurozone with the introduction of the euro as a shared currency on 01.01.1999 (cash changeover on 01.01.2002). For Germany just like for every other EU member state, there is a level of legislative power above the national government. This is somewhat similar to a federal system on a larger scale. The European institutions are divided between executive (European Commission), legislature (European Parliament, European Council, Council of the European Union) and judiciary (Court of Justice of the European Union, European Court of Auditors). For the 19 member states who also entered the eurozone, in 1999 the European Central Bank (ECB) was added as an executive body of monetary policy. Now it has the power to decide on the money supply, interest rate and the exchange rate as well as other exceptional monetary policy issues.

The EU is an individual legal personality that appears singly, to non-member countries through its joint foreign and security policy. As such, it is represented as a group at the United Nations (UN), G7 and G20 as well as the World Trade Organisation (WTO). There are both supranational and intergovernmental elements in common European policy. Every member state has a veto in the EU institutions and bodies for political decisions, and these must be reached unanimously. This means that the members give up a part of their national sovereignty to enable political integration and cooperation. These 28 member states also belong to the EMU. The EMU's goal is to create a stronger European single

market. Each member state has committed itself to gradually implementing economic and monetary policy measures. One of the EMU's main goals is to complement the single market with increased price stability, with a shared currency. For the 19 countries in the eurozone, Germany included, this means surrendering their own sovereign monetary and foreign trade policy. The European Central Bank (ECB) is now responsible for controlling foreign trade and absorbing economic shocks with the exchange rate, regarding the export and import sector. It is also responsible for influencing (domestic) movement of capital with monetary and interest rate policy.

Germany has been part of the **Schengen Agreement** since 1985 and since 1990 in its current reunified form. The Schengen Area does not cover the same area as the EU. It is made up of the EU without the United Kingdom and Ireland, but with the addition of Norway, Switzerland and Iceland. It facilitates the movement of people by removing stationary border controls on the internal borders. At the same time, customs checks for the movement of goods between EU states have been mutually lifted. In 1968, the **European Customs Union** was founded with the aim of abolishing tariffs and equivalent levies for member states, and this is still valid today. The purpose of this was to simplify the movement of goods and to strengthen trade between these countries. The customs union contains the EU as well as Turkey, Andorra, Monaco and San Marino.

The **G7** (Canada, France, Germany, Italy, Japan, the United Kingdom and the USA) is an informal union of industrialised countries with strong economies, which discusses issues relating to the global economy in regular congresses.

NATO (North Atlantic Treaty Organization) is a military defensive alliance formed after the end of the Second World War. It now comprises 28 Western countries, primarily in Europe and North America and includes Germany.

UN & World Bank, IMF and WTO: The United Nations (UN) is an association or international organisation of 193 states, and is a subject of international law. The UN's main goal is to safeguard and promote human rights and world peace. The World Bank and International Monetary Fund (IMF) are specialised agencies of the UN and their original purpose was reconstruction in the broadest sense after the Second World War. Put simply, the World Bank focuses more on supporting countries economically by providing capital at discounted rates and the IMF's primary focus is on countries with balance of payments difficulties. The World Trade Organisation is a related UN organisation and deals primarily with regulating international trading relationships. In particular, it serves as a coordinator and mediator in the event of disputes around trade matters. Germany is also a member of other international (economic) organisations such as the OECD.

Economic geography and economic profile

The Federal Republic of Germany has the strongest economy in the European

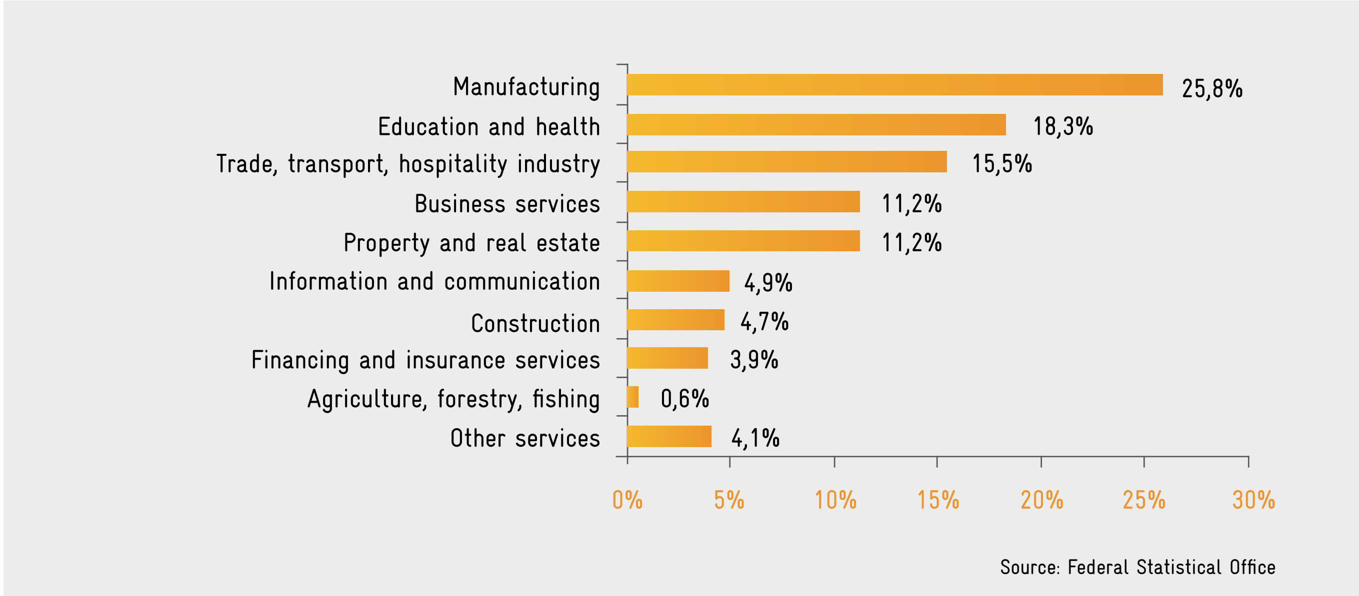

Figure 1: German value added for each sector in 2015

Union with a GDP of 3,026.6 billion euros (2015) and the fourth strongest economy in the world. 69.0% of value added is generated in the services sector, 25.8% in manufacturing, 4.7% in construction, 0.6% in agriculture, forestry and fisheries. Industry makes up a higher share than in comparably developed countries and higher than in most other EU countries. Industry plays an important role in both German value added and for exports.

The four most important areas in industry are automotive engineering, mechanical engineering, the chemical and pharmaceutical industries and the food industry. Like in other large countries, there is an economic gap in Germany between regions with a stronger or weaker economy. The economically strongest areas are located today in the agglomerations in the south, particularly Munich and Stuttgart, but also in Frankfurt am Main and Mannheim. Other agglomerations are located in the centre of the country and the north, and these include the economically strong port cities Hamburg and Bremen, the Rhine and Ruhr area, Hanover as well as Berlin and Dresden.

There are many small and medium enterprises (SMEs) located in rural areas with a high density, particularly in the south. Over 99% of these companies are part of the Mittelstand, accounting for 60% of all jobs and 56% of the economic output. This includes many relatively unknown, niche companies that are world leaders in their speciality. They are often labelled "hidden champions" and are an important contributing factor in Germany's strong industry exports.

The German economy grew by 1.7% in 2015. This is above the medium-term average of 1.3% between 2004 and 2014. The growth drivers include the good basic conditions for investments in Germany. Germany is Europe's largest market with 80 million consumers and a high income per capita. According to the World Bank, Germany has the best infrastructure and logistics industry in the world. The legal system is transparent, independent and efficient. The workforce is also highly educated. More than 80% of workers are professionally trained or have a university education. Research intensity is also high: 2.84% of the GDP is invested in research and development. This is one of the highest amounts in the EU.

GERMAN ECONOMY

Social market economy

The Federal Republic of Germany is a social market economy, which combines the advantages of the free market economy, high efficiency and supply of goods, with social policies as a balance. With the price mechanism of supply and demand, production resources can be used efficiently, possibilities for consumption can be increased and innovation can be promoted. The social policies protect those who are unable to participate in free competition due to age, illness or unemployment etc. The most important principle is therefore to safeguard equal opportunities with social policies.

Targeted economic policy: regulatory policy and promoting the economy

In general, Germany's current economic policy is based on two principles: sustainability and promoting investments. Additionally, the basic principles of equal opportunities and social balance are also present in policy measures and objectives. Economic policy currently focuses on promoting private and public investment, promoting digitalisation, IT security and data protection, the progress of renewable energies, increasing energy efficiency) and the progress of the EMU regarding EU-wide public finances, state investment and opening up the EU single market further.

Promoting private and public investments is one of the most important principles, because this includes promoting the Mittelstand. Because of the weak investment activity recently, investment in infrastructure, research and development as well as in energy efficiency in particular are now to be increased. According to the Federal Ministry for Economic Affairs and Energy (BMWi), the federal government itself has increased its investment spending from 8.5% in 2014 to 9.7% of the total spending in the federal budget. On one hand this increases public investment in transport infrastructure, digitalisation and funding the use of renewable energy sources. On the other hand, increased investment at a federal level should relieve the states and municipalities so that these have a sustained amount of funding for infrastructure, education and childcare, which should notably strengthen the employment rates. Germany wants to continue to maintain and expand its position as an internationally competitive place for innovation and technology. A reduction in bureaucracy through the bureaucracy

> Germany wants to continue to maintain and expand its position as an internationally competitive place for innovation and technology.

relief law (Bürokratieentlastungsgesetz) and an improvement in the tax framework for venture capital and start-ups in Germany are intended. The aim here is to promote the Mittelstand, to promote private investment, and therefore also to promote innovation. These are the biggest hurdles for founding SMEs and their growth. In Germany, SMEs are considered to be growth and innovation promoters and they have been receiving more and more attention in terms of economic policy over the last few years as a result. For example, SME support schemes (especially the Small Business Act) have been set up at EU level. In Germany, the state-owned Kreditanstalt für Wiederaufbau (KfW) is one of the most important sponsors, providing subsidy programs, advice on founding a company and providing capital at discounted rates. In 2015, private investments made up around 90% of all investments in Germany.

Promoting competition, competition law and consumer protection

Another crucial pillar for German economic policy and a self-regulated element of the economy is effective competition. This promotes innovation, optimal allocation of resources, the sovereignty of consumers as well as efficient distribution of financial resources and limits economic power. In Germany, free competition has recently been promoted considerably with the opening up of network industries in the areas of telecommunications, electricity and gas, rail transport for regional and freight transport as well as postal services. Effective competition in Germany is also further protected by the law against unfair competition and by the law against restrictions on competition, with the premises of combating cartels, merger control and abuse controls. Of course this also works as consumer protection, for example, against excessive prices. This also includes the formal legislation on prices about price data and pricing (i.e. observing certain standards when pricing certain goods such as books). This ensures price transparency and the possibility of comparing prices and products available.

The state competition authorities (Landeskartellbehörden) for each state and the Federal Cartel Office (Bundeskartellamt) are implementing the cartel legislation, with merger control being solely the responsibility of the Federal Cartel Office. The Monopolies Commission monitors competition in individual economic sectors, particularly the development of individual companies' market power to „maintain competitive market structures". In special cases, the Federal Minister for Economic Affairs and Energy can act as a competition authority and issue or refuse a ministerial license to merge larger enterprises. In principle, these bodies serve to prevent any company's market power becoming disproportionate, which would lead to a distortion of prices and therefore damage the economy and consumers. On an EU level, a joint EU-wide competition law was introduced, which must be followed by national authorities and offices.

EU-wide guidelines for consumer protection were also introduced for the EU single market. Assuming that consumers generally have less information about products than the producers, the consumers' „health" must be ensured when it comes to certain goods and services. For example, there are directives on educating and informing consumers on health risks of food and medicine, consumer goods and other goods with a (partial) chemical composition. This also has a positive effect on the protection of workers at work. At the same time, consumer protection also regulates important legal aspects such as the guarantee and the right to cancel, in particular for remote sales contracts. The regulations at EU level supersede or supplement national regulations and are therefore to be implemented as part of national law.

Representing business interests

According to the German Basic Law, all citizens have the right to form associations and societies in order to combine their interests and to make them known. Economic associations in particular play an important role in this. Nearly every branch or industry in Germany has an interest group, and most have one at a European level too. These are involved in lobbying in the broadest sense of the word, representing the economic interests of companies and employers and helping to promote them. Regional Chambers of Commerce and Industry (IHK) engage in the self-government of the regional economy as bodies of public law. Each firm automatically falls under the responsibility of the relevant regional IHKs and its interests (regional economic policy, company promotion & further education, bureaucracy and tax, international matters) are therefore represented. At the moment there are 79 IHKs in Germany.

On the other hand, trade unions represent workers' interests in most cases. The unions' goal is to strengthen the negotiating position of individual workers with the employer or company. Collective bargaining autonomy, which is also enshrined in the Basic Law, allows two parties to agree on the terms of employment (pay, wage increases, leave and overtime regulations, the right to give notice, working conditions, etc.) without state intervention and to implement these legally. The state has to maintain strict neutrality in these matters. Collective agreements are usually specific to the industry, and deviations at a company level are only allowed in favour of the employee. In some enterprises there is also a company or group collective agreement. More than half of all employees in Germany work under one of these collective agreements.

The German labour market

At the moment the unemployment rate in Germany is particularly low, especially when compared with the rest of Europe. In 2015 there were around 43 million people in employment in Germany, which is higher than ever before. The same applies for youth employment. The dual training system, the so-called vocational education, is a significant factor in this. This allows school leavers who successfully completed their mittlere Reife (secondary school leaving certificate) after the 10th grade or after receiving their Hochschulreife (higher education entrance qualification) or university entrance qualifications after the 12th or 13th grade to join a firm as a trainee. There they receive dual training – practical training in the company and theoretical education at a vocational college – until their final exam. The dual training system is used in both skilled crafts and trades as well as commercial enterprises. It therefore offers young people prospects, particularly those who are not aiming for an academic education.

ROLE OF INTERNATIONAL RELATIONS AND THE EU SINGLE MARKET IN FOREIGN TRADE

The Federal Republic of Germany is one of the leading exporting economies in the world. In 2015, exports amounted to 1,195.9 billion euros. The country mainly exports high-tech goods such a machinery, transportation (mainly motor vehicles) and chemical products. Imports amounted to 948.2 billion euros in 2015, resulting in a significant trade surplus of 247.7 billion euros. The main imports are machinery, followed by fuels – mainly oil and gas – as well as transportation and chemical products.

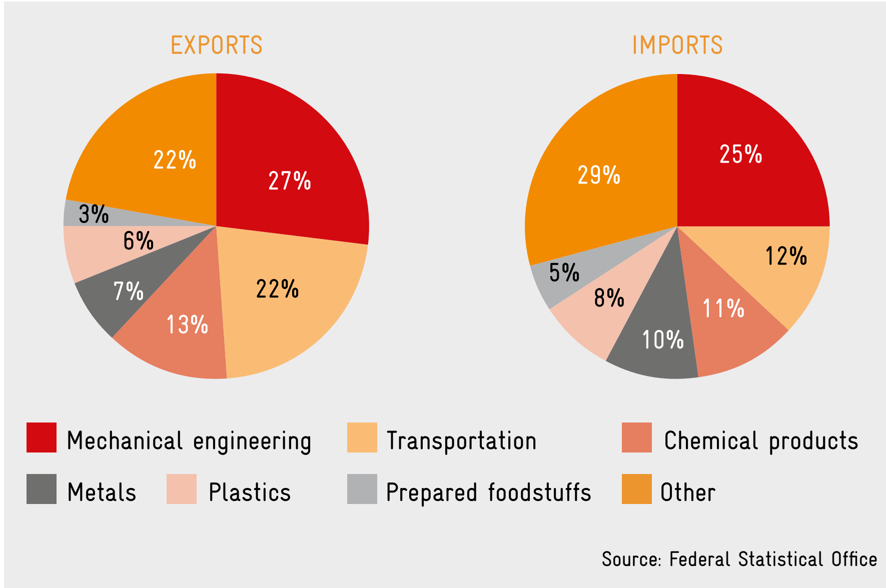

Figure 2: German export and import structure in 2015

The countries in the European single market are Germany's most important trading partners by far. In 2015, around 58% of exports went to partner countries in the European Union, and 57.3% of imports also came from these countries. The next most important trade partners are the United States and China, where Germany has a large trade surplus with the USA, and a deficit with China.

The European Customs Union forms the basis for Germany's close economic integration with its partners in the European Union. It guarantees the unobstructed flow of goods within its borders. Membership of the customs union means that Germany has to adopt EU standards. A public standardisation process creates uniform standards, which are adopted by all members as part of their national standards. The aim of this is to make the EU single market stronger. Another feature of a customs union is that member states can no longer follow their own customs policy. The EU represents a joint customs policy to non-member countries for its member states. The EU has concluded and implemented 52 trade agreements with other countries at present, which allows Germany to trade with these countries without customs barriers. In addition, future free trade agreements with 80 countries are being negotiated or have been agreed upon, but not yet implemented. In contrast to a customs union, with a free trade agreement the parties retain their customs autonomy. The downside to a free trade agreement as opposed to the customs union, is that the origin of the wares being traded have to be proven with a so-called certificate of origin, resulting in bureaucratic costs.

The agricultural policy of the EU countries was communised in 1962: The whole agricultural single market should therefore be subject to standardised rules. State intervention has therefore been transferred to the level of the economic community. All spending as part of shared agricultural policy, including direct payments to farmers, is borne by the EU community budget and is an important part of the EU total budget.

Ultimately, as a shared currency, the euro represents a further step towards integration, facilitating internal trade. A common currency offers advantages such as eliminating fluctuations in exchange rates and charges. Cross-border trade becomes

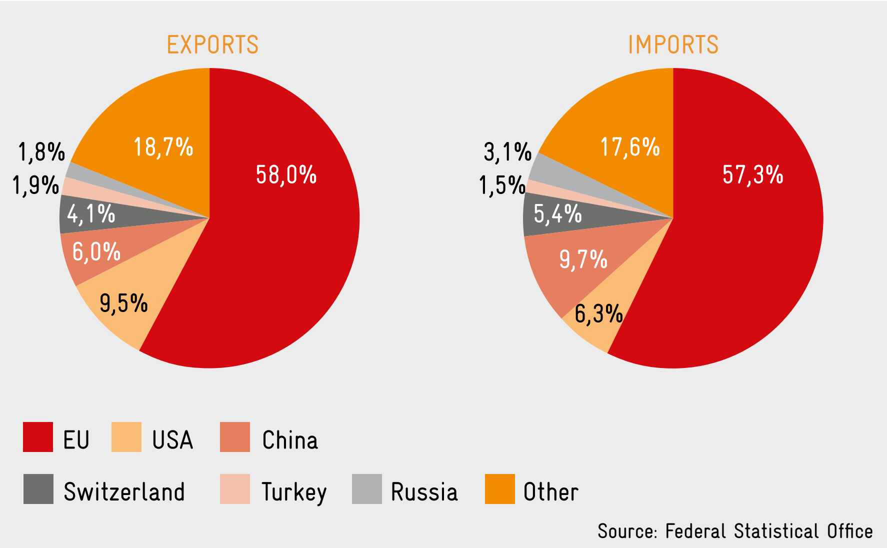

Figure 3: The most important trade partners in 2015

simpler for companies and a larger choice of products is available to consumers.

On the whole, Germany's EU membership offers considerable advantages for economic development and for bilateral transactions. From the point of view of firms, the reduction of administrative hurdles by unifying national standards and the elimination of formalities and duties at the EU internal borders are particularly beneficial. Businesses can operate freely in all member states, build branch offices and organise their supply chains and finances with any provider in the EU. In addition to large companies, SMEs can also increase their efficiency and become more competitive in this way. EU membership also strengthens Germany's position in global competition and its negotiating position with non-member countries.

SUMMARY

Germany is a federal, parliamentary democracy based on the separation of powers. It has existed in its current form since 1990. Germany is part of the European Union, a supranational grouping of 28 member states that form a common economic area, most of which share the euro as a common currency. The German economy is based on the concept of a social market economy, which combines the efficiency of the free market economy with social policies. A targeted economic policy includes the promotion of competition, representation of business interests and the dual training system. Germany has a huge focus on foreign trade, primarily exporting high-tech goods. The bulk of Germany's foreign trade takes place within the EU, underlining the importance of Germany's EU membership and the associated benefits for economic development and bilateral trade.

While economic growth is stable, economic policy and social policies continue to face interdependent challenges. These include the avoidable „investment gap“ and the gap between rich and poor. Germany is also facing the challenges brought by its changing demographics. Therefore, economic and social policy in the future will continue to compensate for the resulting shortages. At this point, according to the Federal Ministry of Economic Affairs and Energy, an increase in immigration of specialists and the successful integration of refugees could be an opportunity, not to eliminate this deficiency once and for all, but to counteract it.

The current very low rate of inflation in Germany as well as in the eurozone is markedly below the inflation target of 2%, and currently also reflects a weaker economy in parts of the eurozone. Nevertheless, Germany is benefiting from its own highly stable economy and increasing tax revenues. It is therefore well placed to pursue sustainability and investment promotion further with its own fiscal policy.

One of the biggest challenges on an EU level at the moment is the refugee crisis. This is putting European solidarity to the test and also challenging Germany to absorb and integrate a large number of refugees.

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Further reading

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- **European Union**
- **Federal Ministry of Economic Affairs and Energy**
- **European Central Bank**
- **Statistical Federal Office Germany**
- **Federal Institute for Vocational Training**
  The dual system in Germany

Corporate Management

In an international context, corporate management is a major challenge requiring integrated thought and action. This means that managers must be able to grasp complex situations, analyse these and reach the according decisions. Different models help managers and empower them as leaders of an enterprise in our complex corporate world.

In recent years, different corporate management systems have been developed to cater to this need. One well-known system for strategic management is the balanced scorecard (BSC) developed by Kaplan and Norton (Harvard University, 2001). It looks at four perspectives: financial, employees, internal business processes, and customers. Within each of these areas, three to four enterprise-specific key performance indicators (KPIs) are considered. Today, the BSC is one of the best-known systems for managing a business. The KPIs form the strategic framework.

The BSC provides an opportunity to consider the relationships between the four areas of the company from a holistic view. Adopting an interdisciplinary, holistic, process and feedback-oriented, integrated approach is today the biggest challenge for managers. Or to put it another way: the challenge lies in identifying the individual structures and processes for each company and all areas in order to successfully operate on the market in the long term.

Leadership

According to the Oxford English dictionary, "leadership" is defined as follows: 1. The action of leading a group of people or an organisation, or the ability to do this; 1.1. The state or position of being a leader; 1.2. The leaders of an organisation, country, etc. So "leadership" essentially means doing the "right" things. However, it can also be described as future planning activities and their evaluation and implementation (= effectiveness). In contrast, "management" means doing things "right" – or, in other words, to take care of routine activities (= efficiency).

A number of examples highlighting the differences between management and leadership are detailed in table 1.

Good leaders are above all not determined by their "knowledge" but rather by their "abilities" and their "integrated thought and action". Managers must therefore bring both aspects, management and leadership, to the table. The following key elements are important requirements for this:

Area	Management	Leadership
Decisions	Implementing decisions	Reaching decisions
Communication	Managing communication flows	Determining what should be communicated and how
Key drivers	Processes/controlling/implementation	Reality/vision/ideas/inspiration/evaluation
Possibilities	Action within set frameworks	Independent action, open to new opportunities
Outcomes	Efficiency Doing things right!	Effectiveness Doing the right things!

Table 1: Definitions of management and leadership for individual areas

- Every manager needs a personal vision ...
- ... and must be able to instil enthusiasm in and to mobilise others – particularly employees – for this idea.
- Managers must evaluate and assess their ideas with internal and external ideas and communicate their personal vision.
- Further development linked to the latest trends and technology in addition to continuous innovation are important components here (innovation).
- Within this, managers must ensure that processes and implementation activities go smoothly, in an optimal manner (optimal processes within the company).
- The rapidly-changing markets make it necessary to adjust the implementation strategies for a vision to the continuously changing challenges (flexibility).
- The integrated (holistic) management approach (integrated thought and action) forms the framework to implement the vision.

The points mentioned above show that managers require a varied set of skills for holistic management of an enterprise. Depending on the type of enterprise (e.g. start-up; company experiencing growth, restructuring) and the latest market challenges (e.g. the development of new products and services, entry into new markets, withdrawal from existing markets), managers must be able to activate their skills in a targeted and flexible manner. Only when management skills are combined with leadership skills can managers successfully manage a firm. This interplay is known as integrated management and leadership (IMLead®).

Managers as leaders

Managers, understood as leaders, are the driving force and regulator at a company. They decide on optimal use and combination of the production factors of work, resources, materials and capital. Managers are responsible for making effective, non-delegable, autonomous, ground-breaking and high-risk holistic decisions in all areas of the enterprise. These include the fundamentals and basic principles of company policy and the underlying company philosophy, fundamentals and basic principles of personnel policy, corporate goals, monitoring and coordination of operational sub-areas, representation and advocacy of interests.

Managers as leaders assume responsibility for formulating goals for the decision-making fields mentioned above and implementation of these vis-à-vis other people. Moreover, they must bear in mind that the optimisation of one area of the firm can have an impact on other areas. For a great many control loops and feedback processes within a company

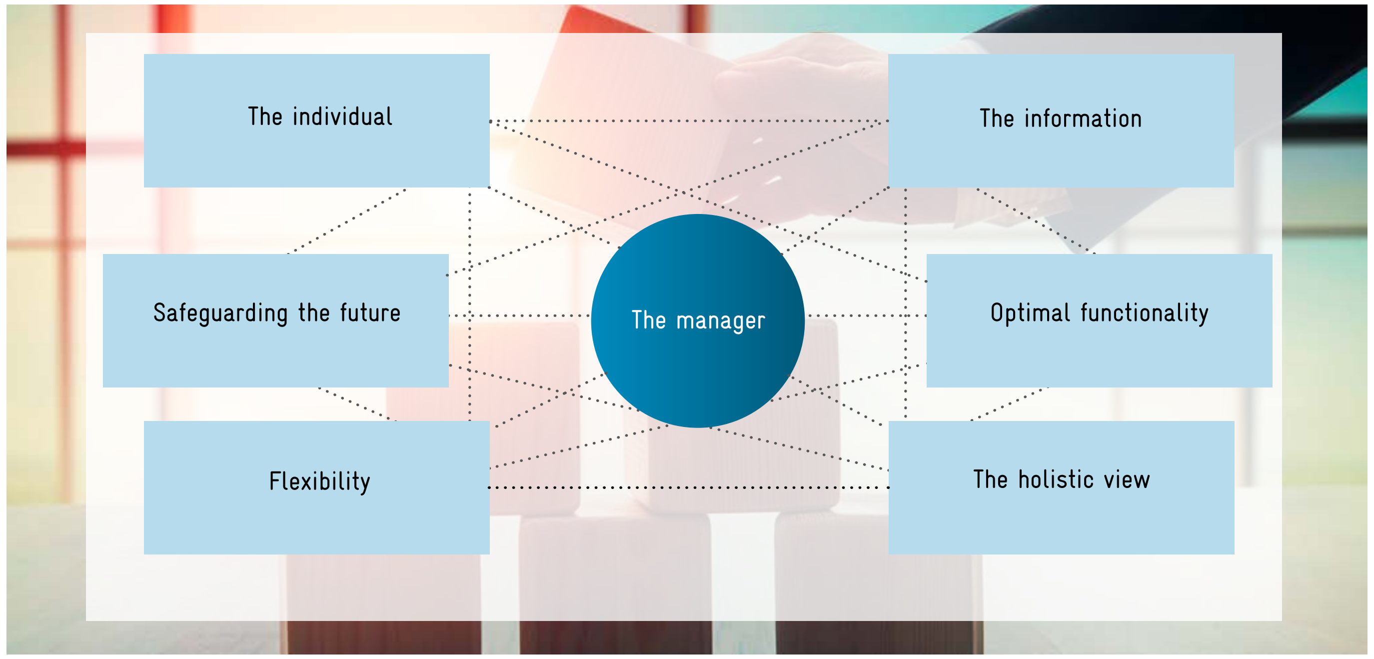

Figure 1: Integrated Management & Leadership IMLead®

overlap. Therefore, during individual measures within sub-areas of the company, the chain of effects on other sub-areas and their repercussions must be taken into account.

The company must always be viewed as a whole – and the optimum here means reducing the negative influences between the different areas to a minimum. The according goals and measures must be oriented to safeguarding the firm's economic and social interests in the long term, coupled with a high quality of life for employees. The company organisation, planning and control systems must be used to ensure the efficient coordination of decision-making processes. One important tool here is a clear indicator system (indicator pyramid) such as the BSC that maps a company's overall liquidity, financial structure, productivity and profitability. The newly-developed operative cybernetic regulation and control systems are also helpful here.

Integrated management and leadership requires managers to take an interdisciplinary, holistic, process and feedback-oriented approach. To support managers in practice, we have identified seven fields for successful corporate management during an empirical research project: the manager, the individual, the information, optimal functionality, safeguarding of the future, flexibility, and a holistic view (Figure 1).

In order to successfully coordinate these factors, managers must be relieved of daily tasks. The enterprise should therefore function like an organism with all functions and self-healing powers, so with self-regulating, stable control loops. This is achieved through deployment of the optimal employees on all levels. Managers should take an analytical and holistic, process-oriented, interdisciplinary and pragmatic – so cybernetic – approach and moreover afford good decision-making skills, a sense of responsibility, creativity and resilience. As a rule, managers of medium-sized enterprises invest 15 to 20 per cent of their time in strategic thinking. This creates space for "healthy" projects, new ideas – and emergencies.

The delegation of tasks with clear boundaries on all levels is an important component. Within this, employees need room for manoeuvre (no excessive demands!) that enables the independent resolution of disruptions in scheduling, quality and organisation. This involves use of the according state-of-the-art technical and scientific support systems in all areas, such as data processing, cybernetic regulation and control systems, modern marketing and strategic management. The basis is a functioning and transparent planning and control system that ensures the coordination of sub-areas – so the organisational equilibrium – and attainment of the goals set.

One further important point is flexibility. In order to maintain a competitive edge, it is important for a company to be able to adapt rapidly to new situations early on. Managers can achieve this by supporting the thought flexibility of leaders – among others by creating an atmosphere enabling freedom of expression, the use of creative techniques, participation in seminars and meetings in addition to job rotations. One further possibility is the establishment of a flexible organisation, planning and control system (coordination system) for the rapid recording and processing of information. This helps to reduce the lead times in construction, materials management, production and sales, and all functional areas – from construction through to sales – can be adapted more rapidly.

Personnel management

The word "management" is often equated with employee management. Indeed, employees are a company's most valuable asset. Which is why personnel management is one of the most important tasks for managers. However, it is far more complex than managers simply being able to optimally fulfil this task alone by using their talent. Familiarity with socially-accepted behaviour and the observance of basic rules facilitates the "launch" of managers' decisions and constructive cooperation with the people working for the firm. Three fundamental aspects must be observed within personnel management.

▸ *Fundamental principle #1: employ the right person in the right place*

A person's performance depends on their abilities, drive and current disposition, whereby the latter should be viewed more or less in relation to the employee's overall working life. These personal components must be viewed within the company compared to the requirements of the work task: this will provide an indication of an employee's suitability for the respective task.

Within this, managers must be able to motivate employees. The basic principle in personnel management to motivate employees is that employees attain their own personal goals the best when they strive to achieve success for the company (identification). The most important goals for employees (i.e. motivating factors) depend on an employee's potential and personal plans.

In the case of employees interested in progressing within the firm, tasks should be developed together and the opportunities for advancement sounded out. Their leadership skills and personal leadership style can be developed through targeted training and coaching. One important element in this is creating the bases to enable employees to have their say and to get involved in leadership decisions. The salary development should also relate to the leadership of teams or departments.

For employees with no interest in advancement within the company, the goal should be to develop a plan for a specialist career. Many enterprises in Germany therefore offer opportunities for personal development that are equivalent in terms of the salary development. This is because specialists affording extensive expertise continue to gain in importance and are able to develop their skills further with the appropriate training. Factors such as spatial, technical and organisational working conditions; job security; working conditions and tasks assigned play an important role here.

The weighting of these different factors depends on managers' individual subjective assessment and the employee's respective situation. In order to identify and develop the "right" employee for a management or specialist career, managers must use the company's personnel policy tools. These include selection of the leadership style, remuneration policy, training and staffing policies, working conditions and future aspects for the company and employees.

▸ *Fundamental principle #2: foster cooperative behaviour*

Beside managers' natural ability to work with employees on a personal level, they should also consciously foster employees' cooperative behaviour in order to maintain a good work atmosphere. This can be achieved through constructive criticism and recognition, mutual information and a free exchange of opinions, along with the delegation of tasks and responsibilities. Employee meetings and talks in which a "fair" assessment and evaluation of the personal performance based on transparent standards and regular controls form the basis here. This cooperative leadership style also includes finding the right tone in situation-dependent authoritarian decisions.

▸ *Fundamental principle #3: develop long-term company principles*

Cooperative behaviour is fostered by the appropriate company principles, which also relate to employees' attitude to one another and superiors, objectives, fields of activity, and business ethics.

Leadership is a complex interplay of the above elements, with the aim of successfully preparing the firm for the future.

Leadership means safeguarding the future

Only innovations can secure a company's future in a rapidly-changing environment. Managers' activities should therefore include the goal-conscious recognition and transformation of innovations into products, production processes and organisational procedures. However, a realistic assessment of one's own business potential (strengths and weaknesses) is necessary to be able to provide targeted support. Moreover, ideas should be supported and compiled systematically.

Because this alone is not enough and spontaneous inventors of entirely new things are rare, managers must trigger the thought process within the firm. A good task coupled with the establishment of an efficient procedure to solve the task is decisive here. A three-step approach is recommended: the first step involves identifying innovation projects. Ideas within the company must be compiled and evaluated, and suitable projects identified. Innovation project should be implemented building on the latest state of technology for products, services, procedures and operating systems, taking one's own strengths and weaknesses and those of the competition into account. Within this, the development of additional qualities is desirable. The second step involves formulating the task in a specification; the third, operational implementation of the innovation project. This is achieved through ongoing discussions and iterative further development of the solution.

Future decisions are based on the continuous analysis of social, political and economic relations with the aim of sounding out new opportunities and risk. Careful preparation of a long-term plan using all of the information of modern prognosis procedures is decisive here. In order to work through strategic key problems and their solution close to the market, it is necessary to select the marketing field as the start and end point for strategic planning.

As previously mentioned, it is of utmost importance that managers devote the lion's share of their time to future problems. This already results from the work-intensive activities described above. Jack Welch, the former CEO of General Electrics, adhered consistently to this approach. One day a week, he would not arrange any meetings but instead take the time to be present at the firm and to speak with the workers. Entrepreneurs of medium-sized enterprises in Germany also take this approach. Countless discussions with German entrepreneurs regarding strategy and corporate planning showed that at least 15 per cent of available time is put towards future planning.

SUMMARY

Successful corporate management requires consideration of all relevant factors influencing the company requiring management. Within this, the focus is on the manager. Successful corporate management requires the targeted activation of management and leadership skills. This enables managers to identify and assess complex relationships within the enterprise and on the market and, building on this, to reach optimal decisions leading to safeguarding of the company's future in the long term. They can moreover initiate the necessary changes within the enterprise to successfully adjust to the rapidly-changing market and technology conditions.

Recommendations for managers relating to integrated management and leadership:

- **The manager:** be aware that your activities and decisions are decisive to a company's success.
- **The individual:** bear in mind in all your actions that you are dealing with people.
- **The information:** one indispensable condition for optimal decision-making is the best possible information – from both internal and external sources.
- **Optimal functionality:** ensure that all known business and technical systems within the enterprise are used and function optimally without your help.
- **Safeguarding the future:** your task is to safeguard the company's future, whereby innovations in all areas are decisive.
- **Flexibility:** competitive advantages are achieved through optimal technical and temporal flexibility.
- **The holistic view:** always consider your firm as a whole, whereby all operational and market-relevant areas must be in equilibrium.

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Practical examples

In recent years, many enterprises have developed leadership principles to serve as guidelines for their managers. Recaro GmbH is the market leader for car and plane seats. It employs approx. 2,000 people worldwide. The key attributes of the company's leadership principles are published online and therefore made available to all employees and customers. One main principle are the values which are given below:

"Our values are concentrated into six core areas: integrity, responsibility, team spirit, excellence, entrepreneurship, and enthusiasm. It is only in combination that they allow us to live up to our corporate ambition. At the same time, they are essential to our success."

The company vision is broken down into six key statements, which form the key principles for everyday business. These are culture, human being, tradition, standards, values and future. The statement related to corporate culture is fixed as follows: *"Our greatest strength is our culture. It consists of the values that unite us, shape us, and give us orientation so that we can make the right decisions every day." As a leading family company tradition is one main basis for their culture. "A strong tradition serves as the solid foundation that has shaped our values. Our decades of experience allow us to create innovative, future-oriented solutions for demanding customers and users. This high ambition is practiced and cultivated in all divisions of RECARO. It expresses the meaning and focus of our business activities: We improve the performance of people in motion like no other." Although tradition plays an important role their main focus is on high quality and innovation. "Our focus is on people – their comfort and protection is our top priority... This is how the future is created! Together. Striving for perfection. With responsible employees and clear, honest communication. Applying our strengths in the interest of our ambition and being conscious of our strong tradition. We are RECARO."*

One further example is Trumpf GmbH, which has also laid out its leadership principles in a company policy. Trumpf is the technology leader on the global market for industrial lasers and laser systems. All central firm processes are pooled at the group headquarters. More than 2,500 people work in production, research and development, sales and service as well as the associated administrative divisions at Trumpf in Ditzingen.

The following management policy is pursued at Trumpf: *"We accord leadership responsibility to those employees who embody the values of our company. We expect our managers to show initiative and self-confidence. Managerial ability derives from personal and professional competence. The commitment to innovation applies to every part of the company. Our managers include their employees in decision-making processes. Communication between managers and employees is marked by politeness, respect and trust. The behaviour of our managers should set an example to the employees entrusted to them."* Within this, the employees form the focus of all activities. *"The same high performance and quality expectations followed by the entire company are also placed on our employees. The safeguarding of jobs is a high priority for us. As well as a fair system of remuneration. We promote our employees' personal and professional competence. Creative freedom is just as important as a readiness to express as well as to accept fair criticism. We see to the protection of the company's intellectual and material property. Our behaviour should be marked by mutual respect."*

Joma-Polytec GmbH plastics processing technology enterprise was founded by the Maute brothers 50 years ago. The family-run business employs 500 people. Particularly the strategic goals and leadership principles are laid out in the company policy. *"We are a medium-sized company active on the international level ... and offer ... our customers innovative, state-of-the-art solutions. Complex, future-oriented technologies require sound vocational training and high further training standards. Innovation, quality and technology leadership are the requirements for economic success and future sustainability. Flexible teams and a flat hierarchy are decisive accents of the partnership with our customers whose requirements we implement with innovative solutions in marketable series products."*

Further reading

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Human Resource Management

The increasingly intense competition among firms to win highly qualified staff has meant that HR Management now plays a more central role than ever before. This applies in particular to small and medium-sized enterprises (SMEs), which have to go head-to-head in competition with large corporations. The days in which financial incentives were enough to find and retain the right staff are long gone, because today's highly qualified staff demand much more. Such expectations include a well-structured team, the opportunity for professional and personal development and a management style based on staff appreciation. It is up to modern HR Management to deliver on these operating conditions, embedded into a corporate culture in which staff can fully realise their potential.

Sustainable success for a firm and the retention of competitiveness are contingent on the best possible selection of staff, targeted staff planning and optimal staff allocation. The "Human Resource" is, above all, particularly valuable for German SMEs as a source of expert knowledge. The incorrect allocation of staff, or dissatisfied members of staff who leave the firm can trigger high transaction costs. These are not to be underestimated, due to the fact that they can significantly impede an enterprise's scope for action. Furthermore, fluctuation among highly qualified members of staff always leads to reduced competitiveness and, when staff members switch to rival companies, an intensified competitive situation.

This article deals with the most important principles and approaches in HR Management from the viewpoint of a "typical German" enterprise.

COGNITIVE COMPETENCIES – STAFF SELECTION AND ALLOCATION

Staff requirements

Staff planning – including the identification of staff requirements – is a component of business planning and is closely linked with the decisions and strategies taken by a company's Board of Management. Depending on the firm's strategy, an excess and/or shortfall in staff numbers can occur during medium and long-term planning and has to be prevented. There is also the regular comparison between the current workplace situation and the future requirements to be placed on the job holder.

Staff selection

Planning staff requirements creates clarity regarding the number of positions to be filled, any temporal aspects and the definition of qualitative characteristics. A vacancy notice can then be issued – either internally or externally. The Works Council has a right of co-determination pursuant to Section 93 of the Works Council Constitution Act (BetrVG) with regard to non-managerial members of staff. Therefore, the Works Council should always be included regarding all HR measures, in accordance with the valid statutory regulations pertaining to the Works Council Constitution Act (BetrVG).

Incoming applications should be compared with the requirements profiles which have been generated. A screening and assessment of application documentation submitted to an enterprise generates an initial overall impression of an applicant's suitability and motivation.

When there is significant correlation between the requirements and the application, the candidate should be invited to an interview. In the absence of any correlation a corresponding rejection should be issued. Various selection methods are usually applied. These include staff assessments, test procedures, probationary periods and assessment centres. The choice depends entirely on the respective situational requirements and the vacant position. In practice, in the majority of instances a blend of methods is used to minimise the risk of employing the wrong candidate.

The objective of the selected method is always to fill the position with the best possible fit. A probationary period presents a good opportunity to test a candidate's suitability under realistic operating conditions, above all to fill a vacancy within an existing team.

During an interview or a corresponding selection method, the motivation and values held by the applicant should be given due consideration, in addition to their professional suitability. They provide insight into whether the vacant position could be successfully filled by the candidate.

The most common methods of staff selection

- The interview: During a structured interview the professional suitability, motivation and expectations of the candidates are assessed. The personal impression should assist the interviewer in determining the candidate's potential suitability. The interview can be conducted in person or on the telephone. Several individuals from the company can participate. The advantage of a predetermined structure of the interview conversation is that it allows comparisons to be made – both between the candidates themselves and their profiles vis-à-vis the target requirements.
- Staff questionnaire: Here, personal questions are listed and structured, and the candidate's credentials are compared with the given requirements. Pursuant to Section 94 Para 1 Sentence 1 of the Works Council Constitution Act (BetrVG) such a questionnaire requires the approval of the Works Council. This method may also be applied as part of a systematic decision-making process. It is particularly suited to positions which require a low-level of qualification.
- Assessment centre: A group of applicants are given different tasks which they have to solve as a team. Trained observers as-

sess their performance according to pre-determined criteria. In practice, the results are not very meaningful, due to the fact that they stem from an artificial test situation. The results are also highly dependent on the observers' perception and understanding. Such an exercise can therefore, at the very most, only highlight certain tendencies. It cannot be used to determine how the applicants will act in the course of everyday business.

- **Suitability test:** It is prudent within your own enterprise to adopt a suitability test into the assessment centre, for example when core competencies are to be assessed, which are of decisive importance for the company's success. It does, however, apply in such instances that the test results should only help to facilitate the decision-making process, since they reflect the reality only within limitations.

- **Probationary period:** Using this method, the degree to which candidate expectations correlate with the requirements stipulated by the company can be tested under the most genuine working conditions possible. The probationary period can stretch from a single "trial day" through to several days of work within the firm.

In practice, a blend of structured interview and probationary work is particularly effective. Such an approach allows a candidate's suitability to be assessed simultaneously on several levels (specialist knowledge, ability to work as part of a team, appropriate values).

Staff allocation planning

Staff allocation planning aligns existing staff with the specific positions and tasks of the enterprise. This term relates to qualitative, quantitative, target-oriented and on-site allocation. In order to ensure that this is successful a robust database listing a company's personal resources must be in place. The more precise the available data, the more effective the staff allocation planning can be.

According to Reiner Bröckermann, the subsequent principles listed here are to be taken into account during staff allocation:

- **Economic profitability:** Optimal staff allocation should be done in line with staff qualification, thus in order to ensure economic profitability.

- **Long-term reliability:** Staff allocation planning should be both reliable and stable over a longer time frame. Furthermore, those members of staff occupying long-term positions should be just as reliable. It should be taken into consideration at this juncture that flexibility must be maintained in the face of continuously changing operational requirements.

- **Requirements-specific occupancy:** Positions are to be occupied in order that vacancy requirements and candidate suitability are congruent. If a member of staff is insufficiently challenged in the role, their transfer to a more senior and suitable position is an alternative. If a member of staff feels over-challenged in their work, it should be assessed as to whether HR development measures can help overcome this, or whether a change in job description is possible.

- **On-schedule planning:** Measures must be planned in a timely manner. The greater the rate of success in this regard, the smoother and more efficient the planned staff allocation can be.

- **Issuing information on changes:** Any changes in requirements for a position should be discussed together with the member of staff at an early stage. Only this approach will safeguard staff satisfaction.

In practice, it must be taken into account that staff allocation is a continuous process. It is subject to ongoing transformation, just like the company's operational focus. The process is continuously re-assessed and adjusted.

Personnel motivation

The term motivation describes what drives a person and which reasons cause an individual to act. In principle, a differentiation is made between **intrinsic** and **extrinsic** motivation. The term **extrinsic motivation** concerns a driving force which is predominantly attributable to the expectations of an individual's surrounding environment. The term **intrinsic motivation** refers to an individual's inner desire to contribute to the realisation of an ideal. The driving force is predominantly attributable to an inner belief and the desire to make this ideal a reality.

In terms of practical application, two theories have proven to be effective: on the one hand the model depicting the "Hierarchy of Needs" (Abraham Maslow) and, on the other, Frederick Herzberg's two-factor theory.

The underlying premise of the former is based on the idea that every individual has fundamental needs. Only when a more critical set of needs has been satisfied the next level of needs can be addressed. This structuring of needs can be applied to the world of work and work activities.

The two-factor theory postulates that satisfaction and dissatisfaction are two independent variables. Herzberg hereby differentiates between two types of influencing factors: the first factors (motivators) relate to the work content, whereas the second ones (hygiene factors) relate to the working environment. A comparison is drawn between the influencing factors, which is interpreted according to the operating environment. It subsequently emerges that staff place increasing value on factors such as job security, the relationship with colleagues and supervisors, remuneration and working conditions and company policy, thus satisfying their needs. The possibility of self-development and fulfilment at work as well as the associated appreciation are further important influences. If these factors are established, this motivates staff. Respectively, if such factors are missing, the staff are dissatisfied.

Specific **motivators** include such factors as success, recognition, work content, responsibility, promotion and growth. They influence satisfaction. Their absence does not, however, necessarily lead to dissatisfaction.

The monetary and non-monetary (non-material) incentives are available as instruments of motivation within a working environment (see Figure 2).

Only highly motivated members of staff can fully unfold their potential. The more strongly they identify with the company, the more durable and flexible they are.

Personnel management styles

Management styles can be subdivided into three primary groups: authoritarian management, democratic management, laissez-faire management. Each and every style of management offers advantages and disadvantages. They are dependent on the operating environment, management maturity level and the members of staff to be managed. In practice, these styles predominantly come in a hybrid form.

- **Authoritarian style of management:** Work instructions and the distribution of tasks are undertaken directly by the manager. Members of staff are not included in the decision-making processes. There is no place for contradictions and personal statements of opinion.

- *Advantage:* This style of management is best suited in areas of an enterprise in which the speed of decision-making processes has a sizable contribution to the company's success.

- *Disadvantage:* Members of staff are unable to utilise their own knowledge in the majority of cases, which is often de-

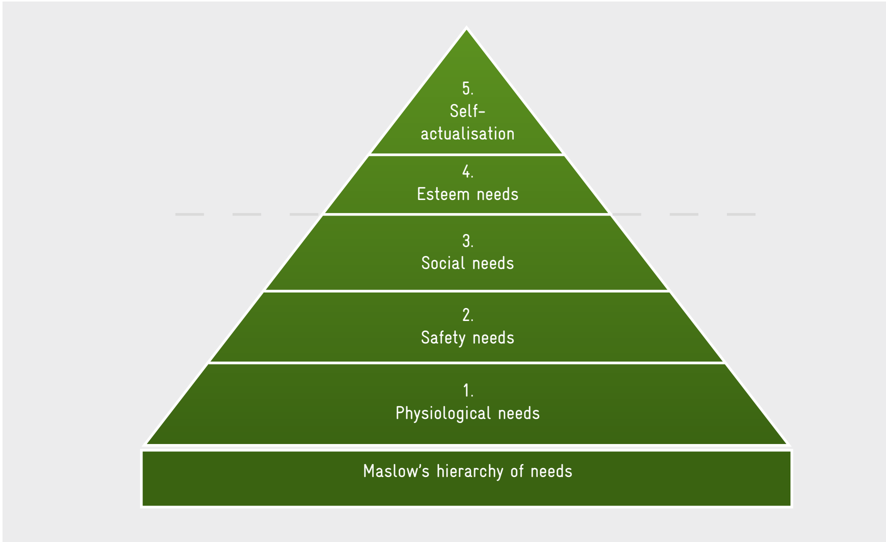


Figure 1: Maslow's Hierarchy of Needs

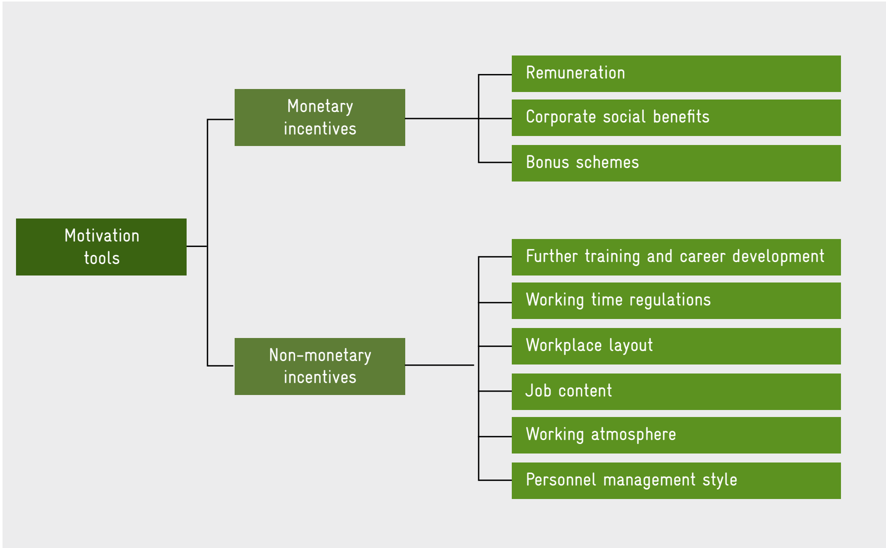


Figure 2: Staff motivation tools

motivating. This also inhibits innovation within the firm, and fosters immaturity among members of staff. Should the manager become absent, this leads to serious disruptions in operations. In such instances there is often only minimal identification with the company.

- **Democratic style of management:** This style of management permits the extensive involvement of staff in decision-making processes, and is thus described as a cooperative style of management.

▶ *Advantage:* With an appropriate communication structure in place this style offers a significant degree of creative and innovative potential, due to the fact that members of staff mostly enjoy a great level of motivation. They are able to actively participate in decision-making processes and thus identify strongly with the company. This forms the basis of an open business culture, which has a positive effect on the working environment and the level of staff satisfaction.

▶ *Disadvantage:* A significant disadvantage can be identified in the speed of decision-making. The inclusion of staff can lead to delays, which inhibit the company's success. During discussions between members of staff the manager has to adopt a regulating role, in order to channel opinions appropriately and thus maintain a level of working efficiency.

- **Laissez-faire style of management:** Members of staff enjoy a significant degree of freedom, due to the fact that management rarely adopts a regulating role. Its primary role is to establish the corresponding scope for action.

▶ *Advantage:* This style of management can lead to excellent results in innovative and creative areas, if a high level of staff maturity is in place.

▶ *Disadvantage:* Target-oriented staff development can be insufficient from the viewpoint of the enterprise due to limited supervision, and the company's success can be left lagging. Insufficient hierarchical clarity can lead to an increased potential for conflict among members of staff.

The styles of management presented above can mostly be found in hybrid form in practice, with refined levels of gradation. The so-called **Leadership Continuum** is based on the management styles defined by the famous US psychologist Kurt Lewin. The two poles of this model are authority and democracy.

The dominant styles of management can be broken down decisively according to the scope for decision-making held by the supervisor and/or the members of staff. The greater the degree of autonomy, the more limited the scope for decision-making enjoyed by members of staff.

- **Authoritarian style of management:** The supervisor decides and instructs.

- **Patriarchal style of management:** The supervisor decides but is equally intent on convincing the members of staff of his or her decisions, before instructing them.

- **Informative style of management:** The supervisor decides, although he or she does permit the decision to be scrutinised, in order to achieve acceptance among staff.

- **Advisory style of management:** The supervisor informs staff of the intended decision. Staff then have the opportunity to express their opinion, before the supervisor makes the final decision.

- **Cooperative style of management:** The group develops proposals and potential solutions. The supervisor decides on his or her preferred solution.

- **Delegating style of management:** The group decides, after the supervisor has presented the problem and established the boundaries for the scope of decision-making.

- **Autonomous style of management:** The group decides while the supervisor acts as an internal and external coordinator.

> It is of extreme importance for modern-day managers to reflect upon one's own conduct and decide afresh in every situation, as to which style of management is appropriate for achieving objectives.

The individual models and definitions often only serve to describe a certain underlying basis in practice. Companies follow the approach dictated by a **situational management style**, in which management conduct gravitates towards the respectively valid strategic alignment of the firm. This alignment is nearly always subject to a fast-paced and frequent transformation in today's business world. It is therefore of extreme importance for modern-day managers to reflect upon one's own conduct and decide afresh in every situation, as to which style of management is appropriate for achieving objectives. This situational style of management necessitates a high degree of maturity among managers; it is, however, very effective and leads to a high degree of target attainment. The advantage here is that members of staff find this style of management to be both pleasant and motivating, thus allowing for conflict to be avoided to the greatest extent possible at a preliminary stage.

In-house communication

This term encompasses both verbal and non-verbal communication within an organisation. It optimises workflows, ensures a process of exchange between organisational units and delivers sufficient transparency within the company.

Successful in-house communication is recognisable, as a rule, in the form of well-informed and motivated members of staff. Because it means that – through the availability of sufficient information – staff participate within a broader context, and identify their own contribution to the company's success. This helps to establish strong emotional ties to the firm, thus generating a strong feeling of togetherness.

The concept of in-house communication can be broken down into formal and informal communication. Formal in-house communication is subject to an agreed form with defined content, and is not linked to an individual but rather a process. This is evident in typically formal examples of communication such as work instructions, job descriptions or protocols.

Informal in-house communication is not subject to any specific framework. This form of communication is colloquially referred to as "socialising". It has now been proven that this social exchange of information makes a significant contribution to increasing a company's efficiency. In the past, efforts were made to avoid "watercooler chitchat". In today's business world modern enterprises install lounge areas and coffee corners as a way of promoting informal communication. This form of communication also supports the social factor of company affiliation. The firm's exposure to external threats is thus reduced.

Although informal in-house communication is quite desirable, it does however present a risk that the company's self-image might get distorted and must be remedied by way of a targeted flow of information

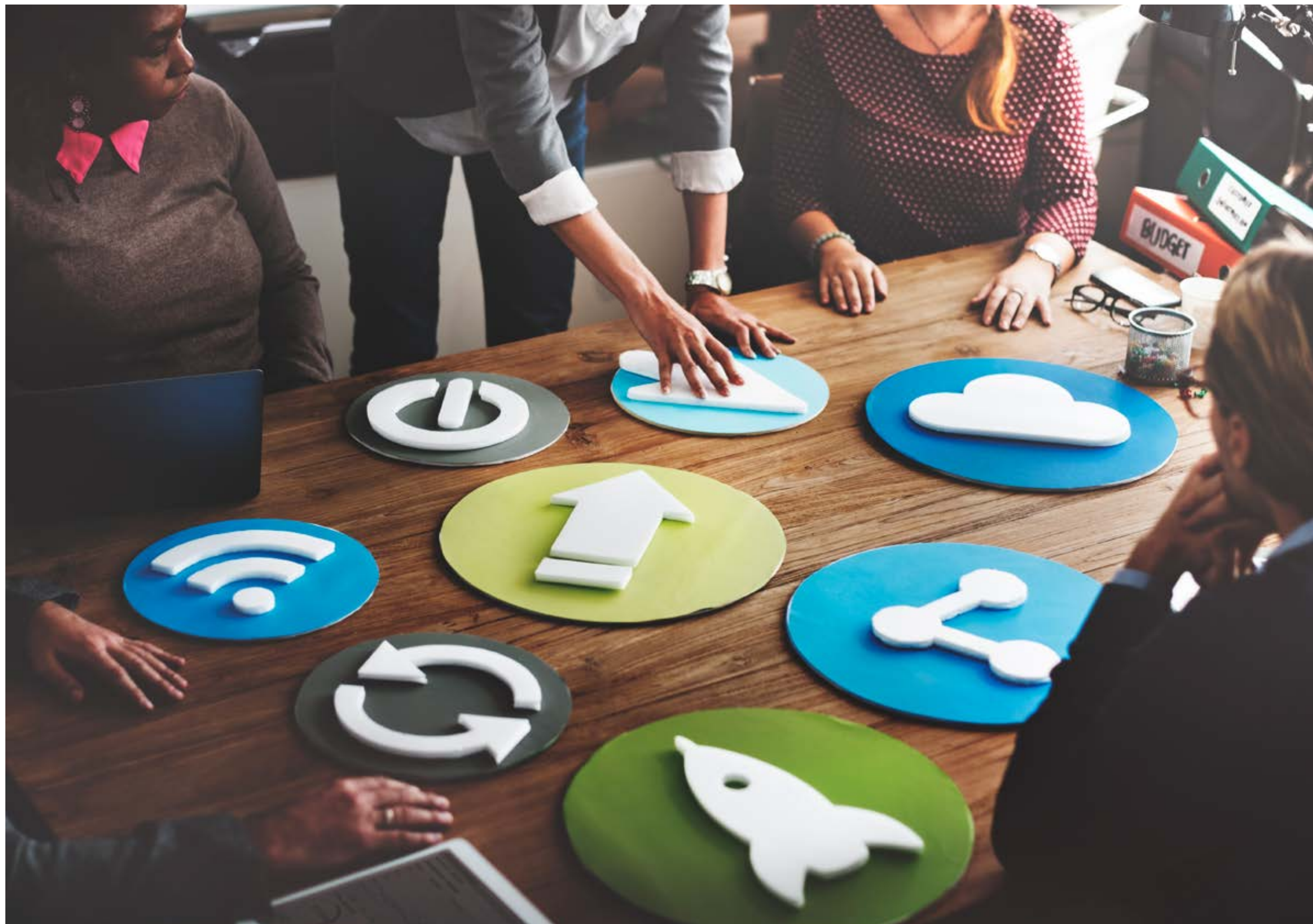
Company culture as an accepted value system

Corporate culture is defined as the image of a company, which is shaped by its underlying values, rules and norms, as well as its codes of conduct and thought. Every firm has its own culture, irrespective of whether it is aware of it or not. This forms the core element of a company, which determines the thoughts and actions of its staff. Shared worldviews, sets of values and principles unite members of staff.

Enterprises which are aware of their culture often capture the company's culture in the form of a vision, and anchor this as a central element within the company. Common values can then be derived separately for every area of the business, while ensuring that members of staff internalise these values. This involves breaking down values such as quality and innovation to every functional area of the business. A business which is, for example, shaped by the value of quality will set this as a benchmark when employing new members of staff and when manufacturing products. Consequently, the concept of quality stretches across the whole of the company in a uniform manner. This improves collaboration between executives and members of staff, and promotes the company's public image.

Values and company culture are what make the respective enterprise unique – they give the company its unmistakable identity.

The only thing more important than writing down these values and visions is to ensure that they are embodied. Only then staff's adherence to the company culture is possible. Communication in companies with a consistent corporate culture and staff cohesion is intense both horizontally and vertically. This is expressed both in terms of daily interaction among staff, as well as in the communication activities and target attainment of the company.



Functional competencies – methods of motivation in practice

During a staff appraisal meeting which you, as an executive, conduct every year with your members of staff, one particularly committed member of staff appears to be demotivated. He mentions the increasing workload within his remit. Such an open admission should be used by you to rekindle his motivation for the tasks at hand and his remit. Irrespective of your preferred style of management, such a conversation ideally requires a situational and cooperative management style. Enquire as to what he believes to be the reason for the increased workload and which solutions he envisages to achieve a positive outcome for the situation. Reasons for the increased workload can be, in addition to increased order volumes, a sub-optimal performance by other team members in the group, or discrepancies within process workflows. Be sure to scrutinise such situations. It is tempting in such situations to offer more money, but this does not solve the problem but rather only alleviates the sensation of pressure temporarily. The sense of despondency can also be attributable to an insufficient level of appreciation displayed by you vis-à-vis your member of staff, which makes the work feel more difficult. Please consider that every member of staff requires different levels of appreciation and recognition. In this matter, such a conversation is a good opportunity to show this.

The firm's underlying principles thus shape both company and staff conduct.

Fundamental motivational problems with members of staff during changing market conditions

Fast-paced markets often trigger motivational problems with members of staff, since the pre-defined processes in the working environment do not change at the same rate. Furthermore, rapid changes can cause anxiety among many members of staff, which can only be eliminated with increasing routine. For example, you are in the process of introducing a new order entry system. Those who are in charge of order entry have difficulty to accept this, as they do not see any improvement in the result. This group of staff fail to perceive that down-stream processes will be significantly facilitated. This testifies to a clear internal failure. Firstly, an opportunity was missed in terms of communication between the process designer – in the majority of cases an executive in charge – and the members of staff. Open and target-oriented communication is extremely important, in order to ensure that new processes are accepted and no sense of anxiety is created. Only those who understand why they are doing something will adopt a positive attitude. Furthermore, members of staff often view the lack of information and/or lack of communication as an absence of appreciation. Even if this was not the supervisor's intention, what matters is how the other party interprets the failure to communicate. Be open towards your staff: the more personal your approach here (staff meeting, team session), the greater the degree of appreciation felt by your employees. The greater the degree of formality used for any announcement (emails, circulars or even no communication), the lower the level of acceptance. Ideally, you should allow for queries and explain the new process holistically.

SUMMARY

Motivated and qualified members of staff are the most important factor for a company's success. The objective must therefore be to allocate members of staff according to their strengths and interests, and exploit existing potential to an optimal level. This is achieved, on the one hand, by the appropriate selection of staff and an allocation of staff aligned with firm targets. On the other hand, a style of management defined by situational adaptation and staff appreciation helps to create a company culture in which staff can internalise the concept of success and performance.

It is also important in this regard that communication flows within an enterprise, in order to ensure that company culture stretches informally across all hierarchies. During international collaboration, intercultural differences must be taken into account, which nearly always necessitate an adjustment in the style of staff management, in order to achieve company targets. The greatest opportunity posed by intercultural collaboration is that, by finding the right allocation of knowledge and skills, and enormous amount of potential can be released – both for the members of staff and the enterprise itself.

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Quality Management

Quality Management (QM) is a leadership task – which means, that company managers are responsible for implementing QM. The guiding principles for QM play an important role. They are important building blocks for corporate culture creation. Quality systems like the ISO EN 9001 norm also support implementation – they are measurable goals and set priorities within an organisation. The demands and expectations of the customers and suppliers etc. influence these goals. QM processes facilitate the design, analysis, optimisation and the automation of business processes.

As customers and suppliers, we consider quality as something positive and desirable. In doing so, we ask ourselves: What exactly is the quality I expect as a customer or supplier? What attributes or requirements would describe this quality?

Hence, quality is a matter of negotiation and requirements are essential building blocks of quality management. Requirements translate into quality attributes for the product or service and the processes creating them. Managers' attitudes are particularly relevant here, as they are the ones responsible for implementing QM. While expressions of a commitment to quality can roll easily off managers' tongues, such acknowledgements have little impact on production. And when it comes down to it, speed takes priority over thoroughness, cost reduction over service life, and quantity over quality. A manager's perception of QM is largely shaped by audits and certification. In many companies, the introduction of QM was largely shaped by the demands of customers and industry associations.

Worldwide, German products have a high-quality reputation. For decades, quality was a sales argument that contributed decisively to the strong global market position of the German economy today. "Made in Germany", a label originally conceived in England to discredit German products, but has since become a mark of quality. It fully grown into a valuable brand belonging to the entire nation. However, recent developments and trends are jeopardising Germany's edge in quality products. Due to shorter product life cycles, not least as a result of increasing product complexity, robustness and service lifecycle are less important as product attributes. What's more, advertising is promising quality that in reality does not exist. We are being accustomed to low purchase prices. In addition, many countries are catching up on quality – China, for example.

Which German attributes suggest an affinity for quality? Many people associate orderliness and cleanliness with Germans. German thoroughness is also renowned. These aspects relay heavily with the classical definition of quality. Connected with these are attributes like reliability and trustworthiness for which German companies, and in particular German engineers, are held in high esteem the world over.

Guiding principles for Quality Management

Companies hope that QM principles will give them clarity, orientation and a focus on the essentials. This hope can be fulfilled, depending on how many people take part in its creation. Guidelines are important building blocks for corporate culture creation. However, they only take effect if their content is put to practice. Values as mere talking points without any insistence to live them are not only ineffective, but blatant indicators of leadership failure in a company. QM visualises to customers, stakeholders and the general public how industry and society benefit from product quality, e.g. by adding to health and safety and preventing wasting resources. People take pride in their work. The company`s reputation is enhanced. Its appeal increases among young talent and boosts the interest in QM.

Quality systems (Q systems)

Worldwide, an estimated one and a half to two million companies have aligned their Q system to the ISO EN 9001 norm, making this probably the most widely-used global leadership and management model. The new 9001:2015 ISO norm places further emphasis on the responsibility of the management level in successful corporate implementation of QM. It focuses on the adherence to environmental standards, conservation of resources, and sustainability within the supply chain.

Creating trust that the quality system fulfils its (customer) requirements is the overriding aim, purpose and benefit of a certification. Besides fulfilling customer requirements, certification also offers opportunities to improve the QM system applied. Existing processes should be described, analysed and improved in a management handbook. Improvement is the true purpose of any certification. The prerequisite for certification is an existing QM system meeting the DIN EN ISO 9001 requirements. Accredited authorities certify organisations with a system that they document and effectively implement accordingly. The most important requirement for a QM system is orientation of the company philosophy to the management principles: customer orientation, far-sighted corporate management, involvement of employees, process orientation, continuous improvement, decision-making and supplier relations. A Q system is effective if clear corporate aims have been translated in measurable outcomes (key performance indicators). The best proof of a company's quality capability are continuously improved results.

Setting quality goals and planning strategy

Specifying concrete, measurable goals sets priorities within an organisation. All involved direct their energy into achieving them. Gaols should be formulated S-M-A-R-T: Specific – Measurable – Achievable – Realistic – Timely.

> The best proof of a company's quality capability are continuously improved results.

Goals are derived from QM policy and connected to QM strategy. They must be measurable, i.e. measurement data including deadlines have been set. Goals are also influenced by stakeholder requirements (customers, suppliers etc.). As a result, process performance and product quality will be improved continually. Managers involve their employees in this process and reach agreements with them to monitor and adjust the goals.

A measures plan defines concrete tasks and responsibilities, and determines the resources necessary, deadlines and evaluation of the goals reached. The measures plan provides an overview enabling monitoring and adjusting measure continuously. Compulsory resource optimisation and priorities are fixed.

Processes and Quality management

Quality improvement is directly connected to business process design, analysis, improvement and automation. Taking value added (i.e. what customers value and pay for) as its focus, fragmented work processes can be reassembled. In addition, performance losses at interfaces to other processes can be reduced, and wastage avoided. Less waste improves a company's ability to react to customer wishes more rapidly. This results in shorter lead times and higher customer satisfaction. At the same time, costs are reduced, and process and product quality improved. The customer forms the focus, not any department's self-interests.

These are the most important methods for quality management:

- **Statistical process control (SPC):** SPC is a method of quality control to review whether a product quality attribute has been generated within the required tolerances. If this state is achieved, SPC allows the process to be maintained at this level and improved further. SPC immediately detects changes in the process. Readjustment minimises waste and reprocessing. SPC not only aims to filter out defective units at the end of production through sorting, but rather to work without errors during the ongoing process (zero error production). Sampling prevents costly individual product inspection. SPC is therefore primarily used during the production of high volumes.

- **Process capability:** Process capability is a measurable quality of a production process. It is measured using the process capability indices Cp and CpK. These two indices allow for statistical evaluation of a process in production engineering. They indicate the likelihood of the goals defined in the specification being actually achieved.

- **Control charts:** Also known as Shewhart charts, quality control charts are useful to maintain good process conditions. They constitute a continuous statistical test and indicate whether a sample taken from an ongoing production cycle lies within the calculated range or systematically diverges from this. The sample size and frequency should be determined according to the process and product so that all important changes can be detected in a timely manner. The samples should be representative for the attribute considered. Within this, the size and frequency of sampling must reflect the typical process sequence. Adjusted process parameters in addition to all measures and outcomes should be recorded so that they can be attributed to the individual samples as necessary. To enable an adequate statistical basis, at least 125 individual attribute characteristics must be recorded.

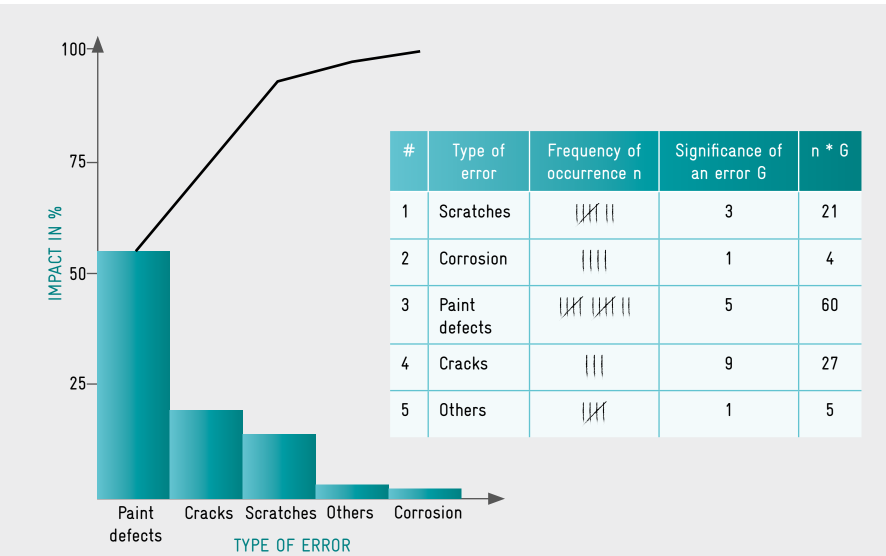
- **Cause-and-effect diagram:** In order to break down a problem into its causes, it helps to use cause-and-effect diagrams, also known as fishbone or Ishikawa diagrams after their Japanese inventor. In the event of a problem (effect), a list of possible and known influences (causes) is compiled, grouped into major and minor causes, and displayed in a diagram. If these are evaluated, a usually smaller number of root causes can be determined, which can then be investigated in greater depth.

- **Pareto chart:** In a Pareto chart, individual errors are not only ordered by their frequency of occurrence, but also their relative significance (see Figure 1). This enables localisation of the errors responsible for the highest costs, for example. According to the Pareto principle, 20 to 30 per cent of error types cause 70 to 80 per cent of errors. The biggest impact can therefore be achieved if these errors are eliminated.

- **Poka-yoke:** Poka-yoke is a simple method for error avoidance with the aim of achieving zero error production. The Japanese word "poka" means as much as mistake or error. "Yoke" means to avoid or reduce. Poka-Yoke can therefore be translated as "avoidance of unintended errors". Using Poka-Yoke in combination with root-cause analysis ensures that people do not make mistakes accidentally while working in processes and as part of work systems. Robustness and safety are enhanced.

- **Failure mode and effects analysis (FMEA):** FMEA is a goal-oriented method to identify potential errors at an early stage. The risks arising from errors are evaluated and countermeasures developed in order to avoid them. Further advantages of using FMEA are increased awareness of quality among employees, interdisciplinary knowledge exchange, and ordered and seamless documentation of potential errors and countermeasures. Measurements include potential errors and error consequences, severity of error consequences for the customers (B), probability of error cause occurrence (A), avoidance measures and the probability of detection (E), along with the risk priority number (RPN = B x A x E), remedy actions agreed.

- **Six Sigma:** Six Sigma is a form of project management for process improvement. It is inspired by the so-called Deming cycle comprising the four elements of Plan, Do, Check, Act (PDCA) and oriented to value-added for the customer. **"Plan"** involves analysing the existing situation and determining improvement measures and deadlines. **"Do"** entails implementing the plan, whereby the effects and outcomes are reviewed during the **"Check"** phase. Further potential for the next cycle is then identified during the **"Act"** phase. The Six Sigma process comprises a total of five phases with the acronym DEMAIC: Define – Measure – Analyse – Improve – Control.



#	Type of error	Frequency of occurrence n	Significance of an error G	n * G
1	Scratches	𝍸 ||	3	21
2	Corrosion	||||	1	4
3	Paint defects	𝍸 𝍸 ||	5	60
4	Cracks	|||	9	27
5	Others	𝍸	1	5

Figure 1: Pareto chart for the localisation of errors

Audits in organisations and their suppliers

Leaders and managers are responsible for monitoring the fulfilment of process and product requirements. Audits are particularly suitable here. Audits are evaluations in addition to ongoing, routine quality control activities. They are conducted by people disconnected from the audited site. Just a few samples provide highly detailed information about the site. Audit results supply managers with reliable information gained with comparatively little effort.

Audits at suppliers ensure quality along the supply chain. First-hand information in combination with hands-on data collection on-site reduces risks. Weaknesses can be discussed immediately. Personal contact is important here – as is good preparation – for audits are costly and time-intensive. It should therefore be determined which product groups will be audited and which documents the supplier should make available (e.g. on sampling, test procedures, processes and changes, production requirements).

In case of an on-site audit, the according processes are assessed following an introductory discussion and the outcomes recorded in a concluding protocol. Finally, the auditors prepare a written report.

Leading for a culture of error and improvements

Error management affects the corporate culture. Only in a 'safe' environment do employees dare to speak about errors. Organisational aspects as well as a managers' social skills are important here. QM and error management only make sense if employees are involved. Leaders and managers must take a sensitive approach towards errors when dealing with their people. Errors must be identifiable in day-to-day work. Often, deviations from a defined standard are no longer questioned. Clear rules and agreements how to deal with errors enable openness and enhanced understanding. If an error occurs, it must be checked whether it can be resolved by immediate action. Yet, most of the time understanding the root cause of an error needs more. Only with exact error recording frequency is documented and problems can be solved using quality tools.

If attention is given to the question of guilt, employees struggle. QM does not focus on who made the mistake but what effect resulted from it: Did the error occur by chance? Did dangers arise? Were customers affected? Has the error occurred before? It is often the case that the causes of defective products can be found in several departments and processes. Only if the root cause of the error has been identified and the error reconstructed using examples, corrective action makes sense. The process of corrective action is also subject to evaluation.

Leaders can encourage an error culture as part of the corporate culture by focussing their own performance toward the customers and making quality the core focus of their action. In doing so, they can act as role models for their people and set a good example for quality. Leaders must assure the "right" approach to errors. Here are some tips who to be a good leader for quality:

- Good leaders communicate transparency on errors as something positive and desirable. The occurrence of an error is not something to be embarrassed about, covered up or concealed. An error indicates a deviation, i.e. a situation the customer would not expect.

- Good leaders do not insist on the clarification of the guilt question (Who did it?). They consider it their management task to remove the effects of an error on the company's customer. Discussions reflecting on the past and a specific person who caused the error rarely serve this purpose.

- Good leaders act fast in removing the effects of the error on the customer. Measures meeting the customer's requirements again must be put in place as quickly as possible. (When, why and how did it occur? How can we resolve

Team-oriented problem solving in 8 disciplines (TOPS 8 D)

TOPS 8 D is suitable for problems requiring immediate action in addition to problem resolution, i.e. emergencies for which rapid, professional measures are required (e.g. defective parts on an assembly line).

- *Step 1: Establish a team and name a team leader: the team affords specialist expertise; the team leader is responsible.*
- *Step 2: Describe the problem: record the problem in full, describing it in clear terms. Seek to contain the problem.*
- *Step 3: Take immediate action: keep the defect's impact to a minimum. Remove all defective parts.*
- *Step 4: Analyse the root causes: determine the causes of the problem and the cause-effect relations.*
- *Step 5: Determine corrective action (incl. effectiveness test): evaluate possible corrective action. The aim here is to prove the effectiveness.*
- *Step 6: Embed corrective measures organisationally: correct the specifications or change the standards accordingly.*
- *Step 7: Take preventive measures: recurrence of the defect/error should be prevented. The findings gained should be made available for existing and future products. Checklists, database.*
- *Step 8: Conclude the problem-solving process: were the measures agreed successfully implemented? Is the effectiveness clearly discernible?*

the effect it had on our customer as quickly as possible?) Only after this action, good leaders will take a look at the future and inspire their people to understand the root-cause of the problem (What is it and how can we prevent it in the future?).

- Root-cause analysis sheds light on which other errors could be avoided and how the business process can be improved. "Errors are treasures," is a QM manager's favourite adage, because they constitute building blocks for progress. That's why good leaders encourage their people to use errors to learn and improve.

A holistic management model combining the European traditions on product and process quality with findings on systems thinking was developed by EFQM. Eight Fundamental Concepts of "Excellence", as this holistic approach is called, form the basis of a cause-and-effect model with nine criteria and 32 criterion parts. Using RADAR, an enhanced version of the Shewhart/Deming PDCA cycle, a maturity assessment for the entire organisation can be conducted. The EFQM model enables leaders to understand the relationship of their strategy (objectives), with key processes it affects and results these processes create (key results).

SUMMARY

Quality management is a leadership task requiring holistic management within a company. A step-by-step approach should be adopted for its introduction. A pilot project involving consideration of a straightforward problem with a selected team is a good starting point. It is important to rapidly achieve successes that can then be presented in a favourable light. This emits a positive signal to the entire company. Once several projects have been started in different departments, an overall quality strategy must be developed for the company. Goals, content and deadlines must be defined and an organisational structure created for QM.

By involving suppliers and customers, quality management is rolled out in the entire supply chain. Distinct supply chains are selected and the pilot projects launched with particularly forward-thinking suppliers. Following an analysis of the preliminary results and experiences, QM can be rolled out in a standardised form for all suppliers.

Once QM is firmly established within the company, Benchmarking may make sense. Benchmarking means to compare process results of one's own company with those of another company because a particular process creates exceptional results. We talk about this company being the benchmark in the process, a target we aim to reach by learning from them how they did it.

In general, good leaders create a learning culture for quality and improvement beyond their organisation, by initiating (internal and external) EFQM assessments and quality competitions, exchanges of experiences in Benchmarking activities or by attending conferences and last but not least, by certification according to DIN ISO.

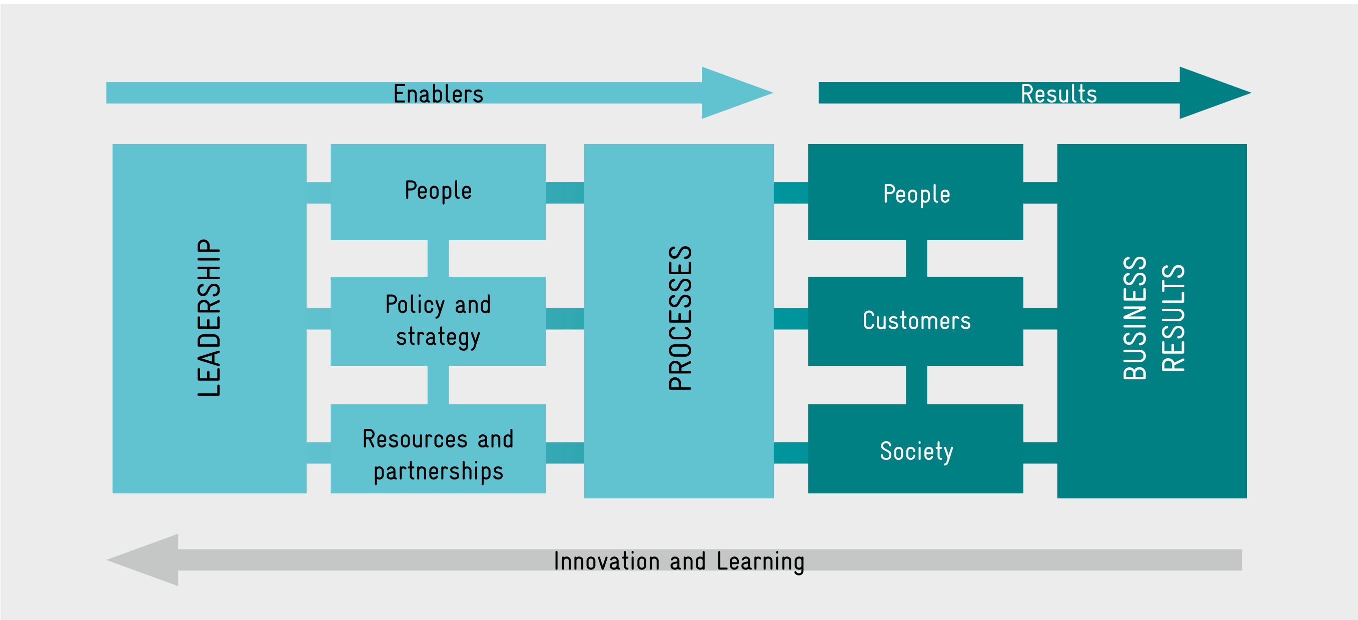


Figure 2: EFQM Excellence Model

Table 1: Overview of quality management tools

QM tool	Time requirements	Difficulty	Benefits, effects
Process capability	Long start-up times; several attempts and training required	Very difficult; experience required	Stable processes; low error rates; minimal disruption
Q control charts	Start-up difficulties; months of introduction; training	Difficult; experience required	Stable processes; low error rates; minimal disruption
Cause-effect diagram	1-2 hours	Simple; easy to understand	Rapidly find and determine project topics
SWOT analysis	1-2 hours	Simple; easy to understand	Rapidly find and determine project topics
Pareto chart	1-2 hours	Simple; easy to understand	Rapidly find and determine project topics
Poka-Yoke	Several months; training; experience exchange	Special knowledge required; practical experience	Stable processes; low error rates; minimal disruption
FMEA	3 weeks at the start; ongoing improvements; software training	Special knowledge required; practical experience; project experience	Stable processes; low error rates; ongoing improvements
Six Sigma	6 months for the first projects; training	Special knowledge required; practical experience; project experience	Stable processes; low error rates; ongoing improvements
Audits within the company	6-month start-up period; 3 weeks thereafter training	Special knowledge required; practical experience; project experience	Stable processes; low error rates; ongoing improvements
Audits at suppliers	6-month start-up period; 1 week thereafter/ ongoing training	Special knowledge required; practical experience; project experience	Stable processes; low error rates; ongoing improvements
TOPS 8 D	6-month start-up period; 2 weeks thereafter training	Special knowledge required; practical experience; project experience	Immediate action; low error rates; ongoing improvements

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Marketing and Logistics

Barely any other area of business and economics is as fraught with misconceptions and contradictory information as marketing. Some, depending on their political and social attitudes, consider marketing to be a manipulation technique, deployed, in a diffuse and non-defined manner, to make us buy things we do not even need. Others see it as a kind of magical weapon that makes it possible to sell even the most terrible of products to people. But there is no doubt about marketing being a competitive strategy which takes the market into consideration – hence what the consumers require. Extensive and systematic market research serve as a basis for market goals. It helps in-developing realistic goals and establishing actions to achieve these goals.

Marketing is neither a magical weapon nor a manipulation technique, and that is exactly what this article aims to clear up. The first section will dispel a few prejudices surrounding marketing and add some clarity. The second part will clarify what marketing can do for a firm – whether it is a manufacturer, a service provider or a non-profit organisation. The third section will describe the process for developing a marketing concept.

Marketing and advertising

Marketing and advertising are not the same thing. Advertising is indeed a marketing tool, but it is something that comes at the very end of a long strategic process. It is the message that is conveyed to the customer at the end of this process. The first stage is to work on the **strategic marketing considerations:**

- identifying the customer and selecting appropriate market research methods,
- defining and developing a suitable product, an appropriate solution to a problem,
- deciding on an appropriate distribution channel,
- positioning a price that reflects the value of the product,
- formulating the value proposition.

This means that many details have to be sorted out before you can actually present your message to the customer. The more we know about our customers, about their expectations, demands, problems, desires, obstacles etc., the better we can determine and shape our pitch.

Marketing is therefore a strategy and advertising is just an actionable message that is made up of lots of specific pieces of information. Since we are constantly exposed to advertising, we may think that we are knowledgeable about it. That is why it is common for people to mix up marketing and advertising as described above. This is also linked to the misconception that marketing is a creative activity. In fact, only a fraction of marketing is a creative activity. Creativity is useless without proper skills, tools and a systematic approach. Advertising experts are the creatives of marketing and have learned how to think creatively. That is why the marketers leave the creative part of marketing to them. Many people think that you just need to be creative to do advertising and marketing, but this is far from the reality.

Marketing and sales promotion

When people say **"our project isn't doing well, we need to do more marketing",** they actually mean "we need to boost sales of the product!" But this is **sales promotion,** not marketing. The same applies here: sales promotion is not marketing, least of all promoting a slow seller. This is because the main goal of marketing is for the product to represent an added **benefit,** a real **value** to the customer. Without such a benefit or value, promotion makes no sense. The other tools should only be used once it is clear that the product is ok. Sales promotion is a marketing tool similar to advertising. However, it is used throughout the whole marketing system (product, price, distribution, communication) and is part of the communication strategy. The most important requirement is that the product solves the customer's problem. Sales promotion or advertising alone cannot make bestsellers out of struggling products. Customers very quickly notice whether something is useful or not, because they are paying for it with their own money, which is not unlimited. That is even more true of B2B marketing, when the customer is not a private person but an entity (company, institute, authority etc.) with limited financial resources. The main issue is whether or not an investment pays off.

Product as the heart of marketing

Here is a quote from a successful supplier: **"we don't need marketing. A good product sells itself."** That is true, but what exactly is a good product? Marketing offers a clear answer to this question: **a good product is something that customers describe as a good product,** i.e. something that solves their problem, as if it were tailor made for them. Only customers decide if a product is good. Before the vendor thinks about a new product, they need to find out whether its target group is expecting a good-value product or a sophisticated product, whether the product should be long lasting or innovative and whether it must be affordable, durable, and simple to use. More often than not, ours is an oversaturated market. Many enterprises have good products, but only few of them aren't interchangeable. Here is a simple example: whether customers think a paper tissue is good or bad depends on their expectations of the product. In marketing, we describe products as solutions. This means that there must be a problem that the customer is faced with. We have to recognise this problem, and the better we get to know it, the better we can solve it. In short: we don't praise our products ourselves, we have to let our customers do that. Our customers will also tell us that, because otherwise they turn to our competitors instead of buying our products. In the end this means that the developers didn't meet the customer's needs.

Marketing as a systematic discipline

"Anyone can do marketing, you just follow your gut instinct." This is not true –

your gut does not make the decisions. Marketing is a scientific discipline of business and economics in the sense of acting systematically, strategically and operationally on the market, thus it is a way of thinking and acting that prioritises the market. It is therefore dangerous when people say such things as "I am an experienced user of the product, that is why we should do the following" or "in my experience, I know my customers very well". There is nothing wrong with using your experience, communicating with customers and speaking to them. However, it is impossible to know what all of our customers are thinking when we have over a thousand. The biggest mistake we can make in marketing is to make assumptions about other people based on ourselves. We are not the main focus of our product world as suppliers. Our opinion is not important and our customers do not always think the same as we do. We are not supposed to buy our products, our customers are – and the more they buy, the better.

Now that we have discussed what marketing is not, the question remains – what exactly is marketing and what can it do for your firm?

WHAT MARKETING CAN DO

Marketing is **market-orientated management.** That might sound a bit academic, so if we translate it into more practical terms it means that we orientate ourselves around what the market requires, rather than what we can produce, because our customers are not interested in what we can produce. Customers quite often already have an idea of a solution to a certain problem. If we are unable to offer this, they will turn to our competitors. As manufacturers, we search for solutions for our customers' problems and not the other way round. In marketing, we say:"the product is a solution". Developing and manufacturing a product and then looking for customers to sell it to is like saying "I have a great solution, now I need to find a problem for it", which is how marketers would explain that behaviour. It might be possible to do this in unsaturated markets, where customers cannot find the perfect solution anywhere and therefore have to buy an incomplete solution. However, as soon as they have a choice, customers will go for the perfect solution. Therefore:

Marketing is a competitive strategy

Marketing experts only really get started if other departments in the company are moaning about the competition. This is because they develop the competitive strategies, taking the market into consideration. They want the competitors' customers so they really need to have competition. To put it provocatively: marketing without competition has no reason to exist! Whereas people used to say "sell what you can produce", today they say "produce what you can sell". And to make that possible we have to know our customers, ideally better than our competitors do. We have to be better than our competitors from the point of view of the customers.

This is why it is so important to know the customer well – because we want to solve their problems so that they prefer us to our competitors. Good marketing experts know their customers inside out. They know their problems, their preferences, their tastes. We try to satisfy our existing customers as much as possible, because a satisfied customer is a loyal one. This is an important part of marketing.

Customer retention

Common sense dictates that it is difficult to retain customers by trying to sell them something that they do not really need. We have to give customers valid reason to choose us. In other words, we must be better than our competitors from the customer's point of view. These days, classic measures for retaining customers such as bonus and points programmes are supplemented and sometimes completely

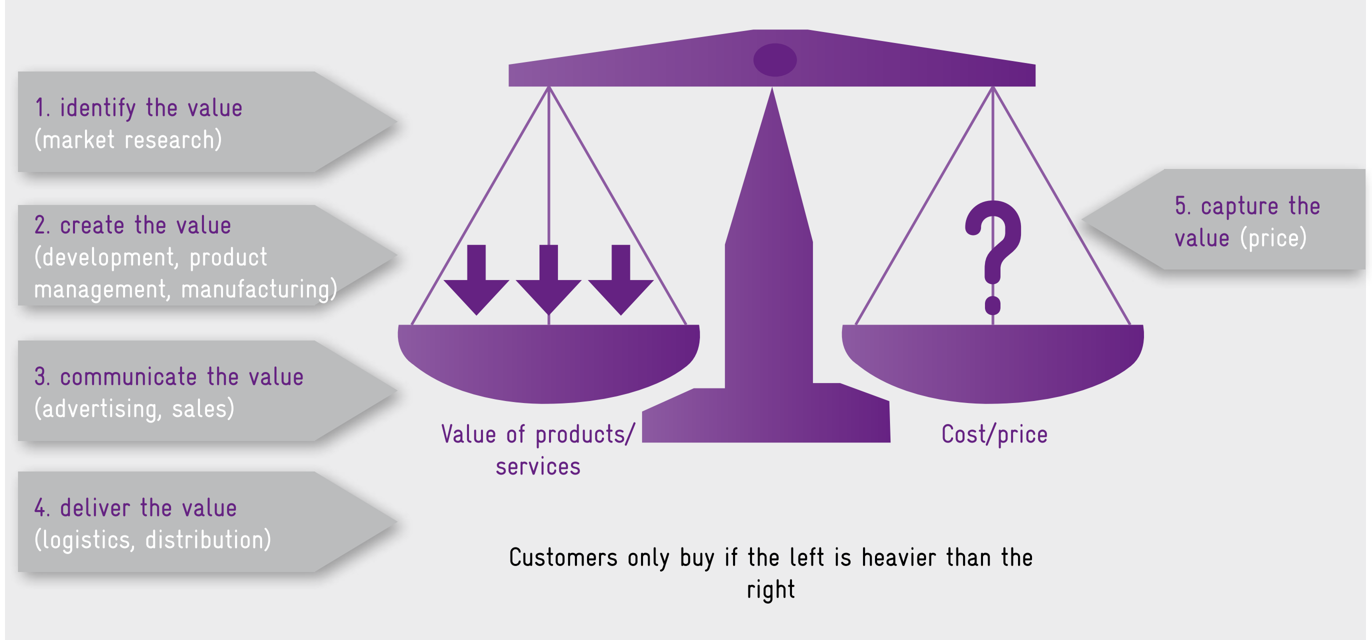

Figure 1: The five disciplines of value management

replaced by psychological customer care. Psychological customer retention measures prove to be a more effective and more customer-oriented way of retaining customers today, and in the future, classic bonus programmes (discounts) will only play a minor role. Systematic and continual brand strategy is a typical example here. A brand is an image in the customer's head, the association that he or she connects with a product. This image can last a long time and it can be seen as a measure of the brand's value.

Customer-relevant distinction from the competition

This entails standing out from the mass of different products, doing things differently, distancing yourself from one-size-fits-all solutions, and providing better solutions for your customers' problems. The customer decides whether something is better, not our development department!

That is what good marketing can do. It helps us to aim for an appropriate price, even in aggressively-priced markets, it helps us to build customer loyalty and to gain market share from the competition by using a better strategy. This is not a task for the uninitiated, who like to think of themselves as creative. It is a science which must prove itself in the company's activities and the market. It is like controlling, financing, or production management: it is something you can learn and study, it is a system that is indispensable in a saturated or overfilled market.

Figure 1 explains how important it is to be as familiar as possible with the customer, because the other steps only make sense once we have got the hang of the first step: identifying the value of what we offer from the customer's point of view. This means that we must get involved closely with our customers, we must ask them questions, we must invest time and money in market research. When we succeed at step 1, the following steps are generally always easier.

The task of pricing (step 5) is to maximise profits from added value created by products and services offered at a fair and competitive price. However, a customer only buys things when the price is based on the product's value. The value of industrial goods can often be calculated easily – for example, a new machine is faster and more energy efficient. For consumer goods we have to communicate a more perceived value in the right way (for example, "freedom" and "adventure" with Marlboro). The price is always important because it is the only marketing tool that we use to earn money – all the other tools cost money. The price is therefore an important tool for adjustment in marketing and can often have a large influence on profit.

Figure 2 shows which instruments we use in marketing, i.e. the classic 4 Ps. The chart is also about the **secret of marketing**: finding the best combination of all the different tool variations – the optimal marketing mix. This all has to be done from the customer's point of view, represented by the fifth P (people). We will only be successful if we know our customers as well as possible. This brings us back to the central theme of marketing – customer orientation. Getting to know the customer can be a lot of hard work and very expensive. If we do everything right, the sixth P comes more or less automatically: profit. But it is important that we focus on the customer, rather than on profit.

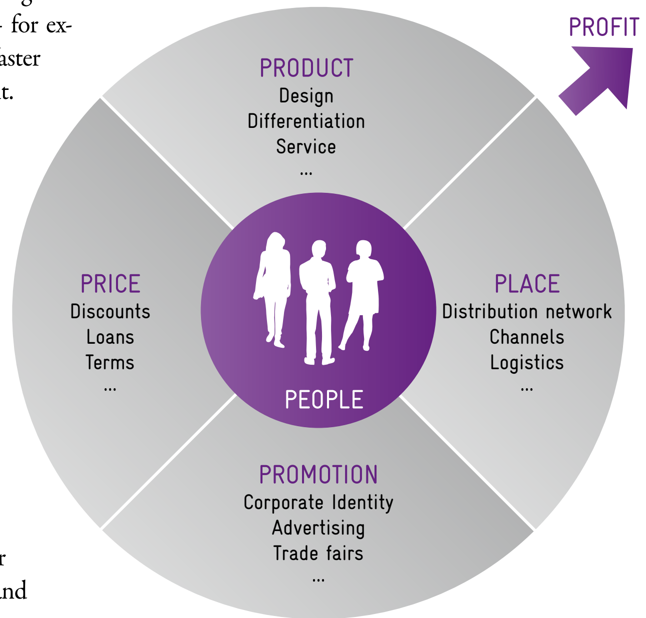

Figure 2: The marketing mix

WHAT A MARKETING CONCEPT SHOULD LOOK LIKE

A marketing concept should be clear and precise if it is to be used as a basis for making decisions. It should also not be too wordy, and not contain any minor details. Any necessary details can be included in appendices. A **management summary** can be much of use at the beginning, and this provides the important results of the analysis and recommended actions all on one page. Decision makers do not usually have the time to read 20 or sometimes 100 pages in detail, and this introduction allows you to pique their curiosity. If a paper is too long, no one will read it. Comprehensibility (as few abbreviations as possible), clarity (clear structure) and readability (appropriately large images) are important.

A marketing concept essentially consists of three parts: an **analysis,** which allows us to develop a **marketing goal** and then clarify which **measures** we want to use to achieve this goal. These measures are the actual **marketing strategy.** The strategy is the path to the goal and it makes no sense to have a strategy without a goal because we would not know where we are supposed to be going and we would also never reach our destination. The marketing goal is therefore the main element in a marketing plan.

A marketing concept first needs a good **titel.** This informs the reader what the concept is about in a few seconds, for example "market expansion for bought-in parts in Eastern Europe". Right after the title, it is recommended to include a **management summary** (see above), followed by the **table of contents** with page numbers. After that, a **project introduction** is a good idea – a short explanation about the aim and purpose of the project and the relevant products. For example, "in recent years, profits from our bought-in parts in Eastern Europe have been stagnating. We have always sold a large amount to customers from the timber industry, but we do not know enough about other profitable industries and their potential. That is why we would like to investigate new sales opportunities in other sectors that promise growth in both sales and revenue..." The outlook should also be explained here. For example, which products promise new sales and in which industries. The aim of the concept should be to provide a basis for making decisions, for example about a new strategy in Eastern Europe. The introductory sections of the marketing concept are followed by three main components: market analysis, marketing and sales goals and measures to achieve them.

Analysis of the current state of the marketn

The analysis delivers important background information about the market (including market share, market potential, forecasts), the product/products (including portfolio analysis, product life cycle), the target group, the existing customers (defining A, B and C customers), the competition, the distribution system and corporate environment (macro environment). It is important to define the range of products and the possible target groups whose problems we want to solve with our products. It is just as important that we gather our previous experience in comparable industries, countries, situations and incorporate this in the analysis. Here are some important sources of information:

- The CIA (Central Intelligence Agency of the USA) **World Factbook** provides excellent, up-to-date data which you can use to compare countries systematically. It is essential to concentrate on the most important markets (market selection) because no company has unlimited resources.
- **German Trade and Invest** has a plethora of specific market studies for all the important markets in the world.
- Industrialised nations have **statistical offices** which provide databases online, allowing you to search for the trade flows for individual products very specifically – in Germany this extensive, free database provided by the Federal Statistical Office is called GENESIS.
- International trade fairs in the relevant countries are the best source of information about the competition for enterprises, because all the international and local competition gathers at the fairs, and the atmosphere is very open and communicative. One tool for finding the right trade fair is the worldwide trade fair database from the Association of the German Trade Fair Industry (AUMA).

Some important advice for a market analysis:

a) establish how well informed you are at the moment. Subjective estimations are enough to begin with. It can sometimes seem as though you have more information than you actually do if you are not aware of certain problems.
b) specify how well informed you want to be. This will usually grow in line with the size of the company.
c) make a step-by-step plan for acquiring information. Get an initial overview with as little effort as possible and gradually begin using more expensive market research.
d) begin by finding the best secondary sources. Secondary research involves collecting and preparing suitable material that third parties such as institutes or organisations have already compiled.
e) use only the best sources. You will quickly become familiar with the most appropriate sources for a specific problem.
f) once you have done secondary research, you can carry out strategic primary research. Primary research involves directly surveying customers, sales agents, experts etc., either in writing, on the phone or in person.
g) determine a generous budget for gathering this information and eliminate any hurdles preventing you from carrying this out. Provide your market researchers with the support they need to be committed and creative.

A **SWOT analysis** is not essential, but it is a popular tool for describing a business case and developing possible strategies based on it. It involves identifying and discussing Strengths and Weaknesses as well as Opportunities and Threats related to the product and markets. Strengths and Weaknesses are internal factors and can therefore be controlled, whereas Opportunities and Threats are external and cannot generally be controlled!

Marketing and sales goals

The next step is to develop marketing and sales goals (for example revenue, profit, market share, contribution margin, customer satisfaction, brand image and purchase intensity) from the analysis. These goals must be realistic because they generally have financial consequences (e.g. expanding production capacity). A market entry is going to cost money. Sales goals can be such things as "increase annual revenue in Poland, Czech Republic and Hungary" or "achieve a brand recognition level of 80% in the X, Y and Z industries within two years" or "achieve a yield of 20% in the markets mentioned above in three years at the latest". These goals are the focus of the marketing plan and they always come between the analysis and measures to be taken.

Marketing and sales strategy

In the third section of the marketing concept, we suggest measures to take in order to achieve the goals set out. This involves establishing various possible strategies for pursuing the marketing and sales goals to begin with, and then explaining what must be done for each one in more detail. For this, it is worth using the 4 Ps as a guide (see Figure 2). It is important to define who is responsible for the individual actions, when and by when they will be carried out and how much they should cost. An annotated plan of action should

> A marketing concept should be clear and precise if it is to be used as a basis for making decisions.

also be created, detailing the process of how the strategy should be implemented effectively. The priorities here can be completely different, depending on the product or service. For example, the delivery of the parts – the logistics – plays a more important role for a supplier of mechanical engineering components in various industries. Let's look at an example from the logistics industry.

Logistics

When industrial companies switch to lean production, their purchasing behaviour changes. This results in completely new demands for the supplier. Suppliers must then recognise these changes and adapt to them. The essential idea of lean production is to transfer as much responsibility as possible to the supplier. The aim of a **Just In Time Concept (JIT)** is to produce the highest possible quality without holding any stock. Components must be delivered exactly when they are needed in the production process. Suppliers and customers must synchronise their production so that buffer stocks are no longer needed. Sometimes the supplier even takes over parts of the assembly on the customer's premises. **Quality assurance** can also be transferred completely to the supplier. The customer expects perfect parts and cuts down on a lot of quality assessment by doing so. **Proximity to customers** plays an important role in this. As very regular deliveries are essential for JIT concepts (every 30 minutes in some circumstances), it makes sense for the suppliers to manufacture near to their customers, be it in Shanghai or in São Paolo, for example. A reliable and fast **data connection** is always essential: the internet and EDI (Electronic Data Interchange) make it possible to link the supplier and customer's systems, so that orders are made just in time. If multiple suppliers are available, the computer will find the cheapest quotes.

The supplier receives the **production schedules** from the customer in advance in order to plan ahead. For example, Recaro (car seat manufacturer) receives the requirements from Daimler AG (only 40 km away) every day to allow them to schedule all the components, material stocks and machine capacities as well as personnel. The supplier and customer work very closely together for a JIT concept. The best provider often achieves a long-term, exclusive agreement (single sourcing) and can only be driven out by a competitor with great difficulty. This means that the supplier is in a **unique position,** although this often comes hand-in-hand with a risky dependency.

The elements of lean production named above result in a close relationship between industrial customers and suppliers. Changing partners is expensive because a great deal has been invested in terms of time, location costs, data networking, system tuning. Industrial goods marketing is therefore very relationship orientated. When considering whether the business relationship is profitable, it is important to refer to the duration of the business relationship and not just to one-off contracts.

Marketing budget and marketing controlling

At the end of a marketing plan there should be an outline, including figures, explaining what costs should be expected in the first, second and third year etc., and how possible losses and profits will turn out. It is not a problem if the project initially operates at a loss in the first year, as long as it becomes profitable in the second or third year at the latest. It is important that the marketing budget is particularly high at the beginning of a market launch, because a half-hearted launch will not lead to the desired sales targets. Marketing costs are generally countercyclical to revenues and it makes no sense to base a marketing budget on revenue figures when developing new markets. It is therefore all the more important to derive the sales forecasts as systematically as possible from the analysis data.

Marketing controlling is the tool to guide our project. The reality usually looks different to the plan, and this means we have to react if we do not reach our target figures. Maybe the price is too high, the products are being offered through the wrong distribution channel or the advertising does not appeal to the desired target group. Controlling is an ongoing task.

SUMMARY

A marketing concept adapts the company's strategy to the market and puts it into operation. It is based on extensive market research. The research will identify the potential in the target markets, for example, but its main focus is the target groups. The more we know about our potential customers, about their problems, demands, desires, expectations etc., the better we can plan and carry out our market activities. Marketing planning means using the marketing methods so that the marketing goals established by the market analysis can be achieved. The concept is used to select markets, to determine your own market positioning, to forecast possible sales or revenue targets and to plan a realistic market share within the defined market segment.

The **recommendations for action** include carrying out systematic market research within the company and outside the company, to determine strengths and weaknesses of the firm, as well as evaluating its opportunities and threats. This will allow you to develop realistic marketing goals and establish what actions should be taken in order to achieve these goals. Finally, you compare the planned method with the expected revenue, because management will only approve the strategy if the result is clearly positive. Controlling is also essential, and this allows the processes to be guided in a timely manner. It is recommended to take a systematic approach and to back up important decisions with professional market research.

Marketing planning uses an enterprise's resources in a way that optimises its market chances and helps management to achieve the firm's goals. The focus is always on the market and the customers in particular, as it is ultimately the customers who are paying and who ensure the company's continued existence.

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Innovation Management

Innovation involves the implementation of ideas, inventions, new processes, services and technologies for economic success. This essentially means the alteration and reorganisation of existing structures, approaches and well-functioning routines, and is therefore closely associated with change management. Innovations require friction – they mostly occur on the fringes of and at the interfaces between different disciplines. In order to strike a new path, a change of perspective is necessary to be able to ask new questions and to remain open to change and other approaches.

Innovation management can be understood as the organisation and facilitation of the implementation of innovations within an enterprise. It is important to make methods and processes at the interfaces within the firm adaptable. Innovation management is therefore at the same time a driver of change. The condition for successful innovation management is support from top management and a willingness to consistently implement the necessary changes. Innovation managers thus automatically become an important part of change management within an enterprise.

The internet and globalisation have made information paths shorter and faster; indeed, the global availability of knowledge has changed rapidly within the space of just a decade. In the social and business networks, innovations are distributed and made available worldwide in a matter of minutes. While it was still possible to describe and implement innovation management with technological expertise, implementation competence and market positioning back in 2000, today it is far more complex.

Ideas generation

Every user with internet access has the opportunity to distribute knowledge, publish their ideas and concepts worldwide, and direct questions to all internet users in the search for solutions. The boundaries for information and knowledge transfers have become fluid. This in turn changes the possibilities of how and where innovations occur in an extremely dynamic manner. Social networks are based on interests and possible search fields; themed virtual communities are being formed for a specialist exchange of information.
New ideas can be generated in different ways.

Technology push

Leading companies from the most varied of industries have created markets for themselves by using their technological expertise and the push of technologies and new uses to develop new markets.
Innovations mostly arise here from cooperations with universities and institutes on joint research projects and in-house research and development, whereby new materials, technologies and processes are developed from a company's field of expertise and presented to market partners.

Market pull

The question of the customers' needs and the according solution to meet these is asked in the so-called design thinking process.
Solution variations are developed here that search for appropriate technologies, processes and materials to transfer the solution in a profitable, process-reliable manner to a market-ready product. This solution is geared towards a defined target group.

Ideas are not automatically innovations

Not every good idea will necessarily also be a success on the market. The dynamics of change due to digitalisation makes it necessary to consider both of the aforementioned idea generation methods to fulfil all innovation management perspectives and adjust to technology and market changes in a timely manner.

Innovations can be measured through their implementation on the market and the market success achieved.

Innovation drivers

A 2015 study by Thomson Reuters on the top 100 global innovators shows how innovations in different industries are influenced by new players and start-ups. For enterprises already established in the industry, this development means opening up to the outside and building up networks with the new driving forces. The dynamism of the development process is significantly increased through the convergence of technologies and market segments.

The value creation model is changed and also influences established partnerships. Digitalisation is leading to a de-materialisation – software and algorithms are taking over functional tasks. Artificial intelligence has become established and increasingly also takes care of decision-making in automated processes. Thus value creation chains also fuse and change the requirements profiles of products and technologies.

The change to the ecosystem creates uncertainty – innovation and marketing must communicate closely with one another to keep up with the developments and needs of the market and to be able to offer suitable products and services.

Future competence

It is very important for companies to be aware of changes in the market in order to adjust to these accordingly early on. The time frame for this foresight varies from industry to industry and depends on their dynamism. The development cycles in

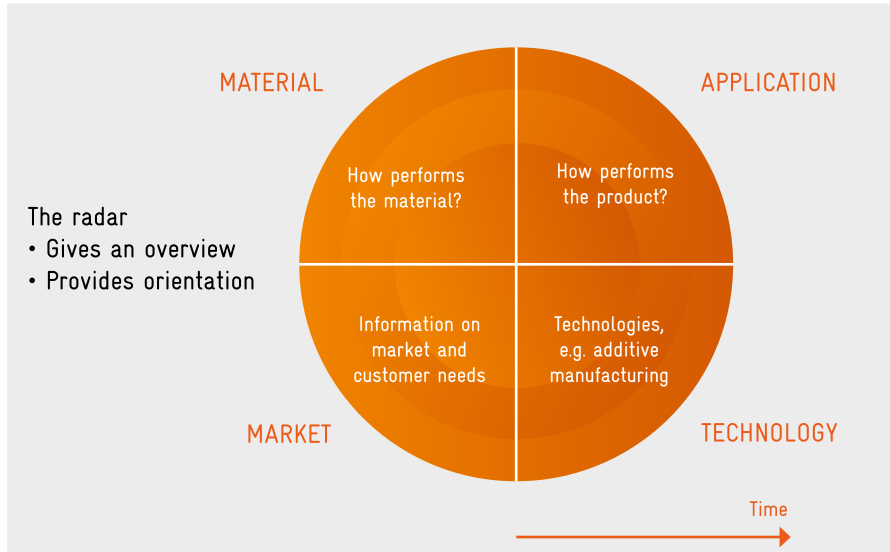


Figure 1: The orientation radar links innovation goals and market factors. Successful companies define clearly how the innovation portfolio is divided up.
Source: Folting Future Consulting

consumer electronics are far shorter than those in the automotive, construction and energy industries, for instance.

Enterprises must orientate themselves to this to be able to adjust their strategy and development portfolio to the change process and to operate in sync. A systematic forecast aims to provide orientation for the corporate strategy, clarify the firm's scope for manoeuvre and enable timely change processes. It considers trends and technological developments in the company fields of tension and evaluates these from different perspectives.

The "orientation radar" as a communication tool

In order to reduce complexity and set a context for interdependencies, the radar method is increasingly being used (see Figure 1). This provides orientation and sets the developments within a time frame. Technologies and materials are added to the radar as characteristic values for the innovation portfolio. Market conditions and application solutions are compiled from the marketing.

In order to link innovation and marketing, both of the following key questions must be answered: how do we wish to commit and position ourselves as a company in the future? And how can we achieve a competitive edge here?

FROM IDEA TO BUSINESS MODEL

The present-day trends in business are diametrically opposed: on the one hand, the concentration on core competences and on the other, the increased complexity of system solutions. The shift from closed to open innovation has already be completed and future markets are being tapped into in development project partnerships.

Open up the innovation process – form networks

The formation of interdisciplinary project groups is helpful in order to pool specialist expertise as a complement to defined project goals. Successful innovation projects ensure partners and customers come together at an early stage. Interdisciplinary project teams are able to work through and implement complex questions in a dynamic manner that is efficient for all partners.

The comparison of innovative concepts with future potential market players and participants allows development paths to be set early on. At the same time, customer involvement actively influences and fosters market development. The involvement in "open innovation" network structures serves to build up and synch future knowledge, recognise complex application solutions, define system solutions, and validate road maps for the future. This form of cooperation requires special attention to handling of the knowledge transfer.

Handling knowledge in the work within networks

In the early innovation phase, it is particularly important to bear subsequent use of the knowledge gained in mind. During the "open innovation" phase, it depends on the pre-competitive aspect. Future topics that generally do not represent patentable solutions are worked through together here. Confidentiality rules are agreed together. The joint project work is completed as a partner network involving mutual trust. Those who do not adhere to the rules are excluded from the network. Work outcomes in the "open innovation" network are made available to network partners as common property. This is beneficial to all partners, as they are able to build up future knowledge without having to actively participate in every single work project.

Rendering core competences transparent

The transformation of future knowledge into fields of action for new product solutions is a core competence of innovative enterprises. Standards are developed for knowledge creation and opportunities for new cooperations and intellectual property.

If partners implement developments together, the competences should be clarified in advance. The partners must find a mechanism for how they wish to regulate the allocation of rights for intellectual property generated together. In the case of the targeted generation of rights to intellectual property, particularly the number of development partners should be kept to a minimum. The key role of each partner must be defined. Development tasks to be completed by external partners should exclusively be obtained as company know-how and agreed in a contract. During the generation of intellectual property, it should be clarified at an early stage the form in which a patent application should be filed and how the usage rights are to be regulated.

Market orientation and interdisciplinary team work

In each project phase, the focus is on the customer; the market and customer needs are evaluated and outlined in all project phases. Innovation takes place at the interfaces, hence it is important to use interdisciplinary teams to break these down and bring in new perspectives. The formation of interdisciplinary project teams involving different companies boosts the number and diversity of ideas.

The presentation of interim outcomes in outlines, haptic samples or inspiration models are an important component to provide new impetus and achieve a common understanding.

The communication of project goals and outcomes is one of the most important success factors in the innovation process. Only through transparency and clear presentation of the development aims can barriers be avoided and obstacles overcome. It is important to generate impetus and to give partners sufficient room to contribute their own ideas and expertise to implementation.

Change and idea generation

In the course of the dynamic change taking place through digitalisation, artificial intelligence and information transfer through new formats in social networks, a shift in values can also be observed in society. The shift from an analogue to a digital world is increasingly changing the development dynamics, production technologies and decision-making processes.

Teaching is being replaced by rapid learning, whereby haptic samples are developed in just a short time using 3D printing that can then be tested and optimised. The iteration loops for product optimisation can thus be reduced to a matter of hours in this way.

The design process is being digitalised and the production location becomes irrelevant if generative production methods are established. It is increasingly the case that application solutions and products not only fulfil a function, but also perform a task and communicate with one another. Humans must assume a new design task for versatile applications in this transformation. It is very important for enterprises to begin working with young talent very early on to be able to adapt to the new future.

Division into process steps (stages) boosts the agility of the innovation process

An innovation process conceived with a market pull strategy according to observation of the market developments can be described in different phases (see Figure 2). Agile adjustment to the development dynamics of the market segments can thus be achieved.

Description	Trendscouting	Idea management	Feasibility studies
Example activities	Market observation Technology screening Future orientation Network building	Idea screening Idea generation Idea evaluation Idea prioritisation Technology implementation	Technical feasibility Patent situation/USPs Market segment analysis Value creation model Value chain Partner/customer selection
Output	Trend map Pictures of the future Orientation radar Technology road maps	Solution principles Conceptual prototypes Market feedback Application/requirements profile	Balanced innovation card Transfer/project portfolio Start: Stage Gate Process

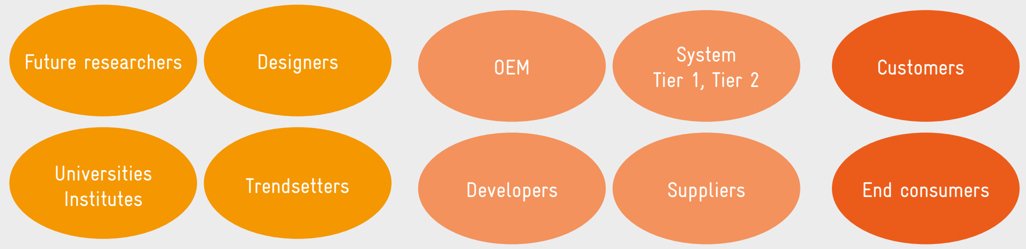
Stages	Scanning Scouting Scenarios	Breakdown into search fields	Presentation of customer benefits Development of concept solution	Does the solution fit with the company capabilities?	Feasibility Market appeal Product road map Portfolio check Project launch Market rollout
	Phase 1		Phase 2		Phase 3

Figure 2: Phases of the innovation process

Source: Foltin Future Consulting

Interface management

Involvement of external market players



How is the selection made?	By competence Broadening of perspectives	Early communication	Experience Market knowledge	Time to market
Organisation of involvement	Network building Cross-industry projects	Win-win principle	Early contact with development partners	Cost sharing
Interfaces	Scouts, researchers, developers, artists, designers, social networks	Business development Market research, marketing Patent department, communication	Portfolio management Sales, application technology, service	

Source: Foltin Future Consulting

Case study: the switch from optical data storage media to attractive lights

In the early 1980s, optical data storage media heralded the start of the digital age, arising from the technology push of material and technology experts. The first compact discs (CDs) for music were followed by further development steps for expansion of the technology (DVD) and fields of application with new systems for digital data storage.

These days, optical data storage media have reached the end of their life cycle – they are being replaced by hard drive storage and compact systems developed by the semiconductor industry. Their market share is falling rapidly, hence producers are seeking new applications to continue using their technology, expertise and production facilities or focusing on new applications.

During innovation talks between a material producer and a CD/DVD producer in 2010, the possibilities for new applications on the market were discussed to build on the expertise in CD production, including the logistics expertise. At the time, the light industry was dealing with the major transition of their production capacities from light bulbs to energy-efficient, sustainable light solutions. In line with international regulations, old-fashioned light bulbs and energy-saving bulbs containing mercury were being (and will continue to be) withdrawn from the market according to a set schedule. The light-emitting diode (LED) technology offers development potential for use as a light source in entirely new lighting systems.

The idea and a preliminary light model for an integrated surface-mounted device (SMD) LED in a CD inspired the CD/DVD manufacturer's managers (purchasing, production and marketing). They resolved to hire an electronics specialist for their development team and to made test facilities available to conduct a preliminary feasibility study with a production facility. The usage rights were clarified, building on the material producer's patent applications. The partners registered a utility model for the concrete product solution developed together.

The production facilities were expanded with the according additional facilities to assemble SMD components and produce functional layers, adapted to the quality standards, cycle times, reproducibility and efficiency. The electronics partner developed light variations offering the light output required for workplace conditions with the lowest possible energy consumption and used conductive functional layers to reduce the use of electronic components such as series resistors. The light element was designed in such a way that no heat is generated during continuous use and the balanced emission of heat is ensured. The light is dimmable and can be used as particularly flat lights with a wall thickness of <2 mm. Special light effects can moreover be created using shaping geometry, additional lenses or integrated diffusers. Possible applications were demonstrated and presented in several design studies and prototypes.

The start-up was launched in mid-2015. The production process has since been standardised – and upscaling in the event of the according market demand is commercially viable.

Experiences

- Methods, procedures and knowledge from foresight management belong in the innovation portfolio
- The use of external expertise is crucial
- Pilots are important for an organisation to be able to learn from these
- Committed employees should be engaged to lead the projects
- Communication is as important as the content (the status quo will be questioned, openness to a new mindset)
- Foresight is effective if it is linked directly with the search for new ideas and integrated into the strategy
- To put foresight into practice, direct relevance to the business fields and marketing is required to also immediately implement new insights

CONCLUSION AND RECOMMENDATIONS

New applications arise when requirements and framework conditions change and new technologies are developed. The dynamism of change increases the complexity, company boundaries are opened up, and innovative companies use the opportunity to network. A precise description of the future market in its altered environment reveals opportunities for new, holistic system solutions. The consideration of customers' needs enables a review of the market potential by target groups, which are changing but can already be experienced today.

Recommendations

- Developing a conclusive story and visualising core statements that result in a consistent image and illustrate the framework conditions for innovation form part of every innovation process.
- Presentation of the change process through technology development trajectories or the illustration of new customer and market needs is essential to win acceptance and allies for the innovation.

Limitations/typical issues

- Employee fluctuation, changing priorities
- Application of present-day evaluation mechanisms to future topics
- Time pressure and too much of a focus can harm the process
- Task force mentality outweighs long-term thinking
- Inconsistent measurability and consideration of target agreements
- Too little linking of foresight with communication work (internal and external)

Eckard Foltin has more than 30 years of experience at a major corporation. The global implementation of foresight processes in the corporate strategy relating to the marketing goals count among his strategic tasks. He has led an international, interdisciplinary and intercultural scouting team and built up a network comprising industrial partners and designers at the interface between application development and material requirements.

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International Project Management

With regard to project management, local local and international projects principally do not differ. The planning and implementation of international projects is generally more complex – not least because of the distance, cultural differences and language barriers involved. As a result, it is essential to pay special attention to certain project management process areas because they affect how the project goals are fulfilled in particular. Success factors such as the value of project management within the firm and the error management culture are as fundamental as communication management and team organisation. In international projects it is particularly important to consider intercultural aspects.

SUCCESSFUL PROJECT MANAGEMENT – GENERAL SUCCESS FACTORS

The importance of project management in the company

The same fundamental rules and requirements apply to the project management of international as to local projects. The importance of project management within a company, for example, is therefore highly significant. A range of factors such as industry, product, management culture, the size of the firm, company history etc. affect how project management is carried out in each enterprise and what value these management tasks have. For this reason, there is a great deal of variation in project management.

The role of the project manager is often assigned without much thought and without an understanding of the actual role according to established standards. Whether an employee actually fulfils the role of a project manager or simply a coordinating role depends on the organisation and how the company values project management. Project management can vary in quality – it can be great, but also considerably poor.

Some suppliers of automotive parts do not only provide components but also a separate, additional "project management" service package and project management as a standalone, marketable product is indeed a successful business model. For example, a contractor in the premium segment was tasked with coordinating more than 40 manufacturers of car seat components right through from launching the project up to supervision of the series production. SMEs and large corporations use all kinds of suppliers, including project management providers. The project management for the company tasked with delivering car seats was based on very strong project organisation. The project manager was responsible for the entire budget and supervised the project team who were in charge of both their own car seat components and third-party seat components.

In other firms with linear project organisation, employees are sometimes named project managers. They work solely as "coordinators", without a clearly defined role, and try to motivate the employees to work for their project. They often have to ask their superiors for decisions so that they can achieve the project goals. This essentially has nothing to do with project management.

There are probably countless variations of the value and significance of project management in an enterprise between these two extremes. From personal experience, good project organisation is essential for complex projects. And if you deal with international projects, you can expect them to get complex more often than not.

There are very simple signs that indicate the importance a company places on project management and project organisation. The simplest is the hierarchy of project managers within the company or by identifying who each project manager reports to. In good project organisation, there is often a project management backoffice, which supports the project manager with controlling, planning and other tasks. The project organisation is its own organisational unit at the same level as division or department management. You can also get an indication of how important project management is by analysing how responsibility is divided in the firm. In some organisation teams, managers from departments in a linear organisation structure avoid handing over responsibility or delegating, because they are afraid that they might lose some power by doing so.

Taking responsibility for a project requires having competencies and authority. If the project manager has the appropriate power to make decisions and control over a project budget in line with the size of the project, he or she takes on responsibility for some personnel issues, for example taking part in HR decisions. By participating actively in annual appraisal meetings, or being in charge of employees, the project manager can shape and actively guide the project. This is the role of a project manager.

Error management culture in the company

Error management culture is another important factor, and this depends to a great extent on the company's culture. This significantly affects the work of a project manager and how successful a project is. It is an important factor whether errors are discussed openly, dealt with transparently or covered up, and this is something the project manager has to consider.

The people working on every project are human, so mistakes happen. No employee

> Mistakes often occur if the workload is too high and the resulting lack of care and attention this causes.

would deliberately make a mistake when working on a project. Mistakes often occur if the workload is too high and the resulting lack of care and attention this causes. Or teams can misjudge the chance of a risk occurring. Sooner or later, every error comes to light. It makes no sense to cover these up, or hide or ignore them. Every problem is detected at some point, and the later that happens, the more serious the consequences would be for the project goals. For this reason, it is in the interest of every project manager to establish a positive error culture. It is also important that the people who discover or confess to a mistake are appreciated. You should never focus on blame as this only explains the what has happened. This cannot be altered and is not helpful for the project in the future.

In highly efficient organisational structures there are methodical approaches such as the 8D method for evaluating errors and to avoid errors reoccurring in the long term. This comes back to the cause and possibly the issue of blame – but personal errors often occur due to time pressure or if the workload is too high. As a result, the root cause often comes down decisions made by management, which were either poor or too late.

Success factors in the project

Even with poorly organised projects and a negative error management culture, a firm can reach the project target one way or another. An adage in the automotive industry says that "cars are built before the start of production (SOP)". That means that all deadlines could be eventually met, but whether this can be done within the forecast budget plan, with the desired quality and without as yet unknown risks is doubtful.

And so you could draw the following hypothesis: well organised projects with an open and positive error culture are more successful and it is easier to achieve the three classic core objectives of "timeliness (ON TIME)", "functionality (ON SPEC + QUALITY)" and "costs (ON COST)" to the best possible standards.

The influence of these factors as well as other success factors cannot be accurately estimated, and it is not really possible to prove that the project has been realised in the best possible way, once the project has been completed. However, both project organisation as well as a positive error management culture are extremely important, particularly when it comes to international projects.

Characteristics of international projects

The characteristics of international projects are a result of the project's increased complexity. In the following section, some selected focuses will be examined based on the Project Management Body of Knowledge (PMBOK) developed by the Project Management Institute (PMI).

Project management standards

Along with the PMI, a number of additional project management standards have become established. These differ to some extent in terms of methodology and structure, although less so in terms of content and the principles.

- IPMA Competence Baseline (ICB 3.0): the PM Standard from the "International Project Management Association" (IPMA) is represented in Germany by the GPM (Deutsche Gesellschaft für Projektmanagement e.V.)
- PMBOK Guide: US American PM-Standard from the Project Management Institute (PMI)
- PRINCE2: project management methods from the United Kingdom
- HERMES: project management standard from Switzerland (emphasis on IT)
- DIN 69901: Deutsche Industrie Norm (German industry standard) for project management systems.

The standards followed depend on the country as well as the company. The PMI is a globally-recognised standard with a certain reputation and it is also very widely used internationally. However, the importance of the other organisations is increasing at least in the relevant regions. The PMI has used its near-absolute monopoly over the past years to develop a very lucrative business model.

THE PROJECT LAUNCH

Project preparation

In this phase, all of the project management requirements are examined and prepared, at least for the planning phase. The PMI uses terms such as „communication management", „stakeholder management" or „risk management". To put it more specifically, these three subject areas provide answers to the following important and obvious questions:

"Communication management": how is the communication organised, i.e. meetings, management reviews, documentation, project files etc., to make sure that all team members can complete their tasks and the team and management are sufficiently informed?

"Stakeholder management": who can influence my project goals by actively doing something or refraining from doing something?

"Risk management": which potential risks could influence my project goals that are already known about at the beginning of the project? It is important to note here that chances, which influence the project goals positively, are just as important.

These self-contained project management areas are very closely related and interact with each other and should be regularly checked over the course of the project to see if anything has changed. To name a few examples: to plan communication, you must know all the stakeholders in the project – this does not just mean those within the company, but also customers, suppliers and possibly also their sub-suppliers. All stakeholders can also provide important information, in order to identify and evaluate risks early on.

A very helpful method of initial project planning is a PIA workshop.

PIA workshops as a method

PIA stands for Project Initialisation and Acceleration and should incorporate and actively involve the most important stakeholders of the project at the product launch in the basic project planning.

A core team is also necessary, if possible from all specialist departments, to do the ground work for the project. Along with the planning areas named in the previous section – risk, communication and stakeholder management – additional project management areas such as, for example, the content and goal of the project (project scope), the initial deadline planning, quality and supplier management as well as additional focuses of the project are defined together. The focuses a PIA workshop has to deal with in the project launch have to be considered individually for each project, depending on the level of innovation and size of the project – although scope, risk and communication management and deadline planning should always form a component. For very large projects, it makes sense to include a separate workshop in the sub-projects. Depending on how large and complex the project is, you should take one to two days to coordinate and document the basic conditions for the project.

Typically, a formal project charter is then prepared, which consults management from the departments and, where appropriate, higher levels of management and in which the details developed by the core team are formally approved.

PROJECT ORGANISATION AND TEAM STRUCTURE

Choosing the project manager

It is quite often the case that a development engineer is selected as the project manager because he or she has proved to be a particularly good developer. The role of a project manager is more a task for a generalist, who has to take all kinds of aspects of a product into account. That is why it is challenging when the project manager is reduced to the role of lead developer.

The technical aspects and functions of a product are important but non-technical issues such as cost controlling, quality management, purchasing, logistics, infrastructure, employee training, marketing, service etc. matter too for a product's success on the market. Besides, there is an essential, non-technical skill for the implementation – communication.

Small and medium-sized enterprises or start-up companies are at an advantage here because they generally do not divide labour as much and task allocation is simpler and more transparent. But the ability to communicate plays a crucial role, both in terms of planning and implementation, no later than when these companies deal with an international project spread over several sites. This calls not for the best developer, but rather for an extremely emphatic person who is experienced in dealing with different languages and cultures.

"Think global – act local"

To manage an international project and shape communication effectively, it is necessary to assign a separate sub-project manager to take responsibility for each region.

In addition to the project manager, you should also put together a team in every region, with all the same competencies as in the other regions (see Figure 1). These structures should be clear to the whole project team around the world. Specialist questions to address would simplify communication between professionals in different regions. It may sound trivial, but using this one-to-one structure for each team is a simple but fundamental factor for success in international projects. One example of this is a global industrialisation project in the automotive industry, where a total of nine production lines were planned, created, tested and set in motion nearly in parallel only with a time-shift of a few months in all three countries.

Secondly, it is beneficial to carry out a PIA workshop in every region, along the same lines as for local projects. This allows regional characteristics to be identified in the project launch phase and taken into consideration for planning.

At the same time, managers can also use the valuable time in the region to involve customers and suppliers in the planning process as important stakeholders. By doing this, you can identify points of contact to the regional customers and supplier organisations and incorporate communication planning – an important building block – in the project. This approach is extremely helpful in the early phase of the project, and proves to be extremely useful throughout the course of the whole project.

With the appropriate competencies, authority and status in the enterprise, this is good project organisation.

Error management culture in an international context

Error management culture is particularly interesting when considered in an international context because a project manager here is confronted with intercultural conditions, as well as company-specific ones. For example, the project manager for an industrialisation project in what are known as Triad countries – in Europe, North/Central America and Asia – will encounter cultures which could not be more different.

Some project participants foster open communication and therefore deal with mistakes transparently. Mistakes or failures are possible if you take risks – and every project ultimately comes with a number of risks. But "it does not matter if you fall" when a risk occurs, but "what matters is that you get back up again". In this kind of error management culture, the work is generally very process orientated.

For others it is much more difficult to report an error, let alone to take responsibility for it. In some cultures "losing face" has a deep emotional significance. As a result, these cultures deal with errors differently. It is difficult to make a general recommendation for this. In some cases, it can be helpful to use clearly-defined goal agreements as a management tool. This means managing by finding a consensus on the final state in terms of deadline and content and not by controlling the implementation process closely and constantly.

Time zones

Unfortunately, there is no perfect solution for this seemingly trivial challenge. But there are sensible solutions for compromises, which are pragmatic and function really well. These include appropriate project organisation and thought-out communication planning.

The problem of different time zones can be tackled better if responsibility is clearly divided into sub-projects. A regional sub-project manager with relevant competencies and authority is a key position, and it is important to hire the right person. Clear agreements about the project manager's competencies and authority are crucial to be able to make decisions locally and quickly. When a project is under time pressure, decisions must often be made within a few hours. If it becomes necessary to escalate a decision to a higher management level, this should happen at the next highest management level but not higher. This allows all project teams to be informed within 24 hours and for a decision to be made promptly.

If you carry out a local PIA workshop as an initial planning and communication tool, this will give the project a solid basis early on in terms of content in all the important areas.

In spite of these organisational structures, it is a good idea to go to the different regions regularly. On one hand this reinforces the project's importance, and on the other hand you show that you value the local project team employees. This applies for every region. With a well-measured

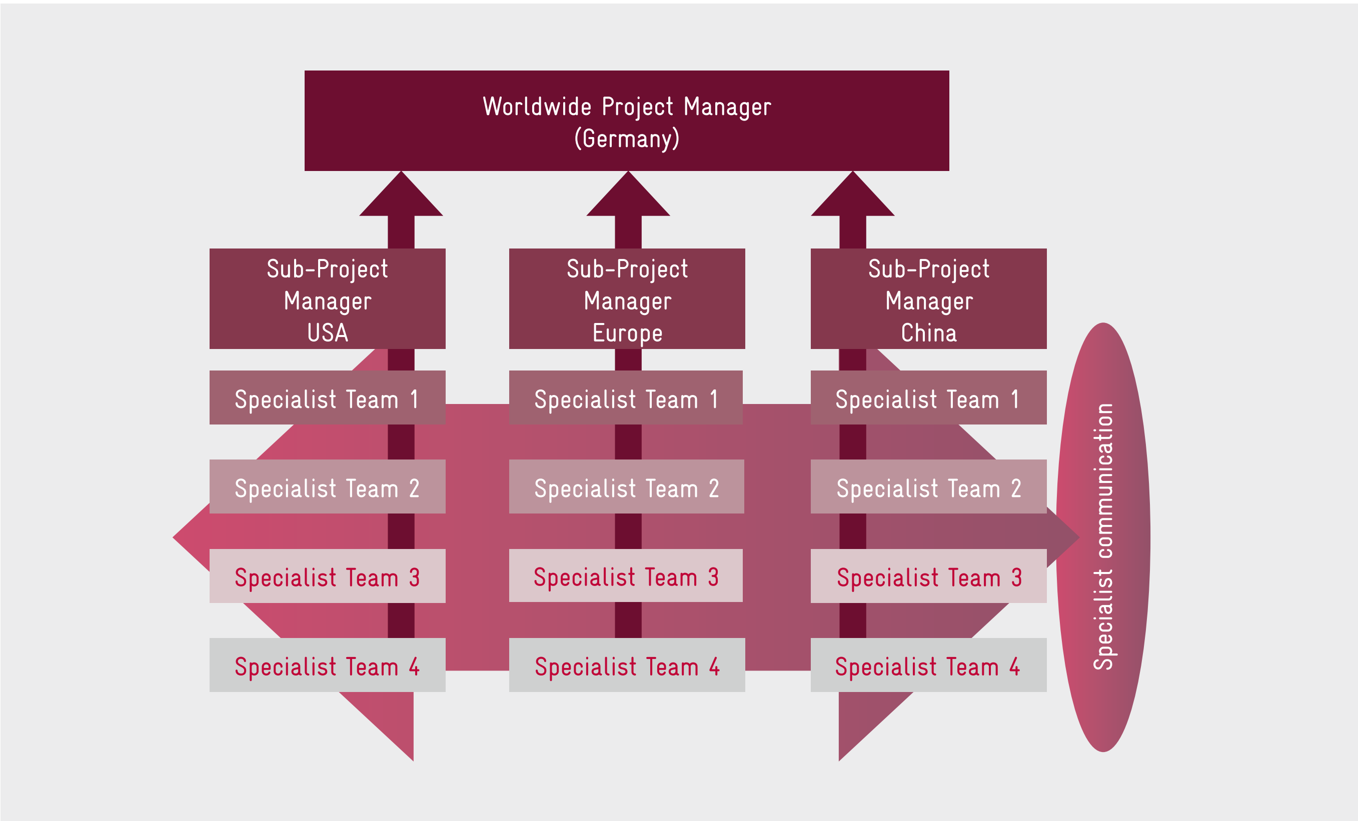

Figure 1: Project team mirrored 1:1 in every region

presence and appreciation in the region, you can build up personal relationships that make it possible to overcome the boundaries of local error management culture as well. You should never underestimate the value of personal relationships in a national or international context.

Communication and language

For communicating in an international project, English is certainly the most widely spoken and ideal language in North America, but despite this, you should treat it with care. There is plenty of room for misunderstandings, even if you have better-than-average language skills. Good English skills have to be a requirement everywhere, because this is the "lowest common denominator" to allow communication as equals.

Ideally there should be a competent sub-project manager who has very good English skills in all foreign language-speaking regions. Particularly in Asia, it is imperative to have a sub-project manager who is a native speaker of the local language. Technical clarification is most effective and safest in one's native language – and it is extremely important to avoid misunderstandings when doing so. And this principle counts for every country and every language. If you do not manage to fill a position with someone who has the relevant language skills, you must take this into consideration for the communication planning – for example with close management, i.e. more frequent reviews or simply longer meetings.

It is generally a good idea to follow the classic recommendation from communication theory if operating with native speakers is not an option in a location. The principle for all communication here is to "make sure that you have understood your conversation partner correctly and make sure that you have been understood correctly by your partner too".

Barriers – what should you do when things get tight?

What should you do if the deadline is approaching and you fear you will run over the deadline or the costs are spiralling and it looks like things might be escalated? Escalation is an over-used term in German enterprises. If the project manager has fewer competencies and less influence in the company, i.e. if project organisation in the company is poor, this happens more often.

A simple rule which is also based on personal experience is: you should solve a problem by escalating it to the next management level above – escalating something several levels takes time and effort. On one hand this means you will receive support quickly from higher management levels that have the authority to make decisions. On the other hand, hierarchical structures can be extremely important in certain cultures. This includes the project manager's position in the firm, particularly in international projects.

If the project manager is ranked correctly in the company's hierarchy, he or she has better access to the decision makers for each region. This applies fundamentally, regardless of the nationality (see Figure 2).

It is possible to make quick decisions which go beyond your own competencies if you have direct access to the decision makers. The project requires a team that is able to make such decisions, labelled as

Review Team in the image above. It is also important to document a project agreement with this review team and to have it signed by each member of the team.

For the project to succeed, it is important to agree the project contents separately with each sub-project manager, in which the budgets required, human and material resources, responsibilities (RASIC), project objectives, deadlines and important basic conditions of the project are all specified. This cuts down on unnecessary discussions in the critical project phases. With a lean review team that is capable of making decisions, it is possible to gather all the necessary information in 30 minutes per week and to make decisions quickly when necessary. The members of the review team are involved in the project from the very beginning due to the project agreements.

Intercultural training

For stays of several year or developing new markets and customers as a “lone fighter”, it is a good idea to familiarise yourself with the culture and certain behaviours in the region. You can gain more in-depth knowledge about a country or region by consulting related literature, the internet and specialist “intercultural seminars”. Intercultural seminars are particularly useful for when you are exposed to other cultures for a longer period of time across all levels of the hierarchy within a project.

SUMMARY

The same project management standards apply to international projects as for global or regional projects. If a project is global, this ultimately makes it more complex and it requires particular attention and sensitivity in specific project management areas.

On the one hand these are the fundamental aspects over which a project manager has no direct influence – the value of project management within the firm or the error management culture both in the company and in each target country. This is a task for higher management across all levels, but the project manager must at least be aware of these basic conditions. In global projects, communication management and team organisation are two fundamental areas of project management which must be planned with more care and attention. It is particularly important to consider intercultural aspects here.

Factors such as different time zones and language barriers can be countered by nominating sub-project managers for specific regional sub-projects. It is important to have the necessary competencies locally – the technical and language skills. It is also ideal if the regional sub-projects also have the same specialist competencies in the project team’s structure, so that they mirror each other directly.

In order to secure the necessary management support for the project at an early stage and to agree on the main project contents together, it is useful to carry out an initial project workshop with the project team and its direct supervisors in each region. The agreed project contents can be approved by the next hierarchical level. This project charter should have been developed in time for the project agreement if possible – but it can also be done (soon) afterwards. Early agreements require effort initially, but this will pay off over the course of the project’s implementation.

If possible, competencies and decision-making powers should be part of the regional project team or with the sub-project manager. More wide-reaching decisions should be made by the main project manager or by the next highest level of the hierarchy, but no higher. This is the only way to ensure decisions can be made quickly and competently. The authority to make decisions is required for this, and that the project manager and his or her sub-project managers are required to have a sufficiently high status in the hierarchy.

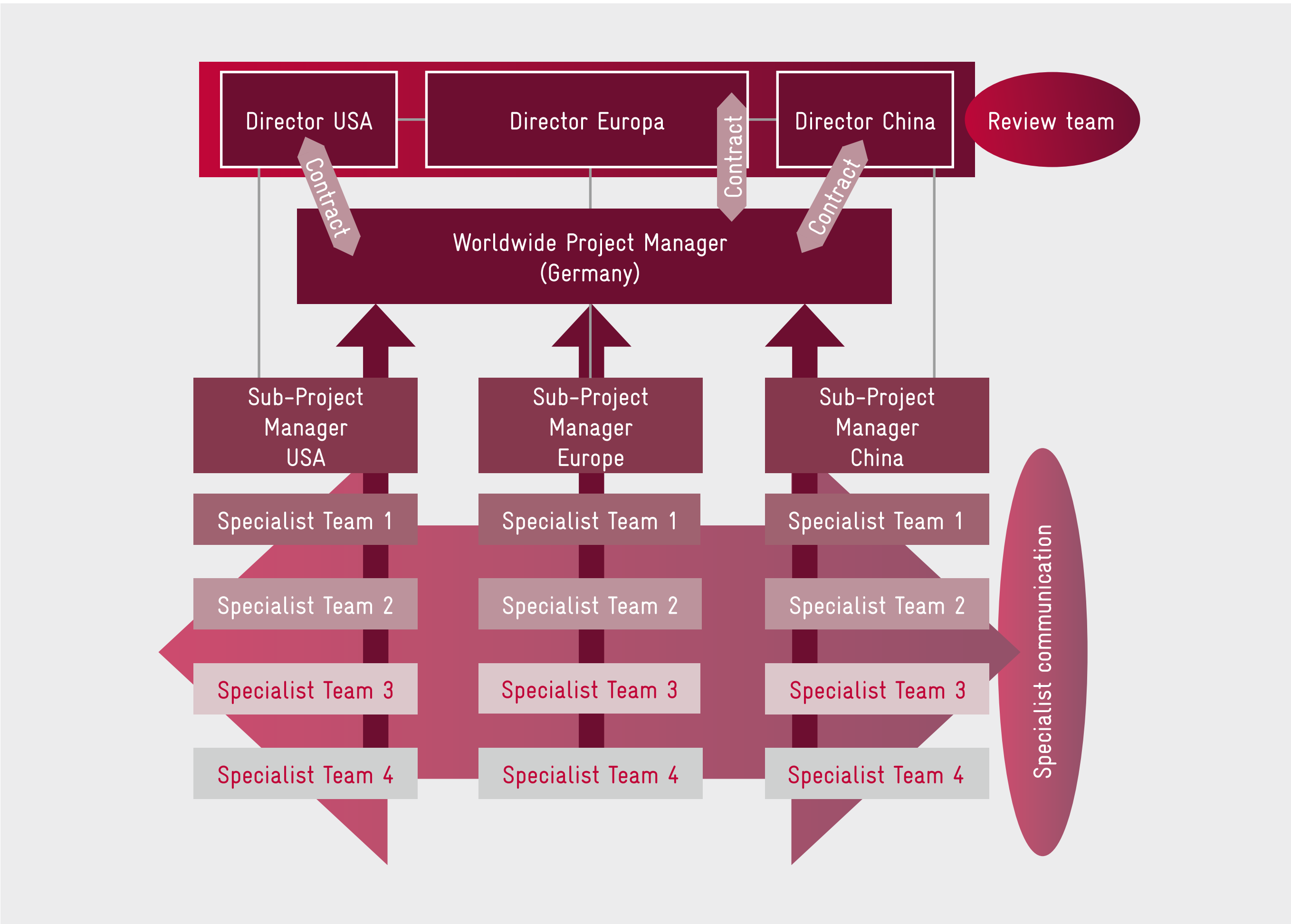

Figure 2: Escalation of no more than one level and clear project agreements

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Further reading

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- ▶ **Project Management Institute**

Global Business Process Management

Today's global markets display a level of volatility in almost all industries that, just a few years ago, had only ever been seen on financial markets. Formerly prosperous markets lose their importance to new ones that are increasingly being tapped into. Highly developed national economies lacking in natural resources, such as the Federal Republic of Germany, can then maintain their competitiveness only if enterprises continuously work to improve their business excellence. This means the ongoing and coordinated optimisation of business models, products and services available on the market, economic and social networking, available human capital and, above all, the business processes. Business excellence also stipulates a process of continuous learning, creativity and innovation within the organisation.

A quick glance at firms operating in Germany shows that these are well aware of the signs of the time. They are in the process of implementing – or at least planning – ambitious programmes aimed at improving business excellence. At the heart of business excellence are the business processes – as demonstrated by the current market leaders: some are deemed to be leaders in innovation within their markets (e.g. Google, BMW), some focus on their price and cost structure (e.g. Aldi), some offer the best customer service (e.g. Amazon, Carglass) or customer proximity (e.g. Sparkassen), but in each case success is attributable to the excellence of business processes.

This contribution lays out "Global Business Process Management" as an area of competency in terms of the practical requirements stipulated by German medium-size enterprises and large-scale corporations.

What is Business Process Management?

Business Process Management (BPM) has long since established itself as an autonomous discipline to bridge the gap between company strategy and the information and communication technologies used within firms.

BPM has witnessed rapid continuous development since 1990 and has become embedded in organisations across the globe. BPM is a discipline in which different methods and software tools are used to discover business processes, record them within models, subject them to analysis and simulation, as well as to measure, improve and optimise them on the basis of predetermined criteria. BPM aligns itself with the business strategies deemed relevant for the company and/or for the organisation within a more general sense. Business processes coordinate the behaviour of individuals, systems, information and objects (cf. Internet of Things) within a firm or beyond company boundaries, in order to achieve a beneficial result for the organisation.

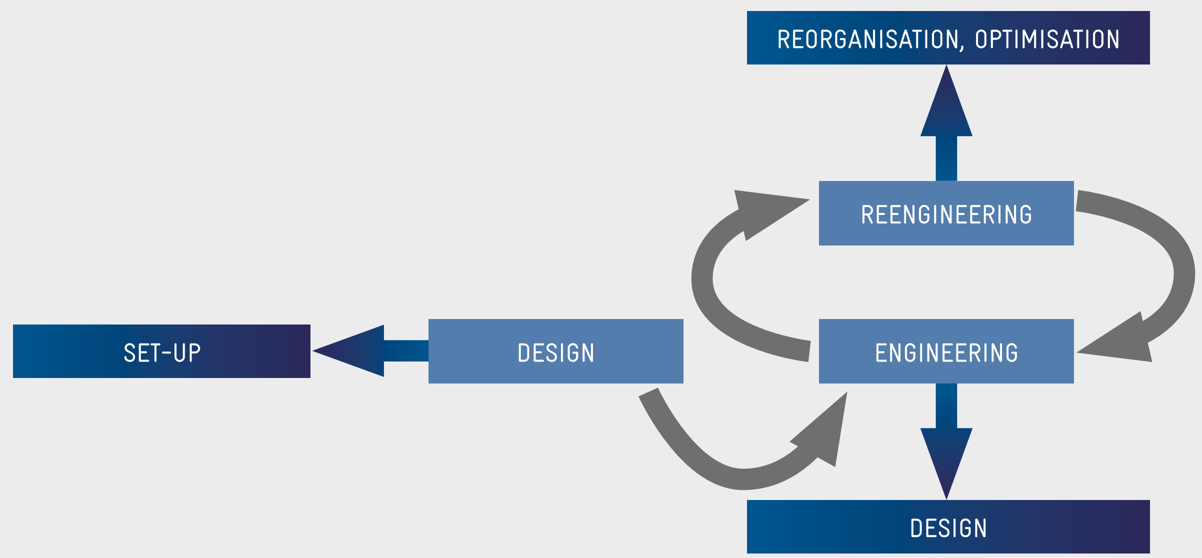
In many successful and future-oriented enterprises, BPM has become a critical factor for sustainable company success. In addition to its complete documentation, the objective of business process management is often an improvement and/or optimisation of processes. This can be achieved by way of different objectives. There are, in principle, several possible objectives and/or activities within BPM which are continuously executed, as can be seen in Figure 1:

- **Design:** Business process management is initially set up and introduced. The processes within a company are incorporated into the design.
- **Engineering:** Those drafted processes are implemented and made available for execution. Efficient resource utilisation is important here, as well as an appropriate interlinking of workflow, object and organisational models.
- **Monitoring:** Both the existing business processes and those already introduced are subject to continuous monitoring, in order to identify and eliminate bottlenecks in process workflows or in the provision of resources. The management of business processes is subject to ongoing improvements; this can occur either continuously or at specific time intervals. The objective is the constant optimisation of ongoing operations within existing processes.
- **Reengineering:** Previously introduced process management is subject either to a partial or complete reengineering or optimisation process, due to adjusted operating parameters.

Various approaches can be adopted for the modelling and analysis of business processes. Examples can be found with the Horus® Method and the ARIS® Method. Please note that an approach can either be top-down (method of increasing specialisation) or bottom-up (method of increasing abstraction). The selection of an approach or a combination of both is contingent on the specific circumstances. Frequently, however, a top-down approach is preferred, in order to deal with process complexity.

Positioning within the company's architecture

In practice BPM is frequently equated with workflow management. In order to achieve



Source: Schönthaler et al. 2012

Figure 1: Objectives of business process management

> From a business point of view, Business Process Management comprises measures aimed at attaining and securing business process excellence in a sustainable way.

a fundamental understanding of BPM it is important to demarcate its boundaries. Starting with this demarcation, the following section shall demonstrate how BPM and workflow management fit into the company's architecture. In doing so, it is important to understand that BPM is primarily a business tool and not a programming tool.

Holistic BPM concepts today go far beyond the BPM simply concerned with implementation (Figure 2). The pyramid displayed here illustrates a company architecture consisting of four levels:

- **Business model:** which describes the business environment (norms, values, markets, standards, regulations etc.) as well as firm objectives, strategies and performance indicators
- **Business architecture:** derived from the products and services on offer as well as the business processes
- **Information systems architecture:** with the business objects, business services and applications, as well as IT services
- **Technical architecture:** software, hardware, engineered systems, appliances and the communications infrastructure

In order to obtain an understanding of a comprehensive, professionally-oriented BPM approach it is important to recognise that this covers the entirety of the company architecture. It comprises the implementation aspects regarding workflow management, while embedding these into a comprehensive firm context. From a business point of view, BPM comprises measures aimed at attaining and securing business process excellence in a sustainable way. Essential action areas can be derived for a holistic BPM based on this observation:

- retention of company culture,
- reduction in complexity and an improvement in efficiency,
- streamlining, harmonising and standardising of business processes with their applicable services and master data,
- business process transparency,
- implementation of governance, risk, compliance and security strategies,
- simulation of business scenarios and forecasts,
- process and service innovation.

All of these action areas implicitly contain the implementation of business processes using organisational measures, or by way of automation. As a result of these different views of BPM, those individuals tasked with BPM in practice are presented with an area of tension between business strategy and BPM implementation. All BPM activities within this area of tension are to be continuously assessed for their efficiency and feasibility. Consequently, those tasked with managing BPM are well advised to always keep an eye on the ball regarding new BPM trends, and to assess their potential benefit for their own enterprise.

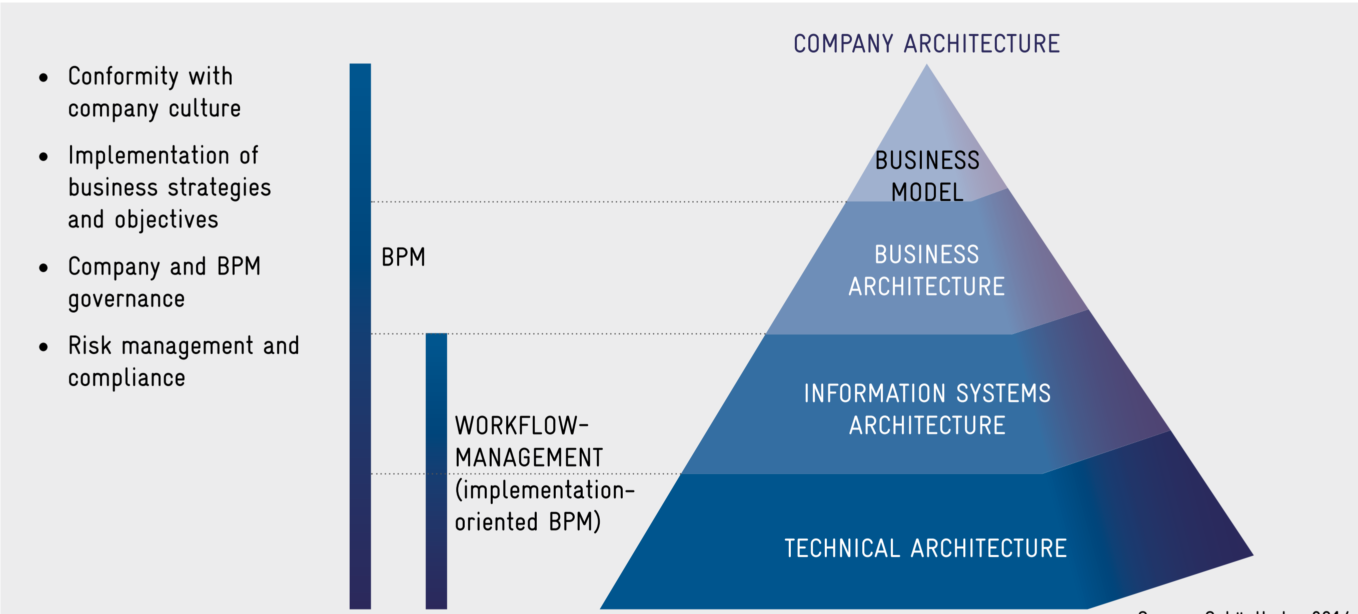
Latest developments

A study conducted by Forrester Research is worth mentioning in this context. The study identified five disruptive trends, which could lead to substantial changes in BPM in the future. Based on these trends we have defined the following change potential for the above-defined action areas:

- **Customer experience as a driver for BPM:** The traditional areas of application for BPM within internal business processes are becoming increasingly supplemented by applications used for improving the customer experience. BPM helps to deliver both individualisation and an improved level of quality within the customer experience.
- **BPM on the move:** Driven by product and service innovations as well as the increasing significance of mobility within every day business and private lives, numerous business process reengineering initiatives have been established with the objective of also using BPM for mobile applications.
- **Automation and the "human touch":** The bundling of previously isolated BPM activities into what are now company-wide BPM programmes, in which significant quantities of processes are simplified, standardised and integrated, calls for new approaches to automation and the provisioning of processes. Simultaneously, the human factor is gaining continuously in importance, which in spite of – or perhaps as a consequence of ? -– advanced automation is making the personalised customer experience possible.
- **"Big Data – Big Process":** Selective business process improvements are increasingly becoming a thing of the past. The trend is towards company-wide, often cross-company BPM initiatives, which aim at delivering a sustainable transformation of all business workflows. Business processes must also be closely interlinked with enterprise data. Moreover, BPM must be able to benefit from the potential offered by Big Data and Big Data Analytics, by way of innovative processes. In addition, lightweight BPM platforms enable the fast implementation of structured and unstructured processes.
- **Smart Business Processes:** The increasing spread of Cyber Physical Systems (CPS) is proving to be a driver of the fourth industrial revolution. In a new dimension of digitalisation objects and machines ("things") can be digitally activated at any time and in any place via sensors and SIM cards. CPS operate as self-organising, autonomous agents which network among one another or with human participants in the Internet of Things (IoT), which plan and complete tasks collaboratively thus creating completely innovative value creation chains. This subsequently leads to new requirements being placed on BPM methods and software tools under the heading of Smart BPM.
- **Customer-oriented process mining:** New process mining techniques are created through the interlinking of process performance parameters with indicators for customer experience, productivity, quality and agility. These techniques enable the discovery of innovative processes beginning with the customer interface, which ensure an optimal customer experience.

Global BPM in business practice

Business processes are the crux of the matter when the focus is on change within a business. Whether it be in the implementation of new business models and strategies, the implementation of information systems or in connection with improvements in quality – at all times the discussion is primarily about business processes.



Source: Schönthaler 2014

Figure 2: The overarching significance of BPM across the company architecture

> The times in which firms were ruled by self-willed strongmen have long since disappeared.

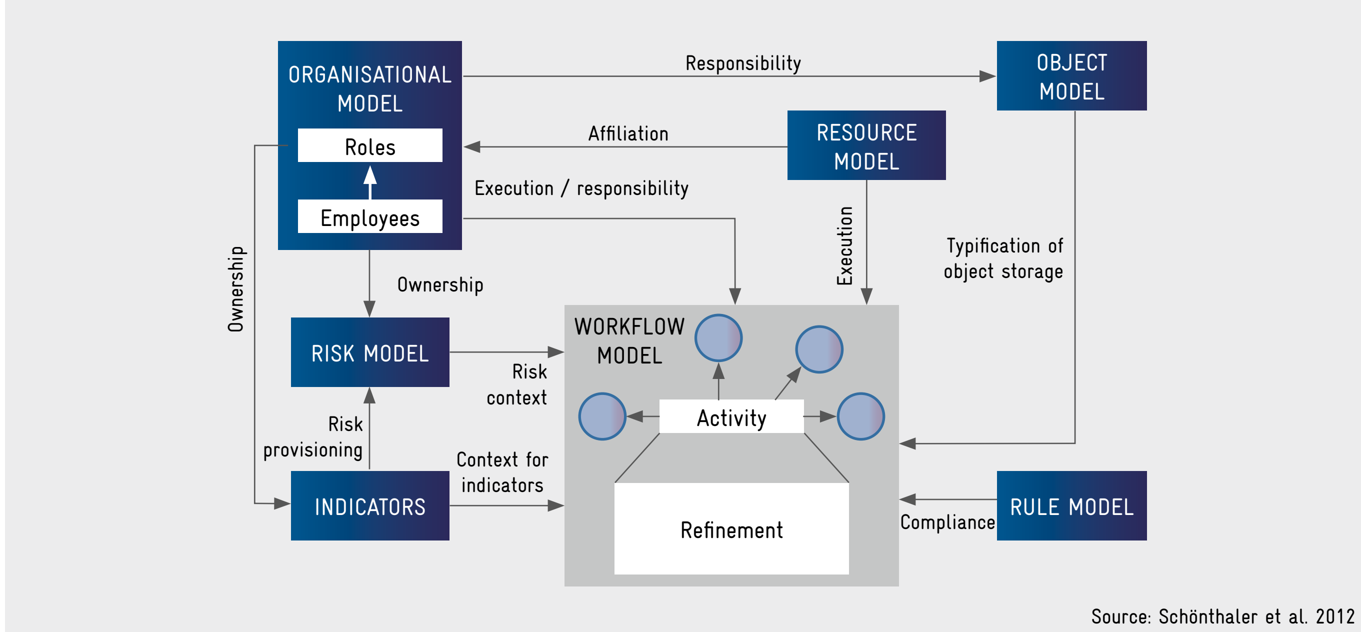
In order to ensure the global alignment of processes it is necessary that these are adapted to local conditions by way of model-based business process reengineering projects (BPR projects). The intensive use of conventional organisational resources, techniques and methods (flipcharts, noticeboards, surveys etc.) have more than proven their worth in this regard. These do, however, reach their limits when discussing specific business workflows, business objects or regulations. Misunderstandings can occur here; inconsistencies and incomplete information pertaining to informal statements inhibit communication significantly, and are known to lead to questionable results. Furthermore, significant deficiencies in quality have also been noted regarding documentation. Working with business process models can remedy the situation here, in particular when suitable software tools are available.

The times in which firms were ruled by self-willed strongmen have long since disappeared. Supervisory authorities are reacting to the increasingly powerful global phenomenon of economic, environmental and computer crime with ever more complex sets of rules. The critical point is that for a globally operational enterprise it is no longer enough to simply observe the national sets of rules which apply to the company's headquarters. The enterprise must adhere to all sets of rules, which apply within the framework of cross-border business processes. The sets of rules are in many instances not even compatible with one another. Investors and financial institutions also demand an effective risk management system, e.g. through the establishment of early warning systems dedicated to identifying risks and generating a greater level of transparency within financial processes. Furthermore, the increasingly short half-life period of strategic decisions necessitates secure and efficiently managed business processes. In sum: Governance, risk and compliance topics (GRC) are at the very top of the management agenda; these topics encircle one of the most important fields of application for Business Process Management. The utility of comprehensive business process models is particularly big with regard to GRC, because a significant proportion of requirements relate to the quality of process management and the transparency of business operations. Here is a short explanation of terms to begin with:

- **Governance** is the management of an enterprise on the basis of clearly and comprehensively formulated company objectives and instructions. Important conditions are conformity with the law and integrity. Governance thus applies to all business areas and levels, for which reason we refer to both horizontal and vertical governance.

- **Risk management** refers to the entirety of all measures pertaining to the handling of identified and unidentified company-internal and company-external risks. These include the establishment of early warning systems tasked with identifying risks as well as measures aimed at eliminating the potential for risk and dealing with the occurrence of risks.

- **Compliance** describes the fulfilment of, correlation to and/or conformity with statutory laws as well as regulations and specifications, with ethical and moral principles as well as with methods and standards (e.g. ISO) and conventions, which are clearly defined. The fulfilment of compliance can be both mandatory (e.g. according to law) and voluntary – in the form of compliance with standards.



Source: Schönthaler et al. 2012

Figure 3: Integrated Horus GRC+ company model

Business practice has repeatedly shown that governance, risk and compliance management are best dealt with in a cross-discipline context. The reasons for this are elementary: There are a number of causal relationships in place and, during the implementation phase, synergy effects are created which, on the one hand increase the effectiveness of planned measures and, on the other hand, deliver a cost-reducing effect. It has also been observed the companies which do not primarily see GRC as an annoying obligation but rather as an opportunity to improve business processes, deliver tangible cost savings and improve their competitive position by using GRC. GRC is often structured into three measure bundles, which reflect different views of GRC, but which however are closely interlinked with one another: Finance- & Audit GRC, Legal- & Process GRC, IT GRC.

The execution of GRC activities masks a complexity, which is the result of a large number of action areas as well as the diversity of professional requirements. This complexity can only be controlled when straightforward, comprehensible company models are used and a systematic approach exists for the creation of these models. The models enable efficient forms of communication within the framework of GRC project work. They ensure consistent documentation and provide – by way of analyses and simulations – starting points pertaining to quality assurance and the optimisation of analysed business processes. Both ARIS and Horus offer GRC-dedicated software tools. Figure 3 exemplifies the diversity of professional requirements registered in Horus GRC+, which can be formally linked with one another via sub-models. Such an integrated company model prevents the creation of new "information islands" with GRC, which lead to inefficiencies and thus inhibit interesting opportunities for optimisation.

RECENT DEVELOPMENTS

Virtualisation of business processes

New developments within BPM comprise an increasing level of virtualisation in association with a global distribution of value creation chains. This goes hand-in-hand with a relative increase in the value of the contribution produced by the data generated with a service, or the use of a product, in comparison to the core service. In order to optimise this value contribution all process partners including those systems and things in use (IoT) must be integrated into the data infrastructure. Many enterprises have recognised that conventional on-premises systems (i.e. service support computer programmes) are pushed to their limits in terms of cost and performance as a result of this requirement. And this applies in particular to the BPM systems in use. They must – from process design through to execution and monitoring – be available worldwide with the best possible user experience and performance, and remain cost-effective throughout. For many firms the logical step here is towards a private or public cloud. Many leading BPM providers therefore supply their BPM products not just as a tried and tested on-premises deployment, but also as a service which is available via a cloud as a cost-effective alternative. The Horus BPM tools are used today, for example, in more than 80% of cases as a service accessed from a private or public cloud.

Global business process and service innovation

Business process or service innovations have proven in many instances to be a driver of digital transformation, which have only become possible by way of new digital technologies or new ways of using them. Speed and consistency in the implementation of innovation in the marketplace are considered more critical for success than ever before. It is also important that the knowledge of the entire business community be used for innovation management. For this reason increasing numbers of companies are making the transition to embedding innovation management directly within the business community. The mobilisation of existing knowledge and creativity found there creates an ideal basis for the generation of a continual current of innovative customer service and business processes.

A method has been tried and tested for innovation management, which touches on social BPM. In the business community, social innovation networks are established in which domain specialists, professional experts from various disciplines, ideally prospective customers and external partners within the value creation chain, as well as opinion leaders and idea generators are connected in a social network – the innovation community. The community works on an online collaboration platform in which -– in addition to mainstream social media – intuitive software tools are available for the graphic modelling of processes and services. The active participation in community work creates an influx of creativity and knowledge from the individual, which is interlinked and strengthened by way of group-dynamic processes leading to process and service innovation.

SUMMARY

Looking back to the origins of BPM in the mid/end of the 1980s, Germany is considered to be the "birthplace of Business Process Management". It therefore comes as little surprise that enterprises within the DACH region in particular communicate and discuss organisational knowledge predominantly in the form of business processes. In contrast to competitors in North America or Asia technological innovations take a less prominent position – this even applies to digitalisation projects! – whereas attention is focused far rather on the question of commercial benefit. Innovation is not something that is implemented as an end in itself, but rather if a commercial benefit can be proven or at the very least projected.

Business Process Management has gained a crucial significance for changes within enterprises. This applies to a greater extent within the context of global, cross-company value creation chains. Business processes create the connection between company objectives and business strategies on the one hand, and the underlying information and communication infrastructure on the other. They coordinate individuals, information, knowledge, systems and objects, in order to achieve a high degree of commercial utility. A significant factor for success is the ability to seamlessly integrate high-performance company applications and cloud services across the entire value creation chain.

It is this role in particular as a link between different worlds that makes BPM one of today's top topics in the world of business. BPM must continuously reinvent itself by building on tried and tested standard methods, due to the fact that technology and service innovation always triggers process innovation. Digital Transformation, Industry 4.0, Big Data, Cloud, Share Economy – the list is endless – these always become process topics no later than at the point in time of their implementation into business practice.

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Intercultural Management

The success of intercultural cooperation is driven by the intercultural skills of those involved. Essentially, these include the ability to engage with other cultures in a positive manner, respect diversity, stay the course when facing uncertainty, and continue to find a resolution – in any circumstance. It is important to know the difference between the cultural spheres of potential business partners, in business life as well as in values, communication and work styles. Experience shows that openness to new things and the ability to put yourself in your counterpart's shoes will achieve success in foreign cultures. The key to another world lies in recognising, understanding and acknowledging the differences. Intercultural cooperation does not mean distancing oneself from or even denying one's own culture. Rather, it is the unwavering attempt to adjust to the other world without getting trapped by clichés or prejudices.

Intercultural knowledge of working with German partners and employees is essential to enable a better understanding of their world views, thoughts and actions. We will therefore present the main differences between cultures and dispel unclear or potentially hurtful situations to pave the way for fruitful communication with German business partners.

Culture and its impact on international cooperation

In a very simplified form, the variety of cultural differences comes down to specific national cultures that help explain business behaviour. When we speak of Americans, Chinese, French, Germans, etc., we therefore intentionally disregard the cultural diversity within particular countries. On the following pages, we shall focus on the core cultural values that underlie the prevailing living and working methods and are crucial to collaboration.

Every culture is a unique, self-contained organic system. Over the centuries, people have learned how to live in peace within this system and with the environmental conditions and historic experiences it brings with it. The thoughts and actions of each and every one of us are shaped by our native culture, upbringing, social environment, media and first-hand experiences. Each of us has a certain perception of another culture. If this perception is biased through negative experiences, it can result in prejudices and stereotypes – and become a stumbling blocks for effective communication and cooperation.

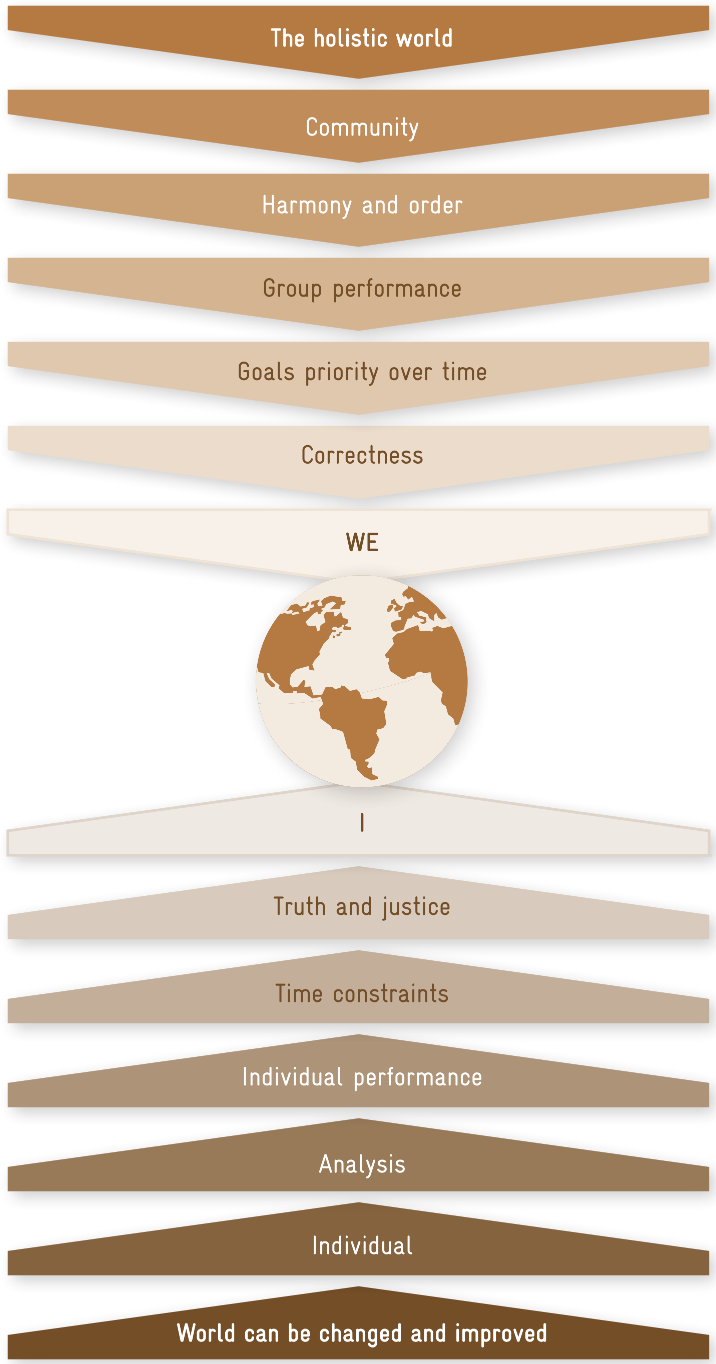

Figure 1: World views in collectivist and individualistic cultures

We and I – two opposing world views

There are two major cultural spheres: in one, the community – the **WE** – is decisive; in the other, the individual – the **I** is the decider. To describe and explain these fundamental differences in the business life of various cultures, the Dutch scientist Gert Hofstede applies two indexes – the power distance index (PDI) and the individualism vs. collectivism index (IDV). PDI refers to recognition or rejection of hierarchical leadership within a company. IDV indicates whether it is an individual or the group as a whole sets the tone within an organisation.

The **WE world of Oriental, Islamic and Eastern European cultures** is shaped by the constant threat of natural disasters such as typhoons, volcanic eruptions and earthquakes as well as by war. Over the centuries and millennia, people learned to survive sticking together in a strong and binding community. In such a culture, the community is always the focus of thoughts and actions. With the family being the smallest unit of a society, family members have set roles with duties and rights for the good of all. East Asian Confucian ethics suggest that the father – as the bread-winner in a family – takes centre at all times. The father owes his unconditional loyalty to his ruler, the one who does what is right. Friends and mothers are assigned the roles of supporters and caretakers responsible for the family's well-being. The children are subservient and bound to always remain obedient and show respect for their parents throughout their entire lives. The child rearing rules follow a conventional teacher-centred, 'chalk and talk' approach, with experiences and knowledge passed top-down to the children. Individuals are judged according to their ability to fit in into a group. The individual fades into the background.

The **I world of Western cultures** has its roots in the eighteenth century: the de-

cline of absolute monarchies led to the birth of the Age of Enlightenment. The Western world believes that humans should rely on rational thoughts and actions – rather than dogmas – to address the essential challenges of human existence for themselves. Rationalism is the basis for an ideal society where all people live side by side without conflict. The focus is on the individual whose upbringing is based on reason and aims to foster independent thoughts and actions. In the business world, people's analytical and methodological capabilities and their individual performance are the Golden Rule. The aim is self-determination. Outside control has no place. The individual comes centre-stage, a group fades into the background, the team takes a subordinate role.

Conclusion: the standards for the assessment of behaviour in these two societies are diametrically opposed. Something that may be perceived as positive in one is rejected in the other. In a society of individuals, for example, eloquence is held in great esteem. On the other hand, it is disapproved of in a collective-based society, where it is often seen as a showy self-promotion and therefore detrimental to harmony with other members of a group.

HOW DOES BUSINESS LIFE DIFFER WITHIN THE MAJOR CULTURAL SPHERES?

Leadership styles and employee expectations

In **WE cultures,** leaders primarily serve as **human role models.** They ensure harmony within their area of responsibility – as the 'family father', so to speak. They are often of a mature age, as they are then more respected by younger employees. While they set the agenda and monitor the attainment of the goals, they rarely get involved on the operational level unless a conflict arises. Promotions are mainly based on personal acceptance within the group. The ideal employee earns the respect and trust of his superior and colleagues by keeping a low profile and unquestionably fitting into the group with the aim of furthering the group as a whole. Conflicts are often solved after work by an informal social event, i.e. a get-together outside the office.

In **I cultures,** leaders primarily serve as **professional role models.** They act as coaches and advisors to the team. Promotions are mostly based on technical expertise, professional performance and personal commitment. The ideal employee takes a pro-active approach and wins recognition, respect, safety and trust within the group through his professional contributions and initiatives. Decisions are reached by obtaining a majority, whereby individuals may sometimes be overruled. Conflicts within the team are often addressed and resolved in workshops facilitated by external coaches and trainers.

Building relationships

In **WE cultures,** relationships are largely determined by the social background, the schools and universities attended, the styles and manners, and the adherence to social norms.

In **I cultures,** relationships are based on personal likes and dislikes as well as experiences gained during schooling and professional cooperation.

Communication

In **WE cultures,** the primary aim of communication is to develop and maintain relationships and to create a climate of harmony. There are generally two communication levels: On the one hand, there is the formal level during day-to-day business when the hierarchy, rules and conventions of the cooperation are strictly adhered to. On the other hand, team members also interact informally, preferably outside of the office. Controversial topics can be more comfortably discussed when sitting in a bar or dining in a restaurant – the upside being resolving conflicts and restoring harmony within the team.

In **I cultures,** any issues or conflicts are generally addressed directly to find a solution based on facts and objective arguments rather than attitudes.

> "In WE cultures, the primary aim of communication is to develop and maintain relationships and to create a climate of harmony.

German business people and employees from subjective and objective perspectives

This section reflects the author's experience gained while working on the board of multinational enterprises and with groups of mostly German executives in company trainings and at university seminars on intercultural communication. Following a brief introduction, the seminar participants were divided into breakout groups to examine questions such as 'What are the key characteristics of Germans and Russians or Chinese?' and record their thoughts on a flip chart. The breakout session would start with brainstorming. After a few minutes, when all the typical cultural characteristics had been spontaneously generated by the participants, a discussion would begin.

The following characteristics were mostly suggested by Germans, but also by participants from around the world. The outcomes of this group work helped the facilitator to determine the state of knowledge and cultural perceptions of a group, including positive or negative biases, to guide the seminar accordingly. The typical characteristics of Germans listed here summarise the responses of different work groups over the course of two decades. The order corresponds to the frequency with which they were named:

▸ *Punctuality:*
This was considered the most striking characteristic to take into account when doing business with Germans.

▸ *Perfection:*
Several other, also frequently mentioned characteristics can be grouped together as 'striving for perfection':

- sense of order and cleanliness
- reliability, honesty
- structured thought
- methodical planning
- adherence to rules and norms
- high need for security

▸ *Directness:*
This characteristic was named both by German participants with international experience as well as by participants from other cultural spheres. Further characteristics relating to directness included the abilities to:

- deal with criticism
- resolve conflicts
- make decisions

▸ *Hard-working:*
This was the fourth most common attribute associated with the German business world.

Those who have already had business dealings with Germans or are familiar with German business world will probably be able to relate to these characteristics. However, they are essentially nothing more than stereotypes. Of course, no German business partner is like the other, and these stereotypes of cultural characteristics can apply to varying degrees.

These typically 'German' characteristics are mentioned merely for guidance and to enable a comparison with one's own cultural background to determine personal attitudes and behaviour for future contacts with German business people.

INTERCULTURAL MANAGEMENT IN PRACTICE

If you are doing business with Germans, you are most certainly to notice that some values, communication and work styles may be different from your own. The best way to deal with these differences is to embrace them. An in-depth study of German history and values based on practical reference books will help clarify the differences and foster understanding. The key to another world lies in recognising, understanding and acknowledging the differences as well as in one's personal ability to deal with these. A person's personality is shaped by his culture, which in turn facilitates life within a community. Indeed, one's culture influences thoughts and actions. Intercultural cooperation does not mean distancing oneself from or even denying one's own culture. Rather, it is the unwavering attempt to adjust to the other world without getting trapped by clichés or prejudices.

Building relationships

When it comes to building relationships in business life, Germany is unique. The author does not know of any other culture in which trust is primarily gained through factual content. This rational behaviour is unheard of in other cultures and can lead to conflicts. Building trust and thus relationships within the German business culture takes place primarily through a factual exchange and objective reasoning. Personal and social issues are generally left unmentioned. Be aware that in business relations with Germans, people's private lives

Example: A business lunch during negotiations of German and French partners

During one seminar, a German businesswoman shared an example of a conflict: contract negotiations with a French company in Paris were followed by lunch during which she only discussed business matters. At some point, she realised that her behaviour was dampening the mood of her French partners. Back in Germany, she told a colleague of her experience, who then explained to her that French people find this behaviour extremely impolite. As in many other cultures, a meal together is a social occasion – an opportunity for business partners to get to know one another on a more personal level. During her next visit, the German businesswoman adapted to the French custom and only discussed personal and social matters over lunch. This led the French manager to announce at the end of the meal: 'Pour le contrat nous sommes d'accord!' – 'We agree with the contract, let's close the deal!'

Example: Negotiations with a Chinese customer

A particularly remarkable incident occurred during negotiation of a major contract between a Chinese customer and a German telecommunications firm. The Chinese chief engineer requested a technical modification to which the German engineer replied: 'That's not a good idea.' The following day, the Chinese delegation failed to show up for the negotiations. The German team leader contacted his Chinese colleagues to find out why and learned that the partners from China felt that they had been snubbed. The decision was reached to compose a letter of apology signed by the company chairman for an insignificant contract provision. An apology relating directly to the incident itself would have exacerbated the situation. In the wake of this incident, the German team received intercultural training during a seminar on China.

are taboo. Avoid bringing up contentious issues if you do not want to become embroiled in a heated debate. In Germany, professional and private matters are kept strictly separate. One popular saying is: 'Dienst ist Dienst und Schnaps ist Schnaps', which literally translates as 'work is work and schnapps is schnapps' and means 'don't mix business with pleasure'. During business hours, Germans will therefore stick to professional matters and issues. This is often emphasised in the language used: in Germany, a meal with business partners is referred to as an 'Arbeitsessen' – literally meaning is a 'work meal'.

Gifts/corruption

In Germany, the definition of 'corruption' is very narrow. To avoid embarrassment, refrain from making any overly generous gifts or invitations as these will be turned down. A small gift for the firm reflecting the artisan culture of your home country is considered acceptable.

Communication

In no other culture are conflicts addressed so openly and directly as they are amongst Germans. To make sure everything is correct you must check facts and cover all angles. This interaction style is essential to build relationships and trust with Germans. However, when dealing with people from other cultures, this often provokes conflicts. Once hurt, someone from another cultural background may just ignore you or withdraw from business deal altogether.

In other Western cultures, with for example English and Latin based languages, communicating is politer and therefore not so direct. Facts are "dressed up" in nicer words to make it sound better and less offensive. The proverbial courtesy of diplomatic languages, French and English, express clearly the general education and oral culture of a person. The politeness of expression is the groundwork for social acceptance in these countries.

For people from most other cultures, dealing with the directness of German partners may prove challenging. And yet, for Germans, it is this very directness that is needed to check facts and cover all angles. This is also emphasised in the language. For example, the verb 'ask' ('fragen') is used not only to ask, but also to demand, check or enquire ('nachfragen') and to double-check or scrutinise ('hinterfragen'). The latter will involve intensive and critical discussions. Be aware that this is a cultural characteristic specific to Germans. It is not without reason that Germany is known as the 'land of poets and thinkers'. For without this need to check all the facts to discover the truth, they would never have gained this reputation.

Negotiations: the facts – and only the facts – form the focus of discussions. As a rule, German partners will inform themselves extremely well and obtain all the necessary documents before they enter negotiations. Should any information be lacking, negotiations will in all likelihood stall. Germans may interpret this lack of information as incompetence or disinterest, which could in turn have a negative impact on negotiations.

Teamwork forms the basis of the German business culture. Everyone gets involved and contributes. Those who remain silent are considered suspicious, as if they have something to hide or are pursuing purely personal goals – or are simply incapable of contributing.

Example: A project meeting between German and French partners

A German trainer acted as facilitator at a meeting between a German project team and their French superior. The aim of the meeting was to discuss the scope of the project, define goals and reach decisions. After a brief time, the French superior left the meeting complaining loudly that the goals and decisions to be reached had not been discussed with him in advance. The Frenchman was unfamiliar with this typically German project meeting format. He took offence at being excluded from the decision-making process and felt so angry that he stopped the project.

In Germany, **meetings** follow a fixed agenda, whereby the topics and timings have been set in advance. The outcome of a meeting should be an action plan and work schedule as well as the assignment of responsibilities. Meetings take place at the start of a project, but can be also held at intermediate stages or in the event of conflicts.

Superiors base their decisions on the **outcome** of team meetings. Only in crisis situations they will intervene in the team processes. However, if they do, the potential risk is that their interference may lead to frustrations and defensive behaviour within the team, thus leading to the feeling of not being responsible for the project any longer.

Germans often pride themselves on their 'meeting culture'. With this, they usually refer to regular meetings between responsible parties to discuss the project progress and any problems that have arisen and to reach decisions together. Germans believe that other business cultures lack this quality. For example, the 'unstructured brainstorming', typical of the American business culture, is sometimes perceived by Germans as a waste of time.

Project management

German employees believe that detailed planning is the prerequisite for the ultimate quality, proper function, work safety, timely delivery and therefore success. No project development is possible without project meetings arranged to ensure a mutual understanding of the detailed plan with a maximum number of milestones and actions. Once the details have been agreed upon within the team, the project plan is presented to the boss for a final decision. Here lies another unique facet of the German business culture: In no other culture, including other Western countries, is planning done as thoughtfully and meticulously as in Germany. Unlike Germany, in many other cultures, decisions and instructions are pre-empted at the upper-level management before any meetings are set up with the project team.

CONTACT WITH BUSINESS PARTNERS IN GERMANY

Preparation

German business partners will expect their foreign partners to prepare well for negotiations. Clearly formulated goals and well-prepared documents containing facts and figures to support arguments are key to the success of negotiations. In most cultures – including in the Western world – a business concept is something that can be presented orally or drafted in writing. In Germany, a business concept is a written document backed up with carefully researched facts that appears feasible.

> Clearly formulated goals and well-prepared documents containing facts and figures to support arguments are key to the success of negotiations.

If your employees are in direct contact with German business partners, be it on the phone, in writing or through meetings, they should be fully involved in the preparation of the contact and trained accordingly. For employees of a foreign company, being able to respond to questions and provide answers immediately is a sure way to earn the trust of their German partners.

> Allow the German business partner to take the lead and do not attempt to continue with small talk, as this will be considered a waste of time and may make your German counterpart impatient.

Initiating business relations

Potential German business partner are normally open to interesting offers. Preliminary contact is mainly via email or written correspondence, whereby the civilities are skipped and the focus immediately moves to the issue at hand, which is also addressed directly. Ensure that written documents are free of (spelling) errors. After German, English is the most common language in business in Germany.

Visiting business partners

Unlike in your own culture and experience, in which visitors and guests often receive extensive support and guidance, it is unlikely that you will be looked after as someone very special while in Germany. German business partners expect visitors to learn their way around on their own and to make all the necessary arrangements for their stay for themselves.

Arriving at the company

Arrive for the meeting on time and plan ahead to ensure you do not arrive late – due to traffic jams – for example. Should this unfortunately prove to be the case, then act as your German counterparts would: apologise for the delay, as Germans do not like to feel that their time is being wasted.

The personal introduction upon arriving at the firm should be accompanied by a firm handshake, with brief eye contact and informal presentation of your business card. After briefly exchanging niceties about the journey, accommodation, etc., the meeting will begin and discussions will immediately turn to business. Allow the German business partner to take the lead and do not attempt to continue with small talk, as this will be considered a waste of time and may make your German counterpart impatient.

Introduction and presentation

Meetings usually last between one and a maximum of two hours, unless an advanced stage in the negotiations has been reached. In Germany, the written form is the preferred format for business communication. Therefore, prepare a presentation in which you outline your goal in detail so that your business idea and aspirations are clear. While preparing, think of all possible questions that might be asked and prepare arguments supported with facts so that you are able to both present and substantiate your answers during the meeting. The better prepared you are, the greater the chances that a business deal will be reached. If necessary, consult an expert for the German market during preparation.

Negotiations and contract

During negotiations, your German partners will first want to consider all key issues or main disparities. After all, if an agreement cannot be reached on a fundamental level, they will not wish to waste time splitting hairs about details.

Business deals are always concluded with a written document, letter or contract. Once a contract has been negotiated and signed, it can no longer be changed and is entirely binding.

Socialising

Do not expect your German business partners to pick you up from the airport or to entertain you outside of business hours. As a rule, lunch will be in a company canteen or nearby restaurant where the employees normally eat. You will have to make your own arrangements for the evening, potentially following a suggestion made by your host.

Follow-up

The written form, i.e. email, is also the standard medium to confirm visits, any agreements reached, meeting appointments and further steps as well as to remain in contact. Keep expressions of gratitude and private messages as brief as possible (1–2 sentences), then concentrate on the facts and the business matter in hand.

SUMMARY

After reading this section, you may believe that entering the German market is difficult. However, if you focus on your core interests, it will not only become easier but you will also be more successful. Doing business in Germany means that business generally should not be mixed with pleasure, and business appointments will take a very formal format. Experience shows that openness to new things and the ability to put yourself in your counterpart's shoes will achieve success in foreign cultures.

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Corporate Communication

Global competition and consequently also the competition between enterprises from around the world for markets and customers is on the increase. To succeed as an enterprise in this competitive environment, it is essential to present your products well and credibly – and ideally better than the competition. Successful communication and professional presentation are therefore decisive for global competition. Recognisable corporate identity and corporate design ensure a uniform appearance. The messages tailored to the target groups and are conveyed using all communication channels. For medium-sized enterprises, digital communication, trade fairs and customer relationship management are of particular importance.

Enterprises must be perceived by the general public (and particularly their customers!) as providers of unique and indispensable services. Image, reputation and brand development therefore increasingly have an impact on business. Making the communication with customers decisive to a company's success. Those wishing to sell their products and services must advertise these, their firm and their brands.

At the same time, communication competition is intensifying as the global communication offers in turn continue to grow, as do the communication possibilities and channels along with the number of people and companies communicating. The diversity of communication options means that ways must be found and implemented to help an enterprise be noticed by its target groups.

Within this, it is vitally important for all communication activities to be based on a sound strategy – a corporate strategy in which it has been clearly defined what the company wishes to achieve. And on a communication strategy in which it has been determined what should be achieved with communication. Thus corporate communication becomes a fixed – even necessary – component of company management.

What is meant with "communication"?

Communication is as versatile as the approaches and definitions are abundant. Because the focus here is on successful corporate communication in public and above all in your sales market, a definition providing a marketing-specific context is offered here: **communication** involves the transfer of information and meaning with the aim of influencing the opinions, attitudes, expectations and behaviour of specific addressees according to a specific aim.

In practice, it is very difficult to differentiate between the different elements, nor does this even make sense if the aim is holistic, integrated communication. Hence Manfred Bruhn describes the term accordingly broadly: for him, corporate and marketing communication include all of the communication tools and measures used by a company to present the firm, products and its services to the relevant internal and external target groups of the communication.

Marketing communication is understood and presented here as a key component of communication. In the marketing mix of the Four Ps ('Product', 'Price', 'Place' and 'Promotion'), it is essentially about 'Promotion' – so influencing customers' decisions with (market-oriented) communication activities. These range from PR work and company media such as customer magazines, websites and social media campaigns through to sales marketing measures, writes the German communication expert Claudia Mast.

Before this backdrop, internal communication with company employees will be disregarded in this article, though it remains of vital importance within the scope of integrated communication.

Which basic principles are essential to corporate practices?

There are more than enough guides on how to prepare comprehensible and convincing individual communication materials such as emails or meeting presentations. The aim here is more to provide an overview of the entire range of corporate and marketing communication. In light of its high significance to the enterprise, responsibility for this is often assigned to the company, sales or marketing manager.

Based on the corporate strategy, the goals and target groups to be reached with the communication must first be clarified. In particular, the latter can be customers, potential business partners, media or the general public. The content and message to be conveyed with the communication are decisive. These can come from the firm, brand or product level; all levels can of course also be combined.

Once these elements have been determined, the actual planning of the communication measures and tools to use can begin (please also see the section about how integrated communication is a task for top management). Addressing these with integrated strategic *topic planning* during which binding communication measures are set for a specific (business) year (including the budget required for each) is advisable.

To ensure the desired communication outcomes are actually achieved, a systematic and holistic management approach is necessary. This is all the more the case the more complex the tasks and the resulting communication activities are, and extends all the way to monitoring the success of individual measures and the overall communication (see Figure 1).

One further basis for coherent corporate communication is a recognisable *corporate identity (CI)* and *corporate design (CD)*. This should ensure a uniform appearance for the company and its brand, particularly during its presentation in communication. It is important to have a clear and consistent design for communication, along with recognisable word and image logos for print and online media, presentations, trade fairs, etc.

Latest developments: electronic media

One key focus of development over the past three years has been the continued increase in communication via electronic channels. A company website has long become the standard, as has the use of social media – so networks such as Facebook or Twitter. The main advantage of these lies in the fact that it is possible to address and communicate directly with potential customers, and particularly younger target groups. This above all enables marketing communication to address customers in a far more targeted manner and is increasingly replacing classic channels such as print advertising and TV adverts.

The firm or brand website is also increasingly being referred to in the latter, which can then be accessed on a smartphone or tablet PC using QR codes. Beside online advertising, apps are also being offered for mobile devices with growing frequency. These also serve the presentation of a company or product to and communication with potential customers on specific topics. Blogs – articles on specific topics published online – also play a major role in electronic communication. Bloggers often use these to express themselves freely, which can also greatly influence the formation of opinions; enterprises also use them for communication, particularly with potential customers.

These days, it is pretty much common knowledge that images can have a huge impact on presentation of a brand or product. The digital possibilities for the use of images, their editing and distribution multiplies the effect of this form of communication. This particularly applies for moving images – so for short or even longer films on platforms such as YouTube, which are often shared widely. One partly related trend in recent years is so-called storytelling. By sharing vivid, memorable stories, topics can often be communicated with far greater clarity and also have far more of a lasting impact.

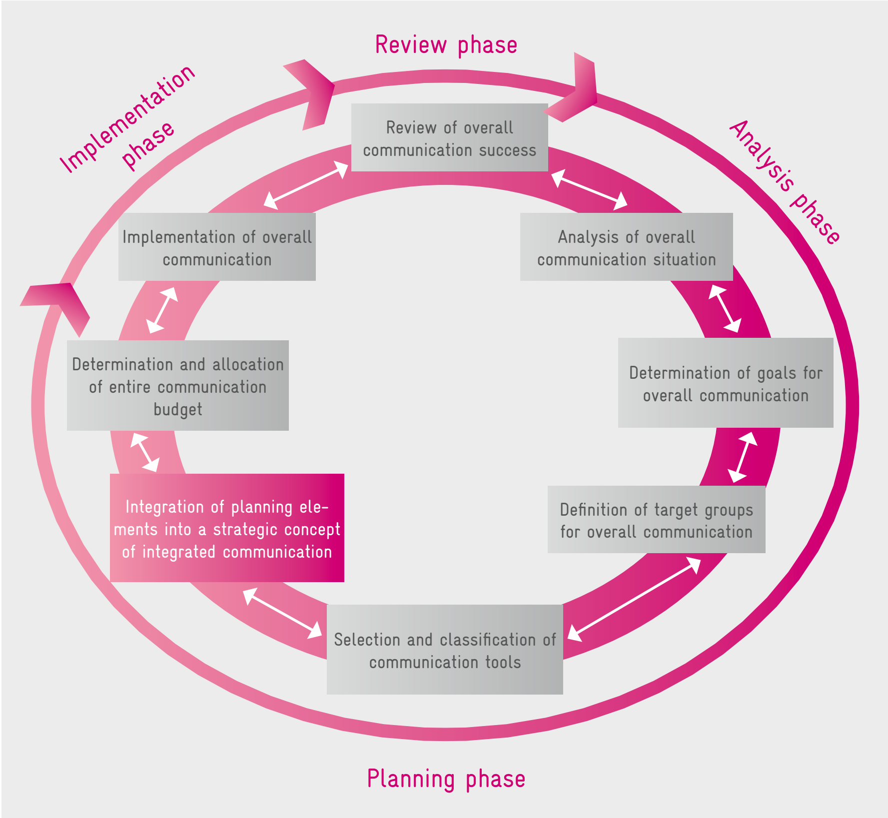

Figure 1: The management process for overall communication (top-down planning)

Integrated communication is a task for top management

The temporal, formal and above all content integration of all communication measures and tools is known as integrated communication. Experience has shown that successful implementation is easier in smaller companies or divisions than it is in large, complex organisations where responsibilities are divided among individuals.

In 360° communication (Figure 2), the enterprise reviews which communication tools could make sense for what. It is not always necessary to use all tools, however those that are used must convey the same message! Only then does one speak of integrated communication that successfully reaches the intended target groups.

As previously mentioned, communication should always be based on the corporate strategy. Once the (communication) aims and topics have been identified, the question can be answered of what should actually be achieved. Attention can then turn to the operative communication planning and its implementation. Within this, the question will rapidly arise of how implementation could and should take place. This is initially always the task of the company's in-house communications department. If they do not have sufficient capacities or capabilities (e.g. for the design of advertising materials), it is common practice to commission external service providers such as PR and advertising agencies.

Beside the internal capacity situation, the budget must first be clarified to answer the question of whether to keep the work in-house or to outsource. After all, communication costs money. And to determine the communication measures within 360° communication, it is necessary to plan in

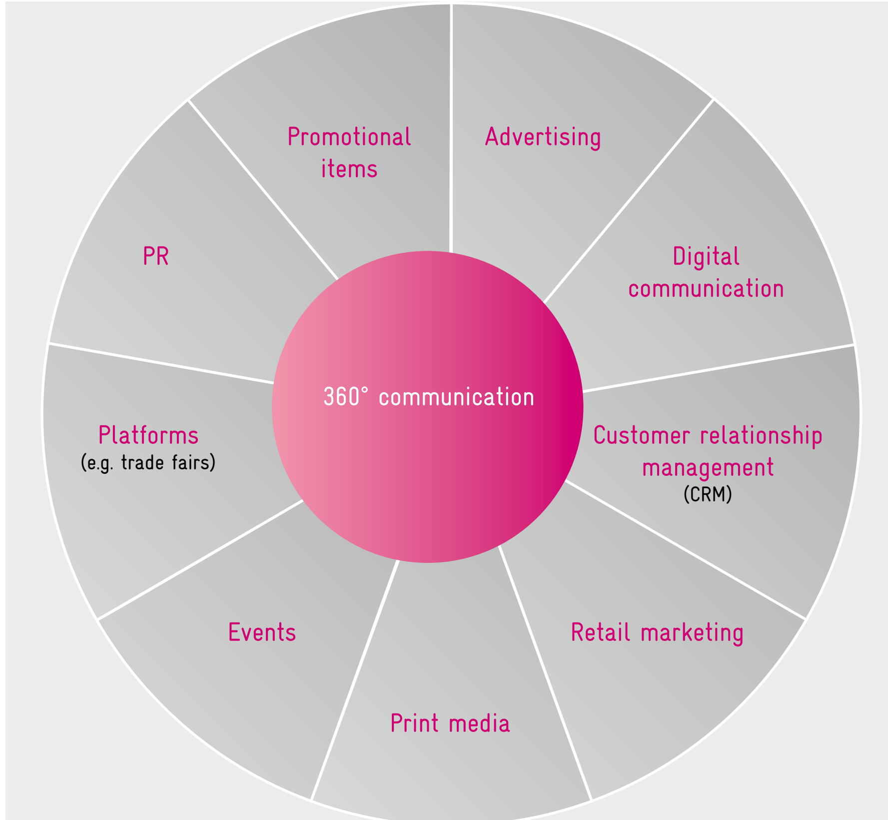

Figure 2: The communication tools of 360° communication

sufficient budget early on. It is then always still possible to decide whether the budget should be invested in a brochure or a new website instead.

In terms of the content, it is important to give the service provider a clear brief of what exactly they should do, containing clear and concise details of everything they need to know to be able to fulfil the contract. This above all includes an overview of the situation and the core messages, along with the goals and target groups. When it comes to implementation, particularly an advertising agency should be given sufficient freedom to come up with creative solutions.

It must be borne in mind, however, that the approval of communication measures is up to those at the company responsible for communication. And communication is essentially a task for top management! The former chairman of a leading German enterprise once said that he would be more inclined to give up his responsibilities for legal matters rather than those for communication. The same applies for medium-sized enterprises. Certain topics should not be communicated by a series of alternating employees, but rather always by the same person. If not by the company manager or an employee acting as spokesperson, then ideally by the person responsible for the area in question. The maxim of "One face to the customer!" also applies here.

> In any case, a confident, convincing impression is very important – whether during trade fairs, charity events or customer visits.

In any case, a confident, convincing impression is very important – whether during trade fairs, charity events or customer visits. In the event of personal appearances, it is not necessary to use the very latest communication tools. Existing, generally available tools such as PowerPoint presentations on a laptop are sufficient. It is simply important that they work and the intended message comes across well and clearly. Similar to everywhere else in the world, it is also appreciated in Germany if the local language is spoken. Alternatively, English is almost always understood, too.

Practical examples

For medium-sized enterprises, particularly digital communication, trade fairs and customer relationship management (CRM) are important communication tools.

If a company is preparing for international cooperations, these days the first step is to look online whether information is available on the potential partners. If the latter do not have a website or this is only available in the local language (e.g. Farsi), German firms are often very cautious about queries they receive. One good example here is a Russian enterprise that was seeking a German partner to supply plastic hollow parts. Preliminary enquiries from Russia were either ignored or met with negative responses. Russian participants raised this issue while in Germany as part of the Manager Training Programme. The situation was analysed during a consultancy session and a step-by-step plan drawn up to optimise the website. After the first web pages had been translated into English, potential customers were approached again and reference made to these. The outcome was that three German companies expressed an interest in conducting preliminary talks with the Russian company (after researching online). The step-by-step plan was as follows:

- *Step 1: translate two to three main web pages into English*
- *Step 2: translate the entire website into English*
- *Step 3: creation of web pages on research and development explaining how customer-specific solutions can be developed and manufactured*
- *Step 4: translate a few key pages into German*

Despite the possibilities offered by digital communication and the availability of a great deal of information online, trade fairs remain an important opportunity to network and to position a company. Many German enterprises plan their trade fair visits up to five years in advance and invest a great deal of time and energy in the preparation. Foreign enterprises with a presence at the Hannover Messe or Control in Stuttgart are generally very successful in establishing cooperations with German companies. The key here is to see a trade fair as a project with preparation, implementation and follow-up phases, whereby the main focus is on the preparation and follow-up. First of all, invitations in the uniform corporate design should be sent to potential cooperation partners. Following preliminary discussions at the trade fair during which product samples or service offers are discussed, follow-up talks should be held just a short time later (within one to two weeks) and additional documentation (in English) sent to the potential foreign customers.

As part of the medium to long-term strategy, existing customers must also receive optimal support and a CRM system needs to be set up. In international business, it is advantageous to have a set person responsible for customers (key account management). In the case of technologically complex products and services, this is absolutely essential to ensure lasting success. One example here is a Chinese company that developed a high-precision lathe together with a German partner and was awarded "Preferred Supplier" status for this in 2012. This was only possible because the Chinese enterprise assigned responsibility for communication and coordination with the German partner company to one single employee and was thus able to implement this new development on an established basis of trust. The Chinese company also recognised that the Chinese customers would require extensive support. This was because the machine's complexity meant that it not only required intensive customer service but also training, maintenance and other services. These were developed in cooperation with the German company and introduced onto the market. To be able to offer these customer-specific services in China, a well-functioning CRM system with a 24-hour service hotline also had to be set up.

As these examples show, integrated communication is of central importance to be able to position an offer, as clear recognition structures and a clear image for a product are built up in this way. All nine areas of the 360° communication must be considered to this end, and the most effective mix developed depending on the products, services, processes and company size.

Credibility is a further central issue in all communication activities. The enterprise should essentially only make statements for which the target groups are able to find proof and check for themselves. This is particularly the case for direct, personal communication if a manager or employee acts as communicator – during company presentations or trade fairs, for example.

As these examples make clear, particularly topics highlighting a firm's technology or innovation leadership, or unique aspects of products and services make suitable communication content. This can be product technology highlights, but also special production or working methods. Articles in specialist publications in which the technology and company can be presented are also a good opportunity here. The selection of such topics for communication is in turn based on the strategic goals.

If the enterprise and its products have a long tradition, it can be helpful to mention this in communication. Inventions and also the inventors themselves highlighting the company history emphasise the respective skills and help to boost the credibility and reliability of statements made. Hence the following statement from Gottlieb Daimler († 06.03.1900) of Daimler AG continues to apply to this day: "The best or nothing." One further role model is Robert Bosch († 12.03.1942) who is still quoted at Robert Bosch GmbH today. One example is the social responsibility for employees, which is an important company philosophy: "I do not pay good wages because I have so much money, but rather I have so much money because I pay good wages."

Beside the planned communication of positive topics, it may also be necessary to address negative issues affecting the company and its products – recall of a product in case of a defect, for example. In such cases, one speaks of crisis communication. Here, it is crucial to agree a strategy in advance of how to handle a crisis and in particular who is involved internally and who should speak in public. And in crisis situations, after clarifying the situation as rapidly as possible, it is more important than ever to only communicate coordinated, credible and clear messages.

[1] Esch, F.-R., Stichwort: integrierte Kommunikation, in: Gabler Wirtschaftslexikon, Springer Gabler Verlag (Hrsg.), online im Internet: http://wirtschaftslexikon.gabler.de/Archiv/81822/integrierte-kommunikation-v8.html (Stand 31.01.2017).

SUMMARY

It is not possible to function without communication and professional presentation of the firm, brands and products. Only in this way goals and target groups can be reached. Particularly communication with the customers is key to business success. Successful communication moreover requires a corporate strategy based on in-depth planning, which is in turn implemented through operative planning of the communication measures using the chosen tools.

Today in light of the many communication options and channels available, it is all about communicating a clear image of the company, its products and the current leading issues through integrated communication. In the marketing of the future, the direct and most targeted customer address possible via electronic channels will play a central and ever-growing role. However, the overall responsibility for corporate communication including the budget will remain with the management team.

One age-old PR saying will always ring true: "Do good and speak about it!"

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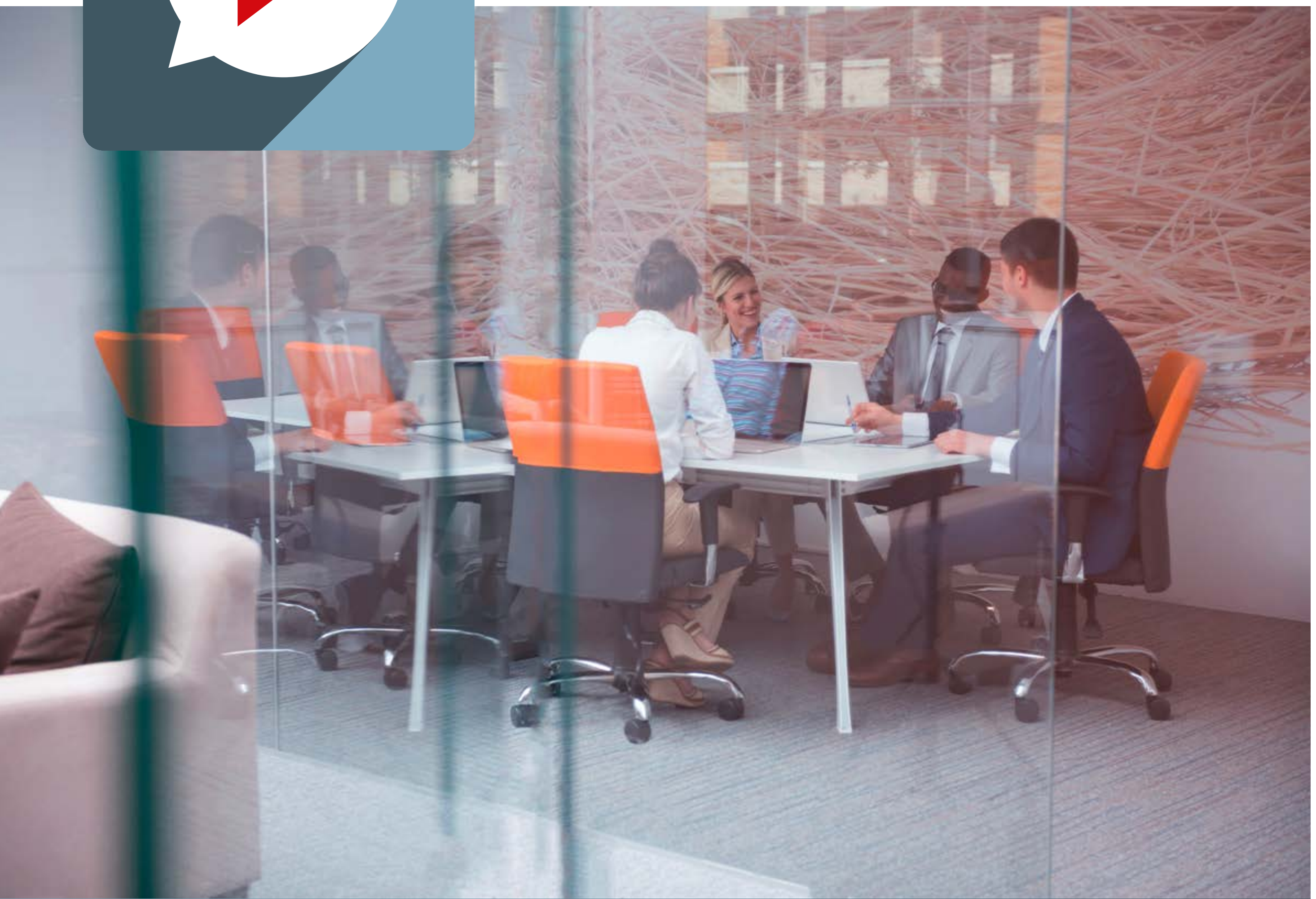
Search for International Business Partners



Small and medium-sized enterprises (SMEs) are constantly looking for development opportunities. Based on fully-matured products and services and extensive knowledge of the local and neighbouring markets, it makes sense to, with increasing experience, gradually move into international markets. For this, enterprises generally follow the principle of expanding in concentric circles, where the centre of the first circle is the firm's head office. Additional circles form around representatives, branches and subsidiaries. The search for international business partners is strategically important. As part of a process chain it cannot be considered separately from other tools like market research and project management.

Germany is one of the most exporting nations of the world. A look at the impressive statistics of the main exporting countries confirms this statement. According to the German Federal Statistical Office around 39 percent of the Federal Republic of Germany's total foreign trade volume in 2015 was generated from trading in goods with its neighbouring countries: France (7.9%), the Netherlands (7.8%), Poland (4.5%), Austria (4.5%), Switzerland (4.3%), Belgium (3.7%), Czech Republic (3.5%), Sweden (1.7%) and Denmark (1.4%). Together with the United Kingdom (5.5%), Italy (5%), Spain (3%), Hungary (2.1%) and Slovakia (1.2%) they make up 56 percent. This is clearly more than half of the total volume of foreign trade. In terms of distance, this means that the majority of German foreign trade is generated within a radius of 1,000 km. This implies that the internationalisation of German companies is generally a relatively slow, steady and „organic" process that follows a learning curve. This learning curve and the questions and answers it entails are explained in more detail in the third section.

It is clear why a trading relationship with Germany is so attractive for many countries: In 2015, Germany had a trading relationship with more than 230 countries, while volumes for each country varied greatly. According to the Federal Statistical Office, Germany's trade reached a volume of one billion euros with 78 countries, ten billion euros with 37 countries and 100 billion euros with six countries. The three main goods in 2015 were cars and car parts (226 billion euros), machines (169 billion euros) and chemical products (108 billion euros). Germany is still the leading country in the world for engineering, and that is also true for lots of more specific areas. These include drive and conveyor technology, agricultural engineering, machine tools, food and packaging machinery, compressors, precision tools, plastic and rubber machinery, print and paper technology, textile machinery, measuring and testing technology as well as industrial ovens. Machinery from Germany is in demand because it still has considerable advantages over global competition thanks to process modernisation and automation, quality assurance and enhancement. The products are flexible and can also be tailor-made. There are various cooperation possibilities far beyond simple export/import relationships, including training and education policies, technology and development partnerships as well as supplier relationships.

"The process of internationalisation always occurs gradually and usually begins with export and import operations.

Internationalisation of SMEs

When the management of an SME decides to internationalise, it is an important decision about the company's further development. This decision is based on the fact that the enterprise has enough resources for example, as the activities connected with internationalisation require a lot of workforce and time. The available personnel must potentially be trained and qualified or new employees must be hired. The process of internationalisation always occurs gradually and usually begins with export and import operations. As things develop, it entails more qualitatively challenging external: from licensing to co-operations, representative offices, purchasing offices, e-commerce and subsidiaries. The risk parameters "time" and "money" mainly define how the particular company's activities are carried out.

However, all actions have the same goal: a commercial advantage by crossing borders. When exporting its own products and services, the company tries, for example, to gain market share in a new sales area outside its home country by using the products' uniqueness. Imports are necessary, for example if the machines required for the production processes are not available in the home market or do not match in quality. Co-operations and joint ventures open up opportunities for both parties by bringing each side's strengths (products, manufacturing experience, market knowledge, financing opportunities) into a shared project/firm. By doing so they can achieve competitive advantages.

Even if the relevant actions have different implications for the company in terms of time and financial input, they initiate processes, which are largely identical in terms of the tools used. Above all, these tools include (primary and secondary) market research combined with intensive travel, partner search, partner selection and maintaining partner relations, negotiation management, contract design and contract management, project management and controlling.

This means the search for international business partners is part of a process chain and cannot be considered separately from the other tools: a potential partner, who appears to be unique due to outstanding products can prove to be unsuited. For example, this could be because its negotiating power is so immense due to large economies of scale that a meaningful joint foreign trade activity turns out not to be viable. Or if a partner proves to be excellent as part of an export/import operation but cannot or is not willing to work together as part of a cooperation or a joint venture. One reason for this can be that it is not possible to calculate the risk sufficiently in terms of finances and time. It should be noted that export and import activities always come first in regular surveys about the range of foreign trade activities of SMEs in Germany. For instance, the survey conducted by the Chamber of Industry and Commerce of 2,200 enterprises operating overseas in autumn 2013 showed that 89% of exporting countries use exports as a development tool for goods and services. Cost effective co-operations without the establishment of a legal entity follow far behind (34%) as well as the founding of a subsidiary company (around 30%). Joint ventures only play a role of 10% in the foreign market development. When evaluating these results, you should take into account that it is possible to give multiple responses for the individual activities.

Corporate practice: necessary foundations

As long as a firm operates on a local, regional or national level, it concentrates on management issues such as product development, quality assurance, marketing and sales, financing and controlling. First of all, it involves visits to national

> When analysing the markets to be considered in more detail, the first step is to refer to existing studies.

trade fairs and later on the company becomes an exhibitor itself. In this phase, the necessity, the motivation as well as the necessary resources to prepare for internationalisation in targeted way are mostly lacking. Coincidence often plays more of a role here: a request from abroad via email and an attractive growth in business, which whet the appetite for getting involved overseas. There is nothing wrong with this, it is everyday life in a corporation. Other more objective reasons for getting involved in foreign trade could be: saturation of the market, (foreign) competition becoming stronger in the domestic market, product life cycles ending, targeted risk spreading.

However, a healthy level of analysis and targeted preparation for the next steps for developing a foreign market should be integrated into the company's everyday life from that moment. It is first about identifying (additional) suitable target markets for overseas activities. If you follow the principles of the concentric rings mentioned earlier, the number of potential markets is restricted by geography.

When analysing the markets to be considered in more detail, the first step is to refer to existing studies. The "Country Risk Assessment Map" from Coface, for example, offers a very good global overview. CountryReports offers the materials to compare countries with the widely varying assessment criteria. You should use this and additional sources before you carry out or commission your own targeted studies. The extensive GTAI archives offer detailed sector information about various countries.

The methods described above are primarily for export activities. Most analytical tools are useful for exporters when investigating the market. But how do you proceed if you need a new production machine, or are looking for a supplier for an injection-moulded part, a talented developer for a software application or a producer for a patented household device you are unable to find in your own country?

Research is also useful in this situation. Supplier databases and portals for looking for business partners might be helpful. You can look for suppliers in the German market on the "wer liefert was" website. You can also enter search terms in English and French there. For example, there were 47 providers under "Spritzgießmaschinen" (injection moulding machines) in March 2016. The number of employees gives an idea of the size of the company. Some firms state the year in which they were founded, which also gives an indication of industry experience. In any case, it is clear from the entry whether the company operates on a regional, Europe-wide or global level. All contact details are shown so that you are able to send a request to the selected enterprises with a few clicks.

As a side note: export-oriented and established companies receive requests every day from all over the world. How the request is processed does not generally depend on whether person responsible for it is in a good mood or not, but rather on the quality of the request itself. What details does a request need to contain in order to give a valid quote? Even when technical details and parameters are very different, you should consider the following advice: you should make the effort to identify and address the relevant department, particularly when dealing with large companies. Many enterprises publish data sheets online – specific requests with type designation are particularly helpful for the company drawing up the quote. Machines and systems often define parameters such as performance (output / time unit), power (kW), force (kN), dimensions (installation or device dimensions such as length, width and height), control system type (analogue, digital), product line (basic or professional models) and, of course, type designation. If the request is already narrowed down based on these details, it is much easier to provide a suitable quote. In that case the request will be answered fairly quickly and not put off. If all the contact data is also present (company name, address, contact person responsible, telephone, fax, email, internet address), there is nothing standing in the way of successful contact or a cooperation.

The process of finding and selecting a partner explained so far consists of things that can be done from a desk. All that you need for this is a PC with an internet connection. And in the phases of choosing an (export) market and (import) supplier, there are no restrictions for this approach. However, now you need to take more "steps", both figuratively and literally. To begin with, this entails a lot of travelling. You will definitely receive a good overview of the selected market if you visit a trade fair. The exhibition and trade fair committee of the Deutsche Wirtschaft e.V. (AUMA) can be very helpful for selecting the right event. The charity's website is not just helpful when looking for worldwide and Germany-wide events – it also provides advice for exhibiting at a trade fair successfully.

What information about foreign expansion can you find at trade fairs? You receive a good idea of the competitive situation (number of competitors and their origins), you can find out about the latest technology, trends and innovations. The trade fair organisers also offer a service where they publish cooperation requests. Visitors and exhibitors often underestimate the use of the framework and specialist programme due to time and capacity. If time is too short to attend professional lectures, you should definitely take the programme with you, so you have important topics and professional contacts to hand.

After carrying out analyses over the internet and initial journeys to the target market, the company has ample information about possible partners. The grid in Figure 1 is a simple tool for evaluating potential partners, taking the factors listed into consideration.

You can expand the grid with additional criteria, depending on your requirements. You assess each criterion on a scale of 1-6 and multiply each value by the number of crosses in that column. The potential partner with the highest total of points "wins" and they are ranked in an order. Although there is a tendency towards being objective, there is nothing wrong with adding „subjective assessment of the partner" to the list of criteria. This analysis provides the foundations for focussing on the favoured partners and "courting" them. This is the start of another round of intense discussions, trips and negotiations!

Newest developments: national and international

It takes a lot of initiative to build up business contacts abroad. But there are plenty of service providers who can help with this. And it almost doesn't matter what the individual events are called: at the end it always comes down to introducing enterprises from different countries to each other. Possible event formats are "brokerage events" and "matchmaking events", "company missions" as well as traditional cooperation exchanges.

A Europe-wide network has formed under the name Enterprise Europe Network. It is the largest European network of information and advice centres for SMEs with representation in more than 60 countries.

In Germany, SMEs receive a lot of (political) support on a federal and state level to develop foreign markets. Foreign trade programmes consisting of a wide range of support measures help firms, particularly in their first steps. The individual federal states have a subsidised presence at the trade fairs, and this is a considerable help.

But market exploration trips accompanied by high-ranking political representatives are also effective tools of state and federal subsidies policy. These programmes are often paired with measures to support innovation, as it is known that products can only have substantial and long-term chances on the world markets if they are innovative. The section „Recommendations for foreign business partners" covers how a foreign company originating from overseas can benefit from these generous subsidies.

Recommendations for foreign business partners

For a firm, the search for international business partners is strategically important. The requirements described for this task are as interesting as they are diverse. The large number of support policies from German institutions, particularly for SMEs, as part of their foreign activities speaks for itself (see section "Newest development: national and international"). But can foreign companies benefit from these services or is the large-scale system described a system of one-sided hidden national subsidies?

The answer is as simple as it is logical: As long as these measures are equally accessible to all, the system works well. And the following example shows that they are accessible.

A foreign company from outside Germany is interested in entering Latin American markets (e.g. Argentina and Mexico). For some months the firm has had a representative office in Germany. Through market studies, the representative has learned about the various support measures for SMEs offered by domestic institutions for the developing of Latin American markets. In order to benefit from these measures, he convinces management in his home country to convert the representative office into a branch in the form of a GmbH. The company is then subject to full German legislation (including the GmbH-Gesetz, a law on companies with limited liability) and must also adhere to the German regulations in accounting and taxation. And from day one, it is perceived as a German enterprise in both name and status. Thus, it also has a legal claim to the support for foreign market development. This is the principle of give (paying taxes) and take (using state services).

This example should encourage you to think carefully about all these aspects as part of your foreign activities. In any case,

	Excellent (6)	Very good (5)	Good (4)	Satisfactory (3)	Poor (2)	Very Poor (1)
Product		x				
Market knowledge	x					
Economic status			x			
Relative negotiating power				x		
Staff qualifications		x				
Overall assessment	6	10	4	3		
Total number of points			23			

Figure 1: Grid for evaluation of potential part

however, a step-by-step approach is also advisable – to come back to the example above. Step-by-step in this case means starting with a representative office (for around three to five years) and then founding a GmbH. Because the share capital invested in a GmbH can be used straightway as operating capital, this recommendation has less to do with the costs that arise. Instead, we recommend that enterprises develop abroad gradually in order to achieve healthy growth.

SUMMARY

Germany is a leading export nation and important partner in international business, not only because of its sheer volume as one of the world's largest trading nation. Germany is still a world leader in many industrial areas, in terms of innovation and sustainability. German companies invest a high amount of their revenue in research and development. Finally, it should be noted that Germany is home to many hidden (world) champions in many different sectors. An excellent dual training system helps companies to recruit suitable young people from its own ranks. People come to world leading trade fairs in Germany to see how they compare internationally, for dialogue and to look for partners. Furthermore, a huge number of small and medium-sized enterprises, many of whom are family owned, guarantee their employees, customers and domestic and foreign partners a business base for many years and decades.

Corporate practice – examples and best practice

In comparison to larger companies, SMEs have to balance out various disadvantages in everyday business in the domestic market as well as when developing new markets abroad. There are many challenges: pressure to innovate, a lack of qualified professionals, financial issues. It is easier to tackle these challenges together, as a network. Collaborations with science and business can provide good opportunities. On one hand, science can offer motivated specialists at university institutions, who can dedicate themselves to more innovative topics. Innovation in this context refers to developing the foreign market itself as well as products and services. Students and researchers coming from overseas can be very good advisers for firms when it comes to market analyses and market entry strategies. The university institutions and their students and researchers also benefit from practical tasks from the company.

Industry and technology clusters are another factor for success. Enterprises group their strengths and incorporate science and research. Regional economy promoters support the products with advice and financing. For example, the project from the Kunststoffinstitut Lüdenscheid is called "strategic market development for small and medium enterprises" (Strategische Marktentwicklung für kleine und mittlere Unternehmen). According to the Federal Ministry for Economic Affairs and Energy, the services on offer focus on the development of pro-competition measures in the fields of recruiting and training skilled workers, new production procedures, international business areas, co-operation, sources of financing, exogenous company growth, company streamlining as well as the potential of business relocation. This offer makes it clear that internationalisation can only be understood and implemented as part of an overall corporate strategy.

For many foreign partners, Germany is a desirable trade and cooperation partner not just because German products and services are of above average quality. Vocational training, which the German side has been carrying out based on the dual training model is a much-appreciated extra in foreign trade and investment projects between German and foreign partners. In September 2014, for example, about 60 Russian young people began vocational training in German enterprises. The companies Globus and Selgros in Moscow Oblast, Bertelsmann Arvato in Yaroslavl, BauTex in Gus' Khrustalni, and KCA Deutag in Tyumen achieved German standards of dual, practice-oriented vocational training to a great extent. Future mechatronic engineers, specialists for warehouse logistics, call centre employees, bakers, confectioners, butchers and cooks are now mainly prepared for their profession in their training firm. Companies on one side have close partnerships with the relevant colleges on the other side. The students have entered a training contract with the company and are already being paid by it during their training. When they complete their training successfully, they have good prospects of working for this company later on, describes the German-Russian Chamber of Commerce and Industry the project.

These examples clearly show that successfully finding cooperation partners depends very much on the goals set. It is always necessary to differentiate between short-term profits and long-term successes. A short-term profit occurs, for example, where a minimum of financial input is provided for a service or product. Long-term successes usually require higher initial investments on both sides, but these pay off later on for all those involved. The majority of German enterprises are experienced when it comes to thinking and acting in the long term, both in terms of time and money. Companies that invest in training young people overseas often only see the fruits of their labour four or five years later. For this to happen, the firm has to fully complete this investment in advance. From this perspective, the commitment of German companies abroad described above is a prime example of far-sighted and sustainable entrepreneurship.

This is because thinking and planning in the long term focusing on long-lasting development is essential for these companies.

These success factors support seeking out and entering into international business relationships with German firms, although this should be carried out gradually as international co-operation is never risk free. The first steps here can be very straightforward. For example, a successfully implemented import contract. This does not need to be a joint venture because it is about creating a stable foundation of trust. Trust takes time, patience and perseverance. Good luck in your internationalisation!

Karsten Thies, owner of the company Karsten Thies Marketing "Märkte verbinden", has 20 years of experience in international marketing in Eastern Europe in the fields of sales, company founding and participation. He is a participant in a Ukrainian-German joint venture in Western Ukraine.

Further reading

- **AUMA – Association of the German Trade Fair Industry**
- **Coface**
- **Countryreports**
- **European Secretariat for Cluster Analysis**, Cluster organisations in Europe – insights form Bronze and Gold Label assessments
- **Enterprise Europe Network**
- **Federal Statistical Office**
- **Germany Trade and Invest (GTAI)**
- **Step-by-Step Guide to Exporting. The Canadian Trade Commissioner Service**
- **VDMA – Mechanical Engineering Industry Association**
- **WLW – Wer liefert was. Marketplace for B2B products and services**

Leading Negotiations with International Partners

Negotiations are an integral component of every business activity, and are part of the daily routine for both those in specialist and managerial roles. The results of negotiations make a decisive contribution to the success of an enterprise. In order to achieve mutually beneficial results, it is recommended that the Harvard method be applied by which the interests of both sides are identified, and the greatest number of options and possible alternatives are developed.

Globalisation and the associated growth of international trade have created a situation in which negotiations with international partners are becoming ever more frequent. According to the WTO global export volumes have seen a fivefold increase since the 1990s. In 2014 Germany's share in global goods export stood at 7.9%, its share in imports stood at 6.4%. It is not just in Germany that this international economic interdependency has increasingly gripped small and medium-sized enterprises. As with cooperation projects, purchasing and sales also work on a global scale.

What is negotiation?

Based on numerous possible definitions, negotiation can be described as a communicative process of interaction in which two or more parties endeavour to coordinate and balance their different interests, including in relation to the evaluation of goods and matters, in order to reach a joint decision.

The way people communicate with one another, how they think and how they behave is influenced by culture, and is linked with rituals, patterns and structures which have been learned and internalised. When people from different cultures communicate with one another, misunderstandings may arise by different ways of expression, representing and conduct. The receiver does not fully understand what the sender meant to express with spoken and unspoken signs. This is because messages are sent and received according to underlying, cultural-specific coding and decoding systems.

In addition to different value and cognitive systems as well as linguistic differences between the participants, external factors such as the respective societal and organisational structures significantly influence the entire process of negotiation.

> Transactions which cross borders and cultures require that managers are able to reach productive agreements with international business partners.

1. Preparatory phase
Information is collected during this phase, the positions held by both sides are analysed and the respective objectives are determined.

2. Contact phase
This phase serves to establish a good relationship when beginning discussions, and helps to create a positive working environment. The negotiation partners then determine the next steps.

3. Core phase
During the discussion concerning content and details offers and requests are exchanged, and concessions and counterproposals are made.

4. Agreement phase
Both sides coordinate the details and confirm the agreements made. The final agreement is reached and clearly formulated.

5. Implementation phase
All parties involved undertake the things they have obligated themselves to in the agreements.

The length and/or pace or course of action of the individual phases can vary depending on the culture.

Foundations

Transactions which cross borders and cultures require that managers are able to reach productive agreements with international business partners. Among other things, they should give their partner's cultural system of orientation serious thought to better understand and classify the expectations, conduct and reactions, while simultaneously becoming aware of their own.

The various types of concept concerning the style of communication and work, the understanding of time and the strategies and tactics employed have a direct influence on the negotiation process when striving to achieve common agreement.

Style of communication

E.T. Hall is considered a pioneer in intercultural communication as the object of research. To describe the level of significance people assign in individual cultures to the non-verbal, personal and situational context of the conversation, he differentiates between "high context" and "low context" communication.

In a "high context" message only a minimal proportion of all information is coded and transmitted verbally. Most of the information is, however, already known to the individuals involved or established in the form of common background knowledge, which is shared on an informal basis. In communication, the non-verbal elements (such as gesture, facial expression and eye contact) and para-verbal elements (intonation, rhythm, pitch of the voice, volume, breaks) play a significant role, while the actual spoken information is full of symbols, hints, hidden messages and ambiguous comparisons, which only become comprehensible when considering the entire conversational context.

In a "low context" message, however, the mass of information is transmitted ex-

Every process of negotiation goes through several phases:

Figure 1: Process of negotiation

plicitly. This does not have to be decrypted and leaves no room for autonomous interpretation. The context is deemed to be minimal and the recipient is informed directly as to what it concerns. In a conversation the content level is more important than the relationship level.

The German style of communication is, by consensus, allocated to the "low context" style. It is characteristic for Germans to present information explicitly in terms of what they think, mean or value. Essentially, the "what" is in the foreground, while the "how" of a message is neglected to facilitate an understanding of content both clearly and unambiguously. In doing so, statements can appear undiplomatic and unintentionally offensive. Germans have difficulty in perceiving statements which are indirect, hidden within the context or unspoken, or understanding innuendo or ambiguities. They have a tendency to take what is being said literally.

Criticism can be stated openly or toned down since it is the fulfilment of an objective that matters most, while emotions might get in the way of business. When negotiating, Germans tend to think that their goals can be achieved most efficiently through strict objectivity and concentration on facts and figures as solid, verifiable criteria. These are the only compelling arguments unlike more subjective factors such as strong emotions or good relationships. Relationships can be established only over the course of time and are not deemed to be a precondition for concluding a business transaction. Consequently, German negotiators get right down to the focus of the meeting without beating around the bush. Accordingly, the contact phase is kept short.

Perceiving and dealing with time

Hall introduced the terms monochronic and polychronic – derived from the Greek words *chrónos* = time, *mónos* = one and *polýs* = many – to capture different concepts of time held by societies and individuals, and the associated flow of activities. Several levels of activity overlap for people with a polychronic understanding of time. They execute several activities simultaneously and focus more on personal relationships than on complying with time-related obligations. By contrast, time in monochronic cultures such as German culture is linear and segmented. It is perceived as something that can be structured into individual, sequential units. The individual time segments are planned meticulously, and the allocated tasks are each processed in a thorough, concentrated and successive way. Monochronic people do one thing at a time. Tolerance of interruptions or disturbances during proceedings is minimal. Significant value is placed on punctuality. This understanding of time correlates with the fact that Germans are task-oriented unlike people in polychronic cultures, who are more concerned with people than with planning.

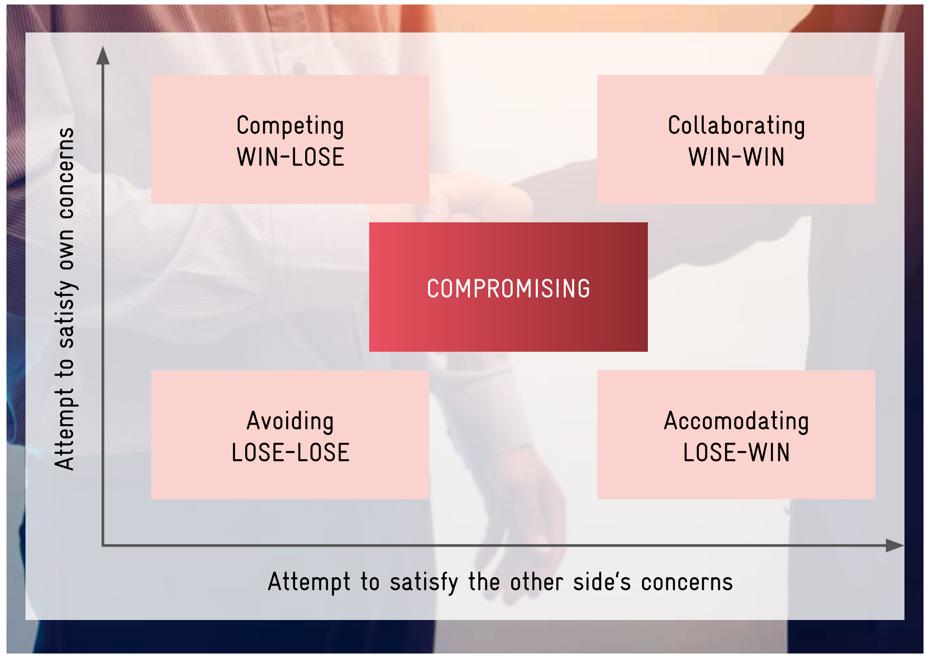


Figure 2: Negotiation strategies

The process of negotiation is also monochronic: After an agenda has been fixed and agreed the individual issues of negotiation are negotiated in sequential order. If an agreement has been reached regarding a certain issue, this is then considered to be closed.

The use of a systematic and logically structured approach coupled with a deep and detailed analysis of the problem at hand is something Germans believe is effective in getting to grips with matters. Uncertainty and errors might be avoided by dealing with potential sources of error or contingencies beforehand. For this reason, Germans also conduct careful negotiation planning and preparation. They design a concept following their own strategic alignment as well as possible concessions, and attempt to estimate where resistance could occur or which counter-arguments could be used.

When negotiating, adopting a logical and analytical approach means to sort information according to a certain pattern. Work begins with the most important point: this is then logically justified and solidified with objective arguments. Counter-arguments and objections submitted by the negotiation partner are assessed for their validity, and then are met with a new counter-proposal. Although this systematic approach benefits a fast and efficient decision making, detailed analysis does, however, create long negotiation procedures.

Style of negotiation

The style of negotiation is of central significance for the procedure and result of a negotiation, with a broad spectrum of hard and soft negotiation. A hard bargainer rigorously utilises his advantage during negotiations and wants to win whatever the cost, even if it is to the detriment of the counter-party. To do so he employs unfair tactics, bluffs and threats. He is hard on both the people involved and the problem. A soft bargainer, however, does not want to endanger the relationship and will yield and make concessions as soon as pressure is exerted upon him. He is soft on both the people involved and the problem.

There are five strategies handling a conflict based on individuals' preferences balancing the concern for personal interests with the interests of the other party:

- **Win-lose:** The one side competes and wins at the other side's expense.
- **Lose-win:** One side yields and loses to the benefit of the other side.
- **Lose-lose:** Both sides avoid a conflict and withdraw from negotiations.
- **Win-win:** Both sides cooperate and win by searching for mutual gains.
- **Compromise:** Both sides split the difference and achieve a not fully satisfactory (win-win) solution.

The illustration of this model often uses the example of two sisters fighting over an orange. Both are aware that adopting a win-lose mindset, by which one sister gets the whole orange, would be detrimental to the relationship they have. In the interest of peaceful harmony they agree to cut the orange in half. An apparently good and sensible compromise. Now one sister takes her half, eats the inside of the orange and throws the skin away; the other sister throws the inner part of the orange away because she's looking to bake a cake, and only needs the skin. If both of them had simply explained to each other where their interests lay, they would have reached a result whereby one of them would have received all of the pulp and the other all of the skin, thus both reaching maximum satisfaction (win-win).

Based on such a win-win attitude and outlining a commonsense approach to negotiation, the Harvard concept describes the method of "principled negotiation". It is a third way to negotiation being both hard and soft: "hard on merits, soft on the people". The Harvard method has established itself worldwide over the last 30 years, and is used as the guideline for successful negotiation. It operates on **four key principles:**

▶ *1. Separate the people from the problem*
The other side is not to be treated as an adversary, but rather as a partner when solving a problem. Issues regarding the matter at hand can be worked out together on the basis of respect and understanding for the other point of view. The content-related points are to be stated clearly and objectively, and any attacks aimed at the negotiating partner are to be avoided.

▶ *2. Focus on interests, not positions*
Positions are what negotiators say they want. Interests are the needs or concerns that underlie positions. Get behind positions to interests: why and for what purpose is this position being expressed? Failure to talk about respective interests such as in the example with the orange may prevent negotiators from optimally achieving their goals.

▶ *3. Invent options for mutual gain*
Once interests are identified, the parties then jointly develop a wide-ranging set of solution options considering the interests of both sides and expanding the list of possible alternatives.

▶ *4. Insist on objective criteria*
The selection of a solution from the available options is based on objective criteria.

The Harvard method is opposed to position-related negotiations such as is practised, for example, in distributive negotiations.

A distributive negotiation involves a single issue, a limited resource, a "fixed-pie" is to be distributed among the parties involved, and each party is haggling over the biggest slice of pie. One side's gain results in other side's loss. Consequently, this always leads to a win-lose result. Distributive negotiation can be observed, for example, on a market: the buyer wants to buy the goods at the lowest possible price, the seller wants to sell for the highest possible price. Agreement is only possible along the line drawn between the positions taken.

Complex sales situations are characterised, however, by a variety of negotiation items. These include, in addition to the question of price:

- Product quality
- Product options
- Delivery quantity and dates
- Payment terms
- Financing
- Guarantees
- Service
- Training
- Possible follow-up deals
- Ancillary services such as possible marketing support etc.

Even if it is frequently price that plays the most important role, the treatment of several topics expands the scope for negotiation – "expanding the pie" – and thus enables mutual gains. This approach is termed "integrative negotiation". One side makes concessions or an additional offer regarding a point, and the other party reacts accordingly with concessions in another. Assuming that a party selling industrial equipment is interested in a later delivery date. As a counter-gesture he can accommodate the purchaser's interest by offering him free-of-charge staff training. Although both sides move away from their maximum position, they both get a larger slice of the pie, since the differing levels of priority regarding a respective point of negotiation are accounted for. Like the Harvard concept this process of giving and taking also enables a win-win situation, above all when the partners value issues differently. If, however, only one side emerges from the negotiations as the winner (win-lose), victory is only short-term. As the loser notices – no later than at the point in time of completion – the imbalance in the contract, and will potentially only implement this contract badly, and will not want to make further deals with the other side.

Negotiation strategies predominantly depend on the respective situation, the personal preferences, the constellation of power, the objectives and needs. Furthermore, numerous authors identify preferences affected by culture to a certain negotiation style and attitude.

It can be assumed that the win-lose approach in Germany is something that is frowned upon, and German business partners have a tendency to strive for a mutually beneficial solution.

More recent developments

The delineation of national cultures is becoming increasingly difficult as a result of globalisation, as they are diversely interwoven and mixed. Business practices are becoming more and more standardised: Management techniques, business school curricula or the procedure, how transactions are negotiated and settled, are becoming uniform worldwide. This standardisation does, however, only scratch the surface of culture and does not dissolve culture-specific values, norms or behavioural patterns. It does, however, facilitate people involved in developing a joint system of orientation in which they may all interact without significant impairment or misunderstanding.

SUMMARY

Negotiations with international partners are considered to be a challenge for both sides. Different expectations as well as the ways of expression, representing and conduct can cause misunderstanding. German negotiators communicate in a direct manner and remain soberly issue-related concentrating on facts and figures, and technical content. They discuss the agenda items consecutively in a structured and detailed way, subsequent to thorough preparation.

In order to achieve mutually beneficial results, it is recommended that the Harvard method be applied by which the interests of both sides are identified, and the greatest number of options and possible alternatives are developed. The balance of interests is based on the process of mutual giving and taking, and on concessions provided by both sides.

Recommendations:

- Thoroughly prepare and clarify:
  - What are my primary, maximum and minimum objectives?
  - What are the possible concessions, and what do I demand for them in return?
- Emphasise from the outset that you intend to achieve a common, mutually beneficial solution.
- Try to understand the other side from their perspective and determine what their interests are.
- Be creative and develop as many options and alternatives as possible, which align with the interests of the other side.
- Adhere to the agreed order of individual negotiation points and do not question aspects which have already been agreed upon.
- Repeat the statements issued by your counterpart in your own words to show that you have understood what has been said.
- Summarise the most significant points and statements from time to time.
- Please note that objective arguments, facts and figures, laws and expert opinions have significant weight for Germans, and both sincerity and straightforwardness are of great value.
- Try to express your thoughts as clearly, unequivocally and directly as possible.
- Do not shy away from following up something which is still open for you, or you have not understood.

Examples from practice

The following examples from practice highlight important aspects such as the role of position and/or that of negotiation team members, or consumer behaviour.

At a German industrial equipment manufacturer

Mr B. is the Managing Director of a beverage manufacturer in a non-EU country. He arrives at a first contact meeting with a German medium-size producer of beverage filling systems, who sells the systems worldwide. The international prospective client is greeted in a very friendly manner, but very briefly by the Head of the Export Department. Shortly after, she withdraws under the certain assumption that the guest is in good hands with her assistant, Mr S. After all, Mr S. is a thoroughly competent and experienced member of staff. Mr B. has expected a meeting counterpart of equivalent status.

Following a company presentation, Mr S. leads the guest to the exhibit room and begins a very detailed explanation covering all the specifics and functions of the complex filling system. Since Mr B. is not very knowledgeable when it comes to the technical side, he becomes tired – if not tortured – by the depth of detail. He is far more concerned with obtaining an overview of the product range and prices, for which reason he asks a question about the cost of a system. His German counterpart simply says that they can discuss that later, and soberly continues with the technical explanations. Because, from his point of view, he can best accentuate the value of the product.

Only after a glance at the clock does Mr S. end his presentation, and invites the guest to the conference room for a coffee. In order to find out what the prospective customer specifically needs and whether his needs can be met, he asks numerous questions about the company, the members of staff, the production procedures, the required capacity and productivity. Mr B. feels pressured by the "interrogation", even forced into a test situation and answers very generally, especially because he has no exact idea, but also because he sees the purchase as dependent on the value for money the system has to offer. He asks again about the prices.

Mr S. interprets the cautious statements and insistence on price in such a way that Mr B. has no real interest in buying, but is already in negotiations with a competitor. He does, however, suggest to him that he put together offers for three different price categories. Mr B. agrees to this.

At a German sales company for international specialities

While at a trade fair Ms A., owner of a biscuit factory in a non-EU country, makes the acquaintance of Mr B., who manages a small online sales company in Germany for exclusive specialities from across the world. They arrange a meeting to discuss the possibilities of collaboration. The firm owned by Ms A. predominantly sells its fancy biscuit products on the domestic market, but now she sees an opportunity to expand its export business. Thanks to doing some research before her meeting, she knows that baked goods from her country are not available in Germany and that she could, therefore, bridge a gap in the market.

She brings a small selection of taster samples from her product range to the meeting. They are joined by Mr C., who is responsible for purchasing. Mr B. and Mr C. attentively follow Ms A's presentation including a video of the production facilities and her products. She handles the detailed questions well, but almost exclusively addresses Mr B. with her answers in an attempt to persuade him.

She is, therefore, amazed that it is the purchaser Mr C., and not Mr B., who delivers his analysis of the offer and explains that the company would initially only be entering into a very limited pilot project, before accepting it into the company's portfolio. Ms A. had anticipated this restriction but not the open reference to the packaging being of limited appeal. In an attempt to smooth over this point, she offers both of them the biscuits she has brought. Mr C. kindly rejects the offer and explains that he is gluten intolerant. This irritates Ms A. because she was unaware of it. Mr B. blatantly pulls a face when trying the biscuits and remarks that he doubts that the unusual composition of flavours would sit well with German consumer tastes.

Without once registering the snub from Ms A., Mr C. picks up the conversation once again and continues untouched with his statement that a change to the packaging design would be necessary for the German market, and an essential precondition for accepting a sample batch delivery. An adjustment to the design could be undertaken by the in-house marketing specialist. Both parties finally reach agreement quickly that Ms A. is to submit a revised offer subsequent to the assessment of the technical and financial effort required.

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Preparing a Contract

Those wishing to strike a deal must always sign a contract with their business partner – regardless of whether they are a private or commercial customer, supplier, seller, bank or landlord. This is not only the case for industrial enterprises, but also for SMEs whose status means they are particularly reliant on a clear picture being established. Contractual frameworks are indispensable in preparing a contract: from quotations, acceptance, legal provisions like period of validity or general terms and conditions, to contract negotiations.

Similar to other regions of the world, conducting business without any contractual basis is also inconceivable under German law. The latter is based on the principle of freedom of contract. Business partners' expectations and wishes can mostly be taken into account during the careful drafting of contracts. The contract constellations range from everyday activities, such as the purchase of food from B2C businesses or the sale of accessories and consumables in the commercial sphere, through turnkey plant projects to business acquisitions. For certain types of contracts statutory regulations exist. Thus the bases of purchase agreements, employment contracts, loan agreements, service contracts, lease agreements, etc. are regulated by law in the same way that commercial agency agreements are. Individual adjustments to the specific needs are possible in all types of contracts. Moreover, German law essentially also allows all conceivable contractual arrangements. Franchise, factoring, forfaiting and lease agreements can be reached, for example, though these are not regulated by law. The list of examples goes on. When drafting a contract, it is possible to deviate from the statutory provisions as long as these are not mandatory and the contractual arrangements do not contravene any basic legal principles.

This article focuses specifically on the regulations of the German Civil Code (Bürgerliches Gesetzbuch, BGB) and the German Commercial Code (Handelsgesetzbuch, HGB). Those who concern themselves with the conclusion of contracts – so beside negotiators, also employees involved in such matters in their daily interactions with customers – must familiarise themselves with the legal regulations at least by reading through the legal texts. Insofar as the United Nations Convention on Contracts for the International Sale of Goods (CISG) applies for cross-border supply contracts, which also forms part of German substantive law, please consult the list of further literature.

Contract-relevant declarations

A contract requires a consensus between the contractual parties. Hence the business partners must make declarations with consistent content to reach an agreement. Within this, it doesn't matter which party (e.g. the buyer) takes the initiative and makes a contractual offer. A declaration aiming at agreement of a contract becomes binding when it reaches the respective other contractual party. The declaration must be received by the recipient to be effective and so that it can be acknowledged without further ado. A contract-relevant declaration must be formulated in such a way that it contains all essential contractual components (i.e. the complete service of one contractual party and the complete service in return of the other party) so that the offer recipient is able to express their consent with just a simple "Yes". In this context, it should always be ensured that on both sides, all declarations are issued and received by authorised individuals. What is often overlooked: at incorporated companies, only the company representatives legally foreseen for this purpose are authorised to issue legally-binding declarations. Other persons essentially require a verifiable power of attorney. In practice, it is possible to rely on the declarations of an authorised representative listed in the commercial register. Their powers are regulated by law. For other persons, the type, content, scope and proof of authorisation must be clarified in good time before conclusion of the contract negotiations. It should be noted that the dual control principle applies at many enterprises, whereby valid declarations must be issued by two authorised persons. In all cases, a look at the commercial register will help clarify the powers of representation.

Negotiation processes

In practice, the typical ideal conclusion of a contract according to the aforementioned principle of offer and acceptance occurs when it is clear from the outset that a contractual party is in a good market/negotiating position and therefore does not need to engage in negotiations.

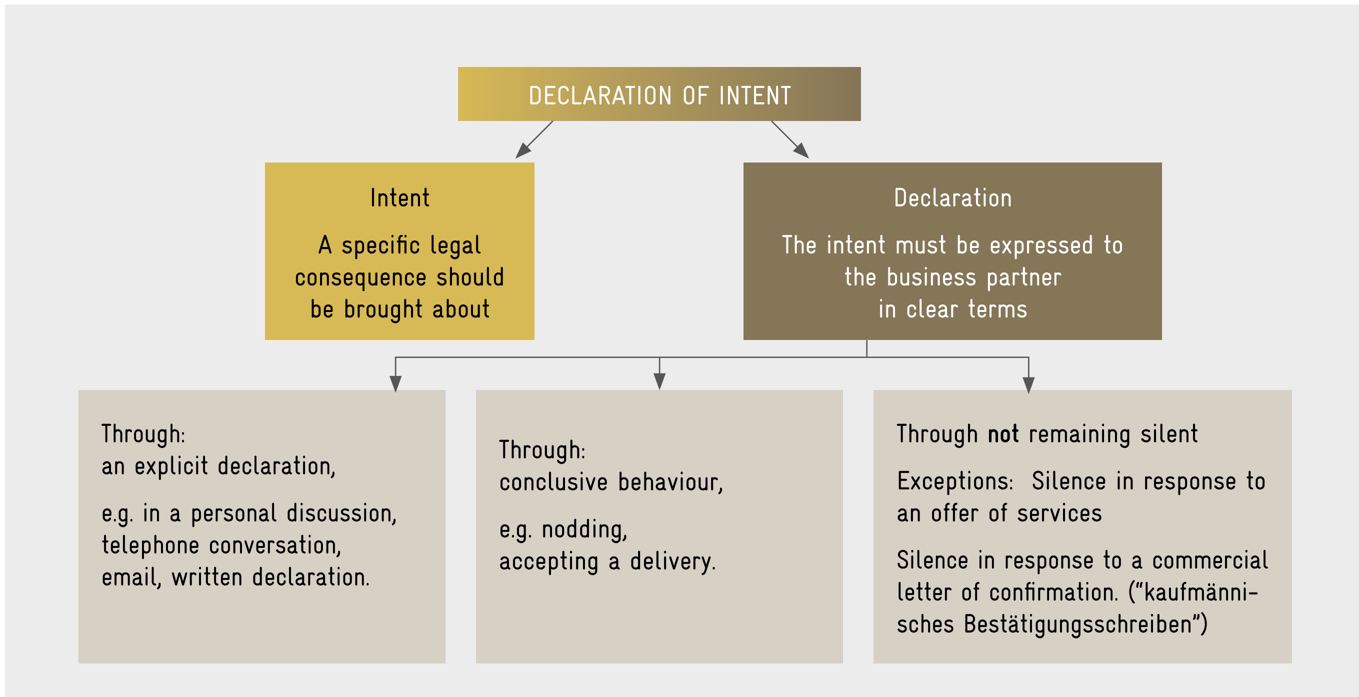

Figure 1: Declarations leading to conclusion of a contract

However, in business life, it is often the case that the parties must first determine the commercial details and legalities. Thus begins the negotiation ping-pong in which new contract offers are in turn submitted and rejected until a final version of the contract has been agreed. A contract comes into being when both parties have put a legally-binding signature to the negotiation outcome. The offer is commonly – in such a constellation, often by chance – submitted by the contractual party to put their signature to the agreement first.

> Whithout an explicit agreement, there is no period of validity.

Legal provisions

These contract conclusion constellations have in common that the legal bases are regulated by a multitude of legal provisions and, in individual cases, can be assembled like the pieces in a puzzle. Those involved in the negotiation of contracts must concern themselves with these legal bases. Here are just a few practical pointers.

Offers are binding. In principle, when an offer has been sent to the business partner, it can no longer be withdrawn. No binding time constraints apply for the duration of the contractual relationship. It depends on the circumstances of the individual case.

Only in the case of negotiations conducted in person or over the telephone does an offer made during these negotiations expire if it is not accepted immediately. So without an explicit agreement, there is no period of validity. If an offer is not accepted immediately in such a situation, the offeror (e.g. as the seller) is able to offer their product to other interested parties or to obtain supplies elsewhere as soon as the negotiations end.

- *Practical tip:* always set a time limit for the acceptance of an offer! This will ensure clarity. Both parties then know exactly what date the offer must be accepted by. Setting a time limit is also an advantage psychologically: it forces the offer's recipient to reach a decision. If a decision-maker lets a good offer go, they may get into trouble with their superiors.

Offers with no time limit for acceptance can only be accepted up to the point in time when the offeror may expect to receive a response – legally speaking, the acceptance – under ordinary circumstances. These "ordinary circumstances" must be defined separately in each individual case. The postage time (in both directions) in addition to reasonable consideration and processing times must be taken into account here. These can be relatively short for standard agreements and longer for more complex ones.

An offer expires if it is rejected by the recipient.

If the offer is accepted by the other party, a binding contract based on this offer comes into being. In practice, offers are not always accepted in time. They are only accepted when a binding deadline contained in an offer has expired or the offer has already expired according to the legal regulations. Legally, a contract based on the declarations made can then no longer come into being, as an expired offer is no longer valid and therefore also cannot be accepted any more. Delayed acceptance is not without significance nonetheless. It is considered a new offer that the original offeror is able to accept or reject.

It is often the case that a recipient modifies an offer. A contract therefore also does not come into being, as the contents of the offer and acceptance are not congruent. In such cases, the follow applies: acceptance with additions, restrictions or other modifications is deemed to be a rejection of the existing offer. The modified acceptance is itself considered a new offer, which can in turn be accepted or rejected by the original offeror.

In exceptional cases, a contract can also come into being if the offer submitted is not immediately accepted by the recipient. Cases in which the provider waives the need for a separate notification of acceptance or notification of acceptance is not customary are typical.

- *Example:* the buyer orders a product and requests immediate delivery. This is often the case when replacement parts are ordered.

The binding nature of an offer can be excluded. This can be achieved by including the wording "Offer subject to change" in the offer itself. This makes sense if there is any risk of problems with preliminary suppliers, internal bottlenecks could occur, questions relating to transport have not yet been answered or other customs matter still require clarification.

During contract negotiations, the possibility of concluding a contract subject to conditions should also be borne in mind. This makes sense if the contractual parties essentially agree on the business deal but implementation depends on approval from the authorities (e.g. issue of a building permit, export licence, etc.). If a condition set by a contractual party is frustrated, the condition is considered fulfilled. If a condition comes into question, it should be considered whether certain adjustment mechanisms need to be included in the contract for in case the condition can only be fulfilled later than expected.

Form requirements

In principle, no form requirements must be observed in the conclusion of contracts. An agreement reached verbally or even through conclusive behaviour – so a handshake, so to speak – is legally binding. Special regulations exist in the following cases: real estate purchase agreements and closely-related contracts in addition to the articles of association for a limited liability company (GmbH) require notarisation. Form requirements can also be established through an agreement between the parties. Agreement to the written form means that the contractual document must be signed by both parties in their own hand. If several identical documents are prepared, it is sufficient for each party to sign the document intended for the other party. Clauses relating to the written form are often used to ensure that contractual terms agreed in writing are not diluted by additional verbal agreements. If the parties agree to the electronic form, the documents must feature an electronic signature. Stringent requirements apply for this, which can currently only rarely be met. If form requirements are not reached, the contract becomes invalid.

- *Practical tip:* for reasons of proof, important contracts should always be agreed in writing. The adage applies that those who write remain.

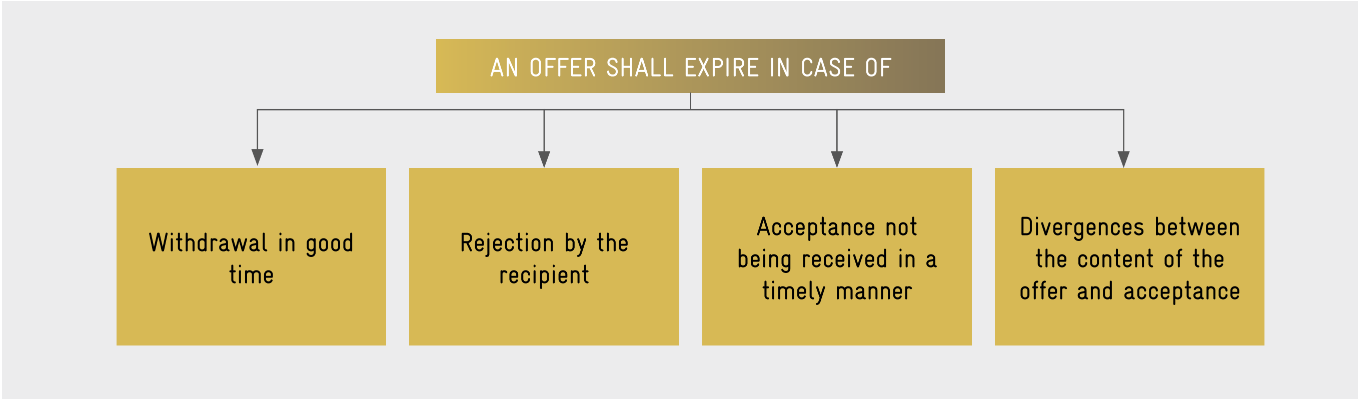

Figure 2: Expiry of the binding nature of an offer

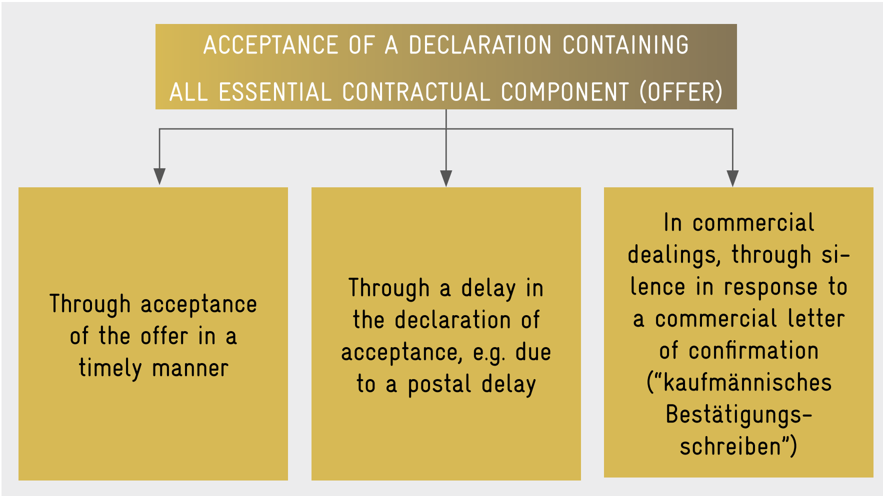

Figure 3: The conclusion of contracts

Contents of a contract

At the end of the negotiations, the outcome desired by both parties should be fixed in the form of a written agreement. This usually requires a significant amount of work. Negotiators are often not aware of this. Despite the costs involved, preparing the preliminary draft contract together with a competent and experienced lawyer is highly recommended. It is often the case that parties with less business experience present a contract in which many important paragraphs are incomplete. Once such a contract is up for discussion, it can be difficult to bring the draft back in line with the regulations. Negotiators are well advised to inform business partners from the outset that an agreement cannot be reached without the regulation of certain key aspects. It happens time and time again that it is not clear to business partners what actually requires regulation. The simplest way is to approach the problem from a project manager's perspective. Characteristic of a good contract is that it is comprehensible to all involved parties, all know what is meant with the wording used, and the mutual rights and obligations including technical details and payment terms have been arranged in full.

Use of the appropriate Incoterms 2010 regarding delivery is recommended for practical regulation of the delivery terms.

- *Note:* when drafting a contract, it should always be determined as a minimum standard who should deliver what when and where, and what supplementary documents must be appended to the contract.

General terms and conditions

In practice, it is standard procedure to incorporate terms and conditions into contracts to facilitate routine business activities and reduce the costs associated with drafting new contracts. Such clauses become an integral part of the contract if the user explicitly informs the other contractual party of these or displays a clearly visible notice indicating these at the place where the contract is entered into. The other contractual party must moreover have the opportunity to take notice of these in an acceptable manner. The inclusion of terms and conditions moreover requires the consent of both contractual parties. Note: in B2B business, a consensus must be reached on their inclusion. In international business, the terms and conditions should be included directly in the contract text or verifiably issued as an integral part of the contract.

To avoid any misuse and maintain a balance of powers, the German Civil Code (among other legislation) also regulates the (in)effectiveness of clauses.

Surprising clauses shall not form part of the contract. Clauses in general terms and conditions are ineffective if they unreasonably disadvantage the other contractual party and are contrary to the requirement of good faith.

- *Here are just a few examples:* the right of withdrawal of the other contractual party in the event of the breach of obligations of the user may not be excluded. The liability for gross negligence, intent or injury to persons also may not be excluded, similar to the liability for a material breach of contract.

If individual clauses are invalid, the statutory provisions shall apply

- *Practical tip:* those who regularly do business with contractual parties should ensure a sound legal basis for their contractual relationship with a framework agreement negotiated separately. It is possible to learn more about the partner's business processes during the con-

The typical contents of a supply contract are thus set and merely require modification according to the type of business (e.g. procurement of consumer or investment goods) and the individual particularities:

1. Who are the contractual parties? Who is authorised to represent the contractual parties? Verifiable proof?
2. What legal form do the contractual parties have? Is their existence documented? Does a tax number exist to confirm their identity?
3. What is the full company (postal) address?
4. What options exist for communication?
5. Description of the exact object of the agreement.
6. When and where should delivery be made?
7. How is ownership transferred? Has a retention of title been agreed? Does this also apply abroad?
8. Which clauses from the Incoterms 2010 can be used? Are all of the details covered by the Incoterms 2010 clauses? Can the resulting obligations also be implemented in practice?
9. Do reporting obligations exist?
10. Are licences, permits, etc. required for business?
11. Who is responsible for this?
12. What happens if the required authorisation is not granted?
13. What technical specifications exist for the products supplied?
14. Are there any rights to refuse services if it emerges that one of the parties is unable or unwilling to fulfil their contractual obligations?
15. What is the sale price? In what currency and where must it be paid? Is any discount available for prompt payment?
16. Are there services for which additional compensation is payable?
17. Is the packaging entirely regulated?
18. Who pays for the transport, packaging and taxes?
19. Can the respective contractual party fulfil the obligations imposed (e.g. tax regulations)?
20. How must payment be made? Have special methods of payment been agreed (documentary collection, documentary credit, bank payment obligation)?
21. When does risk transfer occur?
22. Who is responsible for organising transport?
23. How has it been defined whether the contractual products are in accordance with the contract? Are there technical standards for this?
24. Can the legislation of the importer or exporter be applied?
25. Are there any inspection or reporting obligations?
26. What are the consequences if products not in accordance with the contract are delivered?
27. Is there any risk that the rights of third parties might be violated?
28. Who is responsible for clarifying this (industrial property rights, copyright)?
29. How can potential product liability claims by third parties be avoided?
30. Can risks be covered by taking out insurance?
31. Who needs to take out insurance? Payment of costs? Who is the beneficiary?
32. In which cases are the contractual parties able to dissolve the contract?
33. Do the possibilities of price adjustment need to be regulated?
34. What are the legal consequences if defective products are delivered or if products are delivered late or not at all? To what extent are claims for compensation possible?
35. Are agreements on the limitation of liability, fixed fees for damage compensation or contractual penalties possible?

tract negotiations. This can also help to simplify daily operations.

Important details of cross-border business

Beside these fundamental questions, it is particularly important to clarify the question of which substantive law shall apply in cross-border agreements. This can be the law of one of the contractual parties or the regulations of a third country. The search for the applicable law is easier if both contractual parties are from a country in which the United Nations Convention on Contracts for the International Sale of Goods (CISG) applies. This is a unified law for the sale of goods, which is available in the languages of all member states. Germany is a signatory of the CISG.

It should also be considered what happens when the parties get into a dispute about contract fulfilment. Should this dispute be heard before a state court in Germany or abroad, or before an international court of arbitration? When answering this question, it must be checked carefully whether the decisions of the court agreed – whether a state court or court of arbitration – can also actually be enforced where the partner's assets are located. It is in fact possible to exclude undesirable courts through derogation with clauses on the place of jurisdiction or arbitration agreements.

SUMMARY

Business activities must be based on a sound contractual framework. The first step towards conclusion of a contract is the issue of a binding offer. A contract comes into being through the subsequent acceptance of this offer. Within this, the offer and acceptance must be congruent. Legal obligations can also arise during contract negotiations. A Letter of Intent (LoI) relating to the situation can help to ensure a sound basis during the negotiations. Offers are essentially binding. The duration of the binding nature of the contract depends on the circumstances of the individual case and is often unclear. Indicating a period of validity for the offer is therefore highly advisable. The offer must contain all essential contractual components. During drafting of the contract, the parties should be guided by the principles of project management. Characteristic of a good contract is that it seamlessly regulates who should do what when and where, and is self-explanatory for the respective readers. General terms and conditions can help to harmonise routine business activities. If long-term business relations arise between the partners, the conclusion of framework agreements may be appropriate to simplify daily operations.

This article is based on the practical experiences of its author. It serves as rough orientation and makes no claim to being complete. Before entering into business activities, obtaining legal advice from an experience lawyer is advisable. Particularly the drafting of cross-border agreements requires a great deal of care.

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- **German Civil Code**
- **Commercial Code**
- **United Nations Convention on Contracts for the International Sale of Goods (Vienna, 1980) (CISG)**

Business Plan

Today's business world is characterised by the removal of trade barriers, relocation of production to low-wage countries and interdependence of global trade and finance flows. In light of these factors, existing business models must continuously be reviewed and adapted to the changing framework conditions. Among others, the main drivers of new business models are digitalisation and new possibilities for networked communication. These developments are commonly referred to as the "Internet of Things". This means the linking of devices to the internet to enable these to communicate independently online and therefore take care of a whole host of tasks for the owner. Many factors influence whether a business model is ultimately a success or not. A business plan can be very helpful when it comes to identifying possible risks and making a realistic assessment of the business potential.

Business models, even existing ones, can change quickly in times of changing framework conditions. The company Uber for example offers an online portal for private transport services that is effectively squeezing out established taxi businesses. Another example is AirBnB. This online enterprise offers accommodation in more than 191 countries from local hosts and so successfully competes with classic hotels. However, such changes also always mean opportunities. Successful business management in a turbulent environment requires a team not only with a high willingness to adapt but also with clear ideas when it comes to the enterprise's goals and the means required to achieve these.

In these cases, a business plan serves to demonstrate opportunities for future success. These are based on a precise evaluation of the market and meticulous planning of entrepreneurial activities.

On the one hand, drafting a business plan forces business management to provide a clear overview of their visions and goals. On the other, it enables presentation of the opportunities and risks of the envisaged business strategy to interested business partners. It moreover creates transparency with regard to solutions for the fulfilment of genuine customer needs and thus fosters trust in the company. Coupled with good management practices, the business plan forms the basis of a sustainable business concept.

Thus it also gains the status of an acquisition and negotiation document. The layout, form and content of the business plan are decisive to the opportunities available to the future company.

> The layout, form and content of the business plan are decisive to the opportunities available to the future company.

The functions of a business plan

Also known as a corporate development plan or business concept, a business plan reflects the strategic starting situation and future of a firm or business division.

It enables simple communication between national and international business partners when it comes to presenting business ideas and the anticipated prospects of success. In the cooperation with international partners, this tool can be used bilaterally and so forms the basis of every successful cooperation. The business plan essentially assesses the innovative power, commercialisation prospects and anticipated economic success of a business idea. Because the external conditions are constantly changing, the business plan must also continuously be adjusted to the prevailing conditions.

The layout of the business plan and above all the amount of detail primarily depend on the capital requirements and the stage in the negotiations with the respective partner. Those wishing to convince a potential investor such as a bank of a business idea should be aware that the latter often provide a business plan template for download. In this document, the criteria are set out in the manner required by the institution in question to be able to make an investment decision.

Preparation of the business plan forces the author to think their concept through in full and to present it in a logical and precise manner. This alone can prevent a costly trial and error approach. At the same time, it provides an opportunity to resolve any problems identified by adjusting the concept accordingly to ensure successful implementation.

For the future business partner or investor, the advantage of a business plan is the compact summary containing all relevant information. The structure, which is often similar, allows different projects to be compared and at least a preliminary selection to rapidly be made from among competing business plans.

Drafting a business plan

Securing financing is the most common goal pursued with a business plan. Within this, it is of no consequence whether a new company is being established or an existing one expanded. Regardless of the goal, one important basic requirement is the collation of relevant information. This is first used to develop a rough concept as

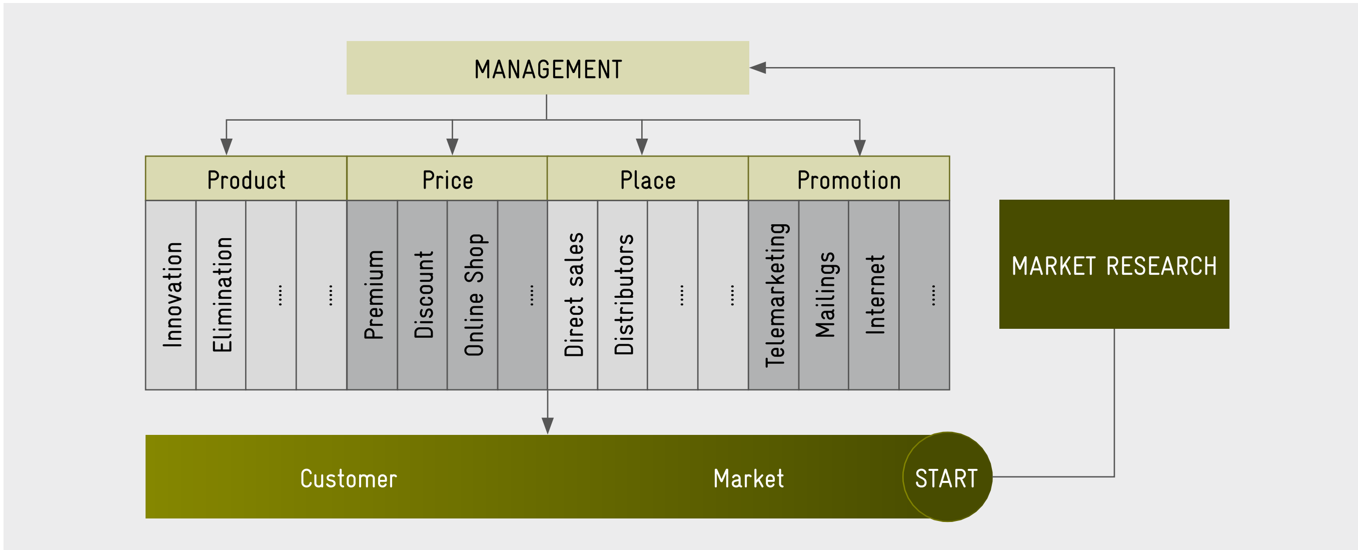


Figure 1: The business plan cycle

a preliminary step in development of the business plan, which changes repeatedly during the preparation phase until a good conceptual basis for preparation of the actual plan has been determined. This includes documents prepared internally, such as balance sheets, plans and contracts, as well as information obtained externally, such as market information from chambers of commerce, banks, consultants, business partners and trade fairs.
This approach is also referred to as the business plan cycle, as product and market information is first needed to prepare a business plan and must be updated continuously (Figure 1).

During the preliminary phase, the business plan serves to structure, plan and control in order to convince business partners and foster long-term business relations. Preparation of a business plan is mandatory during establishment of a company – at least it is if capital or a loan is required. The business plan forms the basis for the preliminary negotiations with investors, banks, leasing companies, venture capital enterprises, business partners, etc. If capital does not need to be raised, preparing a business plan can still be a good opportunity to review the business idea and identify any weaknesses (e.g. in the market situation).

> Preparation of a business plan is mandatory during establishment of a company.

If a firm is planning to expand, the benefits of this investment must be presented – similar to when a new company is to be established. A business plan is often required for larger building projects and investments in new production facilities. It can also be used during entry into new markets; company mergers; the sale or acquisition of enterprises; restructuring, reorganisation and rationalisation measures but also for loan, lease, investment and project financing; the acquisition of major customers; recruitment of top managers and to inform shareholders.

As previously mentioned, the content of a business plan depends greatly on the reason for its preparation. Possible questions and challenges can be answered systematically through preparation of a business plan. Detailed presentation of the planned procedure therefore also serves to inform all stakeholders. It should be noted here that a business plan often forms part of a project charter and is therefore also an important element of project management.

The layout and contents of a business plan

International business plans follow a uniform structure. Depending on the purpose, a business plan can be between ten and 200 pages in length. Particularly start-up platforms provide detailed information and offer lengthy checklists and tools. The English charity, the Prince's Trust, provides a good overview, for example. The Kreditanstalt für Wiederaufbau (KfW) development bank and German Federal Ministry for Economic Affairs and Energy (BMWi) also operate start-up portals. Key features of a business plan include:

1. Executive/management summary
2. Company history
3. Business idea
4. Product and innovation
5. Market and competition
6. Location and legal form
7. Current economic situation
8. Planned company development
9. Management, personnel and financial planning
10. Capital requirements and use of funds
11. Anticipated profit and loss statement, balance sheet
12. Concluding remarks

Some of the above points (e.g. product/innovation, market/competition and location/legal form) are discussed individually in greater depth in other sections, hence we shall concentrate on other aspects here. One of the most important components is the executive/management summary. This involves summarising the business plan over a maximum of two to three pages to give readers a first impression of the firm. The business plan objective and key figures should be presented in a concise manner. Potential investors read this section of the business plan first – allowing them to make a preliminary evaluation and assessment. It is therefore crucial for this section to be optically appealing, for texts to be elegantly crafted and for content to be presented in an interesting manner. If the summary appeals to the reader (e.g. investor, business partner, bank), the business plan often will not be reviewed any further.

The business idea on which all planning builds forms the basis of the business plan. Making it all the more important to at least attempt to answer the following questions when developing the business idea. What customer need will be met? How does the market look and who are the competitors? Can money be earned with the business idea? If so, how? Information should be provided on the market, planned geographic region, business operations and product/product group, and analyses prepared on the market size and competitors.

The right time to prepare the business plan and the starting point for the planned investment also depends on the overall prevailing economic and political situation. Should this change, the business plan will need to be adjusted to the new framework conditions. One example from recent years is the Russian market. With the imposition of economic sanctions, the bases for countless business plans had to be changed virtually overnight. Existing business models had to be completely revised and adjusted to the new situation. This is necessary to better be able to gauge the risk for investments.

A business idea's potential is particularly measured according to the potential for scaling, so the potential positive business development. In other words, a description of how quickly new customers can be gained and markets accessed, and how rapidly growth can be achieved in this way. This should not be confused with the presentation of unrealistic goals, but rather build on a company strategy developed meticulously whose viability has also been reviewed.

Breaking the strategic goals down into short, medium and long-term goals is recommended here. Short-term activities take six to twelve months to complete, medium-term activities up to 24 months, and long-term activities up to 60 months or more. While the selection of business, growth, innovation and use of resources are considered within the medium-term planning, the amortisation of investments forms the focus within the long-term planning. Figure 2 shows a sample review of the return on investment (ROI) to achieve the break-even point, which is defined as the point at which a company's earnings are equal to its outgoings. From this point on, the enterprise makes a profit. As a rule, this should be the case within five to seven years for a start-up. The break-even after release is defined as the time from introduction of the product to the time of making a profit (achievement of the break-even point).

A similar consideration is particularly necessary in case of larger investments. Within this, it is important to bear the overall costs in mind when calculating the investment's amortisation. Beside the procurement costs, all aspects of subsequent usage (such as energy costs, repair and maintenance) should be taken into account. This method of calculation is referred to as the total cost of ownership.

The business model canvas

The business model canvas has become an important element in the preparation of a business plan to visualise the business model, then test whether it makes business sense. It was developed by Alexander Osterwalder during an open innovation project involving experts from universities, research institutions, start-ups and businesses.

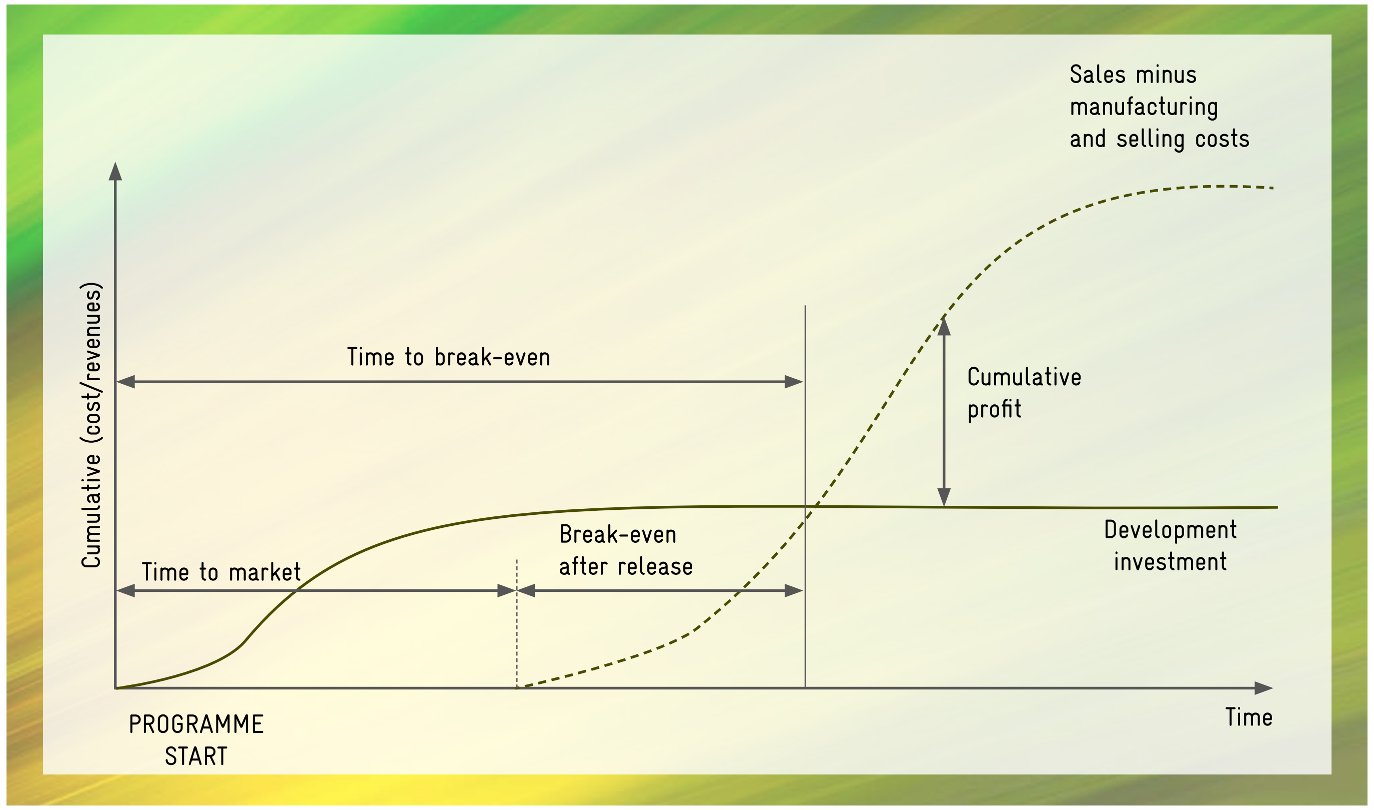


Figure 2: "Return on Investment" map

> The business model canvas undoubtedly is an excellent opportunity to develop a business plan together.

Many experts believe that the business model canvas will one day supplant the outdated business plan entirely. The author of this article does not agree. The business model canvas undoubtedly is an excellent opportunity to develop a business plan together and to present it on one single page in a compact, clear format using keywords. However, it cannot possibly replace a detailed business plan in which the points listed in the canvas are explained in greater depth and underpinned with facts and figures.

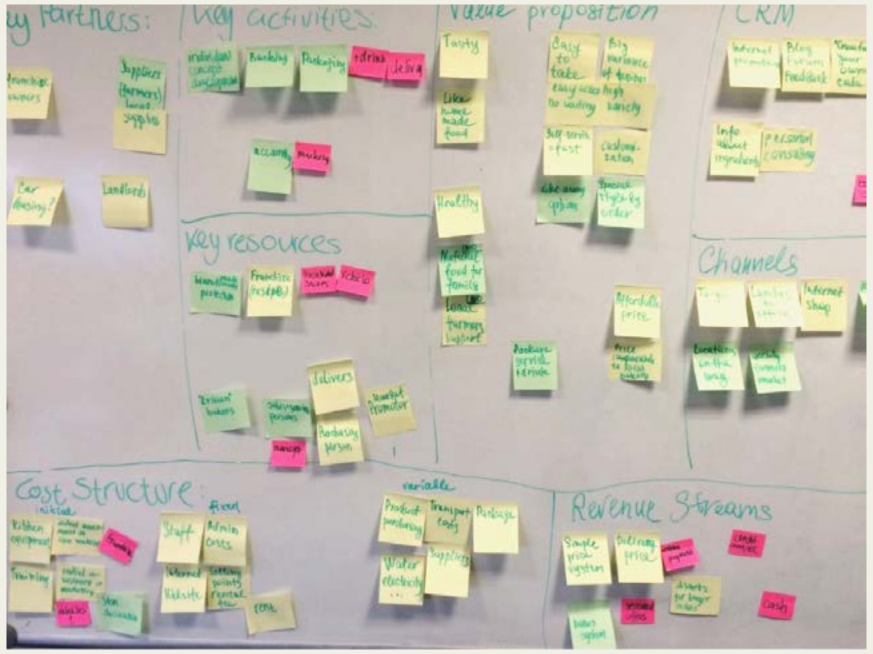
The business model canvas comprises nine categories within which the four aspects of value, customers, infrastructure and finances are in turn considered.

- **Customer segments:** the target group for the product or service – so the individuals for whom the offer will create value. This being said, the user does not necessarily have to at the same time be the customer.
- **Value propositions:** the customer's problem that the product or service solves; the customer need that is satisfied.
- **Channels:** the different channels for interaction with the customer, e.g. during the marketing, sales, performance, delivery and after-sales processes.
- **Customer relationships:** the structuring of customer relations, particularly with regard to customer acquisition and retention and development of the relationship. This ranges from individual to highly automated, intensive to sporadic.
- **Revenue streams:** the revenue generated by the product or service offer (value propositions) and pricing model. It is often possible to earn money from a value proposition in different ways (e.g. one-off payment vs. subscription)
- **Key resources:** the core personnel, material and financial resources needed to fulfil the value propositions.

- **Key activities:** the main tasks required for implementation of the business model.
- **Key partnerships:** the most important partnerships with non-competitors, suppliers, manufacturers and/or service providers necessary for risk minimisation and scaling.
- **Cost structure:** costs for resources, activities and partners, i.e. expenses without which the business model would not work.

Figure 3 shows a practical example in which Post-its have been stuck in each field. This approach can be useful, as the sticky notes can rapidly be (re)moved. During the presentation of business models, the business model can in turn be developed and visualised systematically step by step using Post-its.

In international cooperations, particularly the field of key partnerships is important, as the products and services can be positioned on the German market and in the partner country with these partners. The aim is moreover to analyse the key resources precisely and to develop these further. Employees familiar with the language spoken in the target country must be involved here to take care of communication with the partners. An expert for customs and export matters should also be consulted. These points must be described in the detailed business plan.



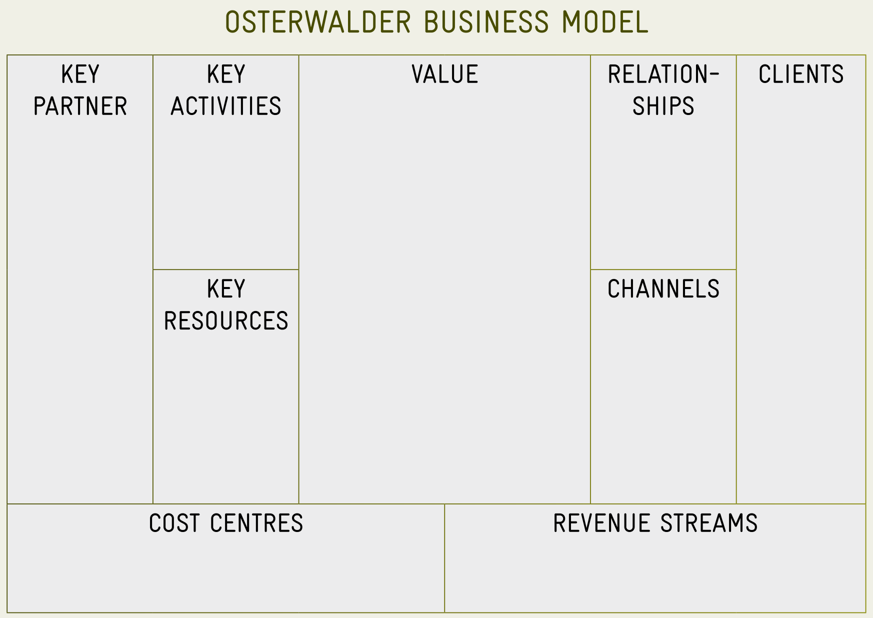


Figure 3: The business model canvas – a practical example

Checklist:
Preparing a business plan

- ☑ 1. Clarify the business idea (2–3 days). The business model canvas can form the basis here. Use the model intensively and involve colleagues, employees and friends. Describe the individual areas in detail.
- ☑ 2. Prepare a detailed business plan (1 week–3 months). Use the structure from the section on the layout and content of a business plan and fill this with information.
- ☑ 3. Focus on the executive summary and explain your business model. Strive to convince potential investors.
- ☑ 4. In particular, bear in mind that German decision-makers are very interested in the details. In-depth analyses and figures are therefore required.
- ☑ 5. Prepare a presentation about your business plan in which you explain it to other people. You should be able to explain your business model in 60 seconds and to convince your listeners (elevator pitch). The most important key statements must be identified for this.
- ☑ 6. Implement your business plan and use it as a controlling tool. Deduce key performance indicators (KPIs) for strategic management from the business plan. Adjust these continuously to the changing framework conditions (market, political factors, etc.).
- ☑ 7. When implementing your goals, be sure to make optimal use of resources (finances, personnel) and to adhere to clearly-defined milestones.

Practical examples

A business "idea" becomes an innovation when it is a success on the market. It is therefore important to consider the benefits to the customer, analyse the market environment and determine the competitive situation. The business idea must be viable and its prospects of lasting success outlined in detail. Whether a business idea will actually be a success or not remains to be seen.

Particularly German enterprises tend to focus too much on technology and to neglect marketing of this technology. While they often put a great deal of effort into research and development projects, in many cases the drafting of a business plan based on in-depth market research is considered less of a priority.

Indeed, it often isn't the (first-to-market) innovators who are the market winners, but rather companies that position a follow-up product on the market at a later date. These enterprises are referred to as "followers". To give an example: Lotus developed the first spreadsheet program and was consequently the first company on the market. However, Microsoft then took this idea and, based on Lotus' experiences, consistently developed its own product further to today become the global leader with its Excel program.

Another example is the introduction of disposable nappies onto the US market in the early 1960s by Chux. At the time, most mothers used cloth nappies and disposable alternatives were considered harmful to infants. The company subsequently went bankrupt. In the late 1960s, Proctor & Gamble (as a "follower") positioned the Pampers brand on the market and is today the global leader for this product. By this time, a cultural shift had taken place and disposable nappies were accepted by mothers as a quick and clean solution for infant hygiene.

Bosch shows that innovators can actually also successfully market inventions. Driven by his inventor spirit, Robert Bosch established a workshop for precision technology and electrical engineering in 1887. With invention of the first spark plugs, he laid the foundation stone for the present-day global enterprise. Another example is the MP3 player technology. Developed by Karlheinz Brandenburg at the Fraunhofer Institute in Erlangen, it was first brought onto the market in 1998 by American and Japanese enterprises. Thanks to a business plan with a well-conceived licensing model and patent strategy, licence revenue in the millions is generated for the Fraunhofer Society every year.

One example of a successful business plan is that of the business start-up 'Filtration'. For confidentiality reasons, a pseudonym is used here, as the publication of information on the actual company and business plan is not permitted. The start-up developed an innovative water filter system and received awards, start-up grants and funding for the first three years in 2014. Funding totalling approx. €2 million was granted on the basis of a business plan whose development was as follows: after a three-month phase during which the preliminary draft was prepared, the review process then took around two months. The business plan was structured according to the framework discussed in the above section on the layout and contents of a business plan and the detailed description of all points. In total, the complete business plan was around 120 pages in length, whereby special emphasis was placed on the management summary. The outcome: the information provided in the business plan was decisive to capital successfully being raised.

The business plan of a medium-sized software enterprise active in the field of ERP systems constitutes another good example. In 2013, the company set itself the goal of developing a business plan for the Russian market. In-depth market research was subsequently conducted and discussions held with potential partner businesses in Russia. However, in July 2014, the European Union imposed sanctions against Russia. The company had to change its strategy and instead address other markets as a consequence. The focus was then shifted to other developing countries such as India, Vietnam and Brazil instead. A lot of the data and experience from the existing business plan prepared for the Russian market could be applied directly to the other countries. Structured consideration of all of the areas listed above formed the basis.

The above examples show that many factors influence whether a business model is ultimately a success or not. A business plan can be very helpful when it comes to identifying possible risks and making a realistic assessment of the business potential.

CONCLUSION AND RECOMMENDATIONS

Drafting a business plan requires good preparation and a great deal of energy. It is a "plan" for which the "right" moment must be found for implementation. It must continuously be adjusted to the changing framework conditions. The requirements and capabilities to prepare "good" business plans will become ever more important in the coming years. One key factor in this are the new business models arising from digitalisation. Or, to put it another way, the potential for innovation in products, processes and services must be underpinned with business plans.

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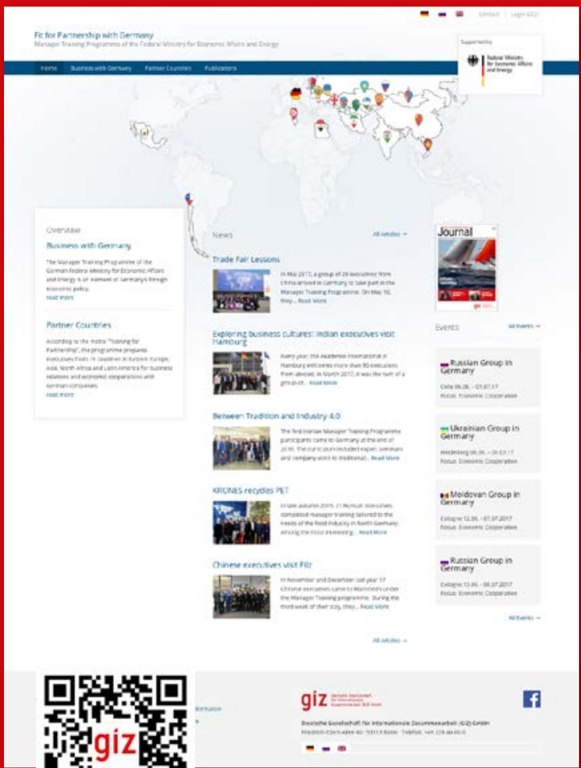
▶ **Business start-up portal of the BMWi**

▶ **Prince's Trust**

The Manager Training Programme of the German Federal Ministry for Economic Affairs and Energy on the Internet:

Lots of information at a glance for participants or anyone interested in the Programme!

www.managerprogramme.com



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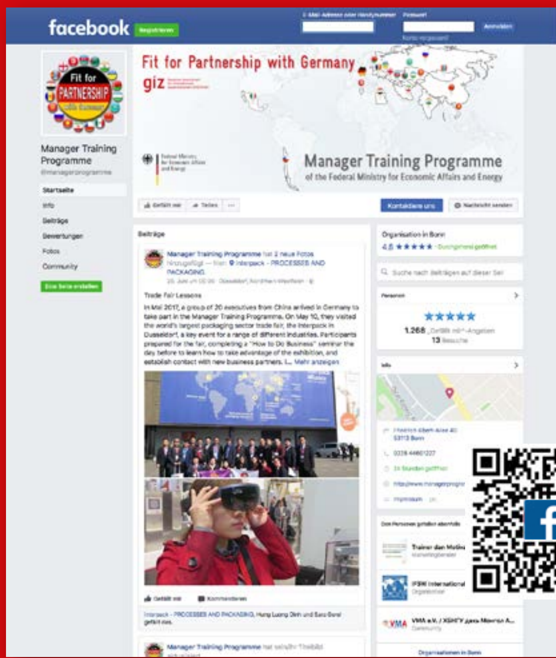

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