
Business Administration

Peter Thuis & Rienk Stuive

First Edition



 Noordhoff Uitgevers

Business Administration

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Business Administration

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Cover design: G2K Designers, Groningen/Amsterdam

Cover illustration: Ebel Kuipers, Sappemeer

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ISBN (ebook) 978 90 01 84932 0

ISBN 978 90 01 80976 8

NUR 802

Foreword

Business Administration teaches the student to look at things from a business administration point of view and provides a toolbox with which business administration problems can be seen in context and solved. This book is not only appropriate for Bachelor's/Master's *Business Administration* students, but for all students pursuing an economics or technical education who want to become familiar with what business administration actually is.

This book gives an overview of, and an approach to, the entire firm (i.e. in its totality) and puts the student in a position to comprehend every part within that whole, and then from this perspective to arrive at solutions. The book at the same time devotes attention to the *language* of business administration: learning (new) concepts and then using them is the proper way to prospect this field. At the end of every chapter the student learns how to apply the concepts and theories in a short case study.

The book consists of three parts, which provide answers to the following questions:

- 1 What is a business?
- 2 How does a business work?
- 3 How does a business administration professional work?

In addition to providing many examples of application and real-life practice, the book has a sound yet accessible theoretical basis. The examples it provides will be grouped into the following recurring categories:



- From practice
- Business administration successes
- Business administration blunders
- Key performance indicators
- Socially responsible ventures
- Business administration in perspective: influences of business administration thinkers and intellectual trends

Naturally there is an extensive website associated with this book, where in addition to the usual practice and presentation material you will find tests with feedback and study advice (www.businessadministration.noordhoff.nl).

We hope that both lecturers and students will have as much fun in reading this book as the undersigned had in writing it. We thank our business administration colleague Hans van der Kolk of Utrecht University of Applied Science for his valuable suggestions as we were writing it.

Business Administration – what other kind do you need to know?

April 2012
Peter Thuis MSc, Sittard
Rienk Stuive MA, Bergen

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Introduction

This is a book about business administration and the practitioners who master and apply this knowledge. In Chapter 1 we will see that we can define business administration as follows: business administration is the branch of science that deals with the organisation of and the context around businesses. Business administration encompasses a total (i.e. all-inclusive), multi- and interdisciplinary approach wherein attention is devoted in a scientific manner to practice-oriented questions within businesses.

This book tries to follow that all-inclusive, broad approach. In Part 1, entitled What is a business?, we explain what business administration is and businesses are, by explaining in Chapter 1 (The business and business administration) what business administration is and what a practitioner does. Business administration owes its existence to businesses, so that in Part 1 we also explain what businesses are and how they basically function. We do this by dwelling in Chapter 2, entitled Primary activities in businesses, on the most important (so-called 'primary') processes in businesses, such as sports clothing manufacture or the lending of money, and in Chapter 3 (Support activities in businesses) by depicting how businesses arrange support for those most-important processes. Here we can think of creating advertising for those primary activities or recruiting suitable personnel to enable them to be carried out.

In this way, Chapters 2 and 3 set out what a business is. In Part 2 (How does a business work?) we further develop the functioning of a business in Chapters 4 to 8. In Chapter 4, entitled Contextual awareness, we explain just what makes up that context. In Chapter 5 (Strategic management for the business) we show how the business reacts to that context by means of so-called strategic management. Through such strategic management the business is



guided in its general direction (What will we produce for which market?). But in any firm many more guidance and regulation processes are to be found, for example financial administration. This administration is clarified in Chapter 6 (Administration of management processes). When people within the firm know how they want to administer what goes on there, those activities must also be organised: agreements are made as to who does what, who fulfils which function, which functionaries are best suited to working together in a given department. This organisation of a business is explained in Chapter 7 (Organising business processes). How people behave within businesses, and how that behaviour can be influenced, is explored in Chapter 8 (Behaviour in businesses).

Once we are clear about how businesses function, we can then consider, in Part 3 (How does a business administration professional work?), the practice of the business administration profession. We do this by dwelling upon the work of a business administration professional in Chapter 9 and his business administration methods and techniques in Chapter 10. All of this is portrayed schematically in the overview below.

Part 1

What is a business?

-
- 1 The business and business administration
 - 2 Primary activities in businesses
 - 3 Support activities in businesses

Part 2

How does a business work?

-
- 4 Exploring the business environment
 - 5 Strategic management for the business
 - 6 Planning and control of business processes
 - 7 Business processes engineering
 - 8 Organisational behaviour

Part 3

How does a business administration professional work?

-
- 9 The business administration professional
 - 10 Business administration methods and techniques
-



1

What is a business?

- 1 The business and business administration** 19
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This book describes from a business administration perspective what a business is, how a business works and what the role of a business administration professional is in a business. In the first, introductory chapter the concepts of business, business administration and business administration professional are introduced. In the remainder of the book those concepts will be considerably expanded.

In Chapters 2 and 3 of this part we will explain how primary and support activities take place in businesses. These processes together determine to a great extent how the business operates.

In the second part of this book we will zoom in on specific business processes and further differentiate the primary and support activities identified in Part 1.



1

The business and business administration

Daily we have contact with many businesses. We wake up in a bed from Ikea, to the ringing of an alarm clock from Philips, snug under a quilt the name of whose producer we don't even know. We get washed in a bathroom from Villeroy & Boch, using water from a local water utility. We check our mail on a BlackBerry from Research in Motion via Vodaphone, while eating cornflakes from Kellogg's. Perched upon a bicycle or scooter or seated within a car from one business or another, we then hit the road, to be confronted for the rest of the day with hundreds of other businesses that deliver all sorts of goods and services to us, from those selling cable subscriptions and newspapers to the dentist and the notary public. And here we are not even mentioning the businesses which we do not yet make use of, but which throughout our day insist to us via advertising that we really cannot do without them.

In this chapter we set out what a business is. Then we deal with the body of knowledge known as business administration. The chapter is then closed out with a selection on management professions and the competencies involved with each.

1.1 The business

The study of business administration concentrates on businesses. But what precisely *is* a business? When do you speak of a business? And what different sorts of businesses are there? First we explain the difference between the concepts 'organisation', 'business' and 'enterprise'. Then we lay out a simplified picture of a business's operations, as an introduction to the subject.

1.1.1 Organisation, business and enterprise

Coca-Cola, The London Stock Exchange, Nike, Air France KLM, Apple, Amnesty International, the shop next door, a criminal organisation and a choir. We encounter organisations and businesses in all shapes and sizes. These organisations and businesses work in various ways, are set up in various ways. You may well aspire to work in one, while not in another. People work there for various reasons. It is thus important to differentiate the varying types from each other, because this determines which theories apply in which cases. For example, in a criminal organisation there is usually a clear boss and command structure, while in a hobby club leadership is rather less emphasized. The boss of Coca-Cola can earn handsomely, while at Amnesty that is not appropriate, for donors would disapprove. Following this sub-section we will attempt to apply a ranking to organisations and businesses.

*organisation
business*

The concepts organisation, business and enterprise are related, but signify different things, as we are about to make clear.

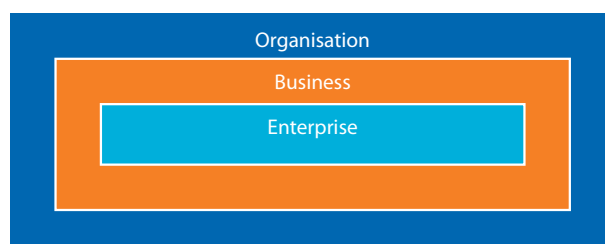
An organisation is an instance of human cooperation with a specific purpose and the intention to be permanent. Organisations which produce goods and/or services or engage in trade with the intention of putting these on the market for sale we call businesses (alternatively: companies or firms). We distinguish between businesses intending to make a profit and those not:

- *Non-profit businesses (also termed non-profit institutions)*. These attempt to deliver goods and/or services for general use at the lowest possible cost. A hospital, a city transportation authority and a water utility are examples of non-profit businesses.
- *For-profit businesses (enterprises)*. That means that they realise a return on their products and/or services, which are a result of their own efforts, that is higher than the costs of making and delivering them. They try to earn money from them – this with the intention of making that profit available to the business owner as reward for his investment in the business. Examples of for-profit businesses are Volvo, Unilever and Sony, but there are also small and medium-sized for-profit businesses, such as the sweet shop on the corner.

*non-profit
businesses*

*for-profit
businesses*

FIGURE 1.1 The relationship between the concepts 'organisation', 'business' and 'enterprise'



In Figure 1.1 the relationship between the concepts organisation, business and enterprise is depicted graphically. From the material that has been presented, it turns out that not every organisation is a business. An organisation is only a business if it produces goods or services. Also, it turns out that not every business is an enterprise. This last term actually applies only to businesses which are out to make a profit.

1.1.2 Businesses are organisations

As well as producing goods, delivering services and/or engaging in trade, a business is at its core an organisation. You can also view a business as an instance of human cooperation with a specific purpose and the intention to be permanent. This description comprises four important characteristics, and it is important to go into each more deeply since it is these that define what organisations are all about:

- 1 There are people in the organisation;
- 2 There is cooperation in the organisation;
- 3 There is a purpose to the organisation;
- 4 There is continuity in the organisation.

Item 1: There are people in the organisation

We study organisations and businesses in this book in which people are active. Strictly speaking, a pack of wolves or a herd of elephants is also an organisation in which there is cooperation in order to survive. Businesses are about people.

Item 2: There is cooperation in the organisation

The fact that people in businesses need to cooperate with each other as well and as skilfully as possible is one of the most interesting challenges for business administration. Man first began to work together with others because experience had taught him that in a cooperative arrangement you could accomplish more than individually.

synergy effect

Cooperation is worthwhile because then the so-called synergy effect can appear. This means that the result from the total cooperative arrangement is greater than the sum of the results from the individual performances. One example of the synergy effect is to be seen in a construction business that is building flats. Hundreds of employees of a construction business work together to make blocks of flats. If anyone tried to make his own block of flats all by himself, it would be unlikely to happen very quickly, even if he were a true jack of all trades.

If the construction crew work together in an organised manner, such as happens in any modern construction business, then production can amount to several complete, sellable blocks of flats per year. It is the same story with a football team, an army, a newspaper, a school and social media such as Twitter, LinkedIn and Facebook.



Cooperation makes the construction of a block of flats possible: the synergy effect

Item 3: There is a purpose to the organisation

An organisation is always founded with a certain purpose. The purpose of Coca-Cola is the production of various drinks, for as large a consuming public as possible, against as low as possible costs. At the firm Research in Motion, which makes BlackBerrys, the purpose is the gaining of profit from the production of smartphones that as much as possible address and satisfy a communication need.

Organisational purposes can change, but in order to preserve unity within the business there should always be one or more common purposes. If this were not the case, any sense of direction would be missing; everyone would work towards their own goals (and run around like chickens with their heads cut off).

Source: www.entrepreneur.com, by Brad Sugars, February 12, 2010

BUSINESS ADMINISTRATION ↑ ↓
 BLUNDER / SUCCESS

10 Tips for a Strong Start



Make sure you have a clear vision and plan – and that you stick to them.

In the majority of cases, start-up success or failure is all about knowing the both the how and the why of taking action, and always being clear about which steps to take next.

To help this process, here are 10 essential things you need to know about running a successful business.

- 1 Offer what people want to buy, not just what you want to sell.** Too often, people jump into a business built around a product or service they think will be successful, rather than one that is already proven to have a market.

2 Get cash flowing ASAP. Cash flow is the lifeblood of business, and is absolutely essential to feed bottom-line profits. So you need to find ways to jump start cash flow immediately.

3 Always find new ways to keep costs low. All the cash flow in the world is worthless if it's not positive cash flow, which means you have to bring in more cash than you pay out.

4 When planning, always overestimate expenses and underestimate revenues. I was trained as an accountant, so the numbers side of business is part of my entrepreneurial DNA, and was also a big part of my early business education.

5 Focus on sales and marketing manically. In business, nothing happens until a sale is made. From the jump, you'll need to find a good way to get leads, convert leads into sales, and make sure you keep getting repeat sales from your customers.

6 Find ways to exponentially increase profits. In business, there are five drivers that impact profits. If you can master them while keeping your costs in check, you will run a successful business.

7 Test and measure everything. You can't change what you don't measure, and you can't tell if a program or strategy is working if you are not faithfully testing, measuring and tracking your results.

8 Accept that learning more equals earning more. If you've never run a million dollar business, you don't know how to start a business--simple as that. But you can learn to run one, even if it is your million dollar business you are building from the ground up.

9 Don't discount, add value. Whenever you discount, you are taking money directly out of your pocket and directly from your bottom-line profit. So don't do it. Instead, create added value propositions all the way up and down your product or service line.

10 Get a coach. Even if you don't get a business coach at first to help you and guide you in your planning and operation, get someone who is objective and outside of your business you can rely on for nitty gritty business advice and to hold you accountable to getting results.

Item 4: There is continuity in the organisation

A fourth important characteristic of a business is its continuous nature. Under normal conditions its members strive to keep it going. An enterprise continues to invest in order to continue existing in the future. In some situations a business can be dissolved if the purpose to which it was oriented has been definitively attained. For example, the business that runs a world-championship football tournament can be dissolved after the final match is played.

going-concern assumption

But business administration usually involves the so-called going-concern assumption. That is: when you make management decisions, you assume the continuity of the firm (disregarding any change of ownership of the business after a takeover). Because that matters. If you no longer assume continuity of the firm, for example when bankruptcy beckons, then it can make (management/economic) sense to sell machines and sack people, whereas in a business that continues to exist such an option will quickly turn out to be one that has negative consequences.



internal main objective

external main objective

The majority of business administration thus has to do with organising businesses that (for now) continue to exist.

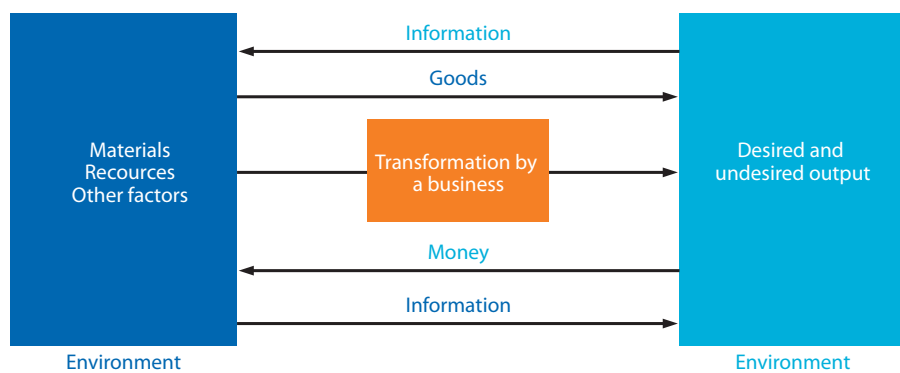
That is why within business administration the internal main objective for businesses is the continued existence of the firm. The external main objective of businesses is providing for a (societal) need.

1.1.3 The simple operation of a business

In this book dealing with businesses and business administration we concentrate mainly on businesses. We realise at the same time that the theories we provide are often applicable to other organisations as well. And we assume that we are mainly dealing with profit-oriented businesses (thus, with enterprises), but usually choose to use the word 'businesses'.

Businesses are established with a distinct purpose. In order to realise that purpose, input must be changed into output. So you could describe the transformation process of a coffee-maker as follows: coffee grounds, water, a filter and sufficient electricity lead – if all goes well – to a pot of hot coffee. A similar schema can be applied to any business. This is called the transformation process. In Figure 1.2 this process is depicted schematically.

FIGURE 1.2 The transformation process in a business



FROM PRACTICE



The transformation process at a driving school

Let us take the example of a service organisation: a driving school. At this driving school you can distinguish the following elements of input:

- Materials (in this case instructional vehicles, fuel, books of traffic rules, maybe a classroom or a separate training area);
- Resources (human labour: instructors; capital: starting capital and the like; information: prices and client wishes, explanations);
- Other factors, such as law codes (for employment conditions), other highway users and the weather.

At the driving school these inputs are transformed into:

- Desired output (driving licences for the customers);
- Undesired, but often unavoidable, output (driving licences refused for failed candidates; rubbish: pollution from the exhaust of the instructional vehicles).

KEY PERFORMANCE INDICATORS



Source: Thuis and Mulders, 2008

Net profit margin

Business administration case: Financiers invest in an enterprise in order to come out of the affair financially better off. If we look at the (net) profit, how can we determine to what degree this is a satisfactory number for e.g. the investors, in comparison with the competition?

Description: The net profit margin gives the measure of how much profit you retain from revenue.

Calculation:

$$\text{Net profit margin} = \frac{\text{Net profit}}{\text{Revenue}} \times 100\%$$

(The profit and loss statement shown here is only illustrative; in Section 6.5.4 it is explained in detail.)

Example: We provide the following profit and loss statement from an international enterprise which pays its taxes in the Netherlands.

Simplified profit and loss statement over 2008, × €1,000

Net revenue	2,000
Costs of revenue (including purchases to the value of € 1,000)	1,400 –
Gross revenue result	600
Other operational costs	
– Sales costs	200
– General administrative costs (including depreciation of assets 80)	100 +
	300 –
Commercial result	300
Exceptional gains and losses	0 +
Profit before interest and tax (gross profit)	300
Interest	40 –
Profit before tax	260
Tax (25.5%, 2012 level)	66 –
Net profit	194

(The profit and loss statement shown here is only illustrative; in Section 6.5.4 it is explained in detail.)

$$\text{Net profit margin} = 194 / 2,000 \times 100\% = 9,7\%$$

We now explain further the following components of the formula:

Net profit

When a business has paid all payments to suppliers and salaries, has paid the interest on loans as well as tax, etc., it ultimately retains – if things have gone well – an amount under the line at the bottom. This end result we call the net profit.

Revenue

The revenue has to do with everything that has been sold (unit × price); this stands at the very top of the profit and loss statement.

black box approach

In the transformation process just described, which is rendered schematically in Figure 1.2, there is no indication *how* input is transformed into the proper output. This is called a black box approach. You consider the business as a black box, where all you can see is what comes in and what comes out. You can compare this approach with the way we earlier looked at the coffee-maker: you put in what needs to be put in, and then hope that you get some delicious coffee in return. How the machine functions precisely will interest only its maker (and the competition).

Later in this book we will see that there is certainly no need to limit oneself to a black box approach when we consider organisations. Indeed, in Part 2 we will consider the way a business functions 'on the inside'.

1.2 What is business administration?

Now that we know what a business is, we can turn to explaining the concept of business administration. In this paragraph the concept of business administration is developed through a number of characteristics that finally give *one* overall definition.

We will work with the following propositions:

- Business administration is all about businesses.
- The business context is important in business administration.
- Business administration is multidisciplinary.
- Business administration is interdisciplinary.
- Business administration is a science.
- Business administration is a body of knowledge.

1.2.1 Business administration is all about businesses

Business administration is the area of administration that concerns the right way to organise, set up and administer businesses. The centre of attention of this area is businesses and how to run them.

Source: NSM

FROM PRACTICE



A world without business administration

How would the world look without business administration? Imagine science as a landscape with all sorts of buildings. Each building has a name that stands for one of the scientific disciplines: sociology, psychology, economics and so on. And each building consists of several rooms. The rooms stand for the tangle of specialisations within those scientific disciplines. Within economics we know of the following specialisations: quantitative economics, general economics, commercial

economics, marketing, business administration and internal organisation.

Imagine that you are the boss of a business and that you have a problem: you are considering whether to introduce a systematic form of performance evaluation and reward, but do not know whether that is a good idea and, if so, which form is the best and how you can implement it without too many problems. You thus have a *practical problem* and so head to science for a solution. Once arrived at this

scientific landscape, you cannot head for the business administration building, for, after all, we are living in a world without business administration. You will therefore first have to decide which building to enter: that of the sociologists, the psychologists or the economists, for example. Because you do not know how you are supposed to choose, you decide to enter all the buildings. In each one you will hear a different story. That is pretty obvious, for the psychologist looks at your problem from a psychological perspective (that is, with the help of psychological concepts and theories), the economist from an economic perspective, and so on. After you have made your tour, you have several different

stories available. We will disregard for simplicity's sake the fact that the matter is even more complex: there are disputes within the buildings. Not all economists are in agreement with each other over economic theories, and the same holds for the other buildings.

It is not the case that you get wrong answers.

Practical problems always have various aspects and each monodiscipline specialises in one of those aspects. The various disciplines continuously illuminate other advantages and disadvantages of instituting performance evaluation and reward. Your problem is that you need to make of those various stories a comprehensive picture.

1.2.2 The business context is important in business administration

The question how the context around a business is composed is important in business administration. By context we mean elements outside the business that nonetheless influence its operation. Think for example about customers, the government and unions (stakeholders) but also about the economic situation. For the manager it is very true that 'if you can't see the part in the whole, you'll miss the part of the whole'. From the business administration perspective you therefore have to grasp 'the forest' as an important context in order to understand your problem, which probably has more to do with 'one tree'. The influence of context on a business is enormous. On the one hand the business has to adjust to that context, but on the other hand it also tries to influence it, for example by advertising for its products or services. In Chapter 2 the business context will be examined more closely.

FROM PRACTICE



Broad-based advice in one example

The director of Coca-Cola Europe asked a management consultant from the US whether he should have a little or a lot of advertising for the soft drinks his firm made. And if a lot, then how? 'That depends,' said the consultant. 'Tell me first something about the context you operate in. If in Europe there is great interest in healthy eating, then you'll need to emphasise that the customer can also choose diet versions of your soft drink. If there is a

lot of competition, then you need to have more advertising than if everyone knows only your product. Are Cola and Fanta still trendy among young people? If not, then you have to emphasise the option of mixing alcohol with them. What is more, do the authorities in Europe allow alcohol-related advertising aimed at young people, or is that yet another contextual factor that you'll have to take into account?'

In Chapter 4 the business context will be further examined.

1.2.3 Business administration is multidisciplinary

You can view business administration as a sort of all-embracing specialisation that, where necessary, combines other areas of specialisation. Business administration regularly brings together specialisms (monodisciplines) because a business problem often cannot be focused on one specialism. You can therefore speak of the multidisciplinary character of business administration (multi means 'many'; many different disciplines coming together in business administration). The following specialisms play a role in business administration (see also Figure 1.3, The pillars of business administration):

multidisciplinary

- *Financial management.* This is about financial operations within businesses. Think for example of the knowledge required to calculate costs.
- *Psychology.* This studies the behaviour of people within a business and offers advice about the effective employment of human resources. Here questions such as 'What sort of personnel are best suited to a business?' or 'How can you best deal with resistance to change?' play a role.
- *Technology studies.* A modern business makes use of several sorts of technology; think for example of IT, which is the specialism of technicians.
- *Purchasing knowledge.* Before a business can sell something, it has to purchase goods and services. Purchasing is a specialisation with it's a body of theory.
- *Marketing and sales.* The marketing and sales specialism provides insight into the way the business can most successfully sell its products and services, and how to increase demand for them.
- *Operational research.* Businesses quickly become complicated because various people work in them and they have to deal with more money and materials than are to be found, for example, in a family household. The operational researcher concentrates on the most effective and efficient way to organise the business's activities. They occupy themselves with the structure of the business (what departments must be created?), but also with matters such as planning and leadership.
- *Communications.* In a business people can communicate with each other in several ways. How do you deal with that most effectively, and what should you *not* do?
- *Process management.* Within a business there are several processes to be found: production, transport, delivery services. With process management you ask how you can best perform them; think for example of quality control or logistics. By the latter we mean the transport of products within a factory, or outside of it to the customer.
- *Law.* The business operates within a context, as we have already indicated, and that includes the government, which determines within which laws the business must operate. Think for example of employment law, which determines the minimal conditions under which employees must be able to work (for example, the minimum permitted temperature in an office). An internationally operating business must sometimes adjust to different systems of laws. Those trained in law provide managers with input in this area.

**SOCIALLY RESPONSIBLE
VENTURES**

Source: www.rolexawards.com

The Rolex Awards

The Rolex Awards support pioneers whose innovative work contributes to the betterment of mankind.

Established in 1976, the inaugural Rolex Awards commemorated the 50th anniversary of the Oyster chronometer, the world's first waterproof watch, and were created to encourage individuals ready to take on major challenges to improve life on our planet. In 2010, Rolex extended the Rolex Awards by launching the Young Laureates Programme to foster innovation in the next generation. Learn about the first winners of the Young Laureates Programme at young.rolexawards.com.

Since its beginnings a century ago, Rolex has recognized and supported individual excellence and achievement. Now the leading Swiss watchmaker is pleased to present the Rolex Awards for Enterprise: Young Laureates Programme, which enables visionary young men and women to tackle the most pressing issues facing our world.

Rolex launched last year the Young Laureates Programme to foster innovation in the next generation. The programme will seek out budding pioneers and provide them with funding and encouragement to implement their original ideas and gain the experience to become tomorrow's leaders. The programme rewards creativity in five areas: science and health, applied technology, exploration, the environment and cultural preservation. The young Laureates will be announced in April 2010.

What are the rewards?

The Awards provide financial support – US\$50,000 over two years – to advance each person's project. Rolex will also promote the winners through international media coverage. The Young Laureates will become active members in the Rolex community of innovators, taking advice from former Laureates and Associate Laureates, and, in turn, passing on their knowledge to other young people.



- *Sociology*. This specialism describes how people get along with each other in a business.
- *Facilities management*. This is the area of knowledge in which attention is devoted to the construction, maintenance and cleaning of buildings, and the equipping of work sites and canteens within businesses.
- *Information science*. This specialism describes how information technology can be employed in order to attain organizational ends.

FIGURE 1.3 The pillars of business administration



This list of areas of specialism is not guaranteed to be complete. Depending on the practical situation, other specialisms can also play a role. Without a doubt business administration must realise the influence of the most important specialisms for solving problems in businesses, and must further realise that each of the disciplines mentioned will offer its own solution, which occasionally can be mutually inconsistent. The fact that business administration brings many specialisms together means that it must feel at home in many markets, and must know a little bit of everything (although critics maintain it knows quite a lot about nothing!). When necessary, the business administration professional can bring in a specialist. In that case he at least has to be able to communicate with this specialist along general lines and follow what he says. You could say that the business administration professional must retain control over the varying lines of approach, and over which ones are chosen.

‘Business administration is not just some unquestioning mouthpiece for knowledge from other disciplines.’

1.2.4 Business administration is interdisciplinary

In the preceding we read how within business administration many areas of specialisation are brought together (it is multidisciplinary). But it actually goes a step further. Business administration is not just some unquestioning mouthpiece for knowledge from other disciplines. It not only brings specialisms together, it first engages concepts and problems with its own practitioners, and only then does it consult ‘specialists’ in order to see what sort of solutions they

can offer. For the ultimate solution, if there are inconsistencies the business administration professional sets the various specialisms against each other, and then makes a choice that best fits the practical problem in the business. Or else he links specialisms together if that solution needs elements from several of them. Because of this linking of differing disciplines with each other, business administration is said to be of an interdisciplinary nature.

interdisciplinary

FROM PRACTICE



Source: NSM

A world *with* business administration

When you go with a problem to experts in different fields, you get only one-sided answers. There is no one who can bring together for you the various answers into one consistent picture. The matter becomes even worse when you have not *one*, but several problems, for example a personnel problem in addition to a quality problem and a knowledge problem and a marketing problem. Then there is no one who can tease out the underlying connection between your personnel problem and your quality problem. The chances are that your visit to all these specialists will only make you more confused.

It is therefore useful to have 'someone' who is available to solve for concrete, practical problems, who sets varying scientific insights next to each other and thereby constructs a picture that is useful and consistent. This is true for all management problems:

strategy problems, marketing problems, personnel problems and so on. All these problems need to be analysed in an interdisciplinary manner, because practical problems do not automatically split themselves along the lines of the various specialisms. And because practical problems do not stand isolated, they should be analysed comprehensively – that is, in light of their common connections. Otherwise you run the risk of solving a quality problem with disastrous consequences for your personnel policy, or solving a personnel problem with disastrous consequences for your strategy.

That 'someone' is business administration, defined as a practically oriented and thus comprehensive interdisciplinary tool.

Advantages and disadvantages of business administration's interdisciplinary character

interdisciplinary

In business administration's quality of being interdisciplinary lies at the same time its weakness and its strength. From specialisms that are oriented to just one discipline, such as financial management, the criticism will come that the business administration professional knows less of any given specialism than someone who has specialised in it, such as the management economist. Business administration professional do not see that as a weakness. They note that practical problems in the world seldom have to do with but *one* specialism (the real world is also not monodisciplinary). In order to avoid tunnel vision, you need a business administration professional who not only knows *less* about financial management than for example a financial manager, but also knows *more* since he has knowledge of many other specialisms. This broad, interdisciplinary attitude is not only useful for when a student at the beginning of his career does not yet know precisely whether and in what he wants to specialise. It also comes back at the end of his career, when he holds a position within his business in which he never encounters problems that have to do with only *one* specialist area (the position of managing director, for example).

FROM PRACTICE



Source: NSM

Multi- and inter-disciplinary

In this section we deal with the multidisciplinary and the interdisciplinary character of business administration. Compare that with the words multicultural and intercultural. The first indicates that several cultures are present (for example, in a

society), which still can stand apart from each other. By intercultural cooperation those cultures are brought together, e.g. to get to know each other or even to adopt things from each other.



1.2.5 Business administration is a science and a body of knowledge

Business administration is a science for, as we indicated before, it is not just some unquestioning mouthpiece for knowledge from other disciplines, but applies its own ideas and definitions. It is also true that in the forming of management theories and management research the normal scientific rules of the game are applied.

scientific rules of the game

There are specialisms that are devoted to thinking up theories that enrich our knowledge but where there is no requirement that these new theories find any concrete application in the decades that follow. With business administration it is otherwise: it is a body of knowledge that is all about real problems and practical questions that need to be resolved.

body of knowledge

However scientifically it can be justified, business administration is also application-oriented. It always involves the practical world. Every notion, law or theory within business administration is oriented to direct application in a concrete business situation. A business administration professional is thereby practically inclined, that is, he is someone who keeps both feet on the ground and a sober attitude towards searching for workable solutions with which a business can go forward. This is also termed pragmatic. The many tools of which we have gained knowledge through business administration will be the subject of the last part of this book.

'Managers, not MBAs'

Henry Mintzberg

TRENDS IN BUSINESS ADMINISTRATION



The origin of business administration

Business administration originated roughly at the end of the 19th century and the beginning of the 20th. There were various reasons, some of longer standing than others, why newly formed businesses approached science for assistance with problems they encountered. In this way business administration was established as a science. It is good to know what was happening when the discipline was born.

We can distinguish three forces that were in operation at the end of the 19th century:

- 1 The Protestant-Christian work ethic;
- 2 Capitalism and the division of labour;
- 3 The Industrial Revolution.

Item 1: The Protestant-Christian work ethic

This maintained that people, instead of passively awaiting better times to come after death as they had in the Middle Ages, precisely because of their belief are moved to find their calling on Earth through hard work and an unselfish attitude. This ethic (norms and values) towards hard work leads to more business activity and a demand for knowledge about optimal forms of organisation.

Item 2: Capitalism and the division of labour

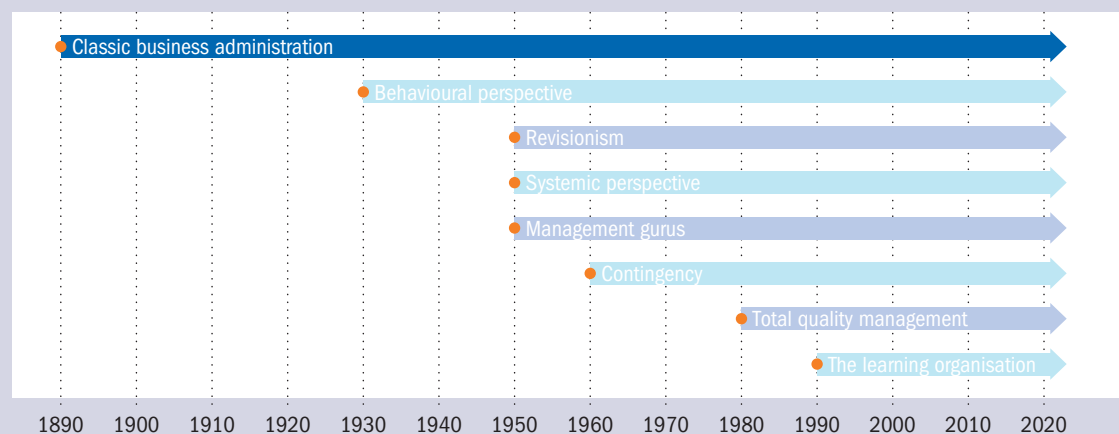
In the 18th century the economist Adam Smith – also known as the world's first business

administration professional – wrote *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776 – usually shortened to *Wealth of Nations*). Among other things, Smith demonstrated that the division of tasks into small parts enabling workers to specialise led to more production and more profit. This division of labour of course stood in stark contrast to the craftsman's method of working that workers knew from before, which gave everyone a much more expansive scope of work. This new approach resulted in more complex businesses, and then forced these businesses to think about more appropriate organisational forms.

Item 3: The Industrial Revolution

Twelve years after the invention of the steam engine by James Watt in 1765, mass production was possible with the help of steam power. Although newly created machines, such as the steam engine, lowered production costs because they worked more efficiently than man- or animal-powered machines, the costs of acquiring such new machines were so high that work had to be carried out in much bigger groups than before, in order to make the new machines profitable to operate. These larger businesses called in scientists to help direct them and give them form. Classic business administration was born (see the timeline).

TIMELINE



1.2.6 This is business administration

On the basis of the foregoing we define the concept 'business administration' as follows:

*business
administration*

Business administration is the branch of science that concerns itself with the organisation and context of businesses. Business administration comprises a comprehensive (all-inclusive), multi- and interdisciplinary approach in which attention is paid in a scientific manner to practically oriented questions within businesses.

The difference between management studies and business administration

There can be a lot of confusion between the 'administration' and 'management' of businesses. In the practical world of business, they are very similar, and generally have identical functions and responsibilities. Many may think that administration is more about paper pushing and clerical work, while management is more about authority and decision making. However, unless clearly defined by a particular business, business management and administration are generally the same.

Management degree programs prepare individuals for planning, managing, organizing, and running the essential procedures and tasks of organized bodies, such as businesses or firms. Courses also include many aspects that are vital to any business, such as communications, production, logistics and purchasing, the quantitative methods of accounting, administrative practices, decision making, marketing, information systems, and human resources management, and so forth. They also handle training of the workforce.

A degree in business administration, on the other hand, exposes students to a selection of core subjects. It also allows students to focus on a special academic area. The core subjects normally include: Business law and ethics, accounting, finance, economics, marketing, management information systems, organizational behavior and management, operations management, strategic management, and operations research.

Seemingly, even the specialized subjects in administration courses are very similar to that of management. The prospective jobs and responsibilities are fairly the same as well. Business administration degree programs allow students to become experts in areas of accounting, finance, entrepreneurship, management, marketing, business computer applications, and business economics.

If there is any distinction between the two degrees, it will be the broader scope of business administration, as it concerns itself with the management and performance of the operations of a business. Business administration has various departments, like accounting, marketing, management, and finance.

Summary: business administration degrees are normally broader in scope, and management can be considered as part of its extensive scale. Business administration degrees offer a balanced mix of clerical, operations, and management skills, while management degrees, although they have aspects of clerical and operation subjects, are more about the management of human resources and personnel operations. In reality, the lines are blurred when it comes to potential jobs and responsibilities, as both degrees can be for the same positions (adapted from www.differencebetween.net).

1.3 The business administration professional

Up to now we have seen what we understand by business administration. In this section we deal with the people who apply the knowledge and insights from business administration: the business administration professional. First we discuss the competences of a business business administration professional and then the professions that a business administration professional can undertake.

1.3.1 Competencies of the business administration professional

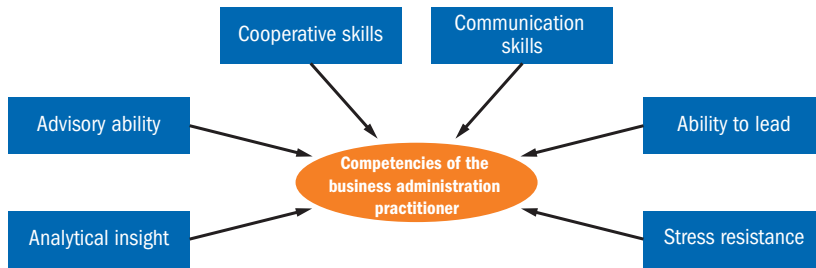
Business administration is a broad discipline. That means therefore that the business administration professional must have a wide point of view as well. He must feel at home in all markets and be able to grasp that there are various ways to approach business problems. We can state the necessary management competences (skills) more precisely as follows:

*management
competences*

- *Analytical insight.* A business administration professional must be able to analyse the workings of a business (or the errors involved therein) so that he can make improvements.
- *Advisory ability.* A business administration professional often takes an advisory role. That is why she is summoned by other specialists. Advising well is an art: you have to take your public into account, dispense advice in suitable doses and pay close attention to whether that advice is understood. Not all advice is followed. You need to fight that.
- *Cooperative skills.* Because a business administration professional occupies himself with various specialisms, he has to work with diverse departments and specialists. As a future business administration professional you must be able to call on both tact and empathy.
- *Communication skills.* A business administration professional must be able to express herself well. She must be able to explain and clarify ideas, and provide advice in clear presentations. A business administration professional possesses good oral and written communication skills. At least as important is that she listens to other people, in order to address a problem in the business in its various facets.
- *Ability to lead.* In order to work as a business administration professional, it is important that you can plan, organise and delegate. After all, you will often be called upon to provide leadership to a project team, department or business.
- *Stress resistance.* A business administration professional works in a complex world, in which people from various disciplines have various opinions and interests. Often there are deadlines to deal with. You have got to be able handle these pressures.

In Sub-section 9.2.1 we will deal at greater length with the competences of a business administration professional.

FIGURE 1.4 Business administration practitioner competences



Source: www.IntoMobile.com

BUSINESS ADMINISTRATION ↑ ↓
 BLUNDER / **SUCCESS**

Nokia fails to do their homework, 'Lumia' translates to prostitute in Spanish

Marketing people have a difficult job when it comes to naming their business's products and services. They need to make sure that the branding they've thought up doesn't mean something offensive in a different language. Take for example Apple's recent launch of the iPhone 4S. The highlight feature, Siri, translates to 'ass' in Japanese. Likewise Gerber, the famous baby food brand in the United States, translates to 'vomiting' in French. And in the Nordics Honda had to rename the Honda Fit to the Honda Jazz, because Fit is Swedish and Norwegian slang for vagina. This is why handset makers like Nokia typically issue product names that are nothing more than a seemingly random string of digits. Two recent devices that Nokia have announced, the Lumia 710 and the Lumia 800, obviously have the prefix 'Lumia' attached. In Finnish it means 'snow', but in Spanish it unfortunately means 'prostitute' according to *MSNBC*.

Will this folly translate into fewer sales? Of course not, but it does mean that Nokia desperately needs to rejigger their ads and retail packaging when they introduce the Lumia in Spain. Oddly enough, Spain is one of the initial launch countries for Nokia's first Windows Phones; the other countries being UK, France, Germany, and the Netherlands. This likely means Nokia failed to notice the mistake, so expect

to see a lot of smiles in Spanish phone shops as people start cracking jokes about Finnish prostitutes, how much the Lumia 800 will cost to use per hour, and how often one should take their Lumia 800 in for service to get tested for ... bugs.

Naming aside, what do you guys think of the Lumia 800? Is it attractive enough that you'll consider switching from your current smartphone to a totally new platform? This author is going to hold out until Windows Phone 8, codenamed Apollo, ships in late 2012.



1.3.2 Professions for a business administration professional

Because the business administration professional is broadly oriented, he is also employable in many places. Some examples of business administration professions are:

*business
administration
professions*

- Consultant (business advisor);
- Independent entrepreneur;
- Management trainee;
- (General) manager;
- Policy worker (for example, in internal organisation);
- Account manager (who functions as a point of contact for specific customers or target groups);
- Lobbyist (who tries to influence decision-makers to make policy choices that are beneficial to his client);
- Controller;
- Recruiter (who searches for (top) personnel for a business or clients);
- Investment analyst (who is involved with the value of businesses and the effects of that on the value of their shares on the stock exchange);
- Manager of product development for insurance products;
- Personnel department employee;
- Quality manager;
- Secretary to top management;
- Chairman of project team (project manager).

Source: www.hbo-raad.nl

FROM PRACTICE



Typical entry level functions after graduating a MBA or bachelor (international) business program

- The starting and subsequent functions for a manager are:
- Quality-of-care employee;
- Commercial law employee;
- Process/quality system auditor (ISO, INK);
- Head of business office;
- Personnel adviser;
- Management/legal employee at a notary office;
- Bank and insurance account manager;
- Labour conditions and legal employee;
- Policy employee for diverse government policy areas;
- Project or team leader;
- Process manager;
- Government policy employee for purchase and expenditure;
- Department head, coordinator, team leader in a small or medium-sized business;
- Branch or location manager;
- Programme management worker;



- Business adviser at the Chamber of Commerce;
- Subsidy adviser;
- Product developer for pension/insurance products;
- Official secretary.

In Chapters 9 and 10 we will deal further with the workings of the business administration profession.

Summary

- An organisation is an instance of human cooperation with the intention to be permanent.
- A business is an organisation that produces goods and/or services with the purpose of selling these on the market.
- An enterprise is a business that always is oriented towards making a profit.
- In a simple representation of a business you see a transformation process from input (via transformation) to output.
- Business administration:
 - is all about businesses;
 - takes into account the business context;
 - is multidisciplinary, and brings together various specialisms;
 - is interdisciplinary, and functions as more than just some unquestioning mouthpiece as various specialisms are brought together;
 - is a science, and abides by scientific rules;
 - is practical and application-oriented, and so a body of knowledge.
- Business administration encompasses a scientific, comprehensive, multi- and interdisciplinary approach to practically oriented questions within businesses. Management competences are: analytical insight and the ability to advise, to cooperate, to communicate, to lead and to deal with stress. A business administration professional is someone who occupies himself with the organisation of and context around businesses. For this he wields a multi- and interdisciplinary approach to business problems.
- On the other hand, a manager is someone who addresses the planning, organisation, leadership and direction of an organisation, and who allots human and material resources in order to achieve organisational goals.
- Business administration is therefore like a set of spectacles – a learned professional attitude and body of knowledge – while management has to do with a task or assignment.

Key concepts

<i>Black box approach</i>	Approach whereby an organisation is conceived as a black box so that all that can be seen is what goes in and what comes out.
<i>Business administration</i>	Branch of knowledge that deals with the organisation and context of businesses. This area of specialisation involves a scientifically comprehensive, multi- and interdisciplinary approach to practically oriented questions within businesses.
<i>Business administration professional</i>	Practitioner of business administration (see above).
<i>Business</i>	Organisation that produces goods and/or services with the purpose of selling these on the market.
<i>Company</i>	Business.
<i>Competences</i>	Skills.
<i>Enterprise</i>	Business that is always oriented towards making profit.
<i>External main objective of an organisation</i>	The objective to fulfil societal needs.
<i>Going concern assumption</i>	When making management decisions, you assume the continuity of the organisation.
<i>Interdisciplinary</i>	Combining several areas of specialism, bringing them together.
<i>Internal main objective of an organisation</i>	The objective to continue to exist as an organisation.
<i>Manager</i>	Someone who is concerned with the planning, organisation, leadership and direction of an organisation, and who allocates human and material resources in order to achieve organisational goals.
<i>Multidisciplinary</i>	Comprising various areas of specialism.
<i>Organisation</i>	Instance of human cooperation with the intention to be permanent.
<i>Synergy effect</i>	When the result of the entire cooperative arrangement is greater than the sum of the results of the individual performances.
<i>Transformation process</i>	Conversion process in organisations of input (by transformation) to output.

Questions

Knowledge questions

- 1.1 Describe in your own words the difference between business administration and management.
- 1.2 Give the characteristics of the business administration discipline.
- 1.3 What attracts you to business administration (or not)? Give its plus and minus points.
- 1.4 What happens to the profit that a non-profit government institution makes?
- 1.5 Which concept (efficiency or effectiveness) gives an impression of the appropriateness of the organisational process, and which concept gives an impression of the capability?
- 1.6 Think of a situation in which an organisation can be dissolved when the purpose it has served has definitively been achieved.
- 1.7 What is the difference between a non-permanent organisation and an organisation which assumes that it is a going concern?
- 1.8 Why are there more businesses than enterprises in Europe?

Case application

1 Web4U

FROM PRACTICE



Web4U

Web4U is a large webshop composed of various departments. The business is a subsidiary of a larger organisation. The director of that larger organisation is always busy at the main office, and comes once a month for a meeting. In the business there is a director who must provide leadership to the various sales and service departments.



- a What is the difference between a business and an enterprise?
- b In the enterprise's annual report it is noted that the value of the business is based on the going concern assumption. What is this?
- c Within the business things are so arranged that all employees must ask the director for authorisation when there are big parcels to send out. This has as a consequence that long waiting times arise if the director is busy, so that the capacity is not well used. Another consequence is that the director does not have time to properly inspect the preparations for dispatching, so that errors arise, which are sometimes only detected after a package has been dispatched. Then it is too late. Think of a solution for this problem.
- d If errors are discovered too late, the chance exists that the wrong products will be delivered. This naturally involves extra costs. Which ratios change due of this? Describe in words what this concept involves.
- e Because of the longer waiting times and the fact that errors still appear regularly in the dispatched parcels, employees become less motivated and productivity falls. How can the director get his personnel motivated again?

2 Logica PLC

FROM PRACTICE



Logica delivers software to BMW

(Dow Jones) – Logica plc reported on Monday that it has integrated a complete security programme in the current IT environment of the German car manufacturer BMW.

Financial details of the executed assignment were not provided.

More than 200,000 BMW employees make use of the new 'Identity and Access Management System' when they wish to log onto their computer or gain access to certain programs.



- a What is the external main objective of Logica?
- b What are the four most important characteristics of an organisation?
- c How is the continuity of Logica assured?