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Principles of Management

Efficiency and Effectiveness
in the Private and Public Sector

 Springer

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Foreword

The title of the German edition of this book is *Das Prinzip Wirtschaftlichkeit*. We have chosen two words for the title of the English edition to capture the idea of *Wirtschaftlichkeit*: *efficiency* and *effectiveness*. Efficiency is a measure of the relationship between inputs and outputs, and effectiveness is the degree to which targets are reached. ‘Efficiency’ and ‘effectiveness’ do not, however, completely capture the meaning of *Wirtschaftlichkeit*, which always carries with it the concepts of *economic efficiency* and *economic effectiveness*. Economic efficiency exists when the relationship between the quantity of inputs needed to produce goods or services and the number of goods or services actually produced is favourable, and economic effectiveness exists when the desired output is in fact produced.

Business administration as an academic discipline in Germany has always concerned itself with economic efficiency and effectiveness (and it could be argued that this has played a role in the success of German companies over the last 50 years). The German approach started to develop at the end of the nineteenth century, and its roots can be found in accounting, which has led to an emphasis on decision-making based on facts and figures. This book reflects this, while at the same time building on the Anglo-American approach to management studies whose roots go back to the scientific management theories of Frederick Taylor. We believe that the combination of the strengths of the German and Anglo-American methods is a valuable aspect of the book.

A further feature of the book is that it does not just focus on firms. Economic efficiency and effectiveness apply to all economic agents, whether they be households, hospitals, sports clubs, municipal authorities, universities, charities, government ministries or multinational enterprises. Unlike most books on management, we also cover topics from the discipline of economics, because in order to manage an economic agent well, it is necessary to understand the overall framework in which it is active.

Also unusual for a management textbook is that we review theories of knowledge and approaches to research, because we believe that in order to understand the academic disciplines of business administration and economics, it is necessary to have a grasp of how they are structured and how they can be developed. This is also

relevant for managers because they too need to learn and expand their knowledge as well.

Economic efficiency and effectiveness do not focus only on monetary aspects. Activity within the economy involves the transformation of inputs into outputs; the inputs and outputs generate external effects in the form of outcomes and impacts. Our holistic approach takes into account the social and ecological environment, where costs and benefits emerge that go beyond what can be measured in purely monetary terms.

The chapters share a common structure. There is an opening vignette which takes one of the chapter's themes and provides an illustration of it in real life. Since precision is important, the relevant terms are defined and the appropriate instruments are presented during the course of the chapter. Each chapter ends with some applied examples of what has been discussed and some questions to test comprehension. Throughout the book is a continuing project in which the reader is put in the position of owning their own business—a cafe serving only fair-trade and organically grown vegetarian food and drinks—and must make decisions about what the chapter has discussed. We have decided not to include references in the text; the reader is directed towards the literature (both in English and German) that we recommend for further reading.

The first chapter lays the foundations by describing the fields of business administration, economics and their related fields of study. It also explores methodology and terminology. The second chapter deals with the fundamentals of economic activity and economies. The four basic types of economic agents are discussed in the third chapter, with examples of mixed forms. The various principles related to economic efficiency and effectiveness are discussed in the fourth chapter, and in the following chapter, we consider goals and input factors in all their complexity and describe measurement methods. Chapter 6 provides a conceptual basis for the establishment and measurement of the economic efficiency and effectiveness of an economic agent's activities, including external effects. Chapter 7 provides more detailed insight into the various calculation methods, and the following chapter discusses how they can be applied to various activities in the value chain.

The final chapter emphasises the importance of economic efficiency and effectiveness for management, beginning with strategic management and looking at the three different phases of the management process. Last but not least, there is a German-English and English-German glossary of terms.

The basis of this book is the fourth edition of *Das Prinzip Wirtschaftlichkeit, Basiswissen der Betriebswirtschaftslehre* by Peter Eichhorn and Jochen Merk, the fourth edition of which was published by Springer Gabler in 2016, which was revised for this English version by Peter Eichhorn and Ian Towers. The initial translation from German to English was by Barbara Geier, London, England, Sarah Lauren Harris, Toronto, Canada, Mark King, Ober-Ramstadt, Germany and Paolo Rondo-Brovetto, Klagenfurt, Austria.

Our hope is that our focus on efficiency and effectiveness, and on *economic* efficiency and effectiveness, will help readers to understand how best to transform inputs into outputs, in both the private and public sectors, while at the same time considering the outcomes and impacts of economic activities.

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Contents

1	Understanding Economic Activity	1
1.1	Introduction	2
1.2	The Objects of Cognition	5
1.3	Business Administration	9
1.4	Related Disciplines	14
1.5	Neighbouring Disciplines	18
1.6	Understanding the World and Business Administration	20
1.7	Research	23
1.8	Cognitive Methods	26
1.9	Examples and Exercises	29
2	Economies and Needs	35
2.1	Needs	36
2.2	Fulfilment of Needs	40
2.3	Economic Systems	49
2.4	The Economic Constitution	53
2.5	Examples and Exercises	59
3	Individuals and Institutions in the Economy	63
3.1	Economic Agents	64
3.2	Households	70
3.3	Firms	73
3.4	Associations	76
3.5	Administrations	80
3.6	Mixed Types	85
3.7	Examples and Exercises	88
4	A Principle for Action	93
4.1	Metaeconomic Foundations	94
4.2	Basic Principles of Economic Efficiency	96
4.3	The Economy of Needs	102
4.4	The Economy of Returns	103
4.5	The Economy of Self-Interest	104
4.6	The Economy of Common Interest	106

4.7	The Individual Economy	107
4.8	The Aggregate Economy	107
4.9	Examples and Exercises	109
5	Goals, Production Factors and Results	115
5.1	Goal Setting	116
5.2	Input Factors	127
5.3	Factor Input	138
5.4	Types of Result	143
5.5	Measurement of Results	146
5.6	Examples and Exercises	151
6	The Conceptual Basis	157
6.1	Measuring Quantities and Monetary Value	158
6.2	Outpayments and Receipts of Payment	161
6.3	Expenditures and Revenues	167
6.4	Expenses and Income	171
6.5	Costs and Outputs	179
6.6	External Costs and Benefits	194
6.7	Assets and Capital	207
6.8	External Assets and Liabilities	212
6.9	Examples and Exercises	214
7	Calculating Economic Efficiency	221
7.1	Ratio Calculations	222
7.2	Static Methods for Capital Budgeting	225
7.3	Dynamic Methods for Capital Budgeting	229
7.4	Optimisation Methods	232
7.5	Forecast Analyses	234
7.6	Examples and Exercises	235
8	Economic Efficiency in Practice	243
8.1	Procurement	244
8.2	Transport	246
8.3	Inventory Management	247
8.4	Manufacturing	249
8.5	Administration	252
8.6	Marketing	256
8.7	Examples and Exercises	257
9	Managerial Methods	263
9.1	Management	264
9.2	Planning	281
9.3	Execution	291
9.4	Supervision	300
9.5	Examples and Exercises	306

Glossary English—German	313
Glossary German—English	337
Bibliography	359
Index	363

List of Figures

Fig. 1.1	Objects of experience and of cognition in the economic sphere	4
Fig. 1.2	A tiered system of economic entities and economies	10
Fig. 1.3	Disciplines of business administration	13
Fig. 1.4	The building blocks of experienced reality	21
Fig. 1.5	The elements of science	24
Fig. 1.6	Methods of discovery	25
Fig. 1.7	The components of research	26
Fig. 1.8	The cognitive methods of research	29
Fig. 2.1	Examples of needs	39
Fig. 2.2	Typology of goods	41
Fig. 2.3	Four alternative methods of need fulfilment	42
Fig. 2.4	Public tasks and operational activities	44
Fig. 2.5	Aggregating individual preferences	47
Fig. 2.6	Instruments for needs control	48
Fig. 2.7	Types of market economy	51
Fig. 2.8	Types of planned economy	52
Fig. 2.9	Instruments for governmental environmental protection politics	56
Fig. 2.10	Administrative and fiscal law regulations	57
Fig. 2.11	Types of eco-tax	57
Fig. 2.12	Areas of environmental law	58
Fig. 3.1	Criteria for classifying economic agents	67
Fig. 3.2	The four basic types of economic agent	69
Fig. 4.1	Economic efficiency, efficiency and effectiveness	100
Fig. 4.2	Categories of economic efficiency	109
Fig. 5.1	Types of goal	119
Fig. 5.2	The goal system of economic entities	122
Fig. 5.3	Overview of goal functions	123
Fig. 5.4	Components of a goal concept	125
Fig. 5.5	Components of goal setting	127
Fig. 5.6	A universal system of production factors	130
Fig. 5.7	The four areas of nature	135

Fig. 5.8	Negative effects of use of the earth	136
Fig. 5.9	Cost types associated with the appropriation of nature	137
Fig. 5.10	Overview of diseconomies	138
Fig. 5.11	Characteristics of diseconomies	139
Fig. 5.12	Cost determinants	144
Fig. 5.13	Potential sources of weaknesses	145
Fig. 5.14	Ten steps from meaning to realisation	147
Fig. 5.15	Measurement and valuation of effects	148
Fig. 6.1	Calculating the closing balance	161
Fig. 6.2	Short-term coverage ratios	163
Fig. 6.3	Long-term coverage ratios	164
Fig. 6.4	Ratios and the golden rule	164
Fig. 6.5	Cash flow calculation	166
Fig. 6.6	Characteristics of expenditures and revenues	168
Fig. 6.7	Cash conversion cycle	170
Fig. 6.8	General forms of financing	171
Fig. 6.9	Types of expenses and income	172
Fig. 6.10	Categories of expenses and income	173
Fig. 6.11	Differentiating expenses and expenditures, income and revenues ...	174
Fig. 6.12	Structure of income statements	176
Fig. 6.13	Two income statement formats	177
Fig. 6.14	From annual surplus to net surplus	177
Fig. 6.15	EBIT and EBITDA calculation	178
Fig. 6.16	Categories of costs and outputs	180
Fig. 6.17	Categories of costs and outputs	181
Fig. 6.18	Examples of financial ratios	183
Fig. 6.19	Factors of production and cost types	184
Fig. 6.20	Chart of accounts	185
Fig. 6.21	Further categories of cost types	186
Fig. 6.22	Cost centres	186
Fig. 6.23	Basic structure of an overhead allocation sheet	187
Fig. 6.24	Cost estimate sheet for goods	189
Fig. 6.25	Cost estimate sheet for services	190
Fig. 6.26	Costing methods	190
Fig. 6.27	Components of an operating statement	191
Fig. 6.28	Combinations of costing systems	192
Fig. 6.29	Methods of calculating the operating result	193
Fig. 6.30	Valuation methods for external costs	196
Fig. 6.31	Valuation methods for external benefits	197
Fig. 6.32	Ecological accounting in the accounting system	198
Fig. 6.33	Types of accounting in companies	199
Fig. 6.34	Human resource accounting	200
Fig. 6.35	Outcome-impact result statement	208

Fig. 6.36	Structure of balance sheet	210
Fig. 6.37	Flow balance sheet	211
Fig. 6.38	Outcome-impact balance sheet	213
Fig. 7.1	Examples of ratios	223
Fig. 7.2	RoI ratio system	223
Fig. 7.3	Value added calculation—production approach	229
Fig. 7.4	Value added calculation—use approach	229
Fig. 7.5	Linear regression forecast	237
Fig. 7.6	Moving average forecast	238
Fig. 8.1	The circular economy	253
Fig. 8.2	Recovery and/or recycling of waste	254
Fig. 9.1	Functional system	265
Fig. 9.2	Hierarchical system	266
Fig. 9.3	Hybrid system	266
Fig. 9.4	Goal matrix with factors and functions	270
Fig. 9.5	The elements of management systems	272
Fig. 9.6	Process steps of management	275
Fig. 9.7	Management process as activity circuit	275
Fig. 9.8	Primary and secondary circuits in the management process	276
Fig. 9.9	Kinds of knowledge	278
Fig. 9.10	Skills for the application of knowledge	278
Fig. 9.11	Controllership in the management process	282
Fig. 9.12	Basic strategies	283
Fig. 9.13	Growth strategies	283
Fig. 9.14	SWOT analysis	284
Fig. 9.15	Portfolio analysis matrix	285
Fig. 9.16	Balanced scorecard	286
Fig. 9.17	Earnings planning	288
Fig. 9.18	Components of an acquisition plan	289
Fig. 9.19	Budget system of a multi-level concern	291
Fig. 9.20	Organisational structure	293
Fig. 9.21	Components of human resource management	296
Fig. 9.22	Indicators in personnel controllership	298
Fig. 9.23	Aspects of financial controllership	300
Fig. 9.24	Year-end auditing in a multi-level concern	304
Fig. 9.25	BCG matrix	311