

Business Simulation BUDAPEST, HUNGARY

Obuda University

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Welcome to the Lecture

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The location of Saimaa University of Applied Sciences



SAIMIA UNIVERSITY OF APPLIED SCIENCES

Three campuses/buildings:

- 1) Lappeenranta (the main building together with LUT)
- 2) Imatra (Unit of Tourism)
- 3) Siitola mansion (Fine Arts)

- > see pictures on next pages

The main building in Lappeenranta



The Linnala campus (Imatra)

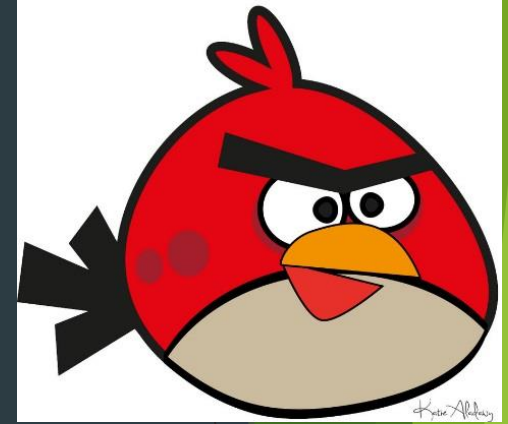


Siitola Mansion (for Fine Arts students)



DO YOU RECOGNIZE THESE FAMOUS FINNISH CHARACTERS?

Five examples of things coming from Finland:



ABOUT TODAY'S LECTURES: BUSINESS SIMULATION

- Our mutual job here today is to get you acquainted with running a company.
- This time we couldn't bring you a real company with us; instead of that we brought you simulation model of service business

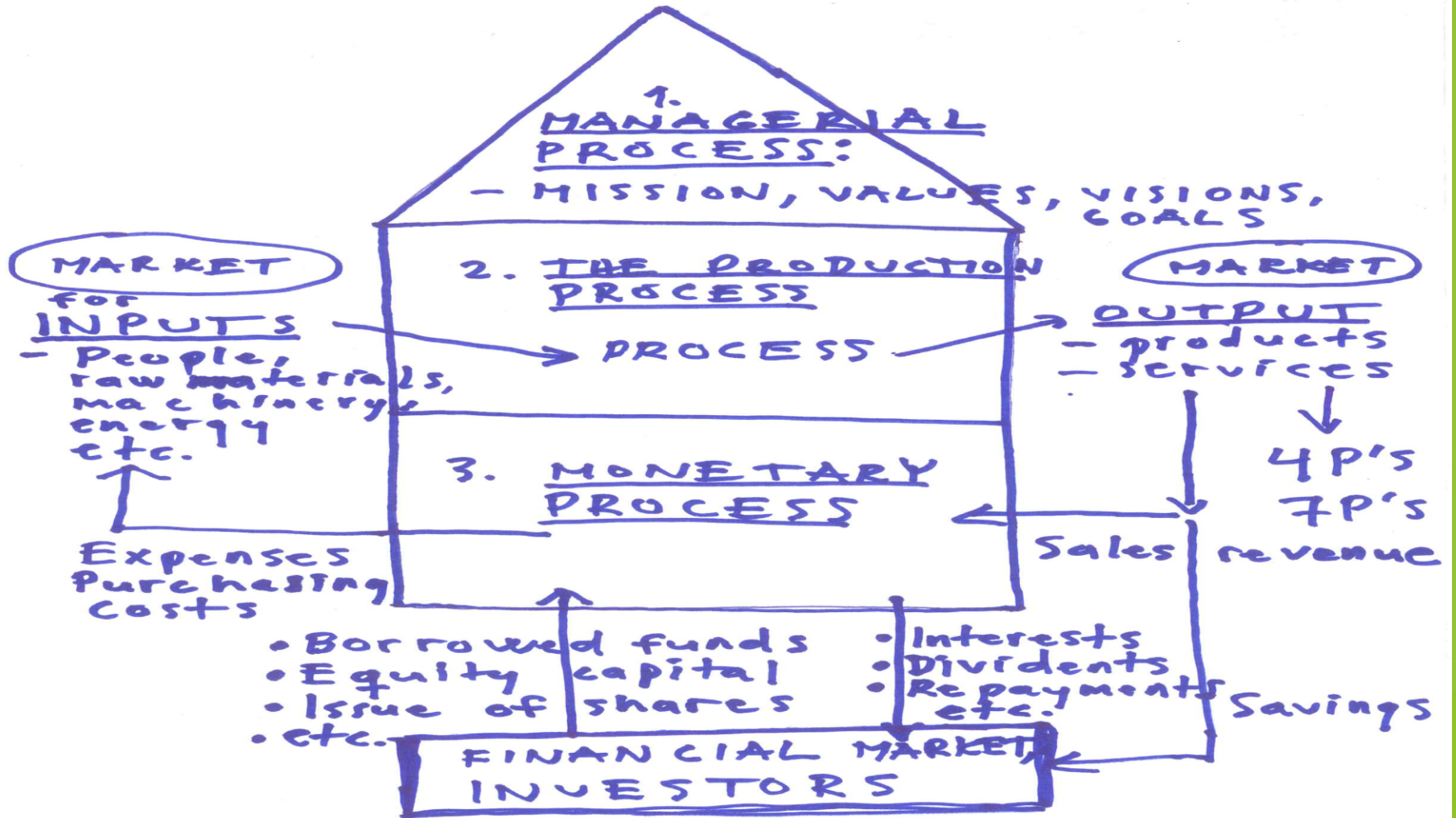
BUSINESS SIMULATION

-Running a company (in real life as well as in this simulation) actually means the ability to handle certain central areas, like:

THE MAIN FACTORS IN BUSINESS OPERATIONS

- Finances (Financial Statement Analysis)
 - Marketing
 - Production (products / services)
 - Management / Leadership
 - Strategic thinking (Strategy) etc.
- Basically every company operates the same way - > **The Business Process**

The Business Process



MANAGEMENT AS A PROCESS

”Always begin with the end in mind”

PLANNING (Step 1):

-**mission** (why are we on the market? What is the purpose of our operation?)

-**vision**

-**Goals**

(Strategic Man.)

ORGANISING (Step 2):

-division of labor

-structure (to operate)

-organisation culture ->

- artefacts = physical and

social environment

- values

- beliefs, tabus, basic assumptions etc.

CONTROL (Step 4):

- How did we succeed?

DIRECTING (HRM) (Step 3):

-motivating people

-encouraging

- e.g. Maslow, Herzberg

Annual accounts - profit & loss

Turnover/sale

- Used goods /variable costs

= Gross profit

- Fixed costs

- Interest

- Depreciation

= profit = your salary

- Personal tax is paid on the basis of the company's profit
- Accounts and budgets are always without VAT/sales tax

Profit & loss statement

- Accounts for a small company in hospitality industry

Turnover/sale	442.000 €
- Use of goods	145.860 €
= Gross profit	296.140 €
- Fixed costs	97.116 €
- Interest	0 €
= Profit = Your salary	199.166 €

Marketing: Definitions

- ▶ ”Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners and society at large”

(American Marketing Association, 2007)

Marketing defined by Peter Drucker

- ▶ Marketing is so basic that it cannot be considered a separate function
- ▶ It is the whole business seen from the point of view of its final result, that is, from the customer's point of view...
- ▶ Business success is not determined by the producer but by the customer.

Marketing

- ▶ A company may influence the demand with basic competitive tools.
- ▶ The factors under the company's influence include the product itself, its price, its availability to customers and communication.
- ▶ Customers' decisions are also influenced by company image and company's modes of operation.

Marketing: 4 P's / 7 P's

Strategy and strategic leadership

- ▶ Company's long-term success is based on the company's strategy.
- ▶ Strategy is a demanding concept and its definitions vary depending on the view.

Strategy and strategic leadership

- ▶ Strategy can be understood as the set of methods, basic solutions and guidelines that are used to achieve the goals and objectives for the future.
- ▶ Strategy is guiding all operations in the company and it takes into consideration both company's internal strengths and weaknesses and operational environment's threats and possibilities.

Strategy and strategic leadership

- ▶ Strategy is a wide-ranging concept, that can be illustrated with Henry Mintzberg's well-known definition of strategy (5 P's):

"Strategy is a plan, it's a ploy, it's a pattern, it's a perspective, it's a position."

Strategy and strategic leadership

- ▶ Generally, strategy includes the following characteristics:
 - ▶ Future-oriented
 - ▶ Answers the questions "why" and "what", whereas operational activity answers the question "how."
 - ▶ Is based on the compatibility of operations.
 - ▶ It is a continuous process.

Strategy and strategic leadership

- ▶ The task is to differentiate from the competition.
- ▶ To seek out the essential issues to ensure company success.
- ▶ To examine the company as a whole.
- ▶ It requires abstract, conceptual thinking, however the final strategies must be practical.

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STEP 1: Strategic Management (Planning)

The five tasks of Strategic Management

1. Environmental Scanning
2. Mission, Vision and Objectives (of the organisation)
3. Strategy Formulation
4. Strategy Implementation
5. Evaluation and Control

Environmental Scanning

- ▶ Tools:
- ▶ PESTEL analysis
- ▶ Swot analysis
- ▶ Porter's five forces
- ▶ etc.

PESTEL analysis



SWOT analysis

▶ COMPANY ANALYSIS:

- strenghts
- weaknesses

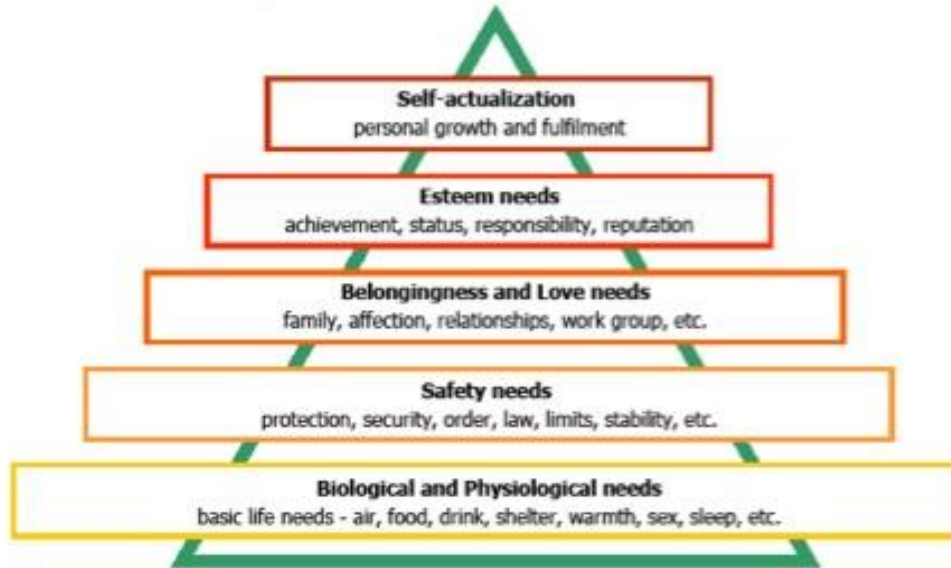
ENVIRONMENTAL ANALYSIS

- opportunities
- threaths

Porter's five forces model



Maslow's Hierarchy of Needs

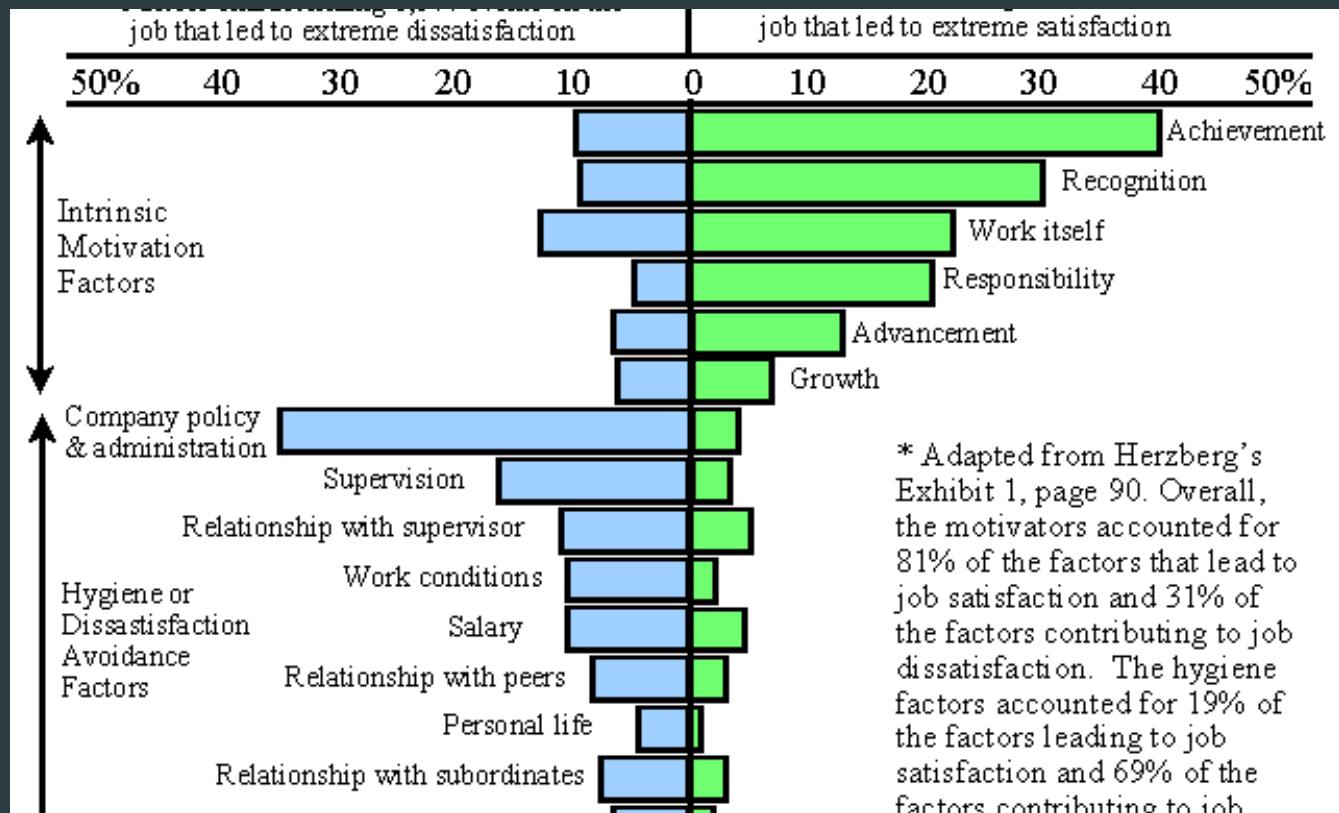


© design Alan Chapman 2001-7, based on [Maslow's Hierarchy of Needs](#)

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Abraham Maslow: Hierarchy of Needs

Every individual is dealing with the need level that is unsatisfied at the present time e.g. if you haven't got anything to eat for three days, all you can do is to try to satisfy your physiological needs



Herzberg

Motivating factors / Hygiene factors (not motivating but only making the motivation go down, if not in order)



Herzberg: How to motivate your subordinates

Herzberg was interested especially in working conditions in his studies

Dissatisfiers

Working conditions

Policies and administrative practices

Salary and Benefits

Supervision

Status

Job security

Co-workers

Relationship

Motivators

Recognition

Achievement

Advancement

Growth

Responsibility

Job challenge

Frederick Herzberg

Dissatisfiers / Motivators

MANAGEMENT LEVELS IN AN ORGANIZATION

A. TOP MANAGERS

- responsible for making decisions about the direction (MISSION, VISION, VALUES, GOALS etc.) of the organization and establishing policies that affect all organizational members

Management levels...

B. MIDDLE MANAGERS

- the main job of middle managers is to translate the goals set by top management into specific details that lower-level managers can perform

Management levels...

C. FIRST-LINE MANAGERS (supervisors)

- responsible for directing the day-to-day activities of operative employees

WHAT KIND OF SKILLS DO MANAGERS NEED?

A. TECHNICAL SKILLS

- these skills are extremely important to first-line managers

B. INTERPERSONAL SKILLS

- highly important for managers at all levels (COMMUNICATION)

C. CONCEPTUAL SKILLS

... meaning the mental ability to analyze and diagnose complex situation and to see how things fit together

- important for top managers
- these are the skills that you can't usually learn at any school or university
- conceptual skills develop in practise in the course of time

Leadership vs. Management

In Finnish:

Leadership = "johtaminen"

Management = "johtaminen"

So what's the difference??!!

Leadership vs. Management

▶ MANAGING is about...

Coping with complexity
which includes...

- Planning & Budgeting
- Organizing & Staffing
- Controlling & Problem Solving

▶ LEADERSHIP is about...

Coping with change which
includes...

- Setting Direction
- Aligning People
- Motivating & Inspiring

(compare; Maslow,
Herzberg)

Leadership vs. Management

- "Managers do things right, while leaders do the right things"
- "You manage things; you lead people!"
- "A person working on his vision is a leader, else he becomes a manager to fulfill a leader's vision."

Leadership Style

- ▶ Definition:
- ▶ "Leadership style is the way in which the functions of leadership are carried out, the way in which the manager typically behaves towards members of the group".

Examples of Models

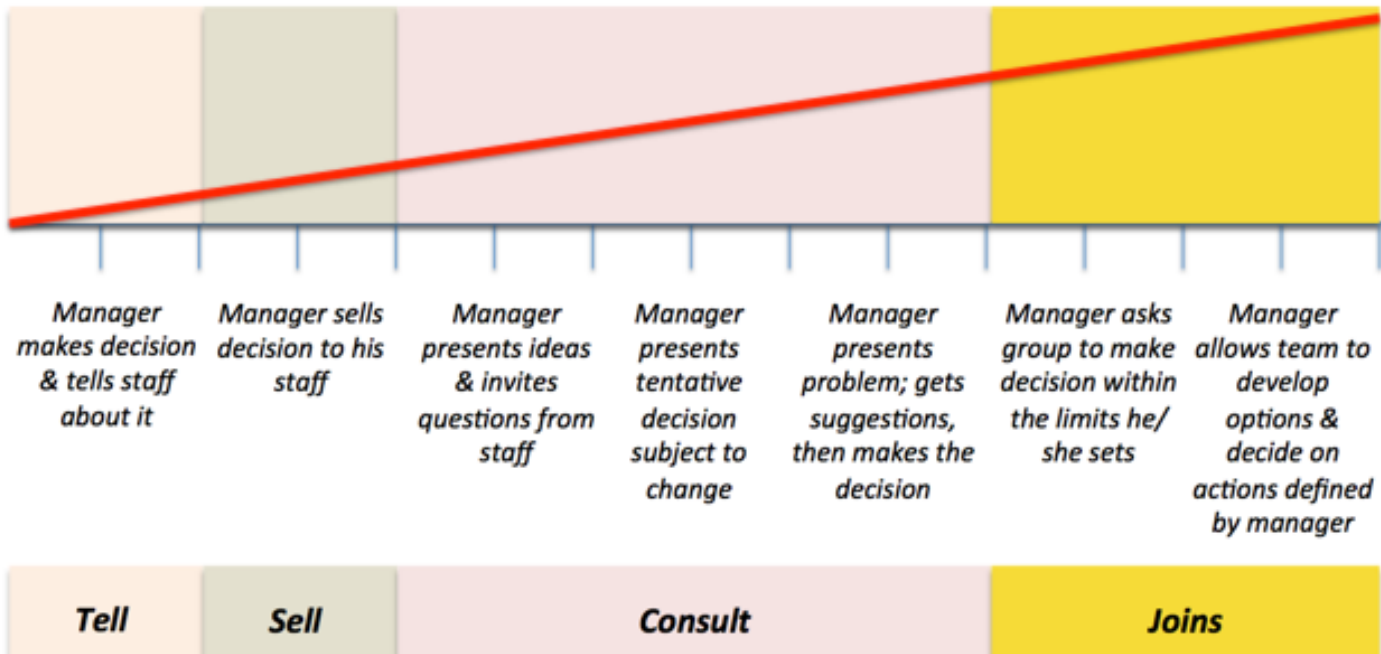
- ▶ There are several models concerning leadership styles e.g.
- ▶ Tannenbaum-Schmidt Continuum of Managerial Behavior
- ▶ Managerial Grid (by Blake and Mouton)
- ▶ 3-D model (by Reddin etc.)

Tannenbaum-Schmidt

Tannenbaum and Schmidt Continuum of Leadership

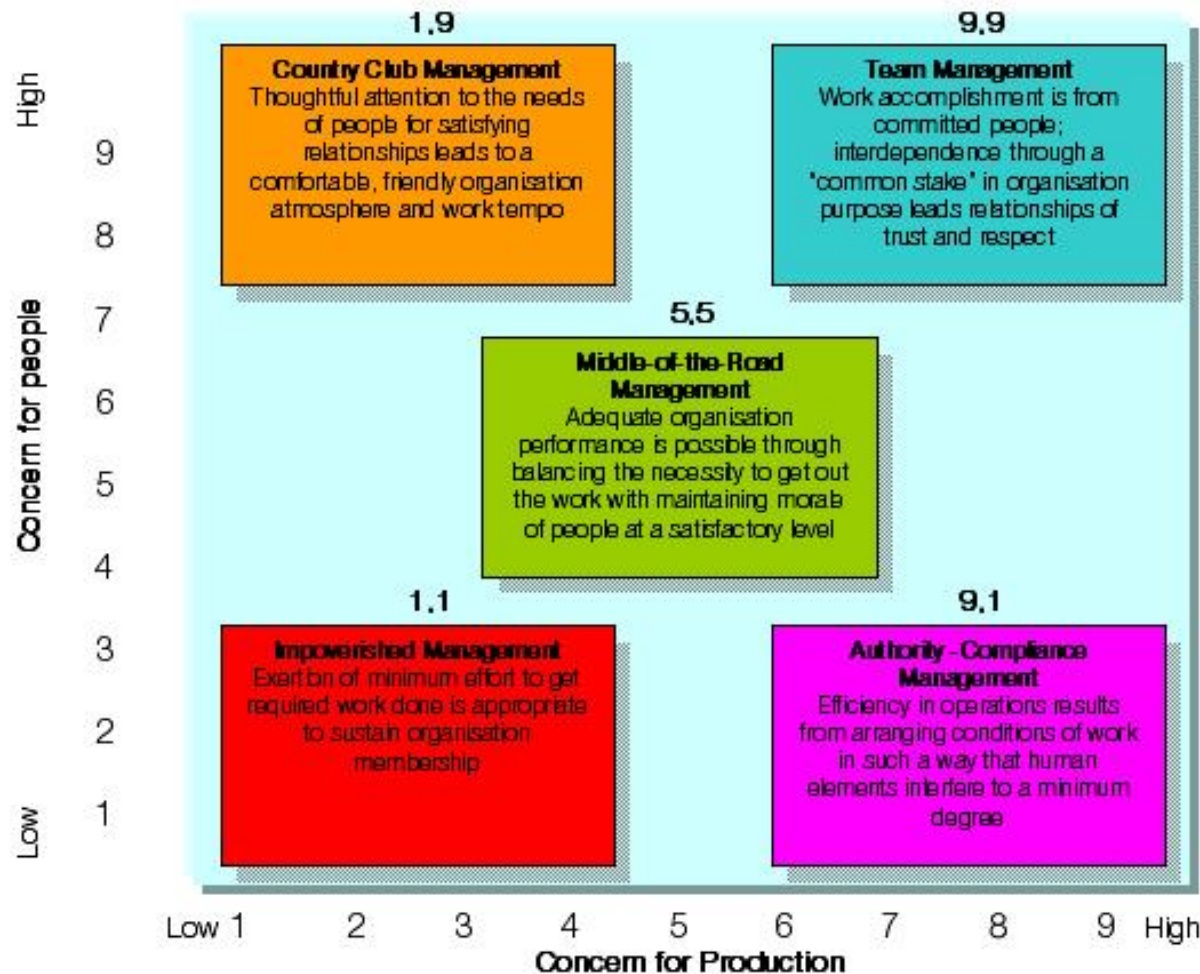
Manager-centered leadership

Subordinate-centered leadership

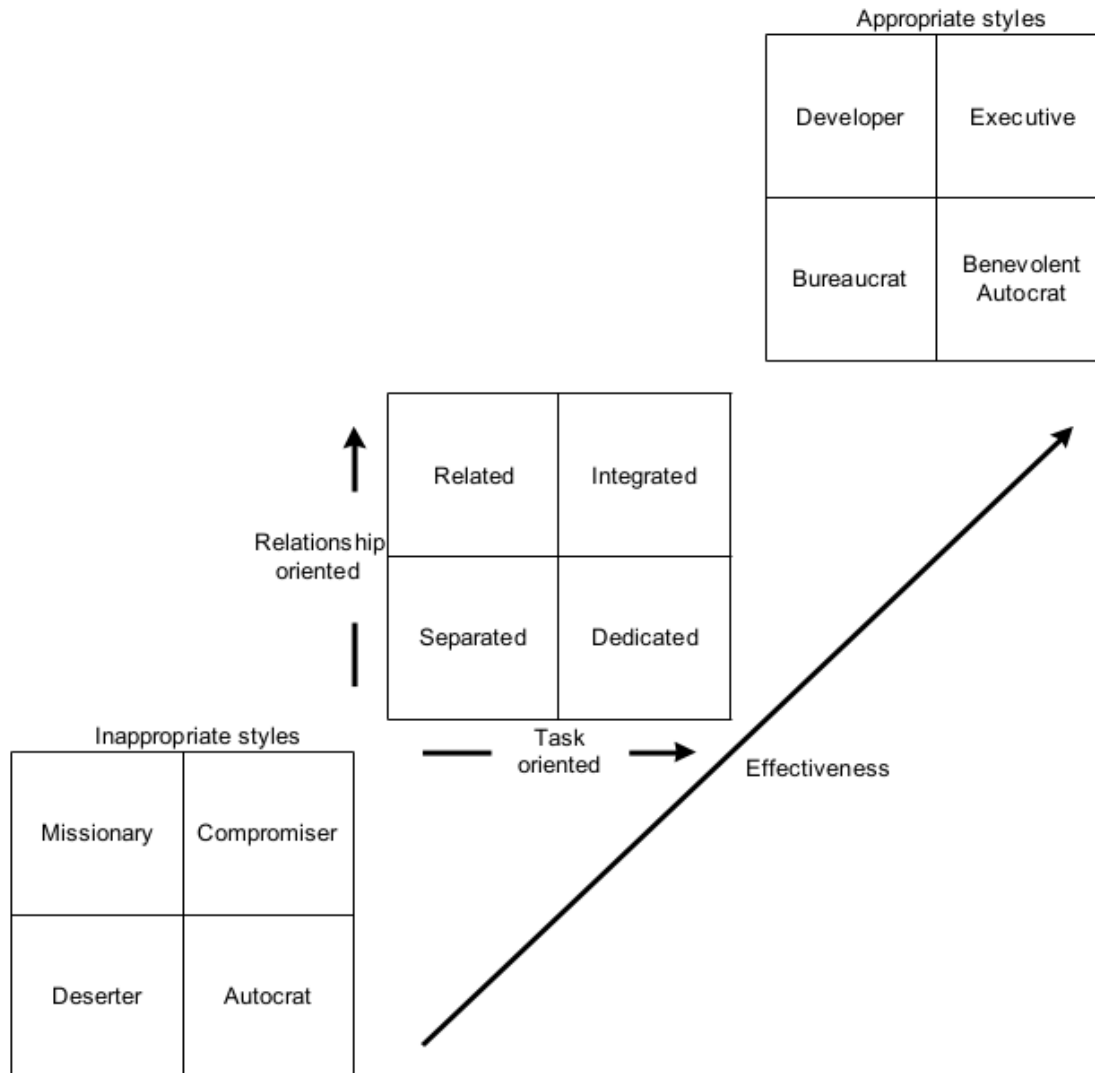


Managerial Grid

The Leadership Grid



3-D model



Leadership vs. Management

- ▶ Leadership focuses more on the people side of the business, while management is more about systems and processes.
- ▶ "I've seen strong leaders who have little or no management skills be very successful on the people side of the business but drop the ball all day long with administrative side of the job."
- ▶ "Lead from the front of the room and manage behind close doors. The greatest leaders know how to do both... in synchronized balance!"

Leadership vs. Management

- ▶ Management is the job. In the course of their work, managers have the opportunity to lead.
- ▶ Therefore it is helpful for managers to develop leadership skills.

Leadership vs. Management

- ▶ Everyone manages (professionally or in their personal life), and everyone has influence, but not everyone leads (well).
- ▶ Great management is learned, great leadership is developed.

Leadership vs. Management

Subject	Leader	Manager
Essence	Change	Stability
Focus	Leading people	Managing work
Horizon	Long-term	Short-term
Seeks	Vision	Objectives
Power	Personal charisma	Formal authority
Risk	Takes	Minimizes
Rules	Breaks	Makes
Concern	What is right	Being right
Credit	Gives	Takes

An Organisation

- ▶ A social arrangement for achieving controlled performance towards goals that create value
- ▶ **Value** is added to resources when they are transformed into goods or services that are worth more than their original cost plus the cost of transformation.

Management

- ▶ M. is the activity to get things done with the aid of **people** and other resources.
- ▶ Management roles: a **role** is the sum of the expectations that other people have of a person occupying a position
- ▶ Henry Mintzberg: Ten management roles (see table)

Ten management roles (Minzberg)

1. Interpersonal roles
 - 1.1. Figurehead role
 - 1.2. Leader
 - 1.3. Liason role

Ten management roles

2. Informational Roles

- 2.1. Monitor role
- 2.2. Disseminator
- 2.3. Spokesperson

Ten management roles

3. Decisional roles

- 3.1. Entrepreneurial role
- 3.2. Disturbance handler
- 3.3. Resource allocator
- 3.4. Negotiator

(for more information about these roles, see Mullins: Management and organisational behavior (pages 437 - 439))

DIFFERENT APPROACHES IN MANAGEMENT

1. The classical approach

- relies on the assumption that every employee acts rationally and has an almost infinite interest in earning more money

- main objectives are clear and comprehensible purposes and responsibilities - > every division has clearly defined duties and this creates a very hierarchical and formal structure

The classical approach

Two sub-groups:

1A: Scientific management (Taylor)

- focuses on choosing a superior method for executing a task
- workers are more like machines than people and are only good for one task

1B: Bureaucracy (Weber)

- Important factors: delegation, specialization and uniformity

The Human Relations Approach

Hawthorne experiments (Elton Mayo):

Paid more attention to factors like:

- Importance of work groups and leadership
- Communication
- Output restrictions
- Motivation

”Sought to increase production by humanizing the work organisation”

The Systems Approach

“The main idea is to view the organisation both as a whole and as part of a larger environment”

- The business organisation is an open system - the business interacts with the external environment of which it is a part of
- Every organisation is part of an environment, which is part of an even bigger environment and so on

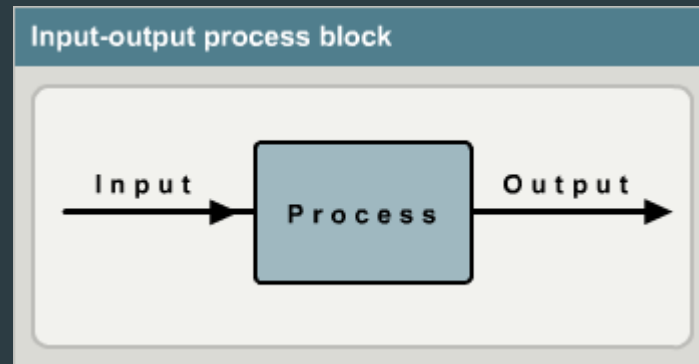
The Contingency Approach

- Deals with the issue of finding an organisational structure and management best suited for each organisation
- There is no one absolute way to do the above thing
- This approach is better seen as providing insights into "situational and contextual factors which influence management decisions"

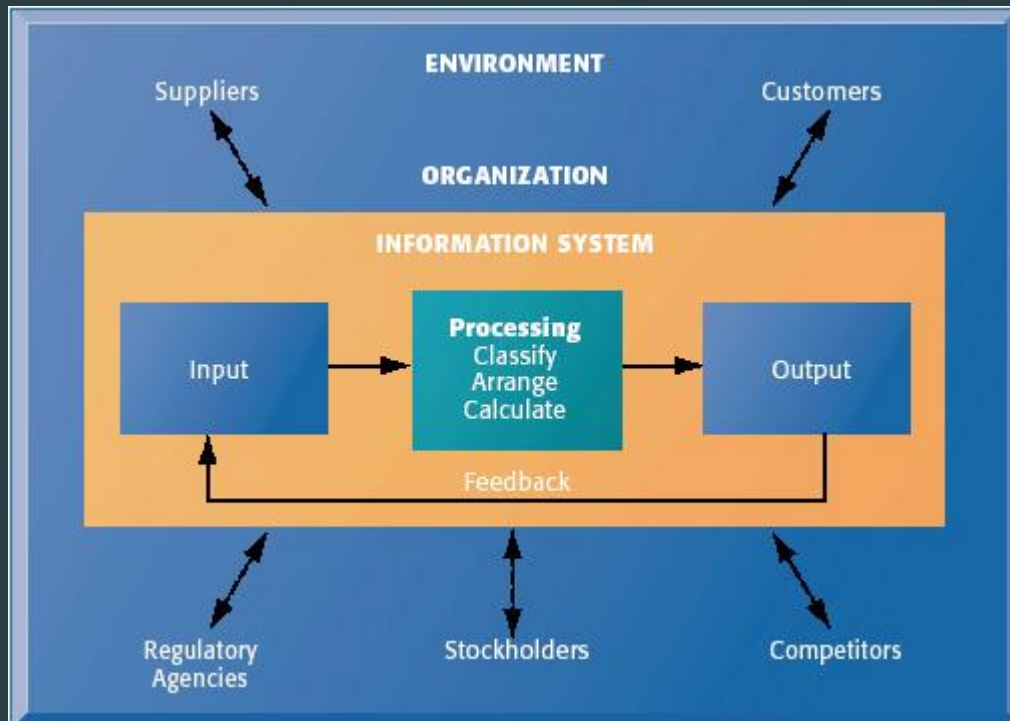
Leadership styles

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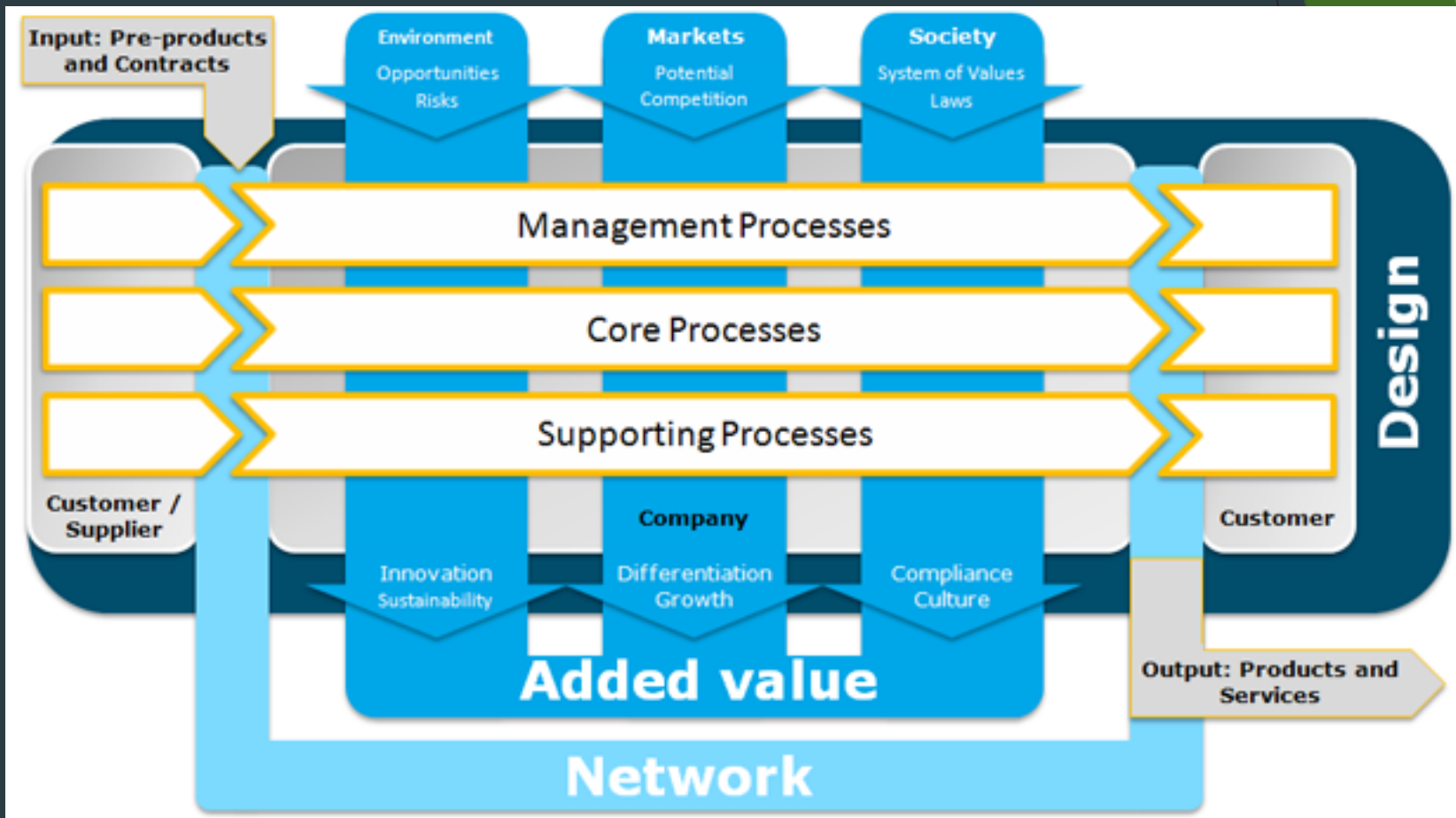
Organisation as an Input-output process



Organisation as an Input-Output Process



Organisation as an Input-Output Process



Benefits of excellent management: Adding value to stakeholders

