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Time Horizon in German Management: Goal-Orientated Helix

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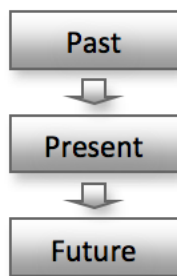
Abstract

Business Planning can be viewed either from a long-term orientated perspective as strategic planning or from a short-term orientated perspective as operative planning. For both levels of planning, the factor of time is crucial with respect to a process-related analysis. This is especially captured in the four approaches to a continuous improvement process focusing on employees, on costs, on time, or on quality.

Linear and Cyclical Conception of Time in Business Planning

Business management focuses on planning the future. It develops the fundamentals of prospective company actions, taking into account the changing context and changing conditions. As a result of change estimations, forecasts and prognoses are made. Due to the uncertainty of the future, planning is characterized by incomplete information. Therefore, forecasts and prognoses about the future are usually based on past experiences (cf. Macharzina, 1999). The main characteristic is a simple linear concept of time that consists of three steps: past, present and future. Time is therein perceived as a sequence of single periods, for example, on the basis of fiscal years. As a precondition of this linear time calculation, one or more reference points (or events) must be specified. These reference points may be more or less arbitrarily chosen and are viewed as “zero points”. In practice, the perception of time is characterized by the perceiving of changes. The repetition of the same events can also be viewed as a return to the starting point (that means, the zero point) while omitting the change or the changes in between. If the impression of repetition dominates, the “cyclical concept of time” emerges (cf. Mieg, 2005), in which change is perceived as a circle or cycle (Figure 1). This is not a contradiction to the linear concept, because it represents a framework that at the same time describes simultaneity and succession as well as past, present, and future.

Linear conception of time



Cyclical conception of time

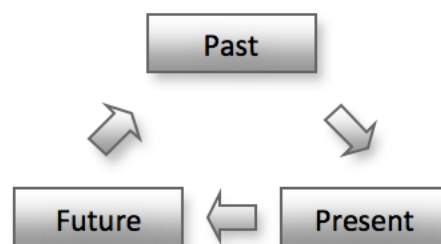


Figure 1: Linear vs. cyclical conception of time.

Strategic and operative planning

The aim of Business Planning is to achieve the best possible results by improving efficiency in decision-making and action. Business Planning is supposed to support risk identification and risk reduction and thus open new fields of action in advance (cf. Glaister and Falshaw, 1999; Kaplan and Beinhocker, 2003). It reduces the complexity of reality and contributes to the development of new ideas and actions. In simple terms, two questions are addressed: “Do we (that means the company) do the right things?” and “Do we do things right?” In finding the answers, the time horizon must be taken into account. With respect to a long-term perspective (for example over three or five years), the selection of the right strategy must be emphasized, whereas, with respect to a short-term perspective (for example in the operative field), the right implementation of the strategy

must be focused.

Figure 2 contrasts strategic with operative planning. Strategic planning is characterized by an irregular, event-oriented rhythm that focuses on the entire company. The planned measures are hardly revisable and therefore contain a high potential for risk. In contrast, the operative, rather short-term orientated, planning refers to the single divisions of the company and is highly detailed. It structures the individual business processes and therefore is easier to revise and improve in a step-by-step process (cf. Hahn and Hungenberg, 2001).

Dimension	Strategic planning	Operative planning
Time horizon	Rather long-term orientated	Rather short-term orientated
Rhythm	Rather irregular, event-related	Regular, process-related
Object	Total company	Divisions of company
Characteristics	Hardly revisable, risky	Revisable, step-wise improvable
Slogan	“Do we do the right things?”	“Do we do things right?”

Figure 2: Strategic vs. operative Business Planning.

Time and Strategic Business Planning

Let us take a look at a typical model of strategic planning with a long-term time horizon, characterizing both German and American approaches within the Boston Consulting Group (Figure 3). Typically, a product “runs” through five stages of sales-development: introduction, growth, maturity, saturation and decline. Each stage is characterized by different chances and risks of the marketing-strategy and the realization of sales volume potentials. Although only few products exactly follow the product life cycle curve, the concept provides relevant cues for long-term business planning (cf. Hahn, 2006; Henderson 1976).

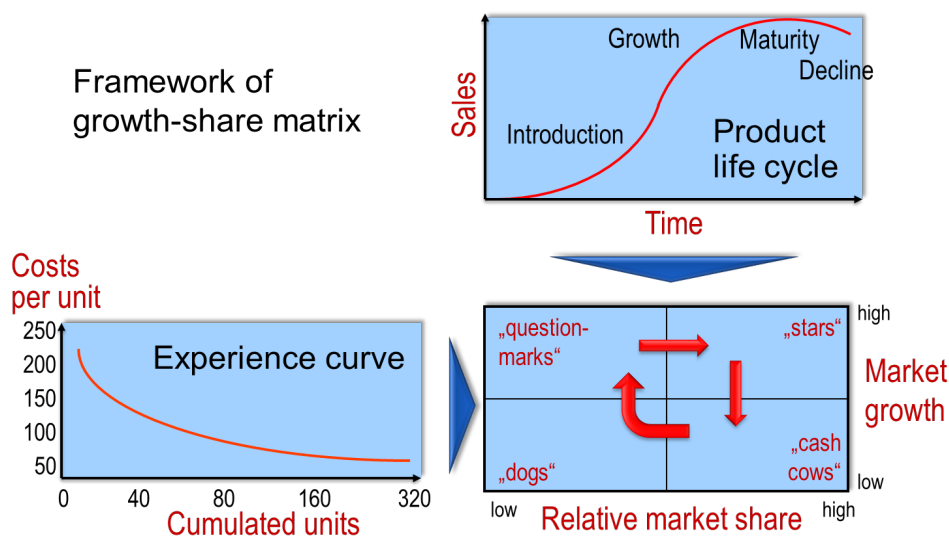


Figure 3: Time and strategic Business Planning.

In the first stage (Introduction) the costs per unit of the product are high and the market share is, by nature, small. Therefore, the introduction of a new product is risky. Best chances are provided by emerging markets. Once the product has been accepted by customers, the product enters the next stage: growth. The costs per unit decline and thus offer the potential to lower prices. This, in turn, improves the chance to increase the market-share. The increasing sales volume then leads to saturation tendencies in the market, so that in spite of decreasing costs a further investment in the product is not profitable. Instead, cash flow should be used to

support new products, which are still in the introduction stage.

This concept shows in a simplified manner the interaction of linear and cyclical temporal perspectives: Within a linear long-term time horizon, a cyclical generic strategy consisting of investment in new products and discontinuing investment in mature products helps to achieve business success.

Time and Operative Business Planning

Let us take a look at an example of process-orientated operative Business Planning (Figure 4). Based on the prescriptions of strategic planning, two time-critical cycles can be deduced. From the perspective of the market and the competitors, it is important to shorten the development time and to orientate the production according to the customer demands. In contrast, from the perspective of the single customer, short processing of orders and delivery reliability determine the purchase decision to a high degree. Both planning cycles coincide in an optimization of the fabrication and the value chain of the company (cf. Handfield et al, 2009).

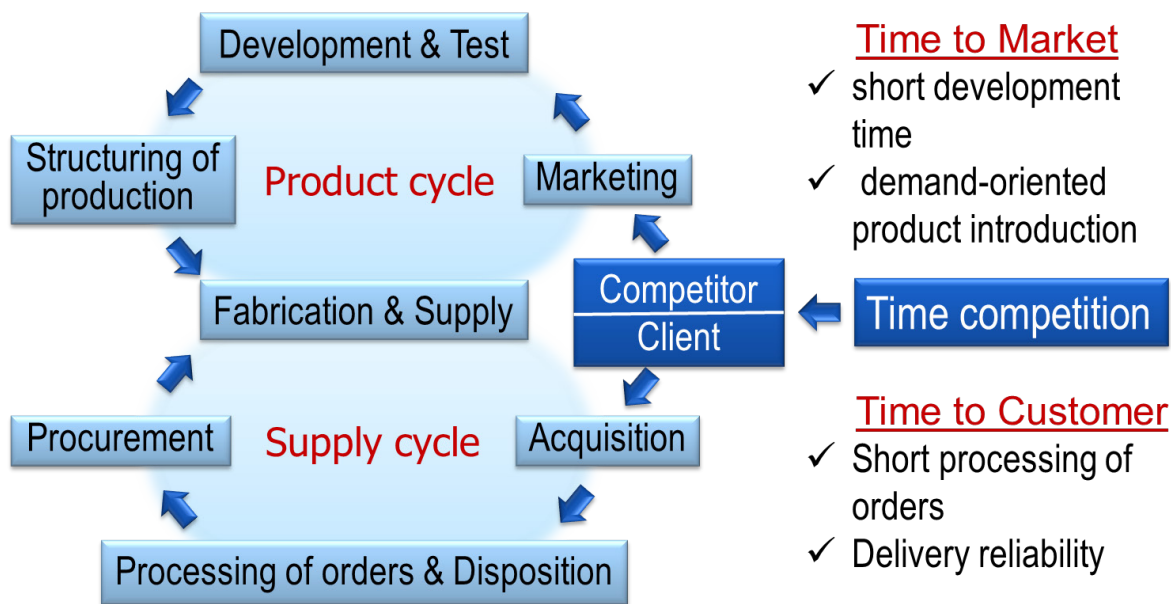


Figure 4: Time and operative Business Planning.

As already mentioned, operative planning is rather short-term orientated and is more easily adaptable to changing environmental conditions. Within operative planning, the orientation may be either process- or outcome-focused (Figure 5). The process-orientation enables fast reactions to support and accept suggestions from the employees, and thereby leads to an improved level of outcome. If the outcome is the main focus, the attention of the employees directly focuses on the outcome of performance. A systematic and continuous improvement of the activities leading to the outcome will not result.

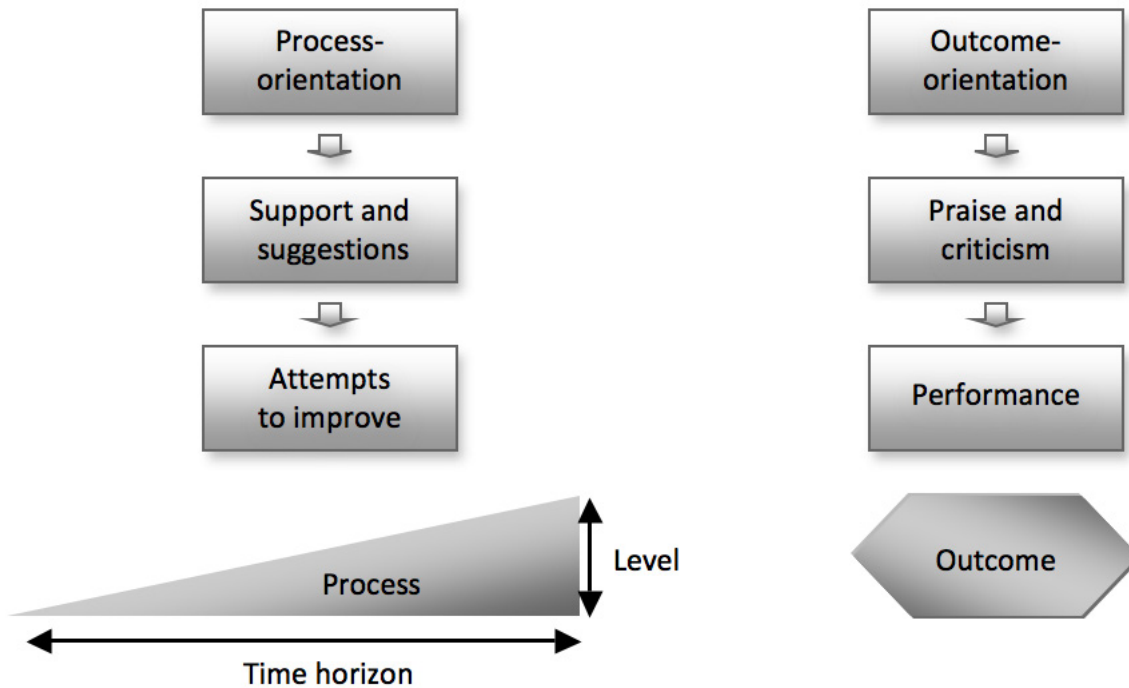


Figure 5: Process- vs. outcome-orientation.

Within the context of goal-orientation of Business Planning there are four approaches to an improvement process, which can contribute to a continuous increase in company results. They focus on employees (Total Employee Involvement, TEI), on costs (Total Productive Maintenance, TPM), on time (Just in Time, JIT), or on quality (Total Quality Control, TQC). These principles are similar to those found in the Japanese KAIZEN approach (cf. Imai, 1997, Menzel, 2009; Radina, 1995). This approach was first implemented in the automotive- and machine industries (cf. Robinson and Ginder, 1995).

If you focus on the employee (Figure 6), empirical investigations show the importance of systematically collecting and implementing improvement suggestions. This can be organized by moderated discussion groups for each working-step. These are not organized by the employees themselves, but led by the head of the working group.

By intensive involvement in the planning process the employees are not only required to participate in, but are also supported, by appraisals. Suggestions for quality-improvements and reduction of process-time are especially positively rewarded.

► Total Employee Involvement (TEI)

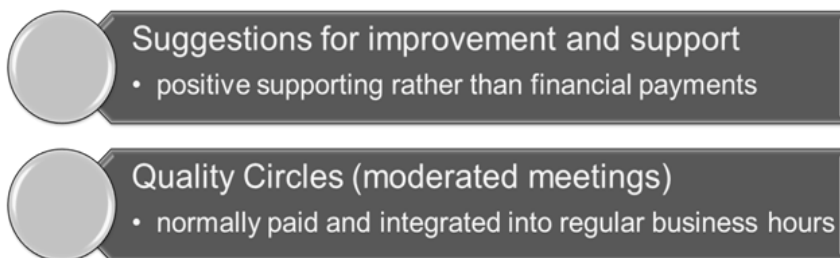


Figure 6: Focus on employees.

Focusing on cost reduction (Figure 7), the technical equipment of the production is especially important. Here, not only the machine operation and maintenance are regarded, but also the intensive training of machine operators must be taken into account. The operators should be able to predict possible machine defects and to react with preventive maintenance. This requires giving way to independent decision-making among the em-

ployees, so that they can perform maintenance functions on their own. This may lead to some breakdowns of the plant section or machines in individual cases, but overall it will increase the production capacity.

► **Total Productive Maintenance (TPM): Prevent waste of resources**

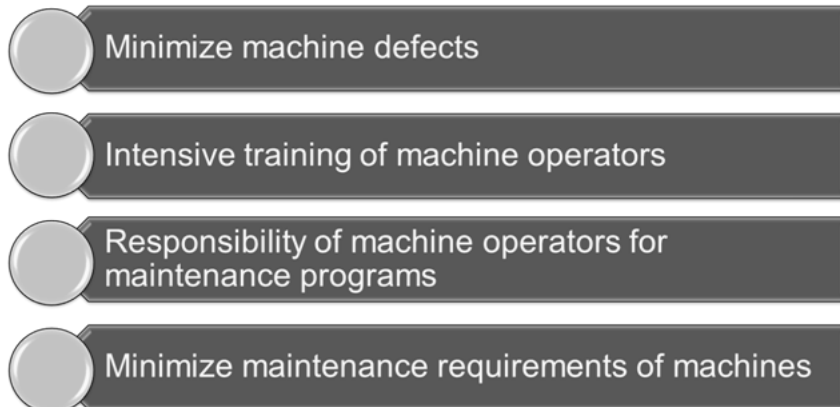


Figure 7: Focus on costs.

This leads directly to the focus on time and expands the view to the value chain as a whole (Figure 8). A balanced production, with minimized transport and stock time, is the focus of this approach. To achieve this, the cycle time (relation of working time to number of units sold) is important. This enables an immediate relation of the production planning to the market. Another important aspect is to ensure that production is centrally controlled according to the pull-principle, which means that the receiving production-stage controls the preceding production-stages. This should enable the amount of sales to directly control the production (cf. Wildemann, 2001).

► **Just in Time (JIT): Avoid waste of time**

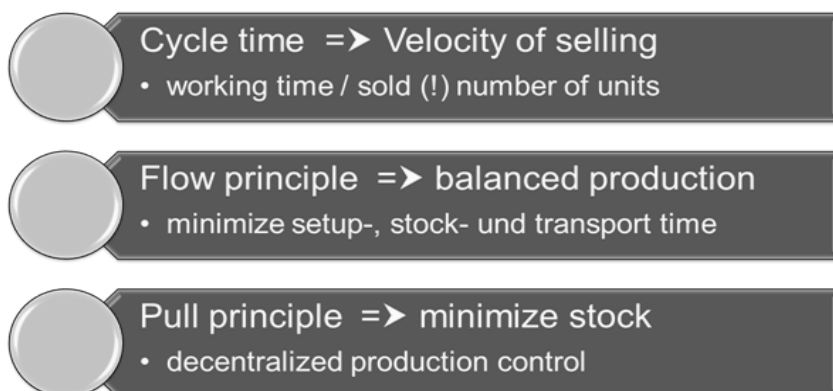


Figure 8: Focus on time.

At last, Business Planning is strongly determined by quality planning (Figure 9). Not only is the quality of the product essential, but so too is the customers' satisfaction. Along the whole value chain, from the sale of products, to production planning until service, all production-steps are shaped by quality control. Thus, it is obvious that a cyclical view of planning, where the focus on the process dominates, can lead to an improved end result (cf. Haak, 2003; Oess, 1993; Soltani et al., 2008).

- Total Quality Control (TQC): Quality according to customers perception



Figure 9: Focus on quality.

Summarizing, it should be demonstrated that the time horizon plays an essential role in business management (Figure 10). Based on a linear-structured time horizon in strategic planning, the operative detailed planning leads to the implementation of cyclical elements. As a result, a helix develops which by means of a newly-found definition of standards will lead to the achievement of a continuous improvement process.

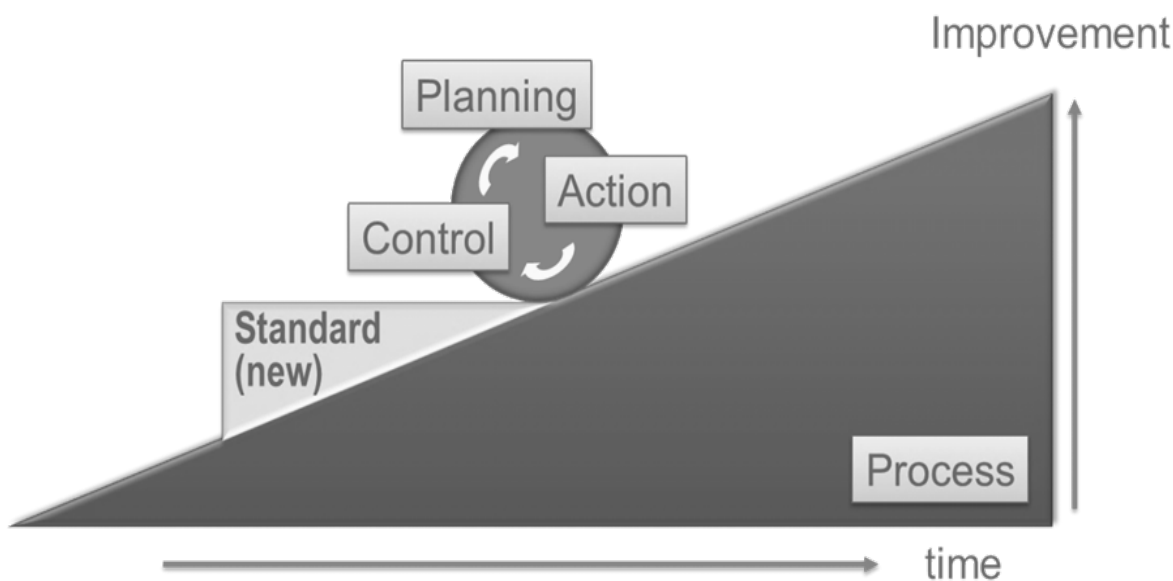


Figure 10: Goal-orientated helix: how it works.

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