Unit 1. Firm and Business Management

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

VNIVERSITAT DE VALÈNCIA

Departament de Direcció d'Empreses. Juan José Renau Piqueras

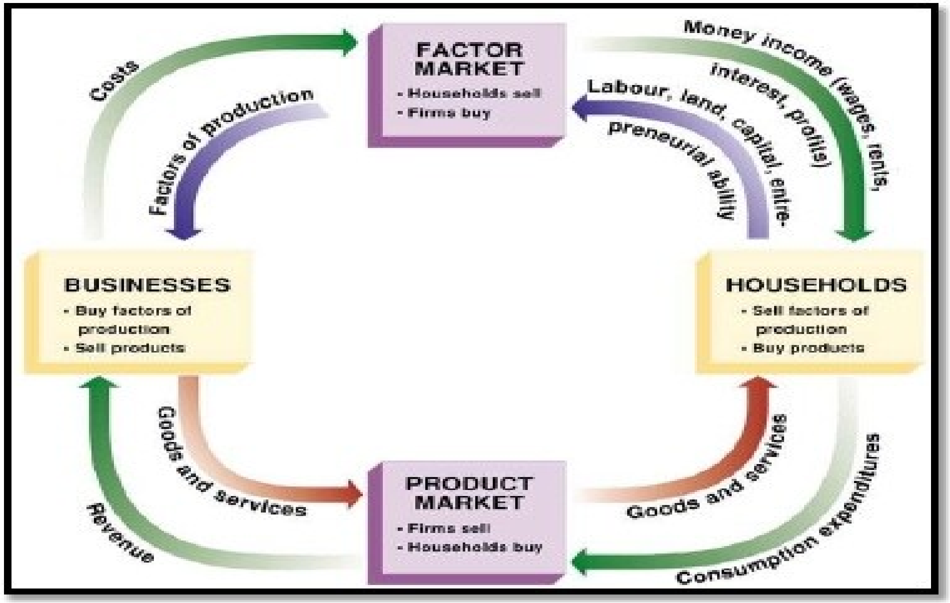
Learning Outcomes

- Define what a firm / company / enterprise is.
- Describe firm's elements
- Know the different firm classifications
- Define management.
- Explain why it’s important to study management.
- Describe the factors that are reshaping and redefining management.

Previous concepts

THE CIRCULAR FLOW

CIRCULAR FLOW DIAGRAM is a visual model of the economy that shows how money flows through markets among households and firms.



Unit 1. Firm and Business Management

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch.1

1.1. Firm: Definition and elements

Organization

A deliberate arrangement of people brought together to accomplish a specific purpose

Common Characteristics of Organizations

- ✓**Goals**
- ✓**People**
- ✓**Structure**

1.1. Firm: Definition and elements

Summarizing

Source: Robbins, Decenzo & Coulter (2013)

1.1. Firm: Definition and elements

- What is an Organization?
- A group of individuals
- That using some resources, carry out several activities
- According to structured relationships
- With the aim of achieving a common goal

- What is a firm?
- A specific organization
- That combines a set of resources
- To obtain goods and services
- That provide value- added.
- It could be defined as a Technical and Economic Unit, social-political, and Decision Unit.

1.1. Firm: Definition and elements

Not all the organizations are companies, but ALL the companies are ORGANIZATIONS

✓ **What differentiates firms/companies/enterprises from other organizations?**

- **It is usually said that their main purpose is PROFIT-MAKING. That means their ultimate objective, even though there may be others, is to make profit and distribute it to its owners.**
- **But, is it always true?**

1.1. Firm: Definition and elements

- **A firm is a technical and economic unit**
  - **because transforms resources in products or services (technical function). In this transformation, an economic value is generated (economic function).**
- **A firm is a social-political unit**
  - **because it is formed by individuals. Decisions are determined by using political processes.**
- **A company is a decision unit**
  - **Because an individual or individuals (managers) are concerned to establish an structure and formal relations, to achieve the set objectives.**

1.1. Firm: Definition and elements

Elements

- **People**
  - Owners of economic goods
  - Managers
  - Employees

- **Economic Goods**
  - Equity Capital and Financial Resources
  - Tangible/physical resources: fixed & current assets
  - Intangible resources

1.2. Firm as a System

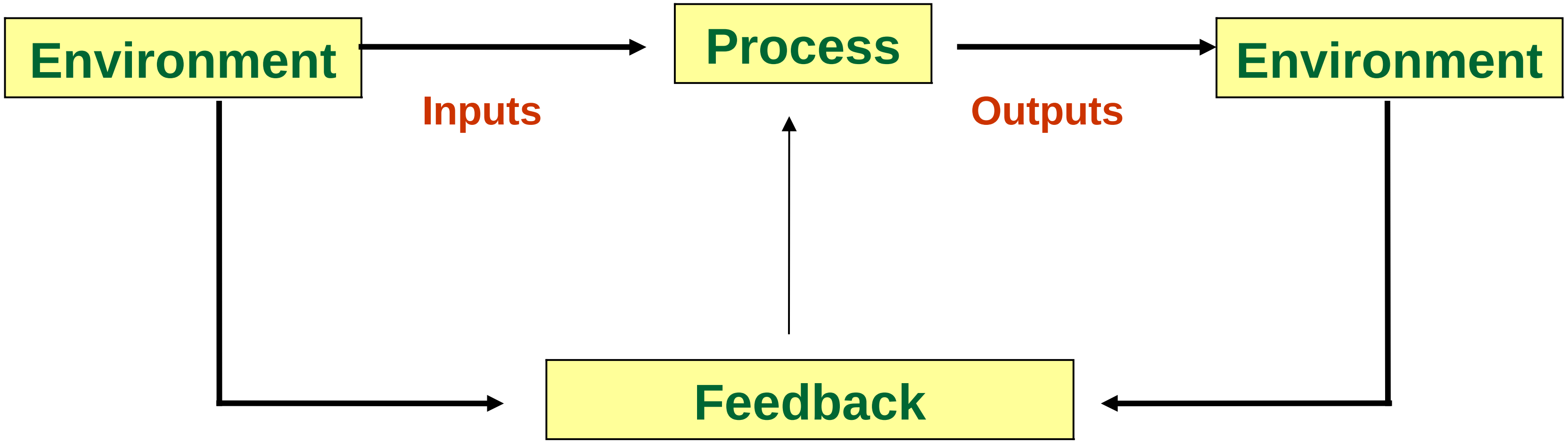
A System is:

- **A set of interdependent components**
- **Related by a structure**
- **To achieve an aim**

A firm is a System because:

- **It consists of a serial of interrelated elements (material, immaterial and human).**
- **It has a deliberate organizational structure**
- **It tries to achieve prefixed goals**

1.2. Firm as a System



A firm is an open, artificial and socio-tecnical system.

1.2. Firm as a System

Characteristics of a System:

- **Aim**
- **Globality**
- **Divisions into subsystems**
- **Hierarchical relationships with other systems**
- **Synergy**

Characteristics of an Open System:

- **Open systems import, transform and emit some energy to the environment to work.**
- ***Feedback* is what allows operation and control**
- **Equifinality allows to achieve the same goals through different paths.**

1.2. Firm as a System

Subsystems:

1. Procurement and logistics
2. Operations
3. Marketing
4. Financial
5. Human Resources (HR)
6. Research, Development and innovation (R+D+i+d)
7. Management

1.2. Firm as a System

1.- Procurement and logistics

Purpose: **procurement of raw materials, various materials and storage, until production begins.**

Functions:

- **Determine whether to produce or acquire inputs.**
- **Select suppliers and / or subcontractors.**
- **Define purchasing and stores management.**
- **Define reception, means, organization and maintenance of the store.**
- **Perform quality control of inputs.**
- **To determine the ordering policy and the criteria for replacement.**

1.2. Firm as a System

2.- Operations

Purpose: **It's responsible for developing a creative activity for goods or services capable of satisfying human needs.**

Functions:

- **Definition of the technical characteristics of the product to be manufactured.**
- **Production system design.**
- **Determining the location and design of the plant.**
- **Maintenance and upkeep of facilities and production capacity**
- **Production performance and technical control**
- **Analysis of the temporal scheduling of tasks.**

1.2. Firm as a System

3.- Marketing

Purpose: It's responsible for the sale and distribution of goods and services, and for connecting the company to the market.

Functions:

- Understanding and market analysis

- Conquering the markets: 4 P´s (marketing-mix)
  - Product
  - Price
  - Place
  - Promotion

1.2. Firm as a System

4.- Financial

Purpose: **It's responsible for finding funds to finance business activities and its distribution to different areas or investment alternatives.**

Functions:

- **Attracting external funding with lower costs according to the interest rates, guarantees, debt maturity, etc.**
- **Determine the financial structure of the company.**
- **Determine the dividends policy and self-funding.**
- **Manage liquidity.**
- **Distribute total funds among different subsystems.**
- **Analyze different investment alternatives and prioritize.**

1.2. Firm as a System

5.- Human Resources (HR)

Purpose: **It's responsible for getting the HR the company needs to fill the jobs , with the necessary level of motivation, knowledge, skills and attitude to achieve goals.**

Functions:

- **HR Recruitment**
- **HR Motivation**
- **HR development**

To perform these fuctions, HR management has a few *support fuctions*:

- **HR information system**
- **HR planning**
- **HR performance evaluation.**

1.2. Firm as a System

6.- R+D+i+d

Purpose: It's responsible for carrying out research on materials, processes and products to match the needs of current and potential customers.

Functions:

- Basic research
- Applied research
- Development
- Adaptation

7.- Management

Purpose: It's responsible for coordinating different subsystems and the relationships between the company and the environment, in order to achieve business goals.

Functions:

- **Planning**
- **Organizing**
- **Controling**

What Is Management?

lanagement is the *process* of getting things done
***ffectively* and *efficiently*, with and through people**

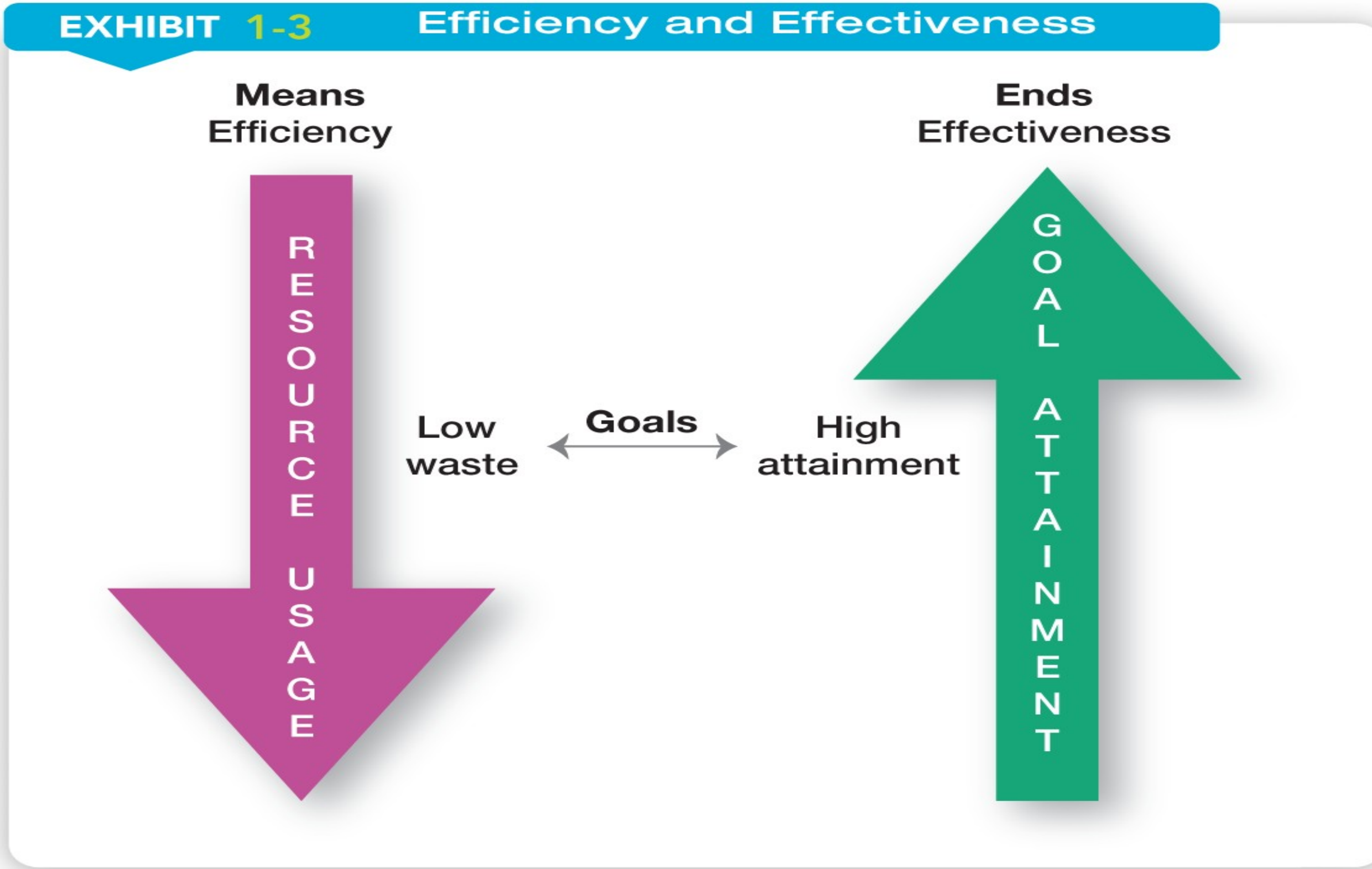
- **Effectiveness**

“Doing the right things”: the tasks that help an organization reach its goals

- **Efficiency**

Doing things right”: the efficient use of such resource as people, money, and equipment

1.3. Business Management



Source: Robbins, Decenzo & Coulter (2013)

1.3. Business Management

Economic Contributions

- **Fundamental to understand the firm as a technical-economic unit.** Transformation process that adds value.
- **Is concerned with the efficient allocation of scarce resources.** Without “scarcety”, economy makes no sense.
- **Greater emphasis on market research than on firms’s operation.**
- **Is focused on understanding when and why the market is more efficient in allocating resources and then so are the alternative markets (organizations-companies).**

1.3. Business Management

Sociology and Phsychology contributions

- Fundamental to understand the firm as a social-political unit.
- Organizations are understood and analyzed as groups of interdependent people.
- Focus on interests of individual and group goals and mechanisms to solve conflicts.
- Human behavior (individual and groupal) and their role in achieving the firm's goals are essential contributions to understand the firm’s performance.

1.3. Business Management

Business Management contributions

- **Questions raised**
  - Why do some businesses succeed and others not?
  - Which aspects and operational variables can explain the success and business failure?
  - How can we improve the firms' performance?

- **Adopts an integrative approach**

➢ Focused both on the inner workings of the firm, and in relations between the company and its environment.

➢ The aim of B. M. is to improve the efficiency and effectiveness, for that is necessary to improve the three dimensions of the company:

  - Technical-economic dimension
  - Social-political dimension
  - Decision making

What Factors Are Reshaping and Redefining M ?

Today, managers must deal with:

Changing workplaces

Ethical and trust issues

Global economic uncertainties

Changing technologies

1.3. Business Management

Why Are Customers

- Without customers, most organizations would cease to exist.
- Employee attitudes and behaviors play a big p customer satisfaction.
- Managers must create a customer-responsive environment where employees are friendly, knowledgeable, and sensitive to customer nee

Why Is Innovation

“Nothing is more risky than not innovatin

Innovation isn’t only important for high techn companies; it is essential in all types of organ

1.4. Types of firms

- **ECONOMIC CRITERION**
  - **By Size:**
    - **Micro, small, medium-sized and large**
  - **By Activity:**
    - **Primary production**
    - **Secondary production**
    - **Tertiary production**
  - **By Geographical Scope:**
    - **Nationals**
    - **Internationals**
  - **By Ownership:**
    - **Public/State sector**
    - **Private sector (capital firms)**
    - **Social Economy (for profit and not for profit organizations)**
- **LEGAL CRITERION**
  - **Property of the capital:**
    - **Public / State owned companies**
    - **Private companies**
  - **Legal Form: Business entities**
    - **Individual businesses**
    - **Capital firms (eg: SA (SP) ≈ PLC(UK) ≈ AG (GE), SL (SP) ≈ LTD (UK) ≈ GmbH (GE), SCOOP(SP) ≈ COOP (UK) ≈ eG (GE)**
    - **Cooperatives/Mutual societies (exists with the purpose of raising funds from its membership or customers, which can then be used to provide common services to all members of the organization, eg: consumer, worker or housing coops.; health, insurance, savings mutuals)**
    - **Welfare companies: NPO, foundations, associations, etc.**

1.4. Types of firms

Economic Criterion

By Size: micro, small, medium-sized and large (European Commission, 2005)

THERSHOLD S/SIZE	Staff Headcount	Annual Turnover (Million euros)	Annual Balance Sheet (Million euros)
Micro	< 10	≤ 2	≤ 2
Small	10 - 49	>2 – ≤10	>2 – ≤10
Medium-sized	50 - 249	> 10 - ≤ 50	> 10 - ≤ 43
Large	> 249	> 50	> 43

Just as it is obligatory to respect the thresholds referred to the computing staff, an SME (micro, small and medium enterprises) may choose to meet either criteria the limit of turnover or balance sheet. Does not have to collect both and can overcome one of the two without losing their status.

1.4. Types of firms

Primary Sector

Primary sector of the economy extracts or harvests products from the earth. The primary sector includes the production of raw material and basic foods. Activities associated with the primary sector include agriculture (both subsistence and commercial), mining, forestry, farming, grazing, hunting and gathering, fishing, and quarrying. The packaging and processing of the raw material associated with this sector is also considered to be part of this sector.

Secondary Sector

The secondary sector of the economy manufactures finished goods. All of manufacturing, processing, and construction lies within the secondary sector. Activities associated with the secondary sector include metal working and smelting, automobile production, textile production, chemical and engineering industries, aerospace manufacturing, energy utilities, engineering, breweries and bottlers, construction, and shipbuilding.

Tertiary Sector

The tertiary sector of the economy is the service industry. This sector provides services to the general population and to businesses. Activities associated with this sector include retail and wholesale sales, transportation and distribution, entertainment (movies, television, radio, music, theater, etc.), restaurants, clerical services, media, tourism, insurance, banking, healthcare, and law.

NOTE: Quaternary Sector (Information and Knowledge Society) and Quinary Sectors (Leisure, Education and Health)

Unit 2. Businessman/woman, manager and corporate governance

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

- Tell who managers are and where they work.
- Know the differences between owners and managers.
- Describe what managers do.
- Define corporate governance.

Unit 2. Businessman/woman, manager and corporate governance

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch.1

2.1. Owners and managers

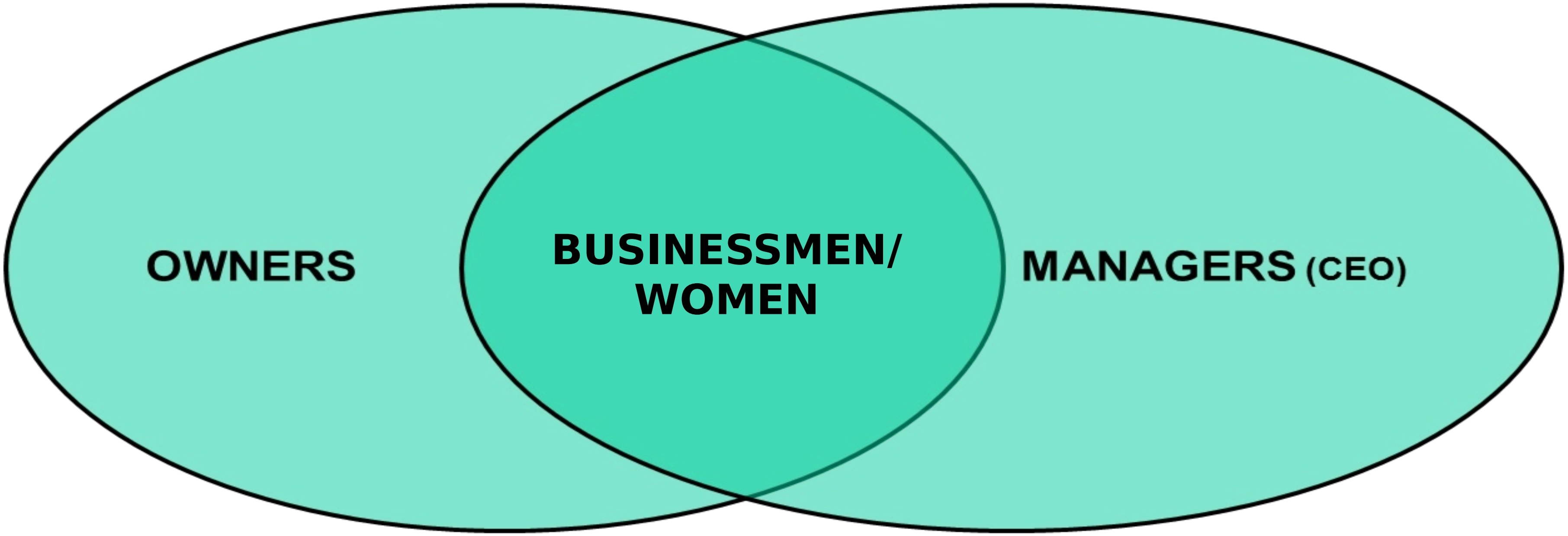
<u>**Firm's ownership:**</u> **Belongs to individuals who have invested their capital to fund the firm's investment (asset). Shareholder, other kind of investor members**

In some cases, the firm is owned by other kind of members as employees or consumers... i.e: cooperatives, foundations, NGO

<u>**Firm's management:**</u> **is carried out by individuals or groups of individuals with authority to:**

- **Set goals and make the necessary decissions to achieve those goals.**
- **Manage and coordinate other's work.**

2.1. Owners and managers



Businessman/woman: is the individual that is, both, owner and manager of the firm. (or more than one individual)

2.1. Owners and managers

How Are Managers Different from Nonmanagerial Employees?

Nonmanagerial Employees

- People who work directly on a job or task and have no responsibility for overseeing the work of others
- Examples: Associates and Team Members

Managers

- Individuals in organizations who direct the activities of others

2.1. Owners and managers

1. Risk Entrepreneur (Knight, 1921)

- Risk, Uncertainty and Profit.

2. Innovator (Schumpeter, 1911 y 1942)

- Innovator entrepreneur

3. Manager (Galbraith, 1967)

- experts in decision-making, as a result of the separation between corporate ownership and management.

2.1. Owners and managers

CONCEPT	CHARACTERISTICS	RELATIONSHIP	THEORIES
Businessman/ woman	Business owner that assumes capital risk and participate in the decision making process	Businessman is owner and manager.	Knight
Owner/ Shareholder/ member	Business owner that assumes capital riskl (If social capital is divided into shares, they are called shareholders)	Every businessman is owner but not all owners are businessmen.	Knight
Entrepreneur	Businessman capable of carrying out an innovation	Not all businesmen are innovators.	Schumpeter
INTRA-Entrepreneur	Individuals capable of carrying out an innovation on a firm that don't belong to them.	Intra- Entrepreneurs can be or not managers. Intra-Entrepreneus are not owners.	Schumpeter
Managers (CEO)	Individuals with authority in the firm that participate in the decision-making process, but they are not owners.	Contractual.	Galbraith

2.2. Managers: roles and levels

Four Management Functions ***(Henri Fayol)***

Planning

- Defining the organizational purpose and ways to achieve it

Organizing

- Arranging and structuring work to accomplish organizational goals

Leading

- Directing the work activities of others

Controlling

- Monitoring, comparing, and correcting work performance

2.2. Managers: roles and levels

EXHIBIT 1-5 **Mintzberg's Managerial Roles**

INTERPERSONAL ROLES

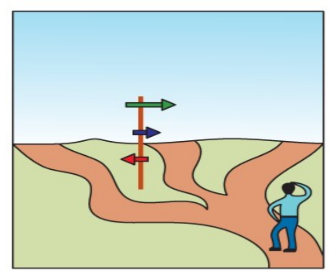
- Figurehead
- Leader
- Liaison

INFORMATIONAL ROLES

- Monitor
- Disseminator
- Spokesperson

DECISIONAL ROLES

- Entrepreneur
- Disturbance handler
- Resource allocator
- Negotiator



Source: Based on Mintzberg Henry, *The Nature of Managerial Work,* 1st edition, © 1973.

Source: Robbins, Decenzo & Coulter (2013)

2.2. Managers: roles and levels

Minzberg Manager's Role: Update

Manager's role is to influence action by:

(1) Managing actions directly

(2) Managing people who take action

(3) Managing information that propels people to take action

Manager's dual roles include:

- Framing (what?)
- Scheduling (when? and who?)

2.2. Managers: roles and levels

What Skills Do Managers Need?

- **Conceptual Skills**
  - Used to analyze and diagnose complex situations
- **Interpersonal Skills**
  - Used to work with, understand, and motivate individuals and groups
- **Technical Skills**
  - Involve job-specific knowledge and techniques required to perform tasks
- **Political Skills**
  - Used to build a power base and establish connections

2.2. Managers: roles and levels

Source: Robbins, Decenzo & Coulter (2013)

2.2. Managers: roles and levels

Top Managers

- Make decisions about the direction of the organization
- Examples: President, Chief Executive Officer, Vice-President

Middle Managers

- Manage the activities of other managers
- Examples: District Manager, Division Manager

First-line Managers

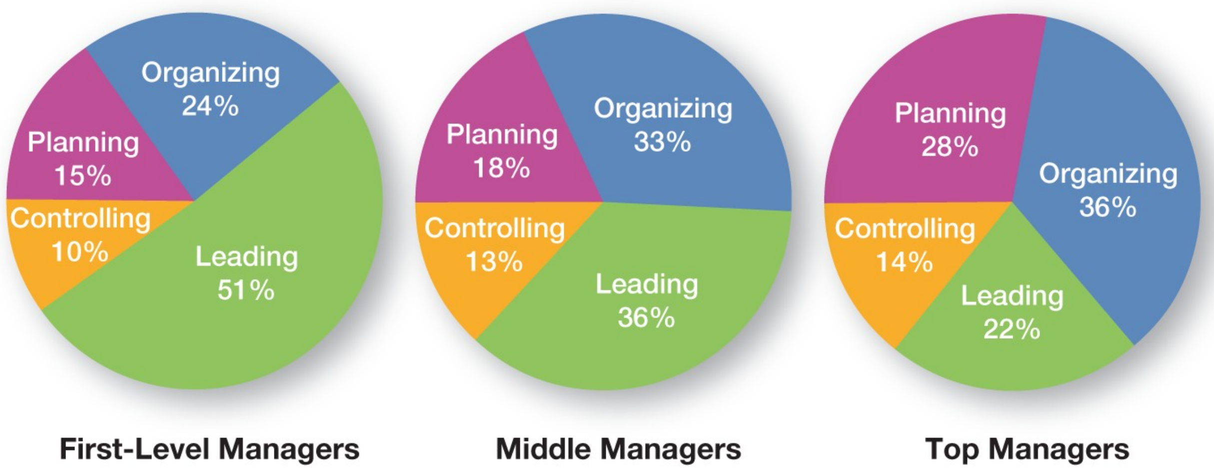
- Direct nonmanagerial employees
- Examples: Supervisor, Team Leader

2.2. Managers: roles and levels

Is the Manager's Job Universal?

- **Level in the Organization**
- **Profit vs. Nonprofit**

EXHIBIT 1-6 Management Activities by Organizational Level



Source: Based on T. A. Mahoney, T. H. Jerdee, and S. J. Carroll, "The Job(s) of Management, *Industrial Relations,* 4, no. 2 (1965), p. 103.

Source: Robbins, Decenzo & Coulter (2013)

2.2. Managers: roles and levels

Is the Manager's Job Universal?

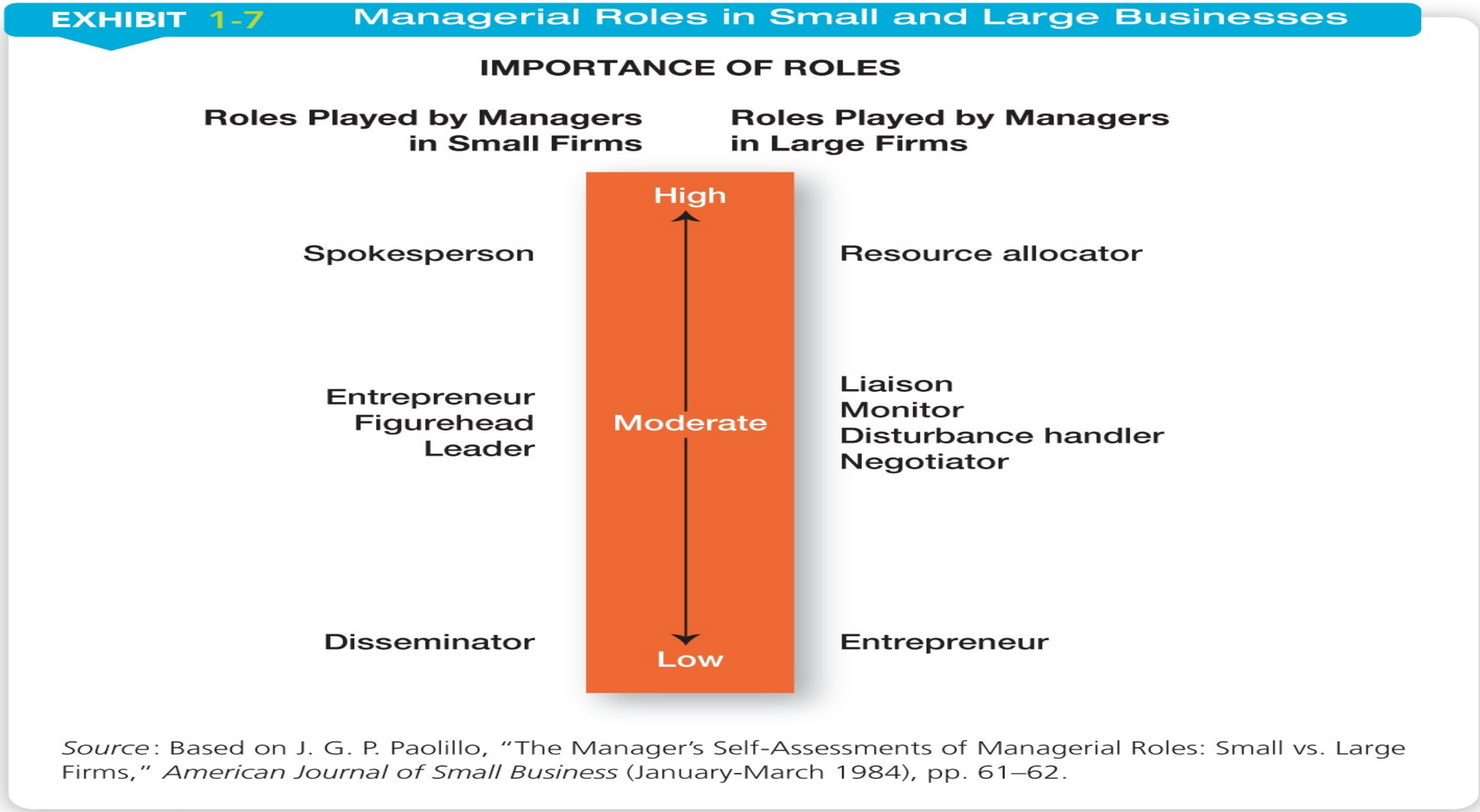
Size of the organization

Dictates the manager's main roles and time spent in each role

Transferability of managerial concepts

Requires modification with countries other than free-market democracies

2.2. Managers: roles and levels



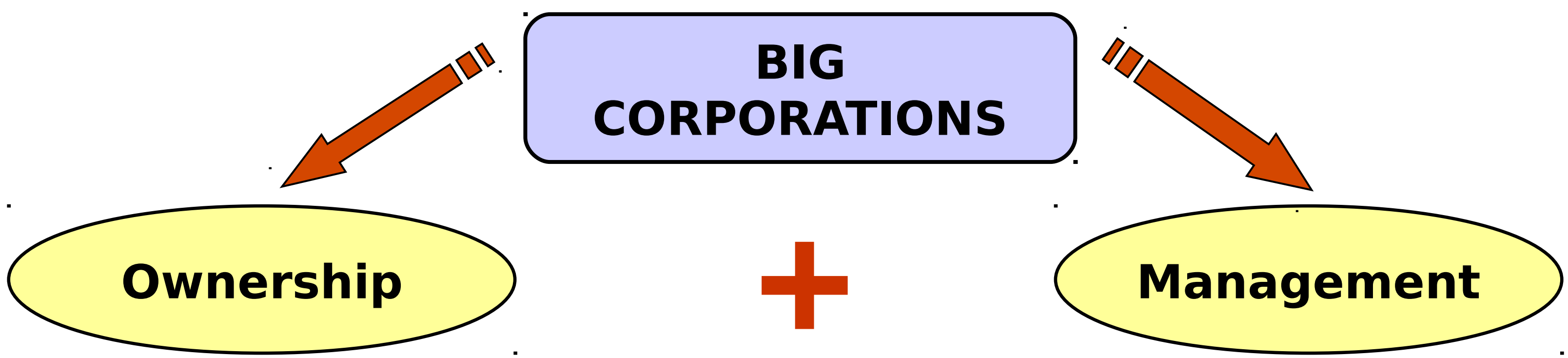
Source: Robbins, Decenzo & Coulter (2013)

2.3. Corporate governance

Corporate Govenance, definition

Set of mechanisms that can be used by owners to exercise control over the firm, in order to align the managers' interests with their own.

Extra Info: OECD (Organisation for Economic Co-operation and Development)



2.3. Corporate governance

Shareholders' general meeting

- In a Public Company / Society
- Where owners are represented

Board of directors

- Set of managers

Unit 3. The environment

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

- Explain what the external environment is and why it's important.
- Discuss how the external environment affects managers.
- Define what organizational culture is and explain why it's important.
- Describe how organizational culture affects managers.

Unit 3. The environment

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch.2

Johson, Whittington & Scholes (2012): Fundamenltals of Strategy. Pearson 2nd Edition. Ch.2

Previous concepts

- Try to explain, with your own words, what the environment is and why it's important

What Is Environment?

Environment is the factors, forces, situations, and events outside the organization that affect its performance.

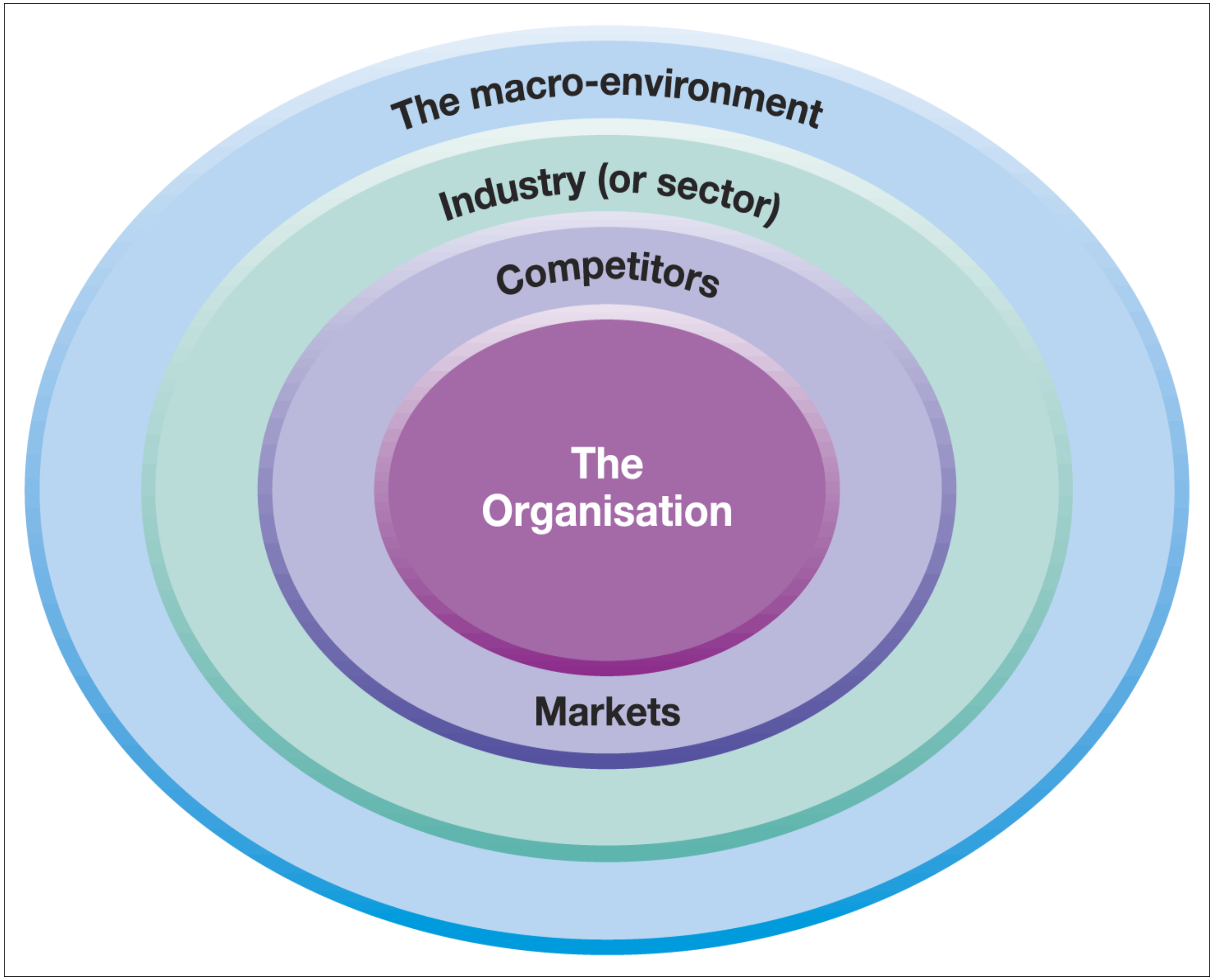
Assessing Environmental Uncertainty

EXHIBIT 2-2 Environmental Uncertainty Matrix

	Stable	Dynamic
Simple	**Cell 1** Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	**Cell 2** Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
Complex	**Cell 3** Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	**Cell 4** Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

Source: Robbins, Decenzo & Coulter (2013)

Layers of the business environment



Source: Johnson, Whittington & Scholes (2012)

3.1. The macro-environment

Components of Environment. The classical approach.

Source: Robbins, Decenzo & Coulter (2013)

3.1. The macro-environment

The PESTEL framework

- Current strategic diagnostic tool developed during the last 10 years to assess the firm's macro-environment

3.1. The macro-environment

The PESTEL framework categorises environmental influences into six main types:

Political, Economic, Social, Technological, Environmental and Legal

Thus PESTEL provides a comprehensive list of influences on the firm's performance

3.1. The macro-environment

The PESTEL framework

Political Factors: For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).

Economic Factors: For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.

Socio-cultural Factors: For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

3.1. The macro-environment

The PESTEL framework

Technological Factors: For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.

Environmental ('Green') Factors: For example, environmental protection regulations, energy consumption, global warming, waste disposal and re-cycling.

Legal Factors: For example, competition laws, health and safety laws, employment laws, licensing laws, IPR laws.

3.1. The macro-environment

Key drivers for change:

- The environmental factors likely to have a high impact on the success or failure of the company performance.
- For example, the birth rate is a key driver for those planning nursery education provision in the public sector.
- Typically key drivers vary by industry or sector.

3.1. The macro-environment

Using the PESTEL framework

(1) Apply *selectively* –identify specific factors which impact on the industry, market and organisation in question.

(2) Identify factors which are *important currently* but also consider which will become *more important in the next few years.*

(3) Use *data* to support the points and analyse trends using up to date information

(4) Identify opportunities and threats – the main point of the exercise!

3.2. The competitive-environment

Industries, markets and sectors

An industry is a group of firms producing products and services that are essentially the same. For example, automobile industry and airline industry.

A market is a group of customers for specific products or services that are essentially the same (e.g. the market for luxury cars in Germany).

A sector is a broad industry group (or a group of markets) especially in the public sector (e.g. the health sector)

3.2. The competitive-environment

Porter's five forces framework

It helps identify the attractiveness of an industry in terms of five competitive forces:

the threat of entry,

the threat of substitutes,

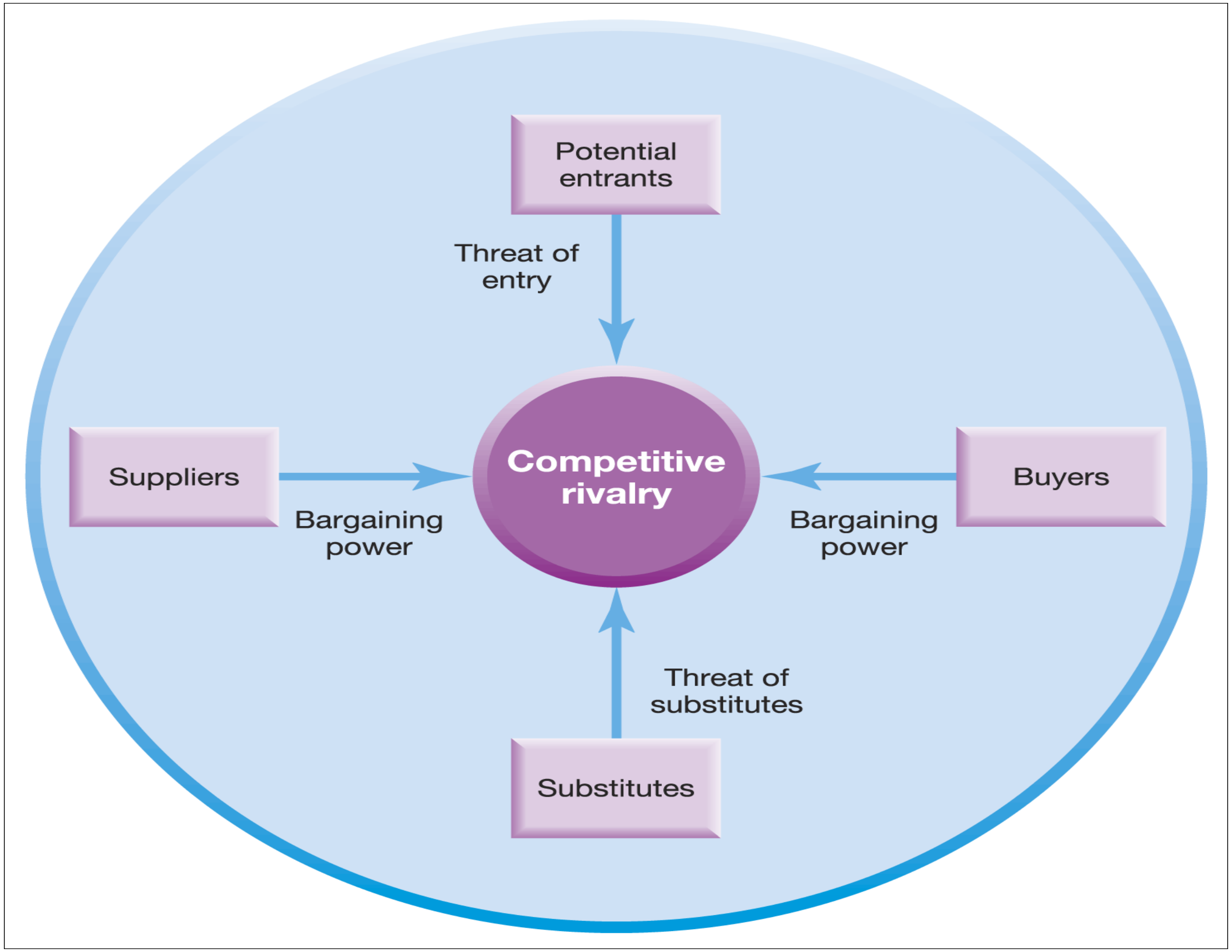
the bargaining power of buyers,

the bargaining power of suppliers and

the extent of rivalry between competitors.

The five forces constitute an industry's 'structure'.

Porter's five forces framework



Source: Johnson, Whittington & Scholes (2012)

3.2. The competitive-environment

The Threat of Entry & Barriers to Entry

- **The threat of entry is low when the barriers to entry are high and vice versa.**
- **The main barriers to entry are:**
  - **Economies of scale/high fixed costs**
  - **Experience and learning**
  - **Access to supply and distribution channels**
  - **Differentiation and market penetration costs**
  - **Government restrictions (e.g. licensing)**
- **Entrants must also consider the expected retaliation from organisations already in the market**

3.2. The competitive-environment

Threat of Substitutes

- **Substitutes are products or services that offer a similar benefit to an industry's products or services, but by a different process.**
- **Customers will switch to alternatives (and thus the threat increases) if:**
  - **The price/performance ratio of the substitute is superior (e.g. aluminium maybe more expensive than steel but it is more cost efficient for some car parts)**
  - **The substitute benefits from an innovation that improves customer satisfaction (e.g. high speed trains can be quicker than airlines from city centre to city centre)**

3.2. The competitive-environment

The bargaining power of buyers

- **Buyers are the organisation's immediate customers, not necessarily the ultimate consumers.**
- **If buyers are powerful, then they can demand cheap prices or product / service improvements to reduce profits .**
- **Buyer power is likely to be high when:**
  - **Buyers are concentrated**
  - **Buyers have low switching costs**
  - **Buyers can supply their own inputs (backward vertical integration)**

3.2. The competitive-environment

The bargaining power of suppliers

Suppliers are those who supply what organisations need to produce the good or service. Powerful suppliers can eat into an organisation's profits.

Supplier power is likely to be high when:

- **The suppliers are concentrated (few of them).**
- **Suppliers provide a specialist or rare input.**
- **Switching costs are high (it is disruptive or expensive to change suppliers).**
- **Suppliers can integrate forwards (e.g. low cost airlines have cut out the use of travel agents).**

3.2. The competitive-environment

Rivalry between competitors

- **Competitive rivals are organisations with similar goods and services aimed at the same customer group and are direct competitors in the same industry/market (they are distinct from substitutes).**
- **The degree of rivalry is increased when :**
  - **Competitors are of roughly equal size**
  - **Competitors are aggressive in seeking leadership**
  - **The market is mature or declining**
  - **There are high fixed costs**
  - **The exit barriers are high**
  - **There is a low level of differentiation**

3.2. The competitive-environment

Implications of five forces analysis

- **Identifies the *attractiveness* of industries – which industries/markets to enter or leave.**
- **Identifies *strategies to influence* the impact of the forces, for example, building barriers to entry by becoming more vertically integrated.**
- **The forces may have a *different impact on different organisations* e.g. large firms can deal with barriers to entry more easily than small firms.**

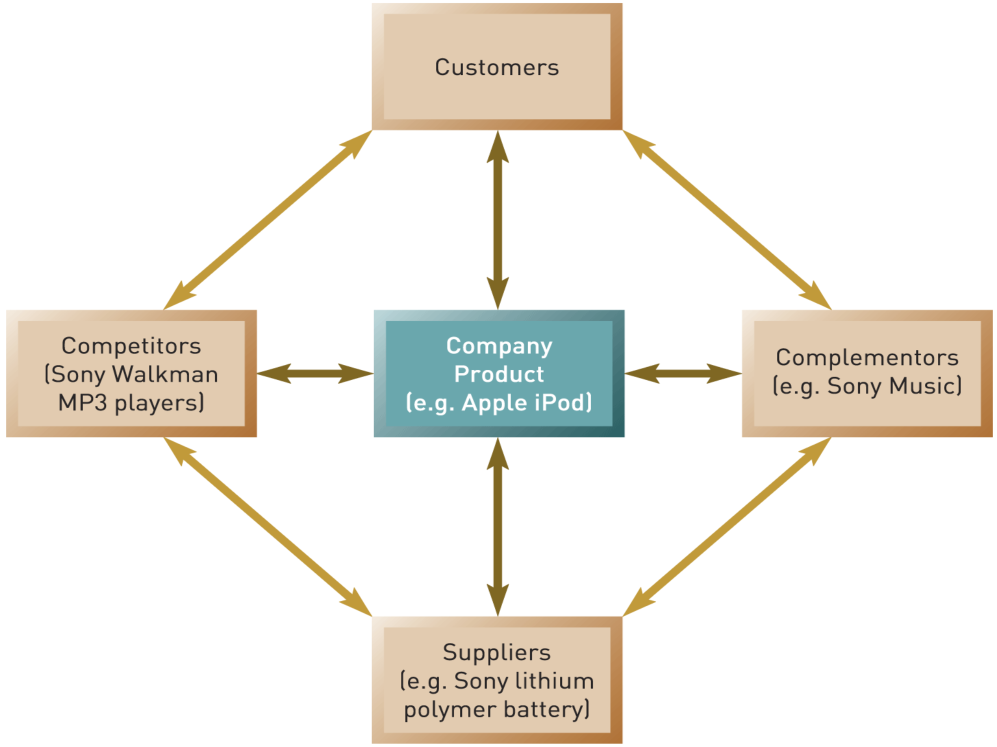
3.2. The competitive-environment

Issues in five forces analysis

- **Apply at the most *appropriate level* – not necessarily the whole industry. E.g. the European low cost airline industry rather than airlines globally.**
- **Note the *convergence* of industries – particularly in the high tech sectors (e.g. digital industries - mobile phones/cameras/mp3 players).**
- **Note the importance of *complementary* products and services (e.g. Microsoft windows and McAfee computer security systems are complements). This can almost be considered as a sixth force.**

3.2. The competitive-environment

The Value Net



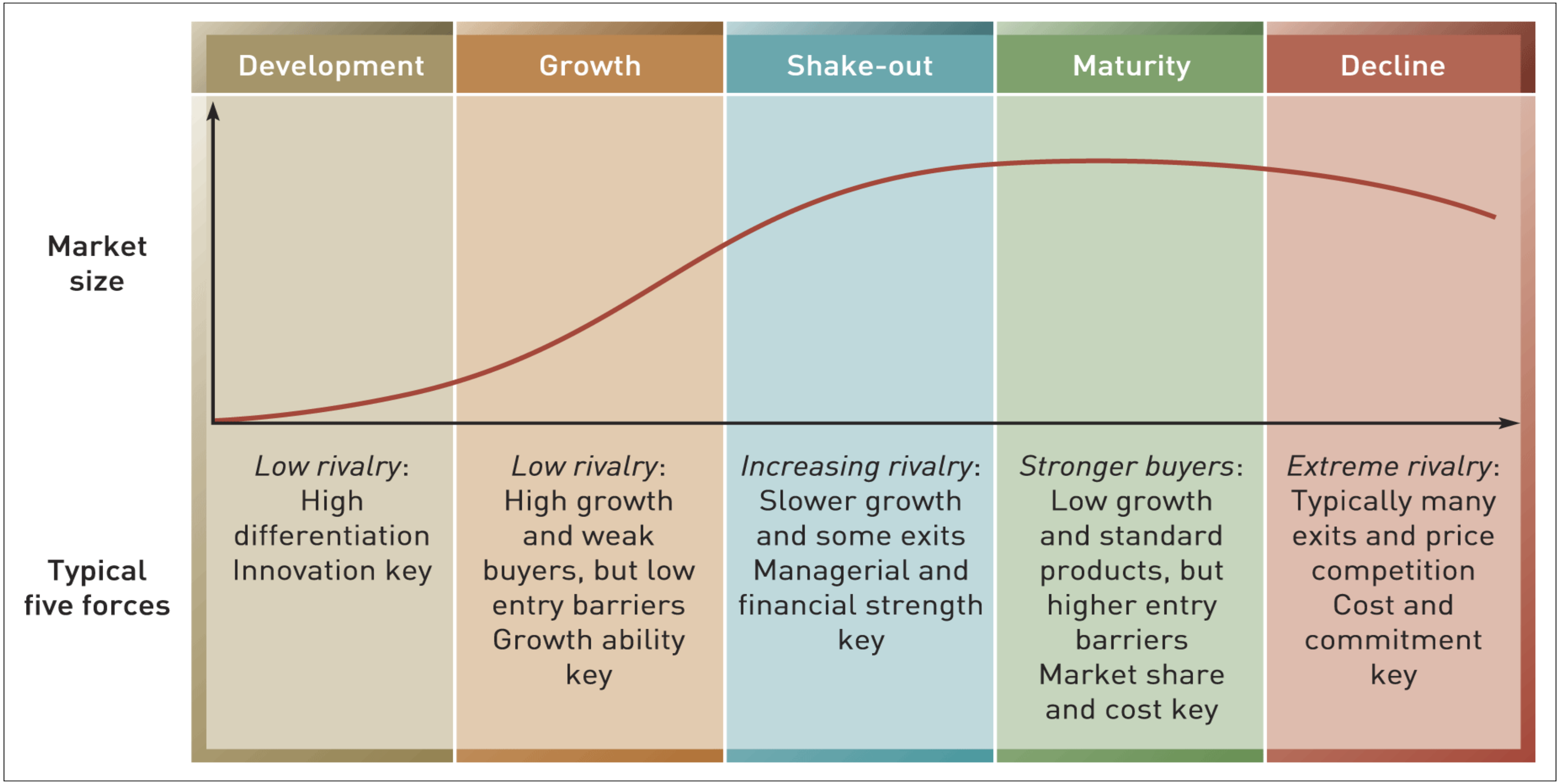
* An organisation is your complementor if:
(i) customers value your product more when they have the other organisation's product than when they have the product alone (e.g. sausage and mustard);
(ii) it's more attractive for suppliers to provide resources to you when it's also supplying the other organisation than when it's supplying you alone (airlines and Boeing).

Note: Organisations can play more than one role. Thus Sony Music (publisher of AC/DC, Sade etc) is a complementor to Apple's iPod; Sony is also a supplier of batteries to the iPod; Sony also competes with its own MP3 players.

Source: Johnson, Whittington & Scholes (2012)

3.2. The competitive-environment

The Industry life cycle



Source: Johnson, Whittington & Scholes (2012)

3.2. The competitive-environment

Blue ocean thinking

- **Blue oceans** are new market spaces where competition is minimised.
- **Red Oceans** are where industries are already well defined and rivalry is intense.
- Blue Ocean thinking encourages entrepreneurs and managers to be different by finding or creating market spaces that are not currently being served.

3.3. Corporate Social Responsibility

Managing Stakeholder Relationships

Stakeholders are any constituencies in an organization's environment that are affected by the decisions and actions of that organization.

3.3. Corporate Social Responsibility

Why Manage Stakeholder Relationships?

- Good stakeholder relationships can:
  - Positively affect organizational performance
  - Be recognized as “doing the right thing” and show corporate social responsibility
  - Create and reinforce a positive image of the organization among its stakeholders and community

3.3. Corporate Social Responsibility

Source: Robbins, Decenzo & Coulter (2013)

3.3. Corporate Social Responsibility

What Is Organizational Culture?

Organizational culture is the shared values, principles, traditions, and ways of doing things that influence the way organizational members act.

3.3. Corporate Social Responsibility

Defining Culture and Its Impact

- Culture is a perception.
- Organizational culture isn't concerned with whether members like it.
- Employees describe the culture in similar terms despite their diversity.

3.3. Corporate Social Responsibility

How Can Culture Be Assessed?

Source: Robbins, Decenzo & Coulter (2013)

3.3. Corporate Social Responsibility

Managerial Decisions Affected by Culture

PLANNING

- The degree of risk that plans should contain
- Whether plans should be developed by individuals or teams
- The degree of environmental scanning in which management will engage

ORGANIZING

- How much autonomy should be designed into employees' jobs
- Whether tasks should be done by individuals or in teams
- The degree to which department managers interact with each other

LEADING

- The degree to which managers are concerned with increasing employee job satisfaction
- What leadership styles are appropriate
- Whether all disagreements—even constructive ones—should be eliminated

CONTROLLING

- Whether to impose external controls or to allow employees to control their own actions
- What criteria should be emphasized in employee performance evaluations
- What repercussions will occur from exceeding one's budget

Source: Robbins, Decenzo & Coulter (2013)

3.3. Corporate Social Responsibility

Corporate social responsibility (CSR) **is the commitment by organisations to 'behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large'.[1]**

[1] World Business Council for Sustainable Development.

3.3. Corporate Social Responsibility

Should organisations be responsible for . . .

INTERNAL ASPECTS

Exployee welfare
. . . providing medical care, assistance with housing finance, extended sick leave, assistance for dependants, etc.?

Working conditions
. . . job security, enhancing working surroundings, social and sporting clubs, above-minimum safety standards, training and development, etc.?

Job design
. . . designing jobs to the increased satisfaction of workers rather than just for economic efficiency? This would include issues of work/life balance?

Intellectual property
. . . respecting the private knowledge of individuals and not claiming corporate ownership?

Source: Johnson, Whittington & Scholes (2012)

3.3. Corporate Social Responsibility

Should organisations be responsible for . . .

EXTERNAL ASPECTS

Environmental issues
. . . reducing pollution to below legal standards if competitors are not doing so?
. . . energy conservation?

Products
. . . dangers arising from the careless use of products by consumers?

Markets and marketing
. . . deciding not to sell in some markets?
. . . advertising standards?

Suppliers
. . . 'fair' terms of trade?
. . . blacklisting suppliers?

Employment
. . . positive discrimination in favour of minorities?
. . . maintaining jobs?

Community activity
. . . sponsoring local events and supporting local good works?

Human rights
. . . respecting human rights in relation to: child labour, workers' and union rights, oppressive political regimes? Both directly and in the choice of markets, suppliers and partners?

Source: Johnson, Whittington & Scholes (2012)

Unit 4. Firm Evolution

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

VNIVERSITAT DE VALÈNCIA
Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

1) Describe the process of new firms creation.
2) Know how to manage entrepreneurial ventures.
3) Describe the possible directions of growth for a Company, as well as the modes of growth through which develop these directions of growth.
4) Know what internationalization is and describe company's internationalization processes.

VNIVERSITAT DE VALÈNCIA
Departament de Direcció d'Empreses. Juan José Renau Piqueras

Unit 4. Firm Evolution

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Entrepreneuship Module pp 414-423.

Johson, Whittington & Scholes (2012): Fundamenltals of Strategy. Pearson 2nd Edition. Ch. 6.2, 7.1, 7.2 Ch 9 (except 9.3.3 and 9.4.3)

Previous concepts

- **Why should we create a new firm?**
- **Is company's growth a goal by itself? Growing for what?**
- **Which factors are pushing or pulling companies to internationalization?**

4.1. New firm creation

What is entrepreneurship?

- It is the process of starting new business (entrepreneurial ventures)
- In response to opportunities or threats

Entrepreneurial ventures and small business

- **EV:** organizations that pursue opportunities, are characterized by innovative practices and have growth and profitability as their main goals.
- **SB:** Independent business < 250 employees (ut.1) that doesn't necessarily engage in any new or innovative practices and that has relatively little impact on its industry

4.1. New firm creation

Who is starting EV?

- **Accidental entrepreneurs**, as the unemployment rates grow: "corporate refugees" ,because there aren't jobs
- Necessity entrepreneurship is increasing while, opportunity entrepreneurship decreases
- However, being an entrepreneur isn't easy
- Entrepreneurial ventures survival rates are more or less the same in economic expansions and recessions

4.1. New firm creation

What do entrepreneurs do? Start-up activities

1) Exploring the entrepreneurial context (to asses the venture's feasibility)

2) Planning the venture

- Organizational mission
- Organizational culture issues
- Creating a business plan

3) Organizing the venture

- Choosing a legal form
- Organizational design

4.1. New firm creation

What do entrepreneurs do?

Launch the venture

- Setting goals and strategies to achieve such goals
- Establishing the technology-operations methods
- Marketing Plans
- Information systems
- Financial-accounting systems
- Cash-flow management systems

4.1. New firm creation

What do entrepreneurs do?

Managing the entrepreneurial venture

- Making decisions
- Establishing action plans
- Analyzing environment
- Measuring and evaluating performance, to make the needed changes
- Managing people
- Manage the venture's growth

4.1. New firm creation

Planning entrepreneurial ventures

- **Business Plan:** Written document that summarizes a business opportunity and defines and articulates how the identified opportunity is going to be exploited
- A **Full Business Plan** must contain:
    - Executive summary
    - Analysis of opportunity
    - Analysis of the context
    - Description of the business
    - Financial data and projections
    - Supporting documentation

4.1. New firm creation

Organizing entrepreneurial ventures

1

- **Legal Form** (Unit 1)

2

- **Organizational structure:**
  - Work specialization , departmentalization, chain of command, span of control,
  - amount of centralization-decentralization and amount of formalization
- Mechanistic vs Organic structures

3

- **HRM**
  - Employee recruitment and retention
  - Compensation

4.1. New firm creation

Leading entrepreneurial ventures

1
- **Proactive personality:** individuals who are more prone to influence their environment

2
- **Motivating employees.** Some tools:
  - Employee empowerment as a gradual process
  - By using a participative decision making process
  - Delegation

3
- **How can entrepreneurs be leaders?**
  - Leadership Jazz (managing improvisation, innovation and creativity)
  - Leading employee work teams: empowered teams, self-directed teams and cross-functional teams

4.1. New firm creation

Controlling entrepreneurial ventures

Managing growth and downturns

- Growth / downturns processes speed
- Planning organizing and controlling for growth / downturns
- Think about it before it happens

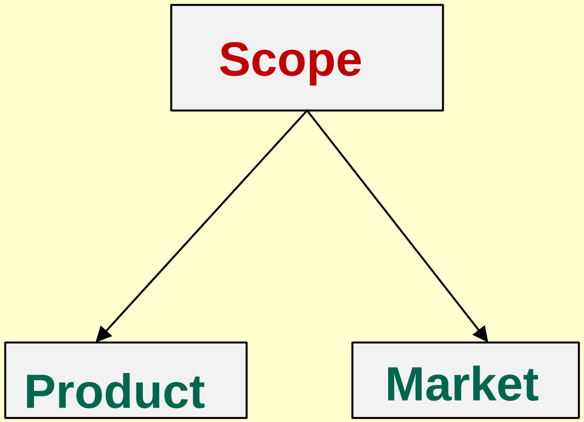
Exiting the venture

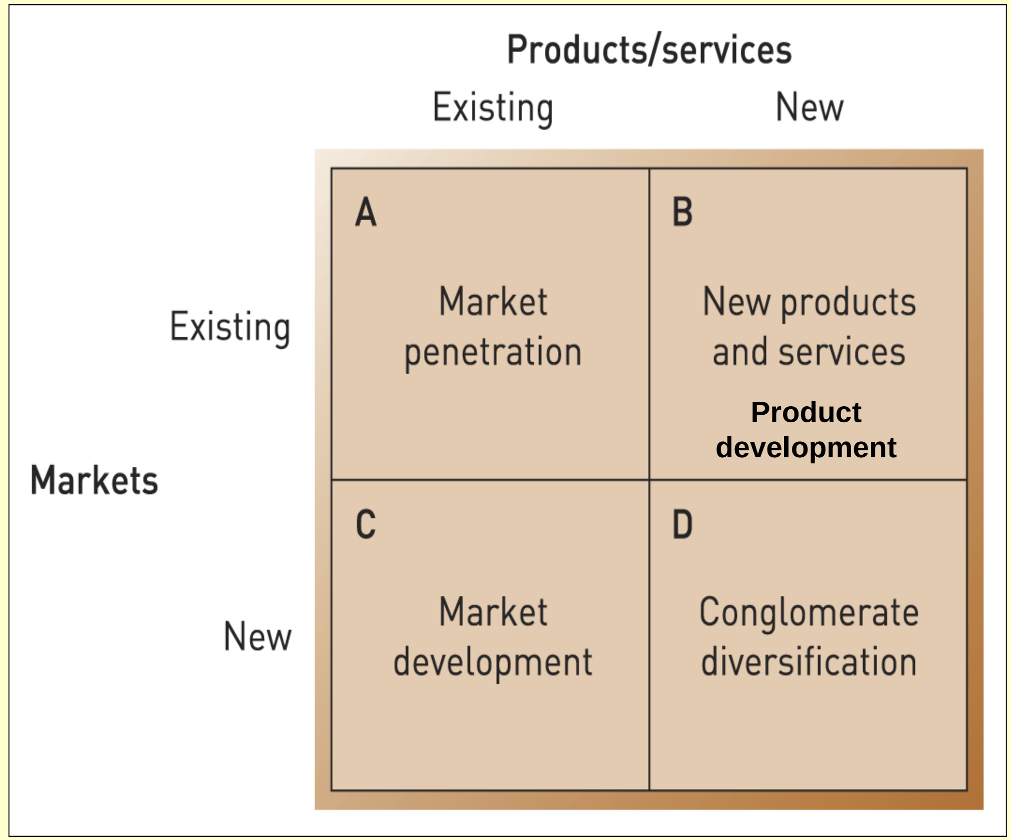
- Reasons:
  - Harvesting
  - Minimizing losses
- Anyway, the most important is to be prepared

Managing personal challenges

- Balance your work and personal life.
- Become a good time manager
- Seek professional advice
- Deal with conflicts as they arise
- Develop a network of trusted friends and peers
- Recognize when yours stress levels are too high

4.2 Direction of growth (Strategy Directions)





Ansoff's Product/Market growth Matrix

Universitat de València
Departament de Direcció d'Empreses. Juan José Renau Piqueras

Source: Johnson, Whittington & Scholes (2012)

4.2 Direction of growth (Strategy Directions)

Diversification

- ***Diversification*** **involves increasing the range of products or markets served by an organisation.**
- ***Related diversification*** **involves diversifying into products or services with relationships to the existing business.**
- ***Conglomerate (unrelated) diversification*** **involves diversifying into products or services with no relationships to the existing businesses.**

4.2 Direction of growth (Strategy Directions)

Market penetration

Increasing share of current markets with the current product range.

Constraints:

- ***Retaliation from competitors***
- ***Legal constraints***
- ***Economic constraints***

4.2 Direction of growth (Strategy Directions)

Product development

❖ an organisation delivers modified or new products to existing markets.

Implications:

- involves varying degrees of related diversification (in terms of products)
- can be an expensive and high risk
- may require new strategic capabilities
- typically involves project management risks

4.2 Direction of growth (Strategy Directions)

Market development

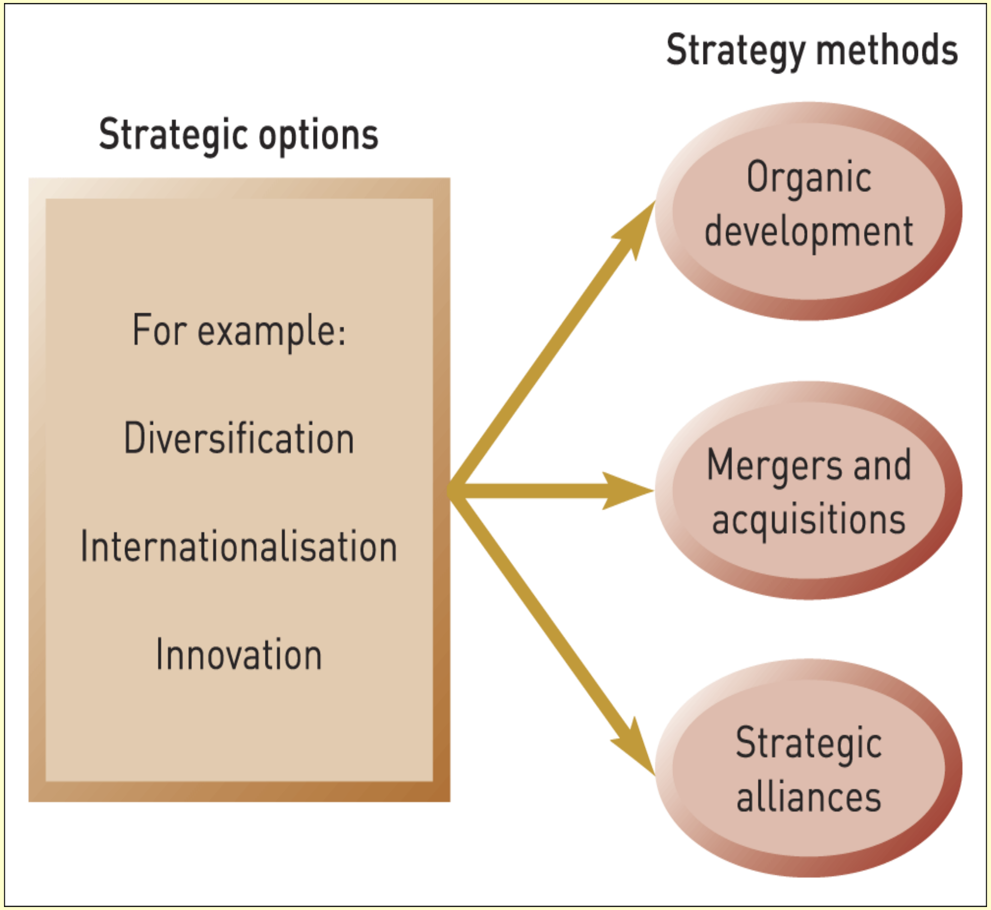
❖an organisation offers existing products to new markets

❖<u>Implications:</u>

- may also entail some product development (e.g. new styling or packaging);
- can take the form of attracting new users (e.g. extending the use of aluminium to the automobile industry);
- can take the form of new geographies (e.g. extending the market covered to new areas – international markets being the most important);
- must meet the critical success factors of the new market if it is to succeed;
- may require new strategic capabilities especially in marketing.

4.3 Modes of growth (Strategy Methods)

Internal vs. External



Source: Johnson, Whittington & Scholes (2012)

4.3 Modes of growth (Strategy Methods)

Organic development: **carried out by building on and developing an organisation's own capabilities. This is essentially the 'do it yourself' method.**

Advantages:

Knowledge and learning **can be enhanced.**

Spreading investment over time **– easier to finance.**

No availability constraints **– no need to search for suitable partners or acquisition targets.**

Strategic independence **– less need to make compromises or accept strategic constraints.**

4.3 Modes of growth (Strategy Methods)

Mergers and acquisitions

A merger **is the combination of two previously separate organisations, typically as more or less equal partners.**

An acquisition **involves one firm taking over the ownership ('equity') of another, hence the alternative term 'takeover'.**

4.3 Modes of growth (Strategy Methods)

Strategic Motives for M&A:

- ***Extension – of scope in terms of geography, products or markets.***
- ***Consolidation – increasing scale, efficiency and market power.***
- ***Capabilities – enhancing technological know-how (or other competences).***

4.3 Modes of growth (Strategy Methods)

Financial motives for M&A:

- ***Financial efficiency*** **– a company with a strong balance sheet (cash rich) may acquire/merge with a company with a weak balance sheet (high debt).**
- ***Tax efficiency*** **– reducing the combined tax burden.**
- ***Asset stripping or unbundling*** **– selling off bits of the acquired company to maximise asset values.**

4.3 Modes of growth (Strategy Methods)

Managerial motives for M&A

- *Personal ambition* – financial incentives tied to short-term growth or share-price targets; boosting personal reputations; giving friends and colleagues greater responsibility or better jobs.
- *Bandwagon effects* – managers may be branded as conservative if they don't follow a M&A trend; shareholder pressure to merge or acquire; the company may itself become a takeover target.

4.3 Modes of growth (Strategy Methods)

Strategic alliance

* two or more organisations share resources and capabilities to pursue a predefined goal or set of goals

* Cooperation vs competition

* Collaborative advantage

4.3 Modes of growth (Strategy Methods)

Types of strategic alliances

Equity alliances
involve the creation of a new entity that is owned separately by the partners involved

Non-equity alliances

without the commitment implied by ownership

4.3 Modes of growth (Strategy Methods)

Equity alliances

Joint venture, **where two organisations remain independent but set up a new organisation jointly owned by the parents.**

Consortium alliance **involves several partners setting up a venture together.**

Non-equity alliances

Often based on contracts

- **Franchising**
- **Licensing**
- **Long-term subcontracting**

4.3 Modes of growth (Strategy Methods)

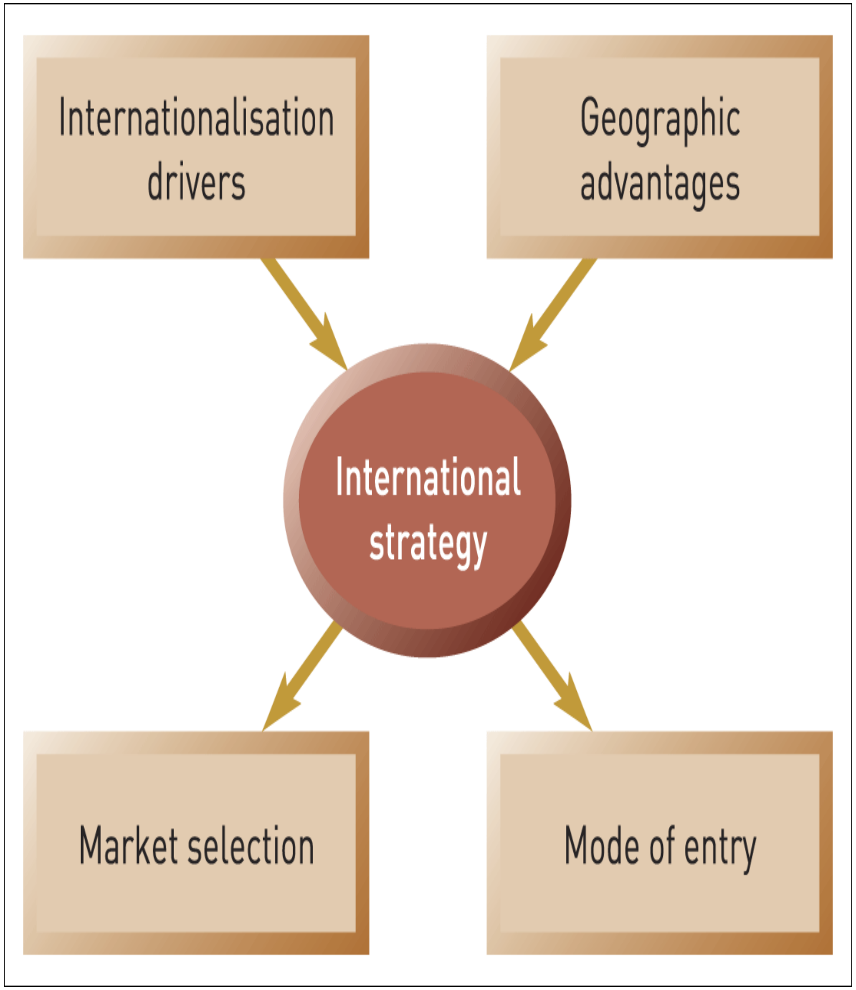
Motives for alliances

- *Scale alliances* – lower costs, more bargaining power and sharing risks.
- *Access alliances* – partners provide needed capabilities (e.g. distribution outlets or licenses to brands)
- *Complementary alliances* – bringing together complementary strengths to offset the other partner's weaknesses.
- *Collusive alliances* – to increase market power. Usually kept secret to evade competition regulations.

4.4 Internationalization

Definition

- It is a kind of market development, in relation to Ansoff's product/market growth matrix
- In recent years we can constate as new firms are born global



Source: Johnson, Whittington & Scholes (2012)

4.4 Internationalization

Internationalization Drivers

Source: Johnson, Whittington & Scholes (2012)

Unit 5. Management function

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

- Describe the decision making process
- Explain the three approaches managers can use to make decisions
- Describe the types of decisions and decision making conditions managers face
- Discuss the nature and purposes of planning
- Compare and contrast approaches to goal setting and planning
- Explain the nature and importance of control
- Describe the steps in the control process
- Discuss the existing types of control
- Describe the key elements in organizational design
- Identify the contingency factors affecting organizational design
- Compare and contrast traditional and contemporary organizational designs

Unit 5. Management Function

TABLE OF CONTENTS

REFERENCES

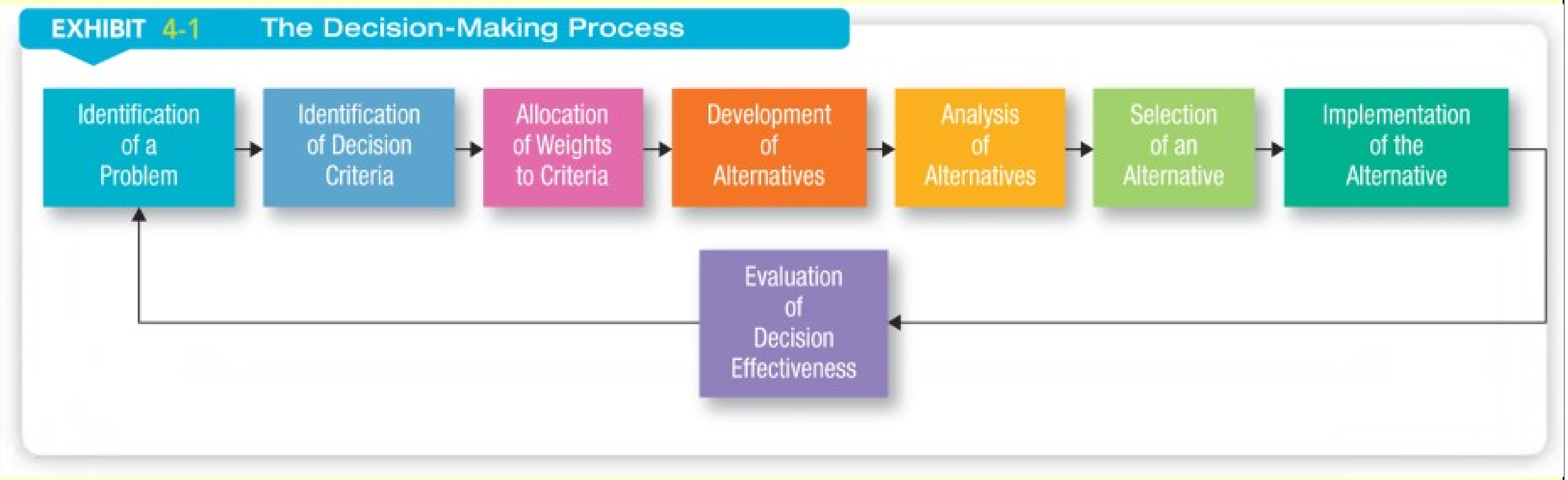
Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch. 4, 5 and 14.

Previous concepts

- **How should we make decisions in a company?**
- **Are all the decisions equal?**
- **How does it work within the management process?**

5.1. Management and decision-making process

How Do Managers Make Decisions?



Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

What Defines a Decision Problem?

- **Problem – A discrepancy between an existing and a desired state of affairs.**

- **Decision criteria – Factors that are relevant in a decision**

Weighing Criteria and Analyzing Alternatives

To weigh criteria:

- Give the most important criterion a weight of 10.
- Compare remaining criteria against that standard to indicate their relative degrees of importance.

5.1. Management and decision-making process

➢ **Decision:** **Buying a car**

Relevant decision criteria:

- **Price**
- **Model (two-or four-door)**
- **Size**
- **Manufacturer**
- **Optional equipment**
- **Fuel economy, or**
- **Repair records.**

EXHIBIT 4-2 Important Criteria and Weights in a Car-Buying Decision

CRITERION	WEIGHT
Price	10
Interior comfort	8
Durability	5
Repair record	5
Performance	3
Handling	1

Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

➢ **Decision:** **Buying a car**

EXHIBIT 4-3 Assessment of Possible Car Alternatives

ALTERNATIVES	INITIAL PRICE	INTERIOR COMFORT	DURABILITY	REPAIR RECORD	PERFORMANCE	HANDLING	TOTAL
Jeep Compass	2	10	8	7	5	5	37
Ford Focus	9	6	5	6	8	6	40
Hyundai Elantra	8	5	6	6	4	6	35
Ford Fiesta SES	9	5	6	7	6	5	38
Volkswagen Golf	5	6	9	10	7	7	44
Toyota Prius	10	5	6	4	3	3	31
Mazda 3 MT	4	8	7	6	8	9	42
Kia Soul	7	6	8	6	5	6	38
BMW 335	9	7	6	4	4	7	37
Nissan Cube	5	8	5	4	10	10	42
Toyota Camry	6	5	10	10	6	6	43
Honda Fit Sport MT	8	6	6	5	7	8	40

Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

➢**Decision:** Buying a car

EXHIBIT 4-4 Evaluation of Car Alternatives: Assessment Criteria × Criteria Weight

ALTERNATIVES	INITIAL PRICE [10]		INTERIOR COMFORT [8]		DURABILITY [5]		REPAIR RECORD[5]		PERFORMANCE [3]		HANDLING [1]		TOTAL
Jeep Compass	2	**20**	10	**80**	8	**40**	7	**35**	5	**15**	5	**5**	**195**
Ford Focus	9	**90**	6	**48**	5	**25**	6	**30**	8	**24**	6	**6**	**223**
Hyundai Elantra	8	**80**	5	**40**	6	**30**	6	**30**	4	**12**	6	**6**	**198**
Ford Fiesta SES	9	**90**	5	**40**	6	**30**	7	**35**	6	**18**	5	**5**	**218**
Volkswagen Golf	5	**50**	6	**48**	9	**45**	10	**50**	7	**21**	7	**7**	**221**
Toyota Prius	10	**100**	5	**40**	6	**30**	4	**20**	3	**9**	3	**3**	**202**
Mazda 3 MT	4	**40**	8	**64**	7	**35**	6	**30**	8	**24**	9	**9**	**202**
Kia Soul	7	**70**	6	**48**	8	**40**	6	**30**	5	**15**	6	**6**	**209**
BMW 335	9	**90**	7	**56**	6	**30**	4	**20**	4	**12**	7	**7**	**215**
Nissan Cube	5	**50**	8	**64**	5	**25**	4	**20**	10	**30**	10	**10**	**199**
Toyota Camry	6	**60**	5	**40**	10	**50**	10	**50**	6	**18**	6	**6**	**224**
Honda Fit Sport MT	8	**80**	6	**48**	6	**30**	5	**25**	7	**21**	8	**8**	**212**

1st choice

Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

EXHIBIT 4-6 Decisions Managers May Make

PLANNING

- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

ORGANIZING

- How many employees should I have report directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

LEADING

- How do I handle employees who appear to be low in motivation?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

CONTROLLING

- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

Source: Robbins, Decenzo & Coulter (2013)

Managers can use 3 differents approaches to make decisions:

1) Rational decision making – Choices that are consistent and maximize value within specified constraints

Max. Profits (Q)

s.t. Q = f(K,L)

Managers can use 3 differents approaches to make decisions:

2) Bounded rationality – Decisions that are rational within the limits of a manager's ability to process information

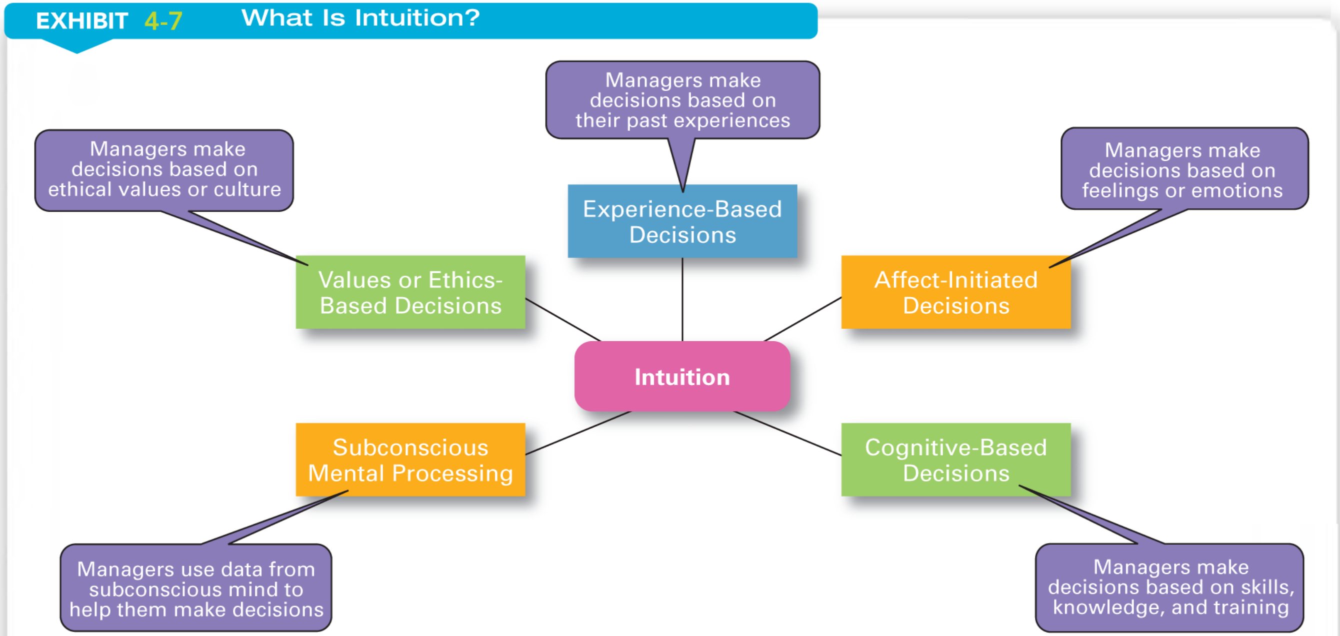
- **Satisfice – Accepting solutions that are "good enough"**

- **Escalation of commitment – An increased commitment to a previous decision despite evidence that it may have been a poor one**

5.1. Management and decision-making process

Managers can use 3 differents approaches to make decisions:

3) Intuition



Source: Based on "Exploring Intuition and Its Role in Managerial Decision Making," *Academy of Management Review*, January 2007, pp. 33–54; M. H. Bazerman and D. Chugh, "Decisions Without Blinders," *Harvard Business Review,* January 2006, pp. 88–97; C. C. Miller and R. D. Ireland, "Intuition in Strategic Decision Making: Friend or Foe in the Fast-Paced 21st Century," *Academy of Management Executive,* February 2005, pp. 19–30; E. Sadler-Smith and E. Shefy, "The Intuitive Executive: Understanding and Applying 'Gut Feel' in Decision-Making," *Academy of Management Executive,* November 2004, pp. 76–91; L. A. Burke, and J. K. Miller, "Taking the Mystery Out of Intuitive Decision Making," *Academy of Management Executive,* October 1999, pp. 91–99; and W. H. Agor, "The Logic of Intuition: How Top Executives Make Important Decisions," *Organizational Dynamics,* Winter 1986, pp. 5–18.

Source: Robbins, Decenzo & Coulter (2013)

5.1. Management and decision-making process

Contemporary Issues

- **National culture – Influences the way in which decisions are made and the degree of risk a decision maker will take**
- **Creativity – The ability to produce novel and useful ideas**

Creativity in Decision Making

Creativity allows the decision maker to:

Appraise and understand a problem more fully

“See” problems others can’t see

Identify all viable alternatives

5.2. Decisions classification

Types of Problems

- **Structured problem – A straightforward, familiar, and easily defined problem**
- **Unstructured problem – A problem that is new or unusual for which information is ambiguous or incomplete**

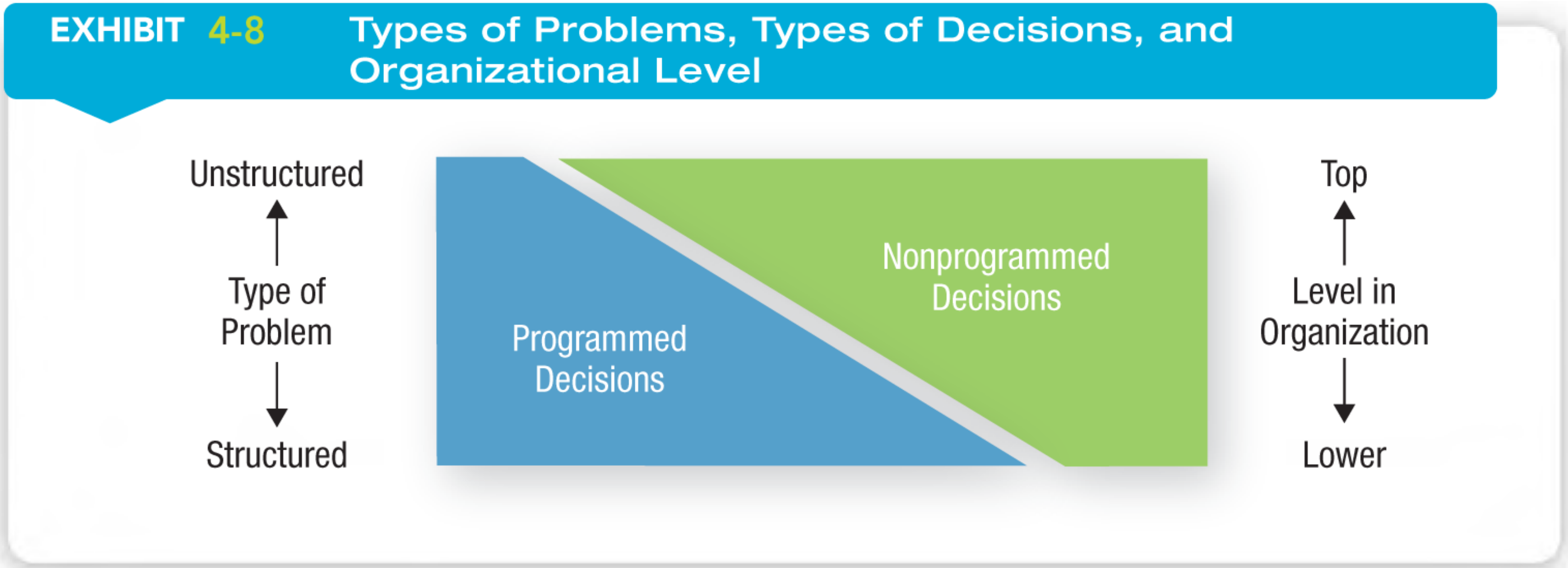
5.2. Decisions classification

Types of Decisions:

Programmed decisions **– Repetitive decisions that can be handled using a routine approach**	***Nonprogrammed decisions*** **– Unique and nonrecurring decisions; require a custom-made solution**

5.2. Decisions classification

Problems, Decision Types, and Organizational Levels

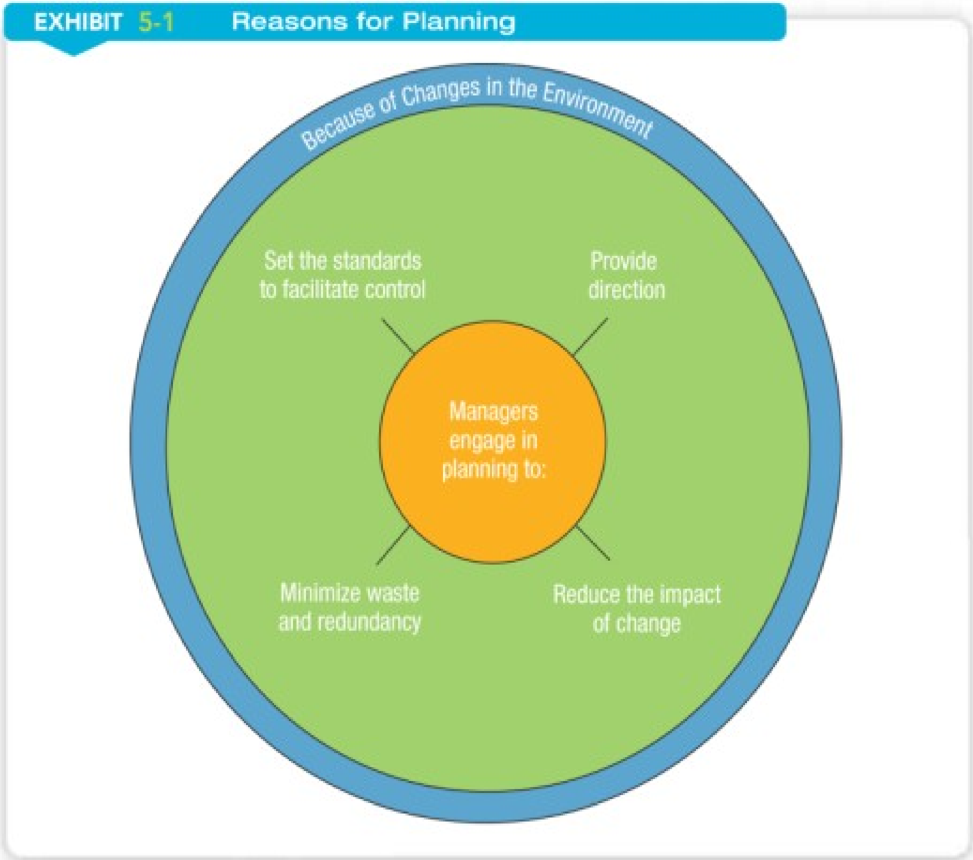


Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

What Is Planning?

- Defining organizational's goals
- Establishing how to achieve them
- Developing a comprehensive hierarchy of plans to integrate and coordinate activities



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Criticisms of Formal Planning

Formal planning may:

(1) Create rigidity

(2) Replace intuition and creativity

(3) Focus managers' attention on today's competition, not on tomorrow's survival

(4) Reinforce success, which may lead to failure

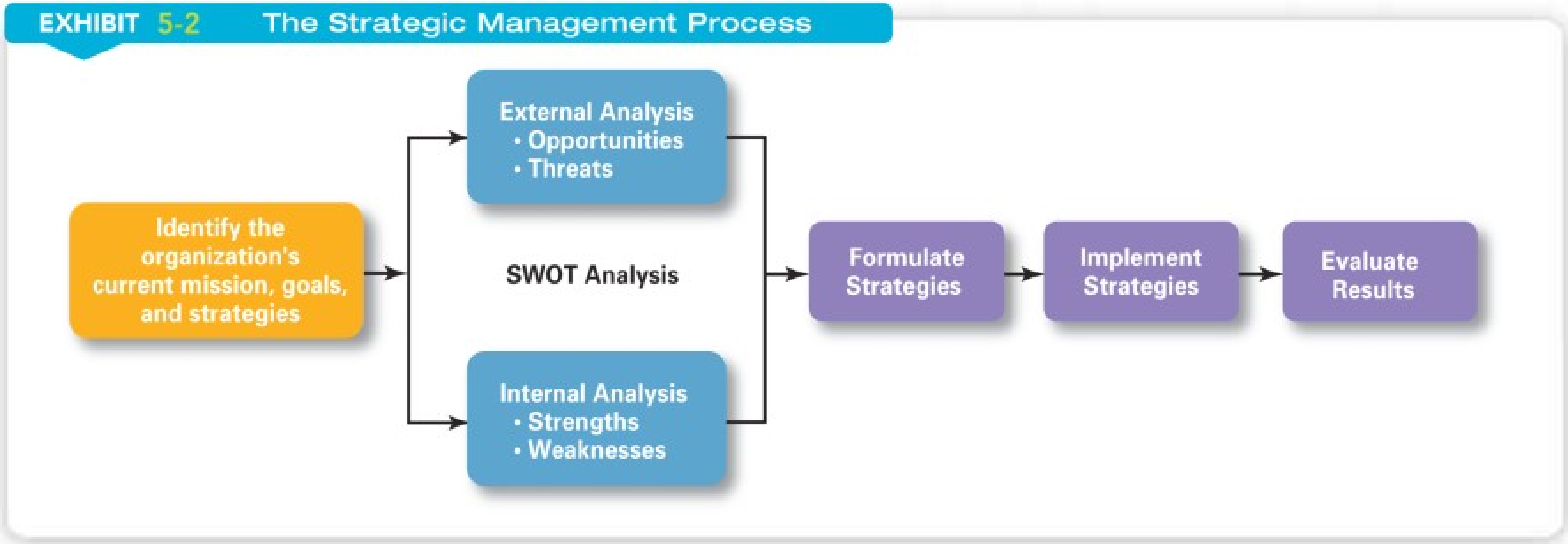
Formal Planning and Organizational Performance

Formal planning generally results in:

- **Higher profits**
- **Higher return on assets**
- **Improved quality of planning**
- **Appropriate implementation of the plan**

5.3. Functions of Management: Planning and controlling

The Strategic Management Process



Source: Robbins, Decenzo & Coulter (2013)

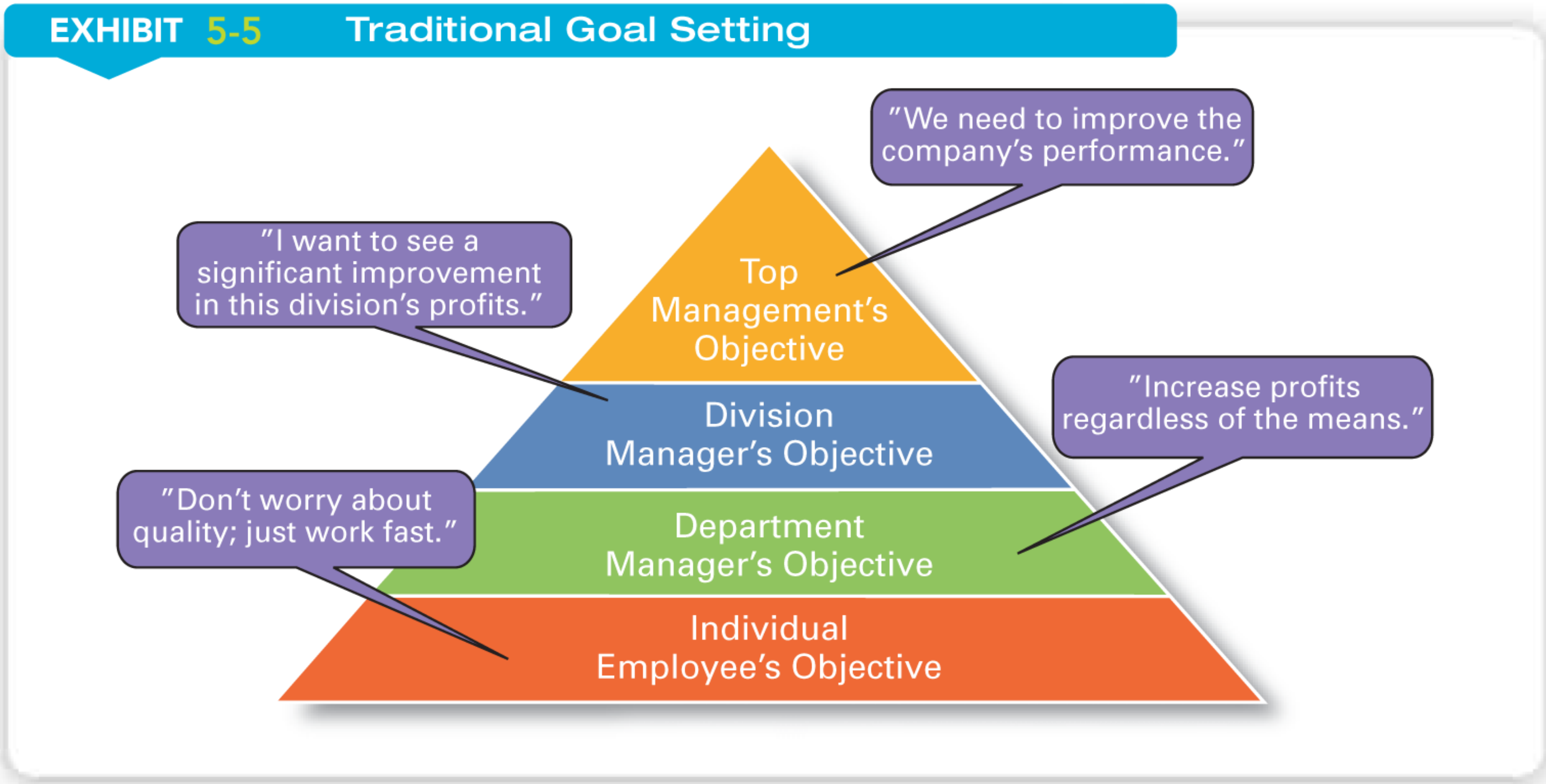
5.3. Functions of Management: Planning and controlling

Setting Goals and Developing Plans

Types of Goals:

- **Financial goals – The financial performance of the organization**
- **Strategic goals – All other areas of an organization's performance**

5.3. Functions of Management: Planning and controlling



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Characteristics of Well-Written Goals

EXHIBIT 5-6 Well-Written Goals

- Written in terms of outcomes rather than actions
- Measurable and quantifiable
- Clear as to a time frame
- Challenging yet attainable
- Written down
- Communicated to all necessary organizational members

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Steps in Goal Setting

1. Review the organization's mission and employees' key job tasks.

1. Evaluate available resources.

1. Determine the goals individually or with input from others.
4. Make sure goals are well-written and then communicate them to all who need to know.

5. Build in feedback mechanisms to assess goal progress.

6. Link rewards to goal attainment.

5.3. Functions of Management: Planning and controlling

Types of Plans

EXHIBIT 5-7 Types of Plans

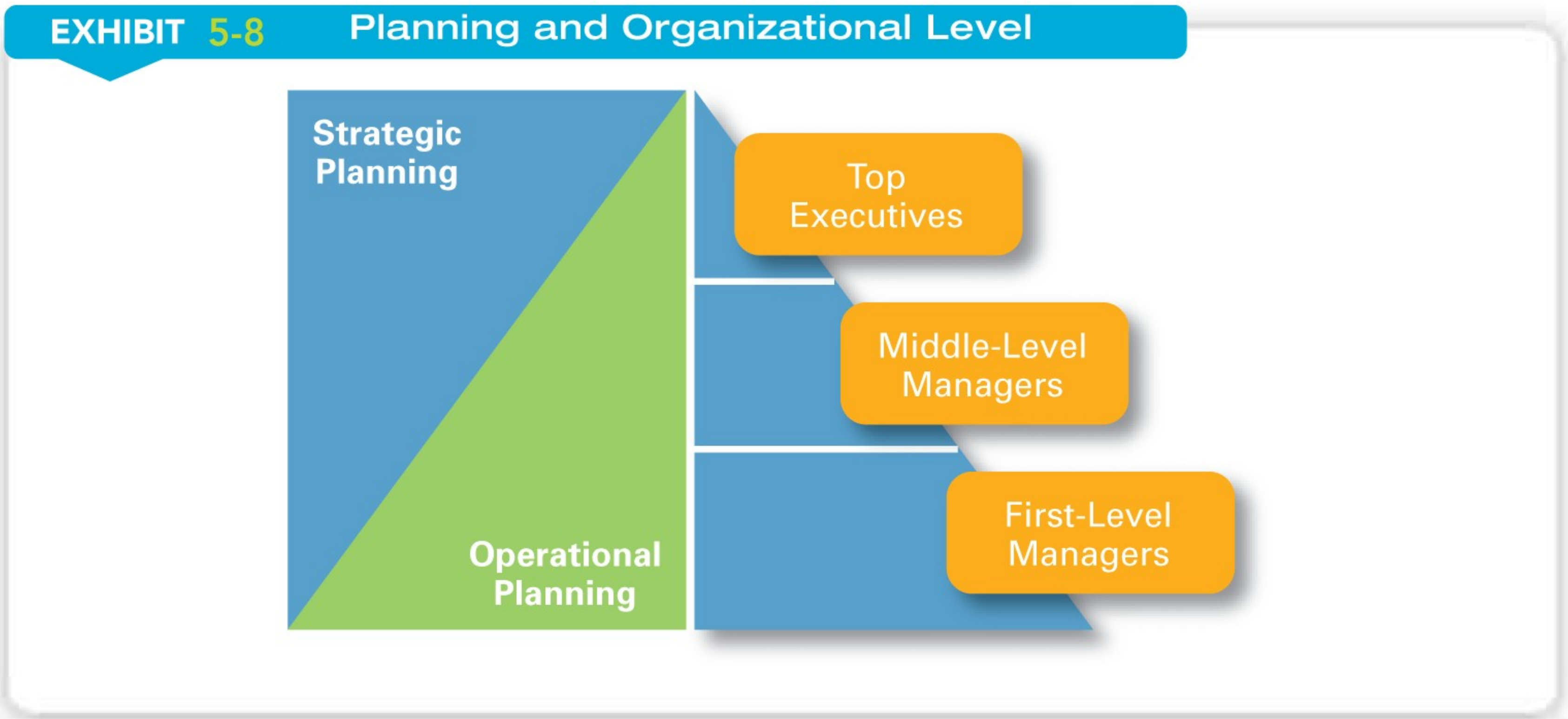
BREADTH OF USE	TIME FRAME	SPECIFICITY	FREQUENCY OF USE
Strategic	Long term	Directional	Single-use
Tactical	Short term	Specific	Standing

- **Operational Short term Most specific Standing**

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Developing Plans



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Approaches to Planning

- **"Top-down" traditional approach – Top-level managers plan; plans flow down to the different levels.**
- **Development by organizational members – Employees at various levels and in various work units develop plans to meet their specific needs.**

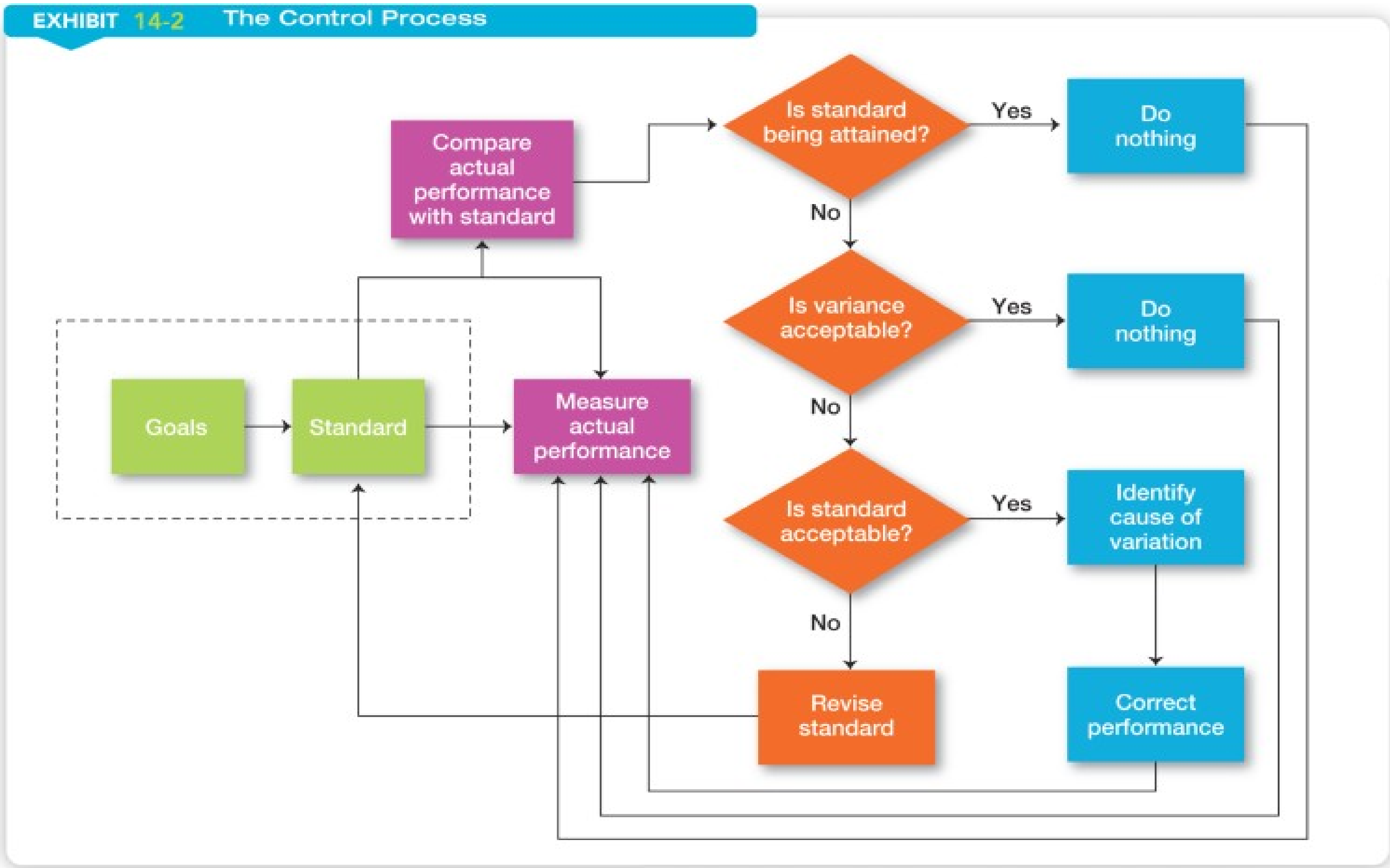
5.3. Functions of Management: Planning and controlling

The Importance of Control

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

The Control Process



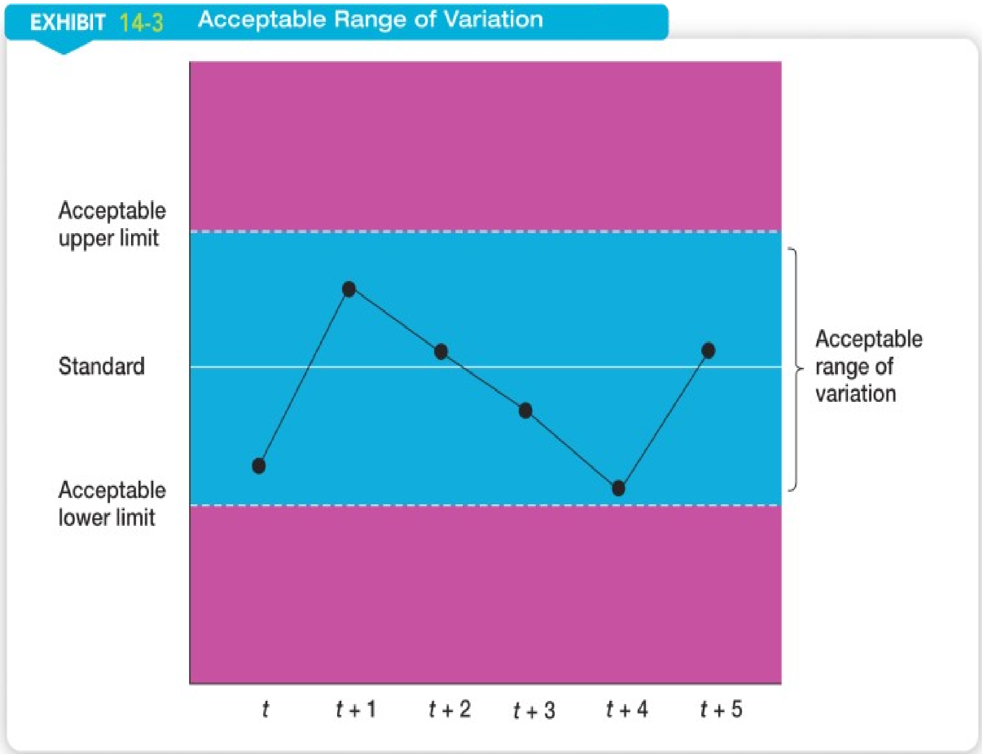
Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: Planning and controlling

Measures of performance:

1. Personal observation
2. Statistical reports
3. Oral reports
4. Written reports

Comparing Performance to Goals:



Source: Robbins, Decenzo & Coulter (2013)

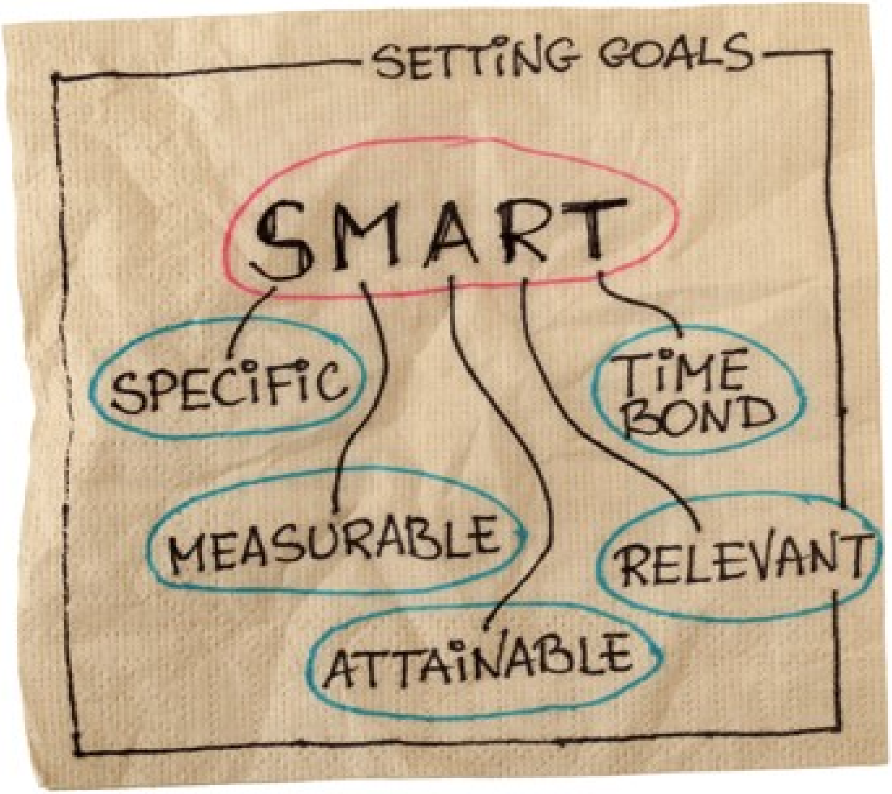
5.3. Functions of Management: Planning and controlling

Correcting Performance

Immediate corrective actions:

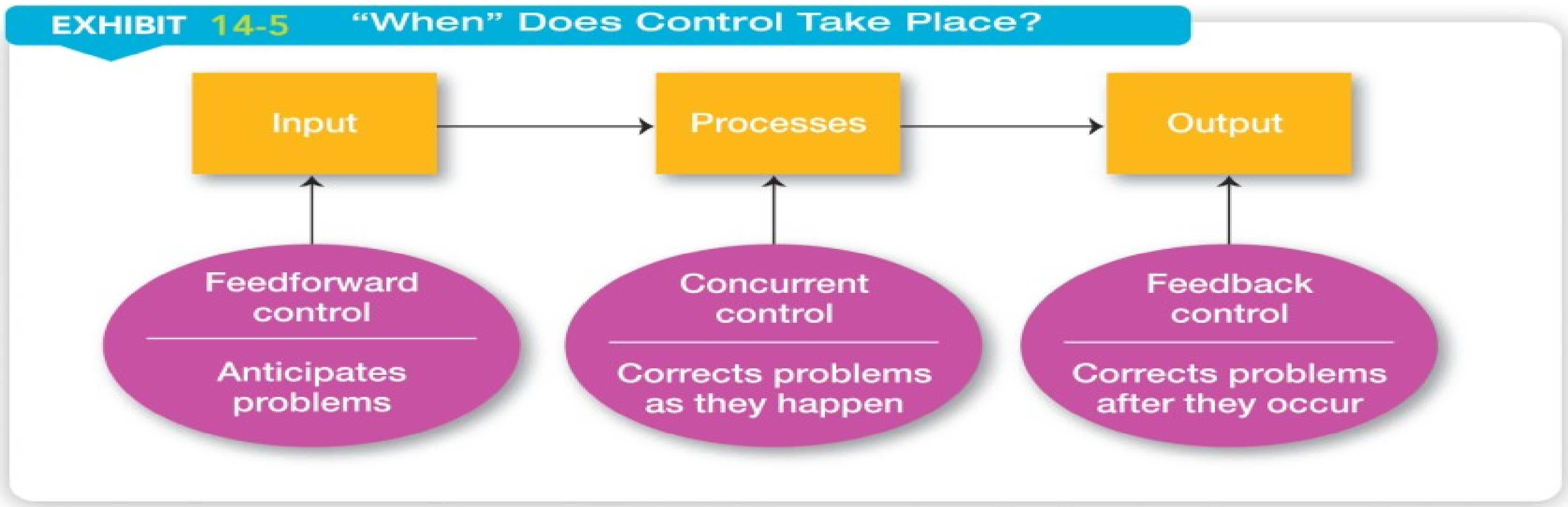
- Training programs
- Disciplinary action
- Changes in compensation practices

Revising the Standard



5.3. Functions of Management: Planning and controlling

Types of Control



M I S: Management Information System; it provides managers the needed information to make decisions on a regular basis.

Source: Robbins, Decenzo & Coulter (2013)

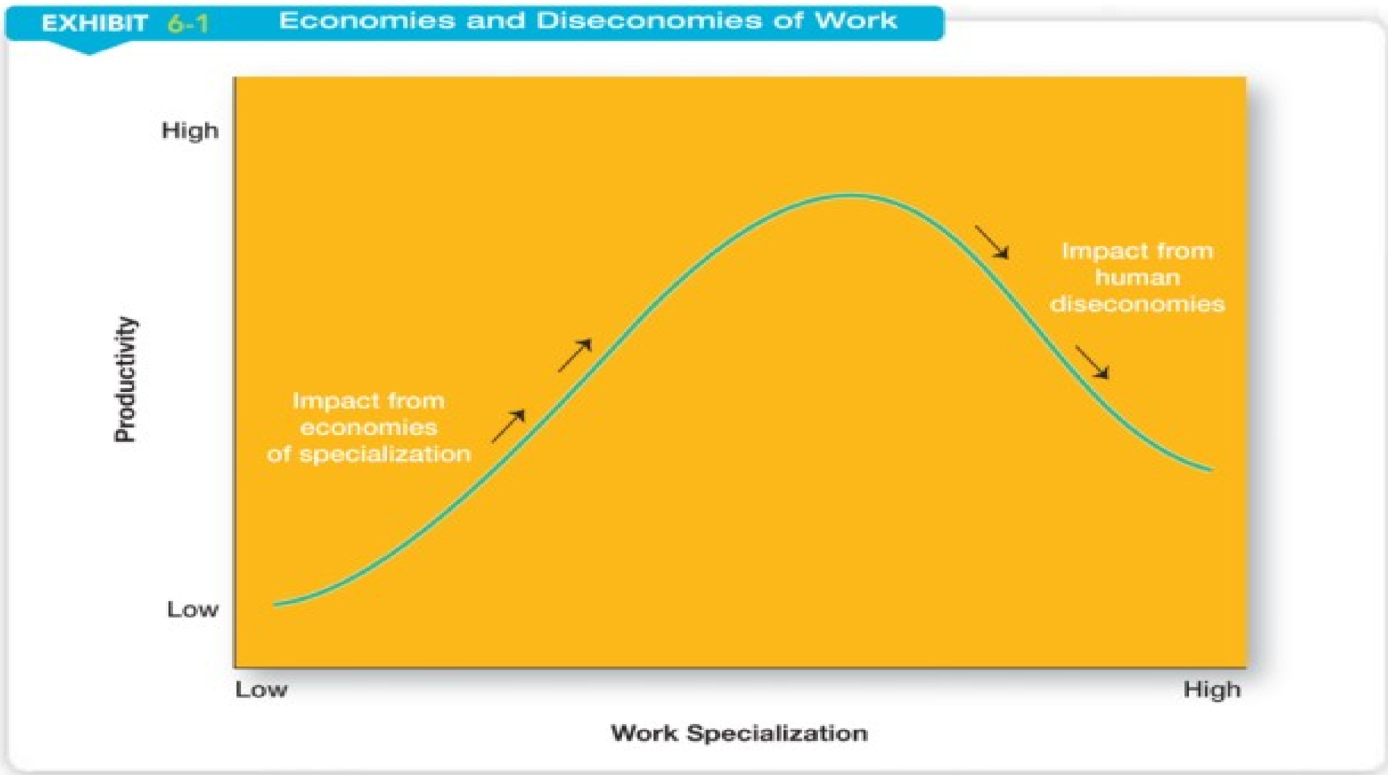
Elements in Organizational Design

Six key elements:

- Work specialization
- Departmentalization
- Authority & responsibility
- Span of control
- Centralization vs. decentralization
- Formalization

5.3. Functions of Management: organizing

Work Specialization



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Departmentalization

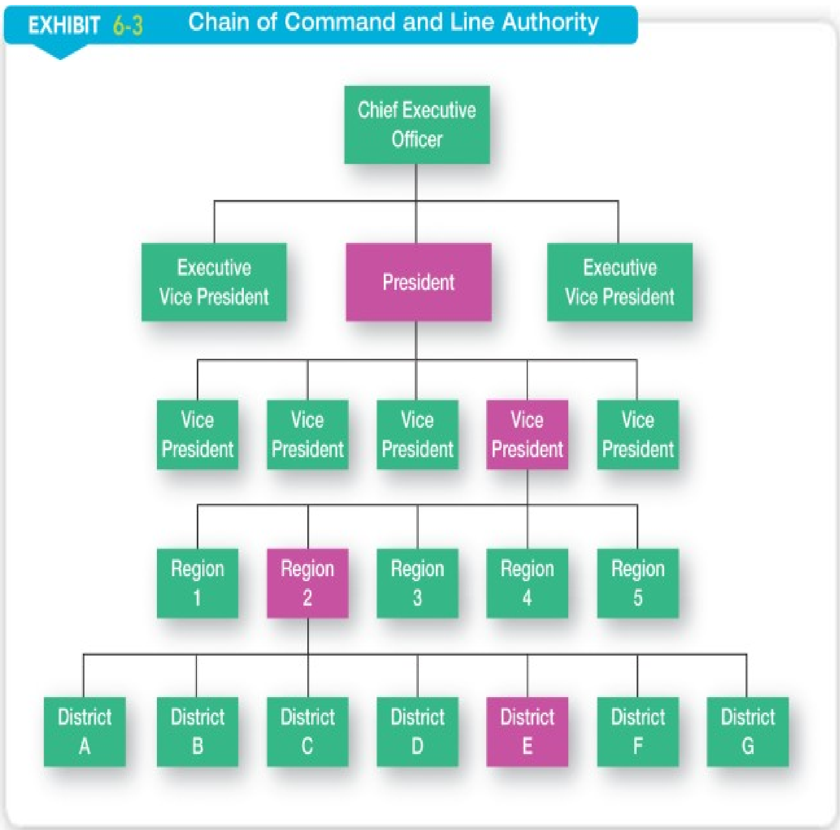
EXHIBIT 6-2 Types of Departmentalization

• **Functional**	Groups employees based on work performed (e.g., engineering, accounting, information systems, human resources)
• **Product**	Groups employees based on major product areas in the corporation (e.g., women's footwear, men's footwear, and apparel and accessories)
• **Customer**	Groups employees based on customers' problems and needs (e.g., wholesale, retail, government)
• **Geographic**	Groups employees based on location served (e.g., North, South, Midwest, East)
• **Process**	Groups employees based on the basis of work or customer flow (e.g., testing, payment)

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Types of Authority Relationships

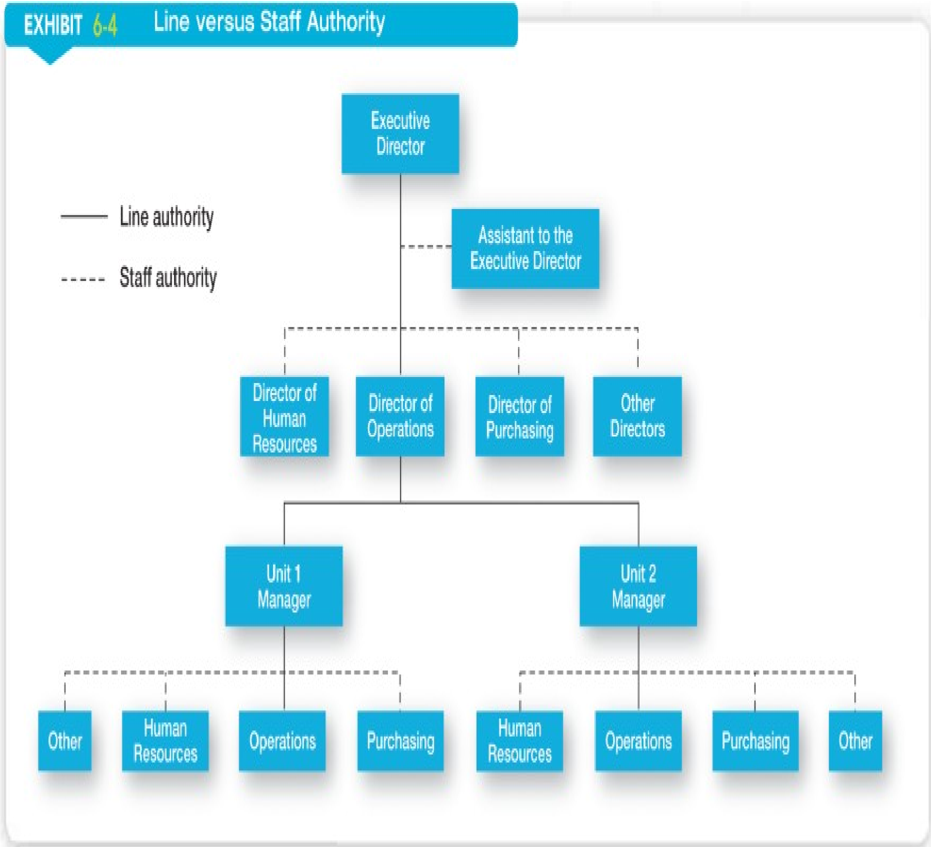


- **When organizing work, managers need to clarify who reports to whom, which is know as the chain of command—that is, the line of authority extending from upper to lower organizational levels.**
- **Authority refers to the rights inherent in a managerial position to give orders and expect the orders to be obeyed. It involves responsibility.**
- **Line authority entitles a manager to direct the work of an employee according to the chain of command.**

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Line and Staff Authority



- As organizations get larger and more complex, line managers find that they do not have the time, expertise, or resources to get their jobs done effectively.
- In response, they create **staff authority functions** to support, assist, advise, and generally reduce some of their informational burdens.

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Unity of Command

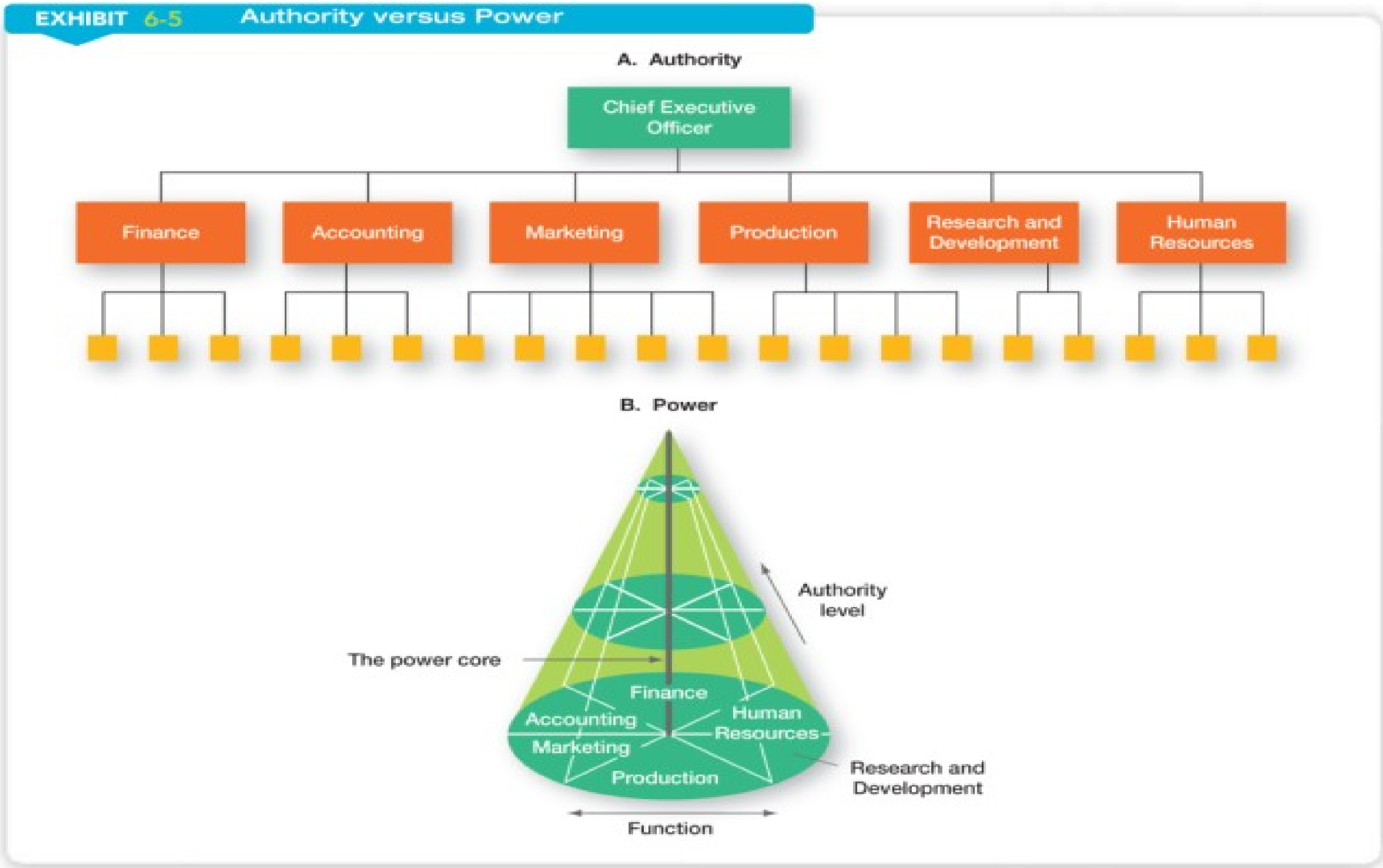
- Unity of command is a structure in which each employee reports to only one manager.

Authority and Power

- Authority – A right; legitimacy is based on authority figure's position in the organization

- Power – An individual's capacity to influence decisions

5.3. Functions of Management: organizing



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Sources of Power

EXHIBIT 6-6 Types of Power

Coercive power	Power based on fear.
Reward power	Power based on the ability to distribute something that others value.
Legitimate power	Power based on one's position in the formal hierarchy.
Expert power	Power based on one's expertise, special skill, or knowledge.
Referent power	Power based on identification with a person who has desirable resources or personal traits.

Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

Span of Control

- **Span of control – The number of employees a manager can efficiently and effectively supervise**

- **Examples of contingency variables:**
  - **Employee training and experience**
  - **Similarity of tasks and task complexity**
  - **Location of employees**
  - **Use of standardized procedures**
  - **Sophistication of management information system**

5.3. Functions of Management: organizing

Centralization and Decentralization

- **Centralization – Decision making takes place at upper levels of the organization.**
- **Decentralization – Lower-level managers provide input or actually make decisions.**

5.3. Functions of Management: organizing

- **Formalization** refers to how standardized an organization's jobs are and the extent to which employee behavior is guided by rules and procedures.
- In highly formalized organizations, there are explicit job descriptions, numerous organizational rules, and clearly defined procedures covering work processes.

- Although some formalization is necessary for consistency and control, today many organizations rely less on strict rules and standardization to guide and regulate employee behavior than they did in the past. **Creativity**

5.3. Functions of Management: organizing

Models of Organizational Design

EXHIBIT 6-7 Mechanistic versus Organic Organizations

MECHANISTIC	ORGANIC
☐ Rigid hierarchical relationships	☐ Collaboration (both vertical and horizontal)
☐ Fixed duties	☐ Adaptable duties
☐ Many rules	☐ Few rules
☐ Formalized communication channels	☐ Informal communication
☐ Centralized decision authority	☐ Decentralized decision authority
☐ Taller structures	☐ Flatter structures

Source: Robbins, Decenzo & Coulter (2013)

VNIVERSITAT DE VALÈNCIA
Departament de Direcció d'Empreses. Juan José Renau Piqueras

5.3. Functions of Management: organizing

Contingency variables affecting organizational design

- Strategy
- Size
- Technology
- Environment

5.3. Functions of Management: organizing

Size and Structure

- **Large organizations tend to have more specialization, departmentalization, centralization, and regulations than small organizations.**

Technology and Structure

EXHIBIT 6-8 Woodward's Findings on Technology and Structure

	UNIT PRODUCTION	MASS PRODUCTION	PROCESS PRODUCTION
Structural characteristics:	Low vertical differentiation	Moderate vertical differentiation	High vertical differentiation
	Low horizontal differentiation	High horizontal differentiation	Low horizontal differentiation
	Low formalization	High formalization	Low formalization
Most effective structure:	Organic	Mechanistic	Organic

Source: Robbins, Decenzo & Coulter (2013)

The Environment and Structure

- Mechanistic organizations
- Organic organizations
- Dynamic environmental forces
  - Global competition
  - Accelerated product innovation by competitors
  - Knowledge management
  - Increased customer demand for higher quality and faster deliveries.

5.3. Functions of Management: organizing

Traditional Organizational Designs

EXHIBIT 6-9 Traditional Organization Designs

Simple Structure

- **Strengths:** Fast; flexible; inexpensive to maintain; clear accountability.
- **Weaknesses:** Not appropriate as organization grows; reliance on one person is risky.

Functional Structure

- **Strengths:** Cost-saving advantages from specialization (economies of scale, minimal duplication of people and equipment); employees are grouped with others who have similar tasks.
- **Weaknesses:** Pursuit of functional goals can cause managers to lose sight of what's best for the overall organization; functional specialists become insulated and have little understanding of what other units are doing.

Divisional Structure

- **Strengths:** Focuses on results—division managers are responsible for what happens to their products and services.
- **Weaknesses:** Duplication of activities and resources increases costs and reduces efficiency.

Source: Robbins, Decenzo & Coulter (2013)

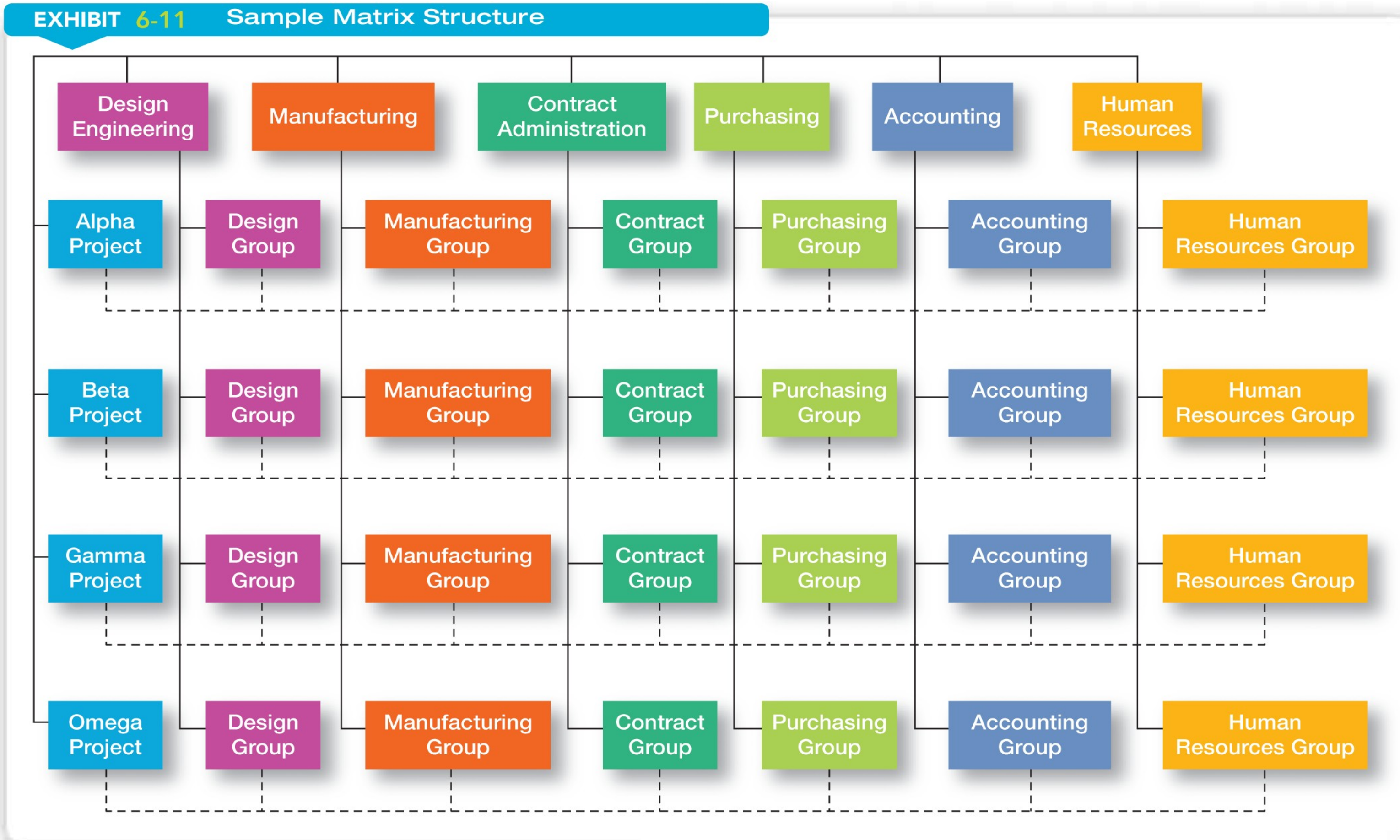
Contemporary Organizational Designs

EXHIBIT 6-10 Contemporary Organization Designs

TEAM STRUCTURE	
• **What it is:**	A structure in which the entire organization is made up of work groups or teams.
• **Advantages:**	Employees are more involved and empowered. Reduced barriers among functional areas.
• **Disadvantages:**	No clear chain of command. Pressure on teams to perform.
MATRIX-PROJECT STRUCTURE	
• **What it is:**	Matrix is a structure that assigns specialists from different functional areas to work on projects but who return to their areas when the project is completed. Project is a structure in which employees continuously work on projects. As one project is completed, employees move on to the next project.
• **Advantages:**	Fluid and flexible design that can respond to environmental changes. Faster decision making.
• **Disadvantages:**	Complexity of assigning people to projects. Task and personality conflicts.
BOUNDARYLESS STRUCTURE	
• **What it is:**	A structure that is not defined by or limited to artificial horizontal, vertical, or external boundaries; includes *virtual* and *network* types of organizations.
• **Advantages:**	Highly flexible and responsive. Utilizes talent wherever it is found.
• **Disadvantages:**	Lack of control. Communication difficulties.

Source: Robbins, Decenzo & Coulter (2013)

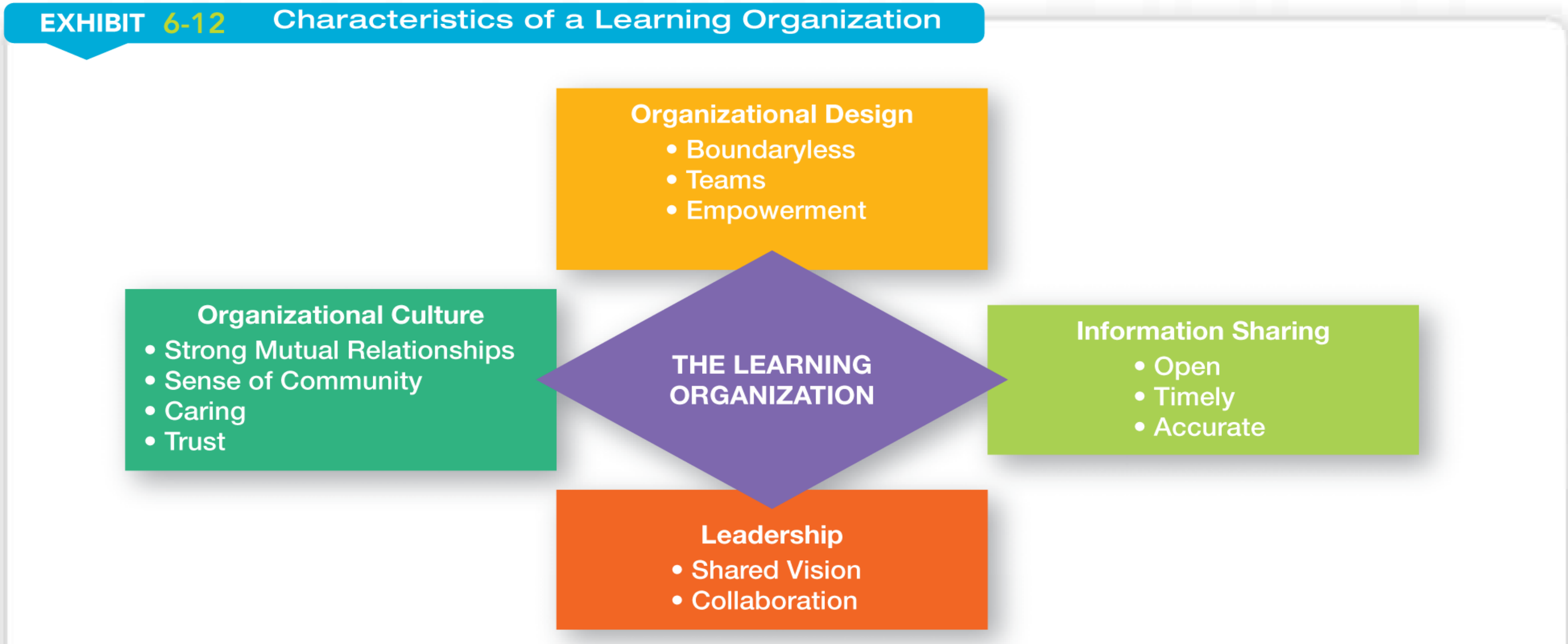
5.3. Functions of Management: organizing



Source: Robbins, Decenzo & Coulter (2013)

5.3. Functions of Management: organizing

A Learning Organization



Based on P. M. Senge, *The Fifth Discipline: The Art and Practice of Learning Organizations* (New York: Doubleday, 1990); and R. M. Hodgetts, F. Luthans, and S. M. Lee, "New Paradigm Organizations: From Total Quality to Learning to World Class," *Organizational Dynamics*, Winter 1994, pp. 4–19.

Source: Robbins, Decenzo & Coulter (2013)

Unit 6. Functional organization I

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

VNIVERSITAT DE VALÈNCIA
Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

- Define operations management and explain its role.
- Define the nature and purpose of value chain management.
- Describe how value chain management is done.
- Discuss contemporary issues in managing operations.

Unit 6. Functional organization I

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch. 15.

Previous concepts

- Are there any relationships among: procurement & logistics, operations and marketing?
- What are the implications for management?

6.1. Procurement and logistics function

- **The procurement function is aimed at planning and inventory control of the company.**

- **Inventory: A set of items stored pending its subsequent use (internal or external use).**

  - **Inventories are considered an investment as they are considered idle resources, stored before use.**
  - **Inventories can be mainly raw materials, work in progress or finished products**

6.1. Procurement and logistics function

Planning and inventory control must set:

- When the various orders should be made?
- How much should be ordered for each raw material?

Factors to consider:

- Demand characteristics
- Inventory costs: possession, emission, break, acquisition.
- Delivery time

6.1. Procurement and logistics function

Logistics as a business concept evolved in the 1950s due to the increasing complexity of supplying businesses with materials and shipping out products in an increasingly globalized supply-chain.

Business logistics definition:

"having the right item in the right quantity at the right time at the right place for the right price in the right condition to the right customer"

- **In business, logistics may have:**
  - **internal focus (inbound logistics)**
  - **external focus (outbound logistics) covering the flow and storage of materials from point of origin to point of consumption.**
- **Its main functions are: inventory management, purchasing, transportation, warehousing, consultation and the organizing and planning of these activities.**

6.1. Procurement and logistics function

The Council of Supply Chain Management Professionals (CSCMP) defines Supply Chain Management as follows:

"Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities".

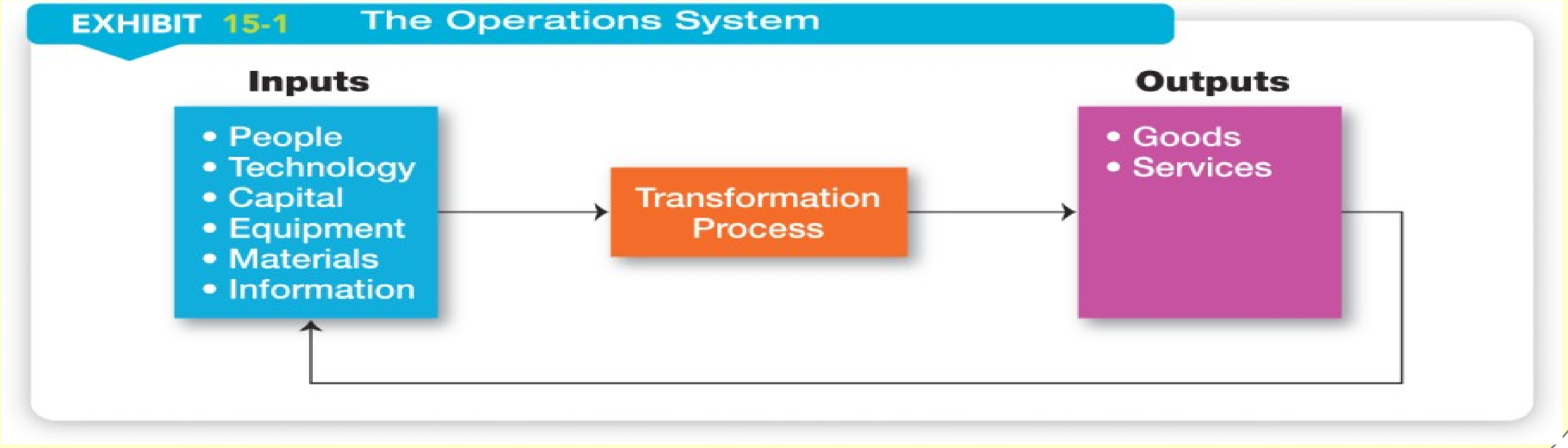
- It also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers.

- In essence, supply chain management integrates supply and demand management within and across companies.

6.2. Operations function

What’s operations management?

- **Operations management** refers to the design, operation, and control of the transformation process that converts resources such as labor and raw materials into goods and services that are sold to customers.
- Then it manages the process of creating value by converting inputs into outputs.



Source: Robbins, Decenzo & Coulter (2013)

Why is Operations management important ?

(1) it encompasses processes in both service and manufacturing organizations

(2) it's key to effectively and efficiently managing productivity

(3) it plays a strategic role in an organization's competitive success.

6.2. Operations function

four types of decisions

(a) Whether to produce or not

(b) How much to produce (specific amount)

(c) What input combination to use

(d) What type of technology to use

6.2. Operations function

The Production Subsystem Design

- Product (good or service) design
- Productive process design
- Plant design, its localization and maintenance
- Productive Capacity and Technology
- H.R. Organization
- Quality System design, etc.

6.2. Operations function

Types of production process

- **Per Project**

 Developing unique products or services of any complexity. Under request.

- **Handcrafted**

 Manufacture of few units of a wide variety of products. Under request

- **Batch**

It differs from the handcrafted one for the major size of the batch and for the major uniformity of its products

- **Mass**

Processing of large batches of a few different products, but technically homogeneous.

- **Continuous production**

Continuous production flow, in which the same operations are always runnung, on the same machines, to obtain the same product.

6.2. Operations function

Improving Productivity

- Technology is helping businesses to improve their productivity in order to survive, especially in a market filled with low-cost competitors
- High productivity leads to economic growth and development of countries and to higher wages and company profits without causing inflation.
- Individual organizations also benefit from a more competitive cost structure and the ability to offer more competitive prices.
- Organizations that hope to succeed globally are looking for ways to improve productivity. For example, the Canadian Imperial Bank of Commerce, which automated its purchasing, is saving several million dollars annually.

6.2. Operations function

Deming's 14 Points for Improving Productivity

- Plan for the long-term future.
- Never be complacent with the quality of your product.
- Establish statistical control over your production processes and require your suppliers to do so.
- Deal with the best and fewest number of suppliers.
- Find out if your problems are confined to particular parts of the production process or stem from the overall process itself.

Value Chain Management

- Nowadays operations management have become value chain management
- How is value created through the production process?
- Organizations provide value to customers through transforming raw materials and other resources into some good or service that end users need or desire when, where, and how they want it.
- This involves a vast array of interrelated work activities performed by a chain of suppliers, manufacturers, and so on.
- Value chain – The entire series of organizational work activities that add value at each step from raw materials to finished product

6.2. Operations function

Value Chain Management

It is the process of managing the sequence of activities and information along the entire value chain. It is externally oriented and focuses on both *incoming* materials and *outgoing* products and services. Value chain management is effectiveness oriented and aims to create the highest value for customers.

Goals of Value Chain Management

- **customers define what value is and how it's created and provided**
- **A good value chain is one in which a sequence of participants works together as a team, each adding some component of value—such as faster assembly, more accurate information, or better customer response and service—to the overall process. The better the collaboration among the various chain participants, the better the customer solutions.**

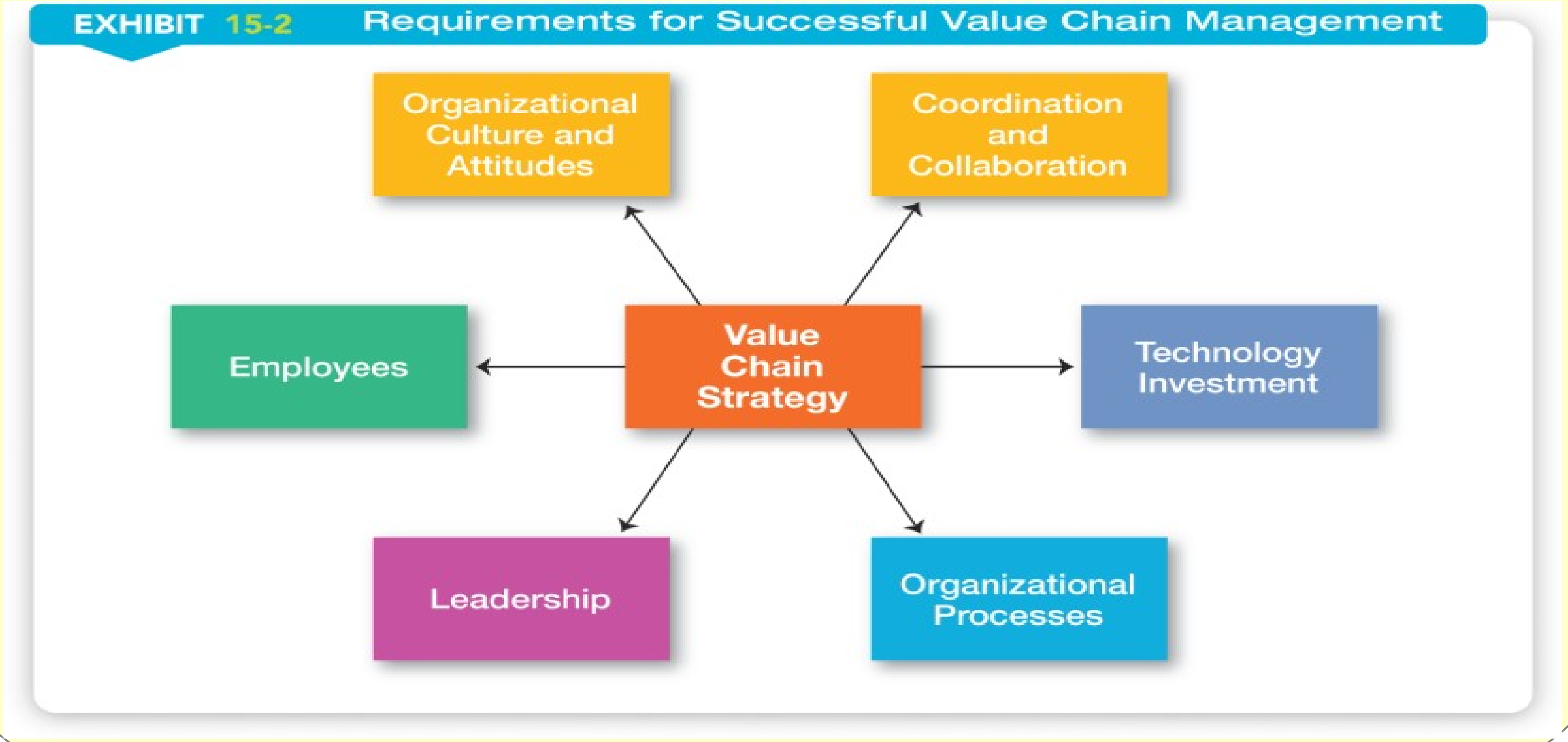
6.2. Operations function

Benefits of Value Chain Management

1. Improved procurement
2. Improved logistics
3. Improved product development, and
4. Enhanced customer order management.

6.2. Operations function

Successful Value Chain Management



Source: Robbins, Decenzo & Coulter (2013)

Organizational Processes and Leadership

Organizational processes must change to provide:

1. **Better demand forecasting**
2. **Select functions done collaboratively with other partners in the chain**
3. **New measures needed for evaluating the performance of various activities along the chain**

6.2. Operations function

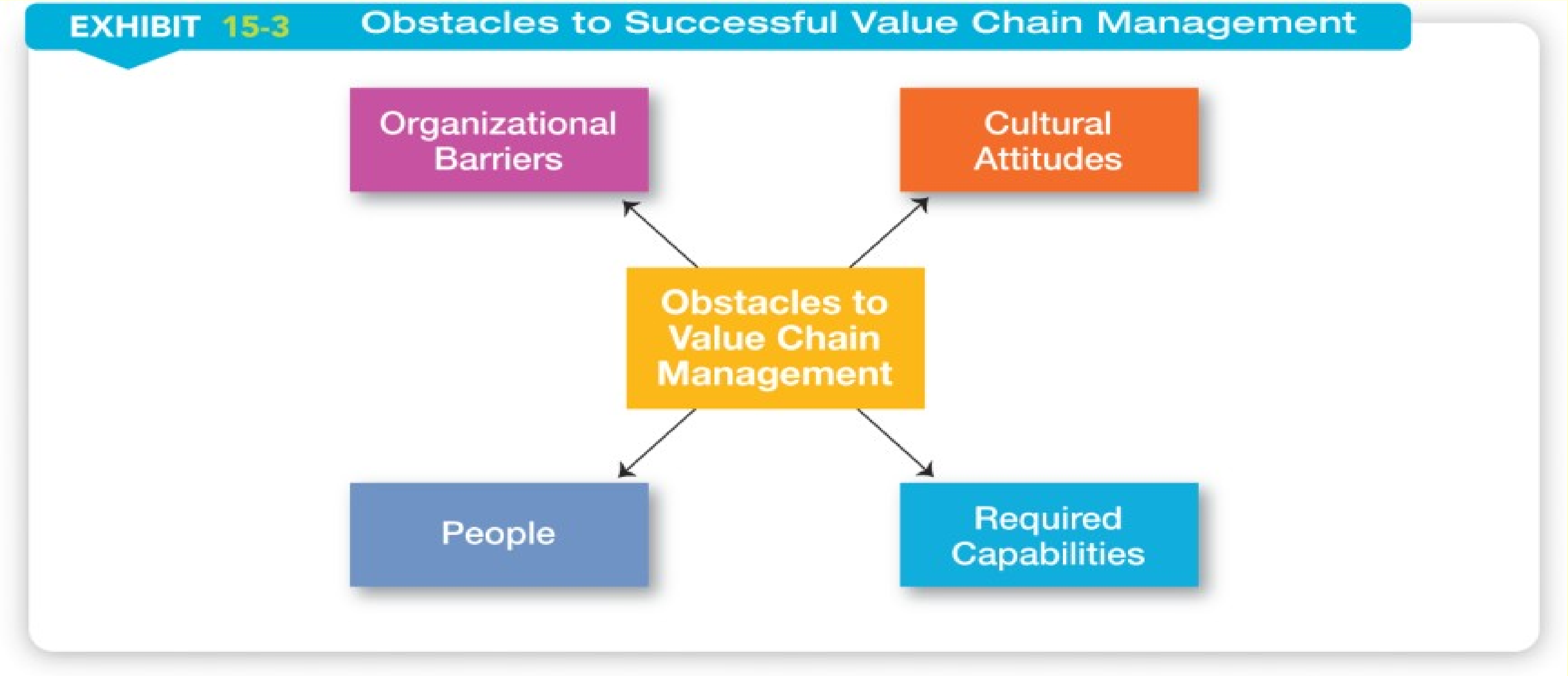
- Employees are an organization's most important resource so they play an important part in value chain management.

- Three main human resources requirements for value chain management are:

1. Flexible approaches to job design
2. An effective hiring process, and
3. Ongoing training.

6.2. Operations function

Obstacles to Value Chain Management



Source: Robbins, Decenzo & Coulter (2013)

6.2. Operations function

Contemporary Issues

1. Technology’s role in operations management
2. Quality initiatives
3. Project management

6.2. Operations function

Quality Control

EXHIBIT 15-4 What Is Quality?

PRODUCT QUALITY DIMENSIONS

1. Performance—Operating characteristics
2. Features—Important special characteristics
3. Flexibility—Meeting operating specifications over some period of time
4. Durability—Amount of use before performance deteriorates
5. Conformance—Match with preestablished standards
6. Serviceability—Ease and speed of repair or normal service
7. Aesthetics—How a product looks and feels
8. Perceived quality—Subjective assessment of characteristics (product image)

SERVICE QUALITY DIMENSIONS

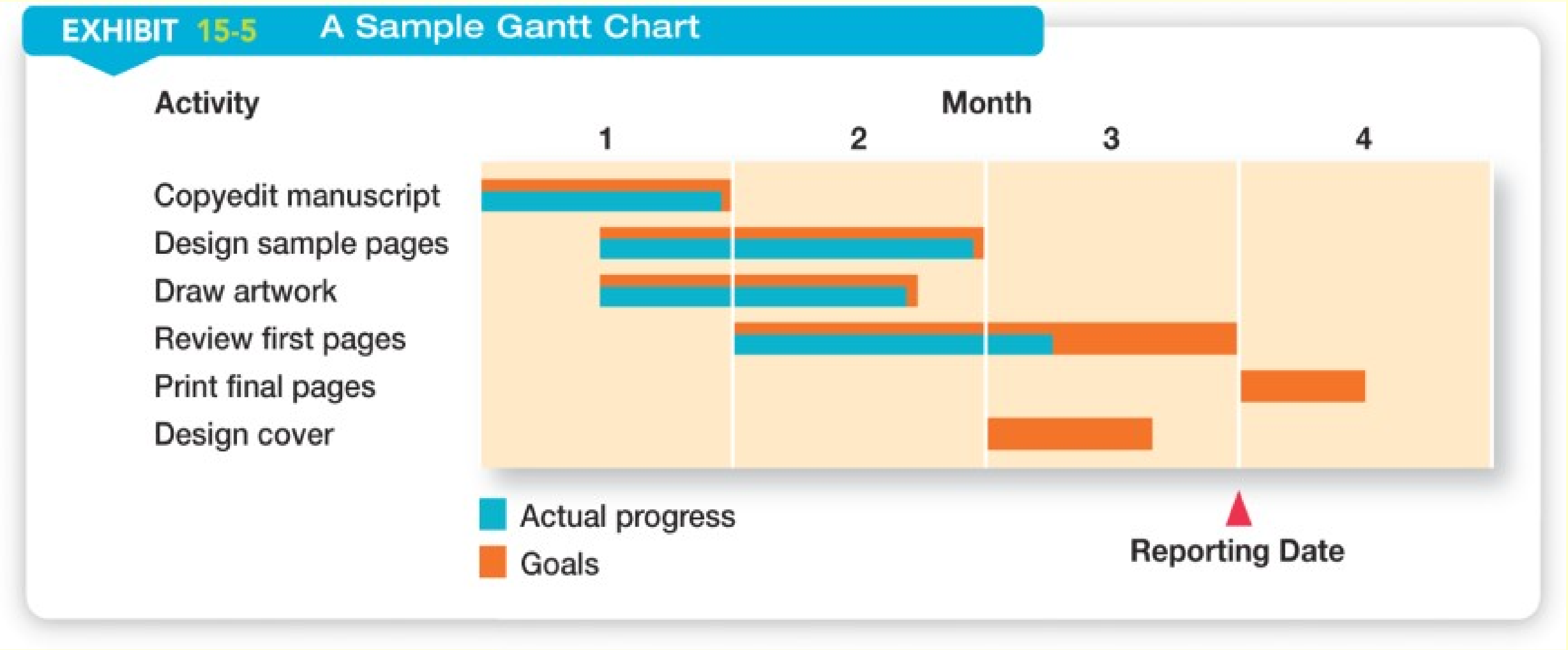
1. Timeliness—Performed in promised period of time
2. Courtesy—Performed cheerfully
3. Consistency—Giving all customers similar experiences each time
4. Convenience—Accessibility to customers
5. Completeness—Full service, as required
6. Accuracy—Performed correctly each time

Sources: Based on J. W. Dean and J. R. Evans, *Total Quality: Management, Organization, and Society* (St. Paul, MN: West Publishing Company, 1994); H. V. Roberts and B. F. Sergesketter, *Quality Is Personal* (New York: The Free Press, 1993); D. Garvin, *Managed Quality: The Strategic and Competitive Edge* (New York: The Free Press, 1988); and M. A. Hitt, R. D. Ireland, and R. E. Hoskisson, *Strategic Management*, 4th ed. (Cincinnati: South-Western Publishing, 2001), p. 121.

Source: Robbins, Decenzo & Coulter (2013)

6.2. Operations function

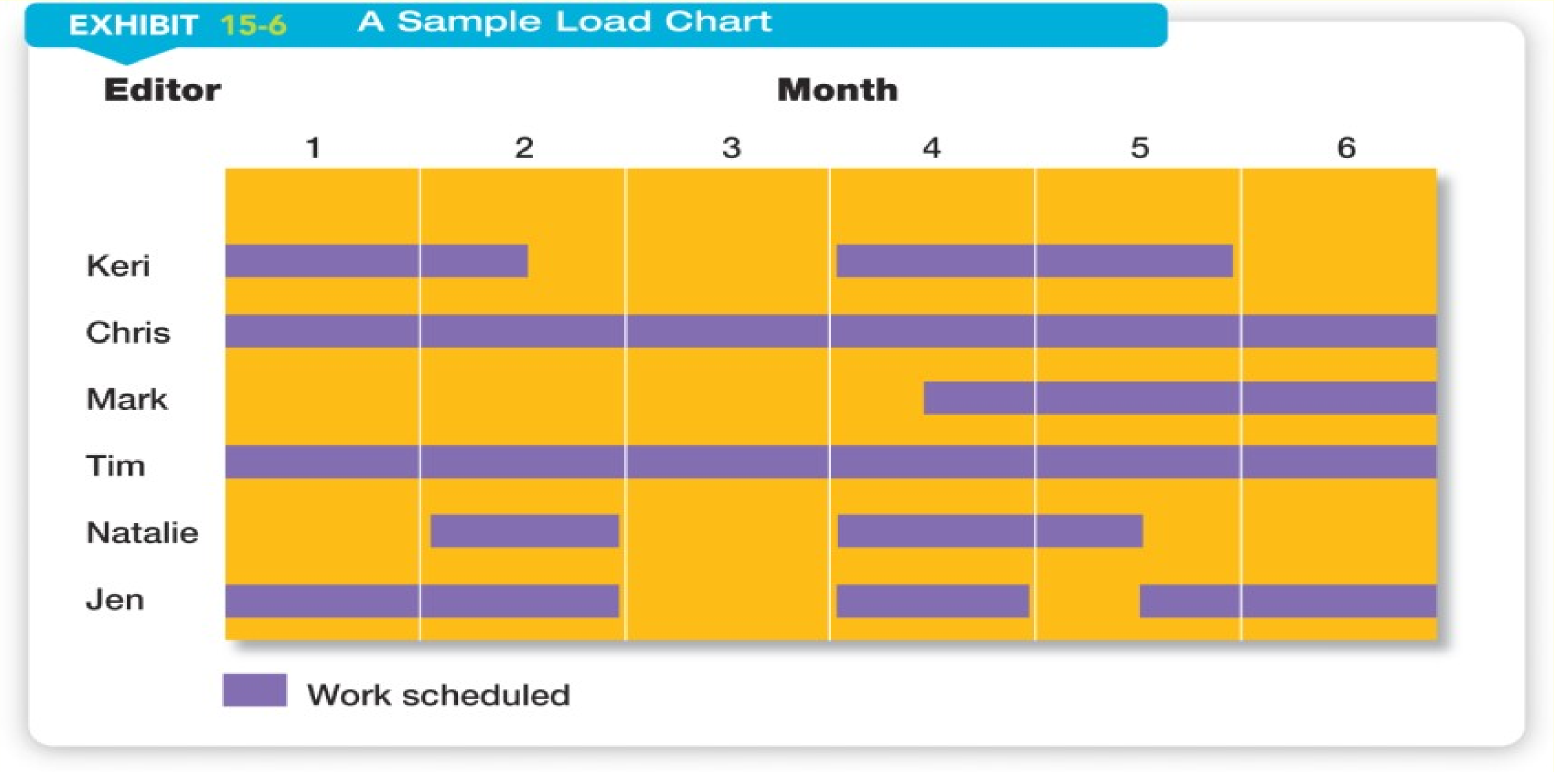
Gantt Charts



Source: Robbins, Decenzo & Coulter (2013)

6.2. Operations function

Load Charts



Source: Robbins, Decenzo & Coulter (2013)

6.3. Marketing function

Marketing. Definition:

The management process through which goods and services move from concept to the customer.
It includes the coordination of four elements called the 4 P's of marketing:

(1) identification, selection and development of a product,

(2) determination of its price,

(3) selection of a distribution channel to reach the customer's place
(4) development and implementation of a promotional strategy.

Read more: http://www.businessdictionary.com

6.3. Marketing function

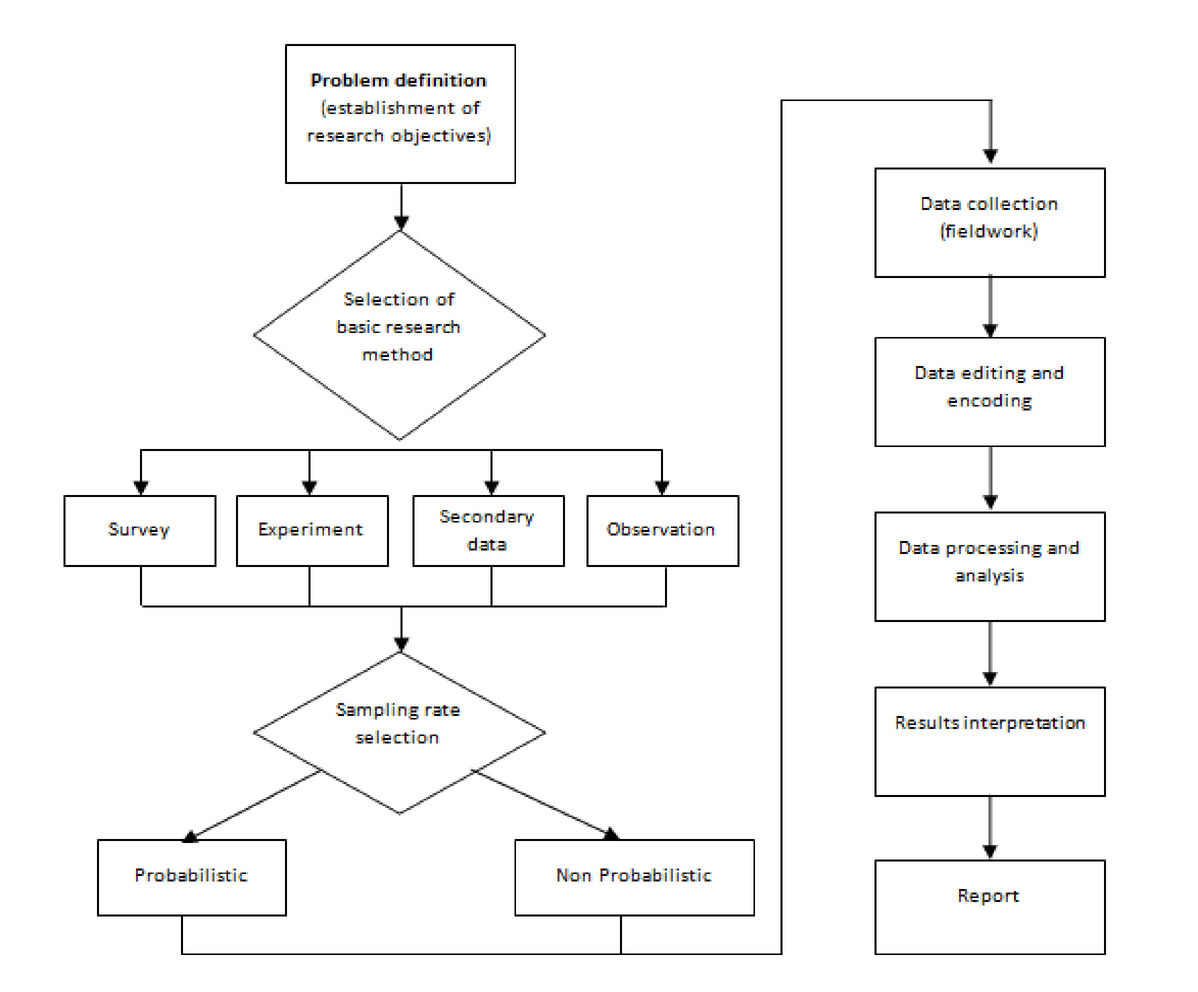
MARKETING SUBFUNCTIONS

Market Analysis is a market research process to determine the potential demand, the purchasing behavior of consumers, as well as to determine the opportunity to segment the market.

Marketing Mix Design: establishing which marketing actions must be implement on the 4Ps.
Product (features, size, packaging, warranties, brand, etc.),
Price (pricing, cash/volume discounts, offers and sales, etc.)
Promotion (communication and difussion, publicrelationships, advertisement, media, etc.)
Place (number and type of channels, bargaining power, etc.)

6.3. Marketing function

Market Research consists on designing, collection and analysis of data and relevant information to solve a specific marketing problem faced by the firm.



6.3. Marketing function

Market Research also deals with analyzing consumer behavior and to determine the possibility of market segmentation.

Consumer's behavior analysis attempts to determine general patterns about decision-making processes of consumers' buying

Market segmentation is a process of self-division in homogeneous groups of consumers, in order to design a differentiated marketing strategy for each group, allowing a more effectively way to meet their needs

Unit 7. Functional organization II

Subject: Fundamentals of Management

Degree in Economics

Lecturer: Ph.D. Vanessa Campos i Climent

Departament de Direcció d'Empreses. Juan José Renau Piqueras

Learning Outcomes

- Describe the key components of the human resource management process and the important influences on that process.
- Discuss the tasks associated with identifying and selecting competent employees.
- Explain how employees are provided with needed skills and knowledge.
- Describe strategies for retaining competent, high-performing employees.
- Discuss contemporary issues in managing human resources.
- Define organizational change and compare and contrast views on the change process.
- Explain how to manage resistance to change.
- Describe what managers need to know about employee stress.
- Discuss techniques for stimulating innovation.
- Define and expalin motivation
- Definie what financial function is
- Decribe the existing relationship between investment and funding

Unit 7. Functional organization II

TABLE OF CONTENTS

REFERENCES

Robbins, Decenzo & Coulter (2013): Fundamentals of Management. Pearson 8th Edition. Ch. 7, 8 and 11.1.

Previous concepts

- What's the main role played by Human Resources in a company?
- Which are the implications for management?
- Can we find any relationship among HR, R+D+i+d and financial function?

7.1. Human Resources function

What is Human Resource management?

- The quality of an organization is to a large degree determined by the quality of the people it employs.
- Human resource management (also known as HRM) is the management function concerned with:

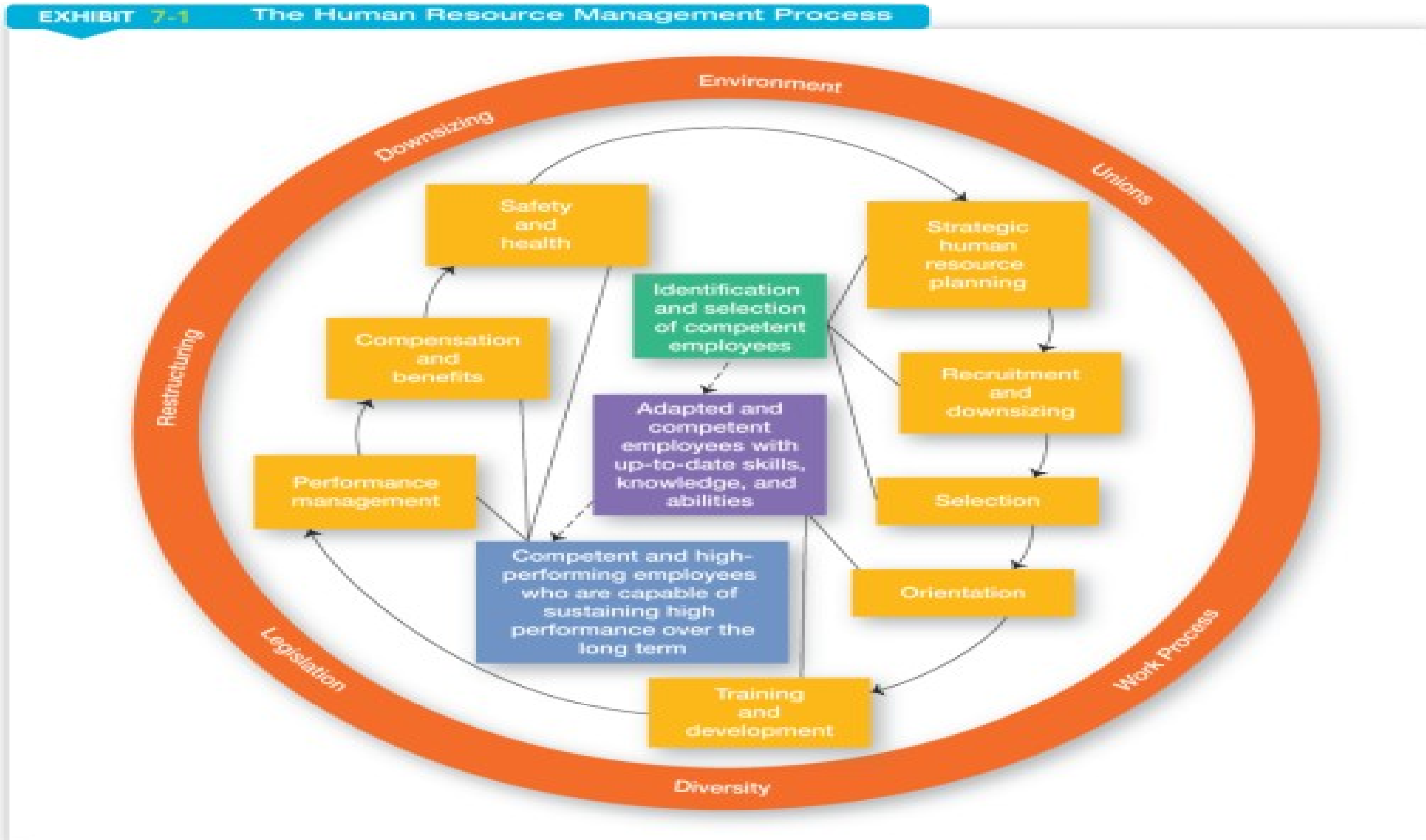
- ✔Getting
- ✔Training
- ✔Motivating
- ✔keeping competent employees

7.1. Human Resources function

- In many organizations, a number of the activities grouped under the label human resource management (HRM) are done by specialists.
- In other organizations, HRM activities may be outsourced to other companies, either domestic or global.
- Many small business managers, for instance, must do their own hiring without the assistance of HRM specialists.
- But all managers, even those in larger organizations, are involved in recruiting candidates, reviewing application forms, interviewing applicants, orienting new employees, making decisions about employee training, providing career advice to employees, and evaluating employees' performance.
- Therefore, even if an organization provides HRM support activities, every manager is involved with human resource decisions in his or her unit.

7.1. Human Resources function

HRM process and influences



Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function

Identifying and Selecting Employees

Phase 1 of the HRM process involves:

- **Employment planning**
- **Recruitment and downsizing**
- **Candidate selection**

7.1. Human Resources function

- **Employment planning**

✓ is the process by which managers ensure that they have the right number and kinds of people in the right places at the right times, people who are capable of effectively and efficiently completing those tasks that will help the organization achieve its overall goals.

✓ This process translates the organization's mission and goals into an HR plan that allows the organization to achieve those goals by:

1. Assessing current and future human resource needs, and
2. Developing a plan to meet those needs.

7.1. Human Resources function

Conducting Employee Assessments

- **human resource inventory**, which generally lists the name, education, training, prior employment, languages spoken, capabilities, and specialized skills of each employee in the organization.
- **Job analysis** helps determine the kinds of skills, knowledge, and attitudes needed to successfully perform each job. This information is then used to develop or revise job descriptions and job specifications.
- **Job description** is a written statement that describes what a job holder does, how it's done, and why it's done. It typically includes job content, job environment, and conditions of employment.
- **Job specification** states the minimum qualifications that a person must possess to perform a given job successfully. It identifies the knowledge, skills, and attitudes needed to do the job effectively

7.1. Human Resources function

Determining Future Employee Needs

- Demand for employees comes from the demand for the organization's products or services.
- Generally managers attempt to establish the number and mix of people needed to reach that revenue by estimating total revenue.
- One exception is when there is a scarce supply of qualified candidates.
- After assessing both current capabilities and future needs, managers can estimate shortages—both in number and in kind—and highlight areas in which the organization is understaffed or overstaffed.
- Once managers know their current staffing levels—whether they are understaffed or overstaffed—they can respond. If job openings exist, they can begin recruitment—that is, the process of locating, identifying, and attracting capable applicants.
- In contrast, if employment planning indicates a surplus, managers may want to reduce the labor supply and initiate downsizing or restructuring activities.

7.1. Human Resources function

Recruiting Applicants

EXHIBIT 7-3 Recruiting Sources

SOURCE	ADVANTAGE	DISADVANTAGE
Internal searches	Low cost; build employee morale; candidates are familiar with organization	Limited supply; may not increase proportion of protected group employees
Advertisements	Wide distribution can be targeted to specific groups	Generate many unqualified candidates
Employee referrals	Knowledge about the organization provided by current employees; can generate strong candidates because a good referral reflects on the recommender	May not increase the diversity and mix of employees
Public employment agencies	Free or nominal cost	Candidates tend to be lower skilled, although some skilled employees available
Private employment agencies	Wide contacts; careful screening; short-term guarantees often given	High cost
School placement	Large, centralized body of candidates	Limited to entry-level positions
Temporary help services	Fill temporary needs	Expensive
Employee leasing and independent contractors	Fill temporary needs but usually for more specific, longer-term projects	Little commitment to an organization other than current project

Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function

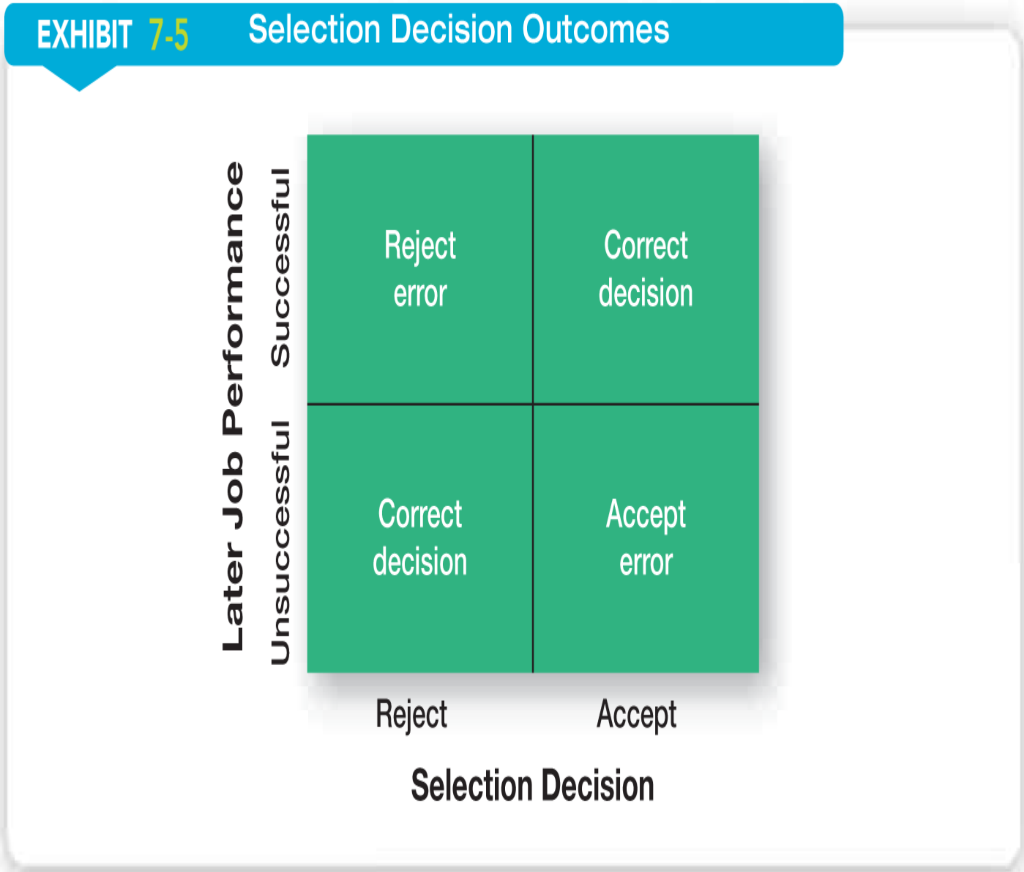
Downsizing HR

EXHIBIT 7-4 Downsizing Options

OPTION	DESCRIPTION
Firing	Permanent involuntary termination
Layoffs	Temporary involuntary termination; may last only a few days or extend to years
Attrition	Not filling openings created by voluntary resignations or normal retirements
Transfers	Moving employees either laterally or downward; usually does not reduce costs but can reduce intraorganizational supply–demand imbalances
Reduced workweeks	Having employees work fewer hours per week, share jobs, or through furloughs perform their jobs on a part-time basis
Early retirements	Providing incentives to older and more-senior employees for retiring before their normal retirement date
Job sharing	Having employees, typically two part-timers, share one full-time position

Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function



Source: Robbins, Decenzo & Coulter (2013)

Selecting Job Applicants

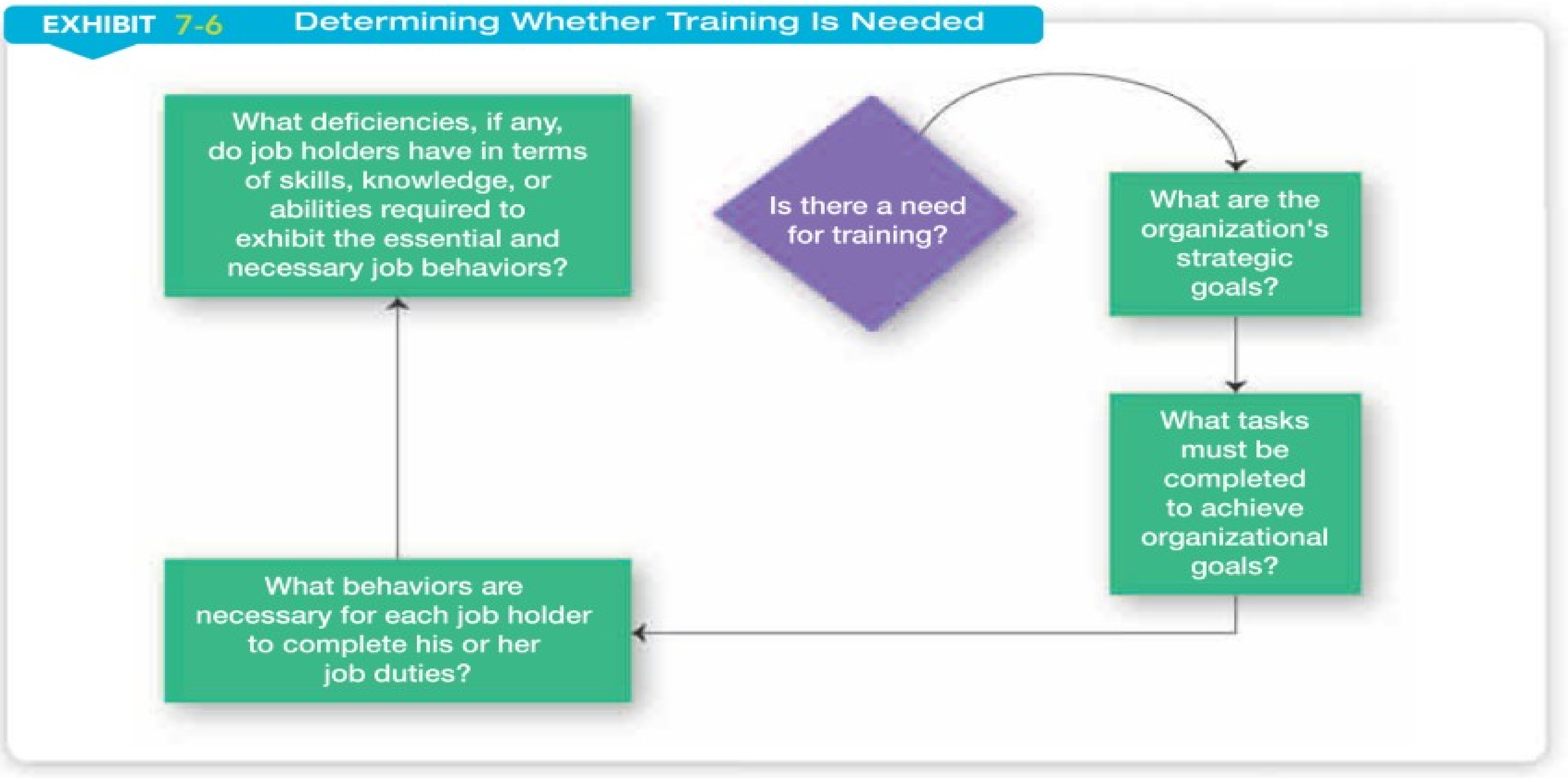
<u>A decision is correct when:</u>

1. The applicant who was predicted to be successful and was hired or accepted proved to be successful on the job. successfully accepted.

2. The applicant who was predicted to be unsuccessful and was therefore not hired or rejected *would not* have been able to do the job. successfully rejected.

7.1. Human Resources function

Providing Skills and Knowledge



Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function

EXHIBIT 7-7 Typical Training Methods

SAMPLE ON-THE-JOB TRAINING METHODS

Job rotation	Lateral transfers allowing employees to work at different jobs. Provides good exposure to a variety of tasks.
Understudy assignments	Working with a seasoned veteran, coach, or mentor. Provides support and encouragement from an experienced worker. In the trades industry, this may also be an apprenticeship.

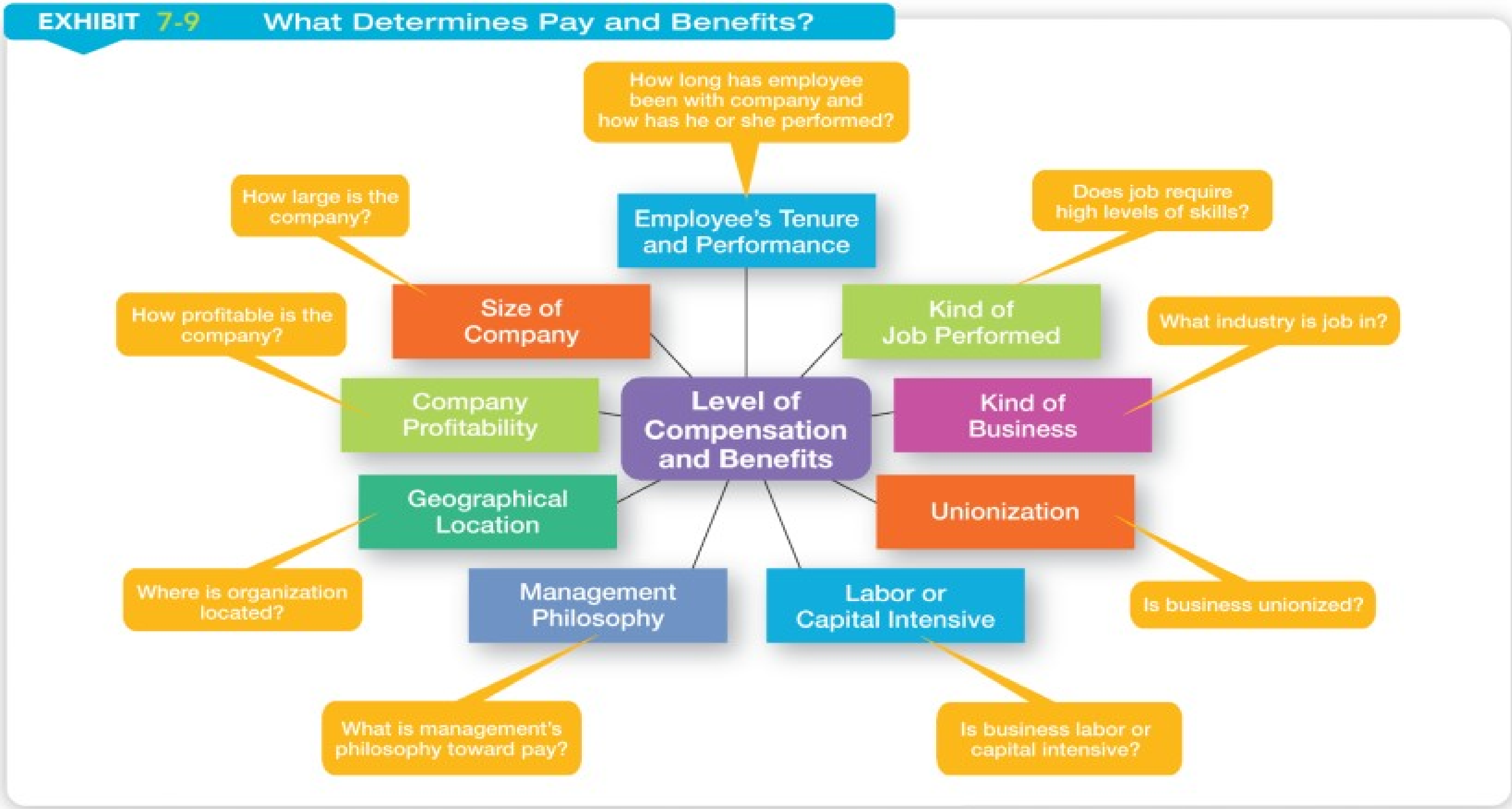
SAMPLE OFF-THE-JOB TRAINING METHODS

Classroom lectures	Lectures designed to convey specific technical, interpersonal, or problem-solving skills.
Films and videos	Using media to explicitly demonstrate technical skills that are not easily presented by other training methods.
Simulation exercises	Learning a job by actually performing the work (or its simulation). May include case analyses, experiential exercises, role-playing, and group interaction.
Vestibule training	Learning tasks on the same equipment that one actually will use on the job but in a simulated work environment.

Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function

Determining Pay Levels



Source: Robbins, Decenzo & Coulter (2013)

7.1. Human Resources function

Contemporary Issues

EXHIBIT 7-10 Tips for Managing Downsizing

- Communicate openly and honestly:
  - Inform those being let go as soon as possible
  - Tell surviving employees the new goals and expectations
  - Explain impact of layoffs
- Follow any laws regulating severance pay or benefits
- Provide support/counseling for surviving employees
- Reassign roles according to individuals' talents and backgrounds
- Focus on boosting morale:
  - Offer individualized reassurance
  - Continue to communicate, especially one-on-one
  - Remain involved and available

Source: Robbins, Decenzo & Coulter (2013)

7.2. R+D+i+d function (definitions)

Inventing: Creating a new product (good / service) or process to solve a practical problem

Innovating: Introducing a new product (good / service) or process in the market

- **Novelty** → Technical uncertainty

- **Commercialization** → Market uncertainty

(economic value is determined by market)

7.2. R+D+i+d function (classification)

Criterion used	Resulting innovation
Degree of novelty	Radical innovation or incremental innovation
Innovation Scenario	Technological innovation or market innovation
Purpose of innovation	Product innovation or process innovation

Source: Iborra, Dasí, Dolz and Ferrer (2006)

7.2. R+D+i+dfunction (classification)

Degree of novelty

Radical innovation: one that, for its exploitation, requires a technological knowledge very different from existing, so that it becomes obsolete. Radical innovations are the basis of technological and economic development (Schumpeter).

Incremental innovation: that which derives from an improvement or refinement of existing technology.

Purpose of innovation

Product innovation: developing and marketing a new or improved product that offers performance characteristics or benefits objectively new or higher than existing

Innovation process: introduction of a production or distribution method new or improved

7.2. R+D+i+d function (classification)

Innovation Scenario

TECHNOLOGY

MARKET		current	new
	current	Regular	Revolutionary
	new	Niche Creation	Architectural

7.2. R+D+i+d function

Ways to protect innovation

Spain:

- Patent
- Utility Model
- Industrial design
- Distinctive signs

Europe:

- European patents (can allow protection at a global level)

USA:

- American patents (can allow protection at a global level)

7.2. R+D+i+d function

What Is Organizational Change?

Organizational change – Any alteration of an organization's people, structure, or technology

Source: Robbins, Decenzo & Coulter (2013)

7.2. R+D+i+d function

The Need for Change

External factors:

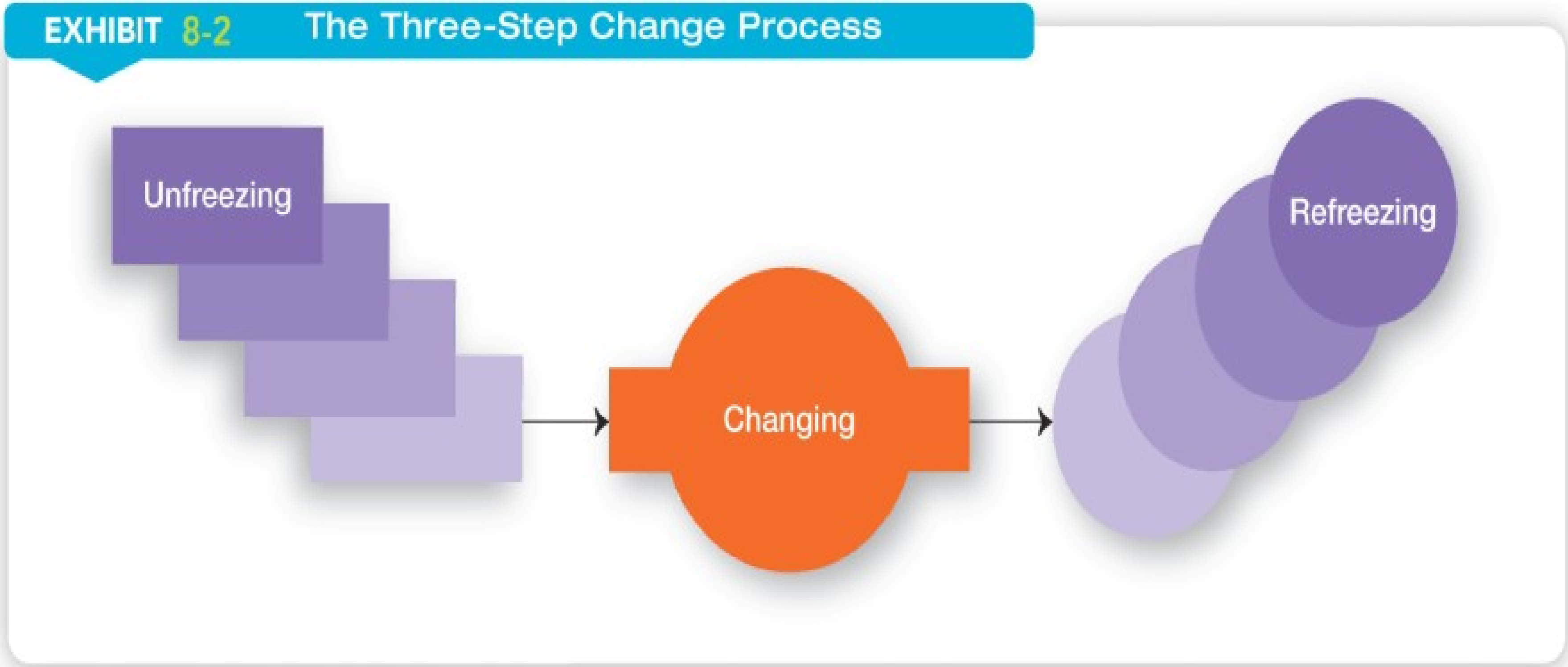
- Marketplace
- Government laws and regulations
- Technology
- Fluctuations in labor markets
- Economic changes

Internal forces:

- Redefined or modified organizational strategy
- Composition of workforce
- Employee attitudes

7.2. R+D+i+d function

The Change Process



Source: Robbins, Decenzo & Coulter (2013)

7.2. R+D+i+d function

The Change Process

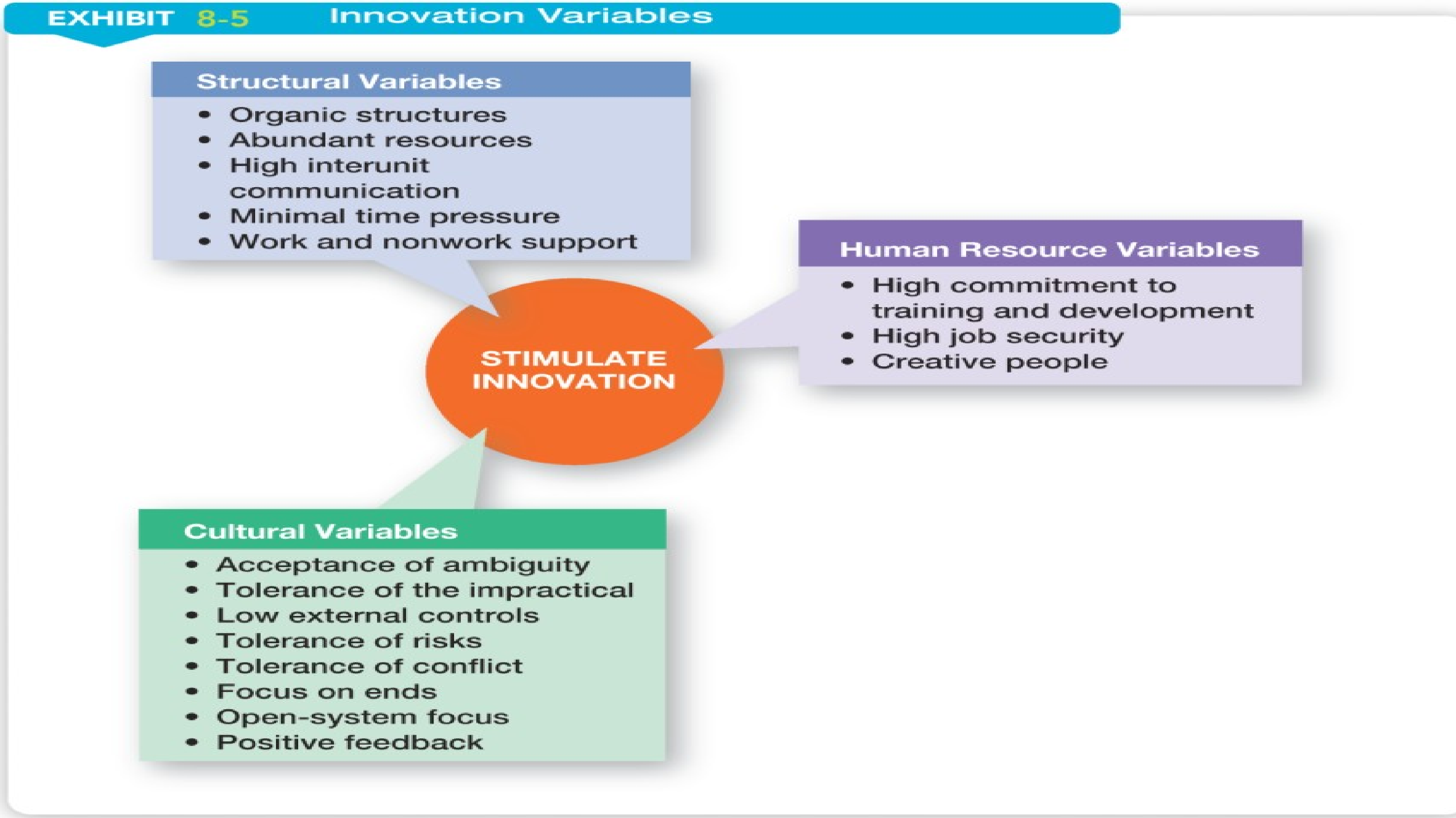
EXHIBIT 8-3 Techniques for Reducing Resistance to Change

TECHNIQUE	WHEN USED	ADVANTAGE	DISADVANTAGE
Education and communication	When resistance is due to misinformation	Clear up misunderstandings	May not work when mutual trust and credibility are lacking
Participation	When resisters have the expertise to make a contribution	Increase involvement and acceptance	Time-consuming; has potential for a poor solution
Facilitation and support	When resisters are fearful and anxiety-ridden	Can facilitate needed adjustments	Expensive; no guarantee of success
Negotiation	When resistance comes from a powerful group	Can "buy" commitment	Potentially high cost; opens doors for others to apply pressure too
Manipulation and co-optation	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	Can backfire, causing change agent to lose credibility
Coercion	When a powerful group's endorsement is needed	Inexpensive, easy way to gain support	May be illegal; may undermine change agent's credibility

Source: Robbins, Decenzo & Coulter (2013)

7.2. R+D+i+d function

Stimulating Innovation



Source: Robbins, Decenzo & Coulter (2013)

7.2. R+D+i+d function

Innovative organizations:

- Encourage experimentation
- Reward both successes and failures
- Celebrate mistakes

HR aids innovation by:

- Promoting training and development
- Offering high job security
- Encouraging individuals to become idea champions
- Supporting new ideas
- Overcoming resistance
- Implementing innovations

7.3. Financial function

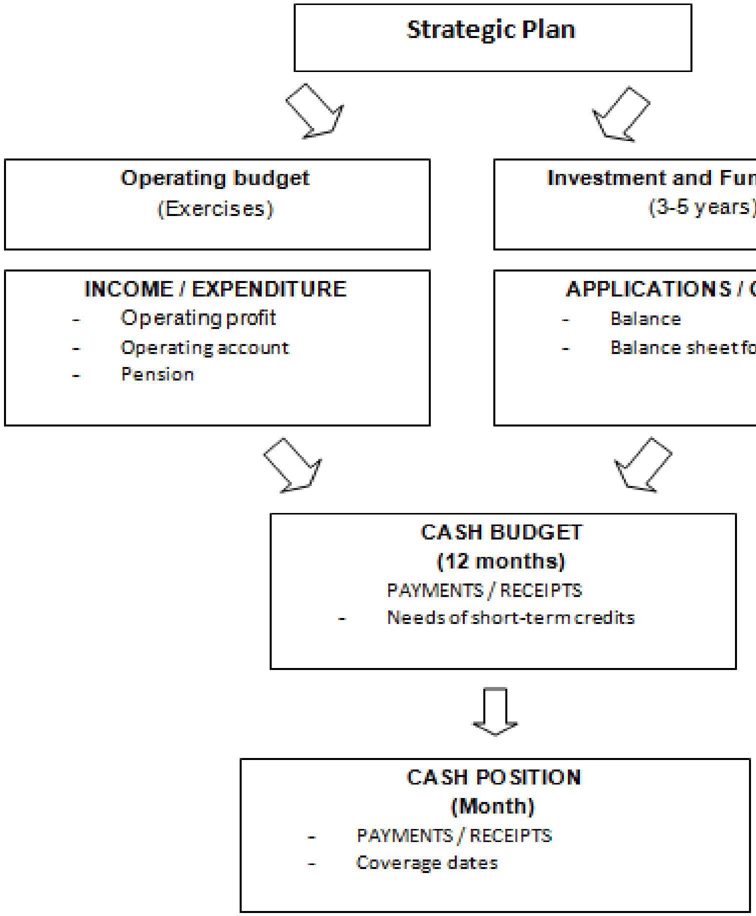
The financial function is responsible for making decisions on firm's financial fundraising and its management. It is therefore a two sides function, investment and financing.

FUNCTIONS OF FINANCIAL MANAGEMENT

Investment: Use of firm's financial resources to acquire or develop tangible and / or intangible assets in order to obtain a better profitability in the future.
- **Funds Distribution (via budgets)**
- **Liquidity management**
- **Investment alternatives (profitability, risk, payback, etc.)**

Financing: Provision of monetary resources from financial and capital markets.
- **Obtaining borrowed funds in the best possible conditions (interest rates, repayment periods, commissions, etc.)**
- **Determining the firm's financial structure (volume of debts: short/long term, volume of capital requirements (own/others, working capital, cash-flow, etc.)**
- **Dividend distribution and self-funding policies.**

7.3. Financial function



The Investment process

The most important is to be able to differenciate between:

- **Investment = NCA**
- **Expenditure**

7.3. Financial function

Investment decision (applications) involves funding decision (origins).

The financial balance is a basic principle of financial management.

NCA should be funded by NCL (Equity, long term debt)
CA should be funded by a combination of CL and NCL

Working Capital is a financial metric which represents "Operating Liquidity"

Working Capital Management
Decisions relating to working capital and short term financing.
Managing the relationship between a firm's short-term assets and its short-term liabilities.
The purpose of working capital management is to ensure that the firm can afford its payments in the short-term

7.3. Financial function

SOURCES OF FUNDING

Internal or self-funding: resources generated by the company itself provining from non distributed profits and owners' contribution.

External Funding: it is originated outside the company.
Obtained by going to financial institutions. We should consider the amount, term and conditions for repayment. The borrowed funds can be short or long term. Some examples are the bonds, debentures, leasing, and loans.

7.3. Financial function

Useful Concepts in evaluating a company's situation

EXHIBIT 14-6 Popular Financial Ratios

OBJECTIVE	RATIO	CALCULATION	MEANING
Liquidity	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Tests the organization's ability to meet short-term obligations
	Acid test	$\frac{\text{Current assets} - \text{Inventories}}{\text{Current liabilities}}$	Tests liquidity more accurately when inventories turn over slowly or are difficult to sell
Leverage	Debt to assets	$\frac{\text{Total debt}}{\text{Total assets}}$	The higher the ratio, the more leveraged the organization
	Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	Measures how many times the organization is able to cover its interest expenses
Activity	Inventory turnover	$\frac{\text{Sales}}{\text{Inventory}}$	The higher the ratio, the more efficiently inventory assets are being used
	Total asset turnover	$\frac{\text{Sales}}{\text{Total assets}}$	The fewer assets used to achieve a given level of sales, the more efficiently management is using the organization's total assets
Profitability	Profit margin on sales	$\frac{\text{Net profit after taxes}}{\text{Total sales}}$	Identifies the profits that are being generated
	Return on investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$	Measures the efficiency of assets to generate profits

Source: Robbins, Decenzo & Coulter (2013)