Lesson 4. Business Structure

Subject: Pharmaceutical Management and Planning

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Degree: Pharmacy/Double Degree in Pharmacy and Human Nutrition

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Lesson 4 : Business Structure

INDEX

BASIC REFERENCES

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4.1. Company and organization

➢**What is an Organization?**

➢An organization is a group of people that, using resources, carries out several activities in accordance with structured relationships in order to achieve a common goal.

➢**What is a Company?**

➢A company is a specific organization that combines a set of resources to obtain goods and services that provide added value.

➢It can be defined as a Technical and Economic Unit, a Socio-Political Unit, and a Decision Unit.

4.1. Company and organization

Not all organizations are companies, but ALL COMPANIES are ORGANIZATIONS.

What differentiates a company from other organizations?

Its main purpose is profit-making.

The ultimate aim of a company (though there may be others) is to make a profit and distribute that profit to its owners.

4.1. Company and organization

- A company is a technical and economic unit because it transforms resources into products or services (technical function). In this transformation, an economic value is generated (economic function).
- A company is a socio-political unit because it is made up of people. Its decisions and objectives are determined through political processes.
- A company is a decision unit because a person or a group of people (owners/managers) work to establish both a structure and formal relations to achieve its objectives.

4.1. Company and organization

Elements of a Company/Business Organization

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

- **Economic Goods**
  - Financial Resources
  - Physical resources: fixed & current assets
  - Intangible resources

4.1. Company and organization

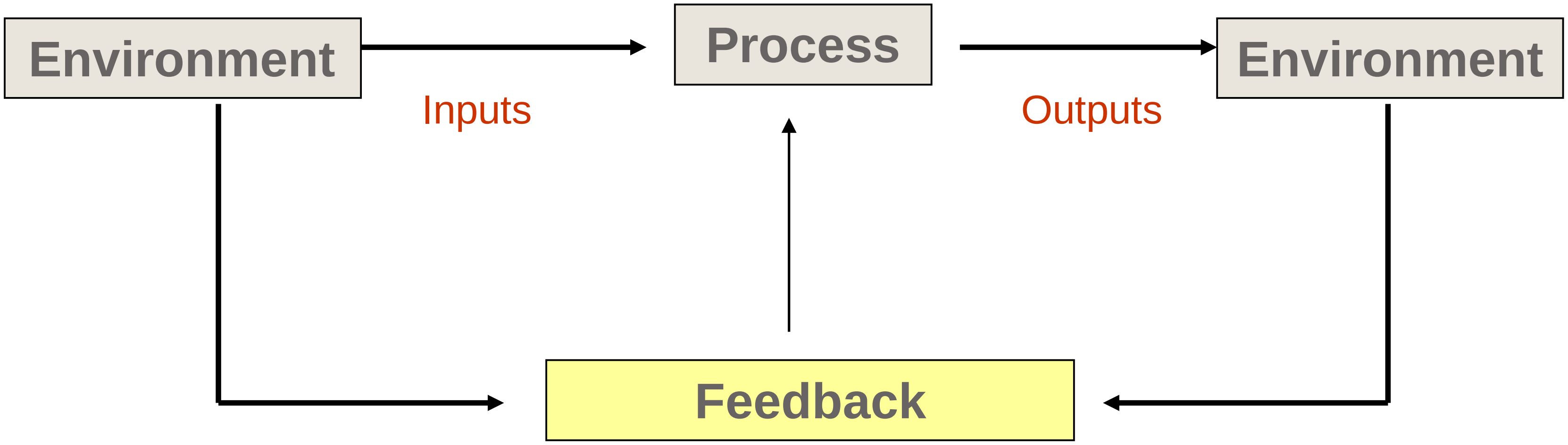
A System is

➢ a set of interdependent elements or subsystems whose relationships are shaped by a structure to achieve an objective.

A company is a System because

➢ it consists of a series of interrelated (material, immaterial and human) elements that by a certain process and thanks to a specific organizational structure work to achieve objectives.

4.1. Company and organization



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

4.1. Company and organization

Subsystems:

1. Supply
2. Production
3. Marketing
4. Finance
5. Human Resources (HR)
6. Research & Development (R&D)
7. Management

4.1. Company and organization

1. Supplying Subsystem

Objectives: to procure and store raw and other materials until production begins.

Functions:

- to determine whether to produce or acquire inputs,
- to select suppliers and/or subcontractors,
- to define purchasing and storage management,
- to define the reception, means, organization and maintenance of the stored materials,
- to perform the quality control of inputs, and
- to determine ordering policy and criteria for replacement.

4.1. Company and organization

2. Production Subsystem

Objective: to develop a creative activity for goods or services that is capable of satisfying human needs.

Functions:

- to define the technical characteristics of the product to be manufactured,
- to design the production system,
- to determine the location and design of the plant,
- to maintain facilities and production capacity,
- to improve production performance and technical control, and
- to analyze the temporal scheduling of tasks.

4.1. Company and organization

3. Marketing Subsystem

Objective: to ensure the sale and distribution of products and services and connect the company to the market.

Functions:

- to understand and analyze markets.
- to conquer the markets through the four P's (marketing-mix)
  - Product
  - Price
  - Place (Distribution)
  - Promotion

4.1. Company and organization

4. Financial Subsystem

Objective: to acquire funds for financing and distributing business activities to different areas or investment alternatives.

Functions:

- to acquire external funding with lower costs in terms of interest rates, guarantees, debt maturity, etc.,
- to determine the company's financial structure,
- to determine dividends and self-financing policies,
- to manage liquidity,
- to distribute the total funds among the various subsystems, and
- to analyze investment alternatives and establish priorities.

5. Human Resources (HR) Subsystem

Objective: to recruit human resources with the knowledge, skills, attitude, behavior and motivation required to achieve the company's goals.

Functions:

- to recruit, motivate and develop human resources.

HR management has several resources available to perform these functions, including the HR information system, HR planning and performance evaluation.

6. Research & Development (R&D) Subsystem

Objective: to conduct research on materials, processes and products in order to match the needs of current and potential customers.

Functions:

- to conduct basic research, applied research, development and adaptation.

7. Management Subsystem

Objective: to manage several subsystems and coordinate the relationships between the company and the environment in order to achieve business goals.

Functions:

- to plan, organize and control.

4.1. Company and organization

- ECONOMIC CRITERIA
  - By Size:
    - Micro, small, medium-sized (SMEs), and large companies
  - By Activity:
    - Primary production
    - Secondary production
    - Tertiary production
  - By Scope:
    - National
    - International (MNEs)
- LEGAL CRITERIA
  - Capital ownership:
    - Public/state-owned companies
    - Private companies
  - Legal Form:
    - Individual (sole proprietorship)
    - Capitalist
    - Mutual (cooperatives, SAL, etc.)
    - Welfare (foundations)

4.1. Company and organization

Economic Criteria

By size: micro, small, medium-sized and large (European Commission, 2003)

	Staff	Closing Balance/Assets (million euros)	Turnover (sales volume) (million euros)
Micro	< 10	< 2	< 2
Small	10 - 49	2 – 10	2 – 10
Medium-sized	50 - 249	10 - 43	10 – 50
Large	>= 250	> 43	> 50

While it is compulsory to respect thresholds pertaining to numbers of staff, an SME (micro, small and medium enterprises) may choose to meet **either** the criterion relating to turnover **or** the criterion relating to balance sheet (i.e. it **does not** have to meet both criteria and it can fail to meet one of them without losing its status).

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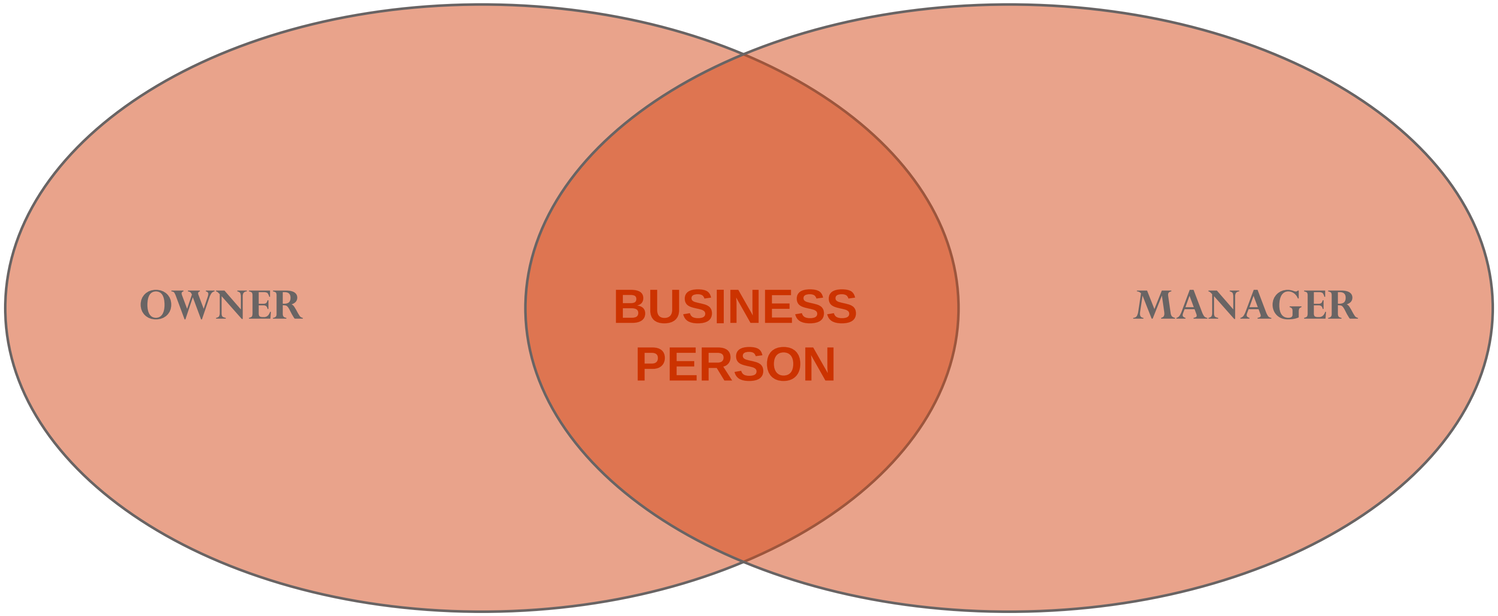
4.2. Ownership and control

Ownership belongs to the person or people who are the legal owners of the business.

Management is executed by people with the authority to

- **set goals and make decisions aimed at achieving those goals, and**
- **lead and coordinate other people's work.**

4.2. Ownership and control



Business Person is the person who is both the owner and the manager.

4.2. Ownership and control

Concepts of Business Person:

- **Risk taker (Knight, 1921)**
- **Innovative Entrepreneur (Schumpeter, 1911; 1942)**
- **Manager (expert) (Galbraith, 1967)**

4.2. Ownership and control: business person and manager

Risk Taker (Knight,1921)

Risk takers (entrepreneurs) are those who acquire the means of production at known costs based on an estimate of the future price at which they will sell their products and the volume of products they will sell and assuming all the risk for the economic activity.

If their estimates are right, they will earn a profit. If their estimates are wrong, they will incur losses because their income will be lower than their costs.

Business profit or residual income is the financial compensation for the risk assumed by the entrepreneur with this estimate, discounting the salary corresponding to management.

An entrepreneur is the owner of a company who assumes the risk of equity and participates in the company's decisions.

4.2. Ownership and control: business person and manager

Innovative Entrepreneur (Schumpeter, 1911;1942)

Economic development comes from innovation.

An entrepreneur is a person who innovates, i.e. who makes new combinations of the means of production that result in new products and/or processes or improvements in existing ones.

What justifies the fact that the employer acquires the profit is not the risk but the innovation.

Innovation enables a temporary monopoly that provides an extraordinary profit until other entrepreneurs copy or imitate the innovation.

4.2. Ownership and control: business person and manager

Manager (Galbraith,1967)

The separation between the ownership of the means of production and the management and control of these means began with the emergence of large companies.

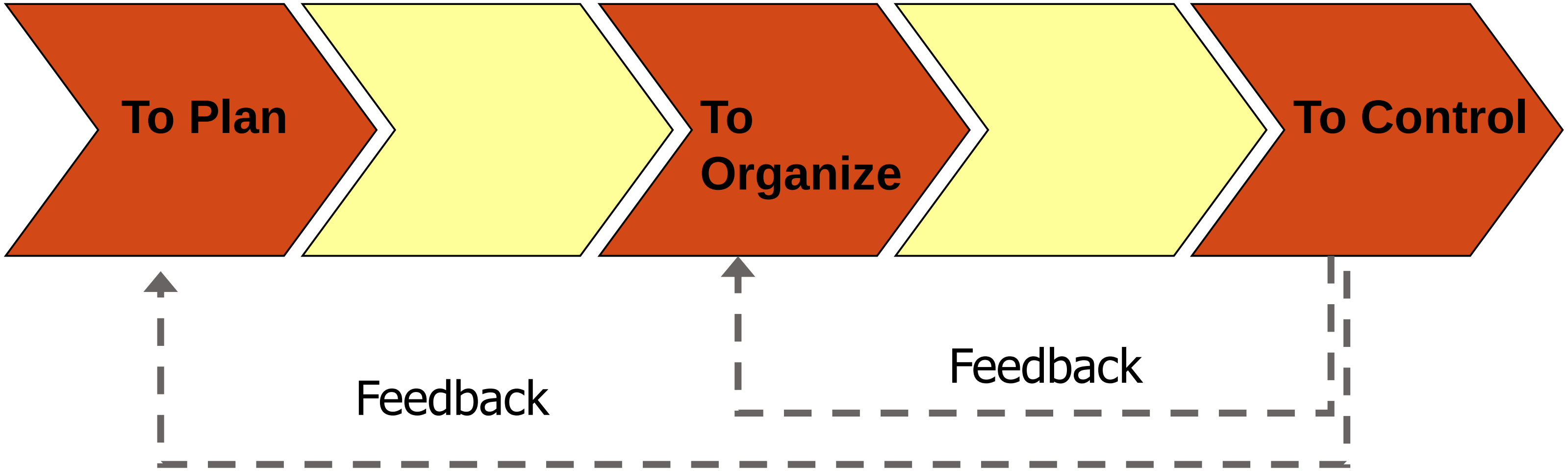
Entrepreneurs are those with formal authority to take decisions in the company. They do not assume a risk of ownership but a professional risk as a manager.

This concept of entrepreneur emphasizes the managerial function, which is normally assumed by a group of experts in the decision-making process. This is a consequence of the separation between ownership and control in large companies. The owners delegate managerial tasks to professionals (technocracy).

4.2. Ownership and control: business person and manager

Management involves the coordination and integration of an organization's work activities in the global environment. It must be efficient, effective and ethical.

Management Functions (also Manager Functions):



4.2. Ownership and control: business person and manager

A role is an organized set of behaviors for a particular occupation or a specific position (Menguzatto & Renau, 1991).

Management Roles:

Interpersonal Roles

- **Figurehead**
- **Leader**
- **Liaison**

Information Roles

- **Monitor**
- **Disseminator**
- **Spokesperson**

Decision-making Roles

- **Employer**
- **Troubleshooter**
- **Resource allocator**
- **Negotiator**

4.2. Ownership and control: business person and manager

INTERPERSONAL ROLES arise from formal authority and include managerial relationships with other people (inside and outside).

- The figurehead represents the organization (a symbol with a series of duties).

- The leader carries out activities that establish a relationship with their subordinates, i.e. directing, coordinating and controlling them (influencing the working environment).

- The liaison carries out activities related to their contact with colleagues and people outside the organization.

4.2. Ownership and control: business person and manager

INFORMATION ROLES arise from relationships with different agents.

- **Personal contacts make the monitor the main receiver of formal and informal information, allowing them to generate deep knowledge about their organization and its environment.**

- **The disseminator transmits information to their subordinates.**

- **The spokesperson disseminates information outside their unit to other stakeholders.**

4.2. Ownership and control: business person and manager

DECISION-MAKING ROLES arise from information as the input for decisions.

- The employer looks for opportunities in the environment and designs strategies to develop them.

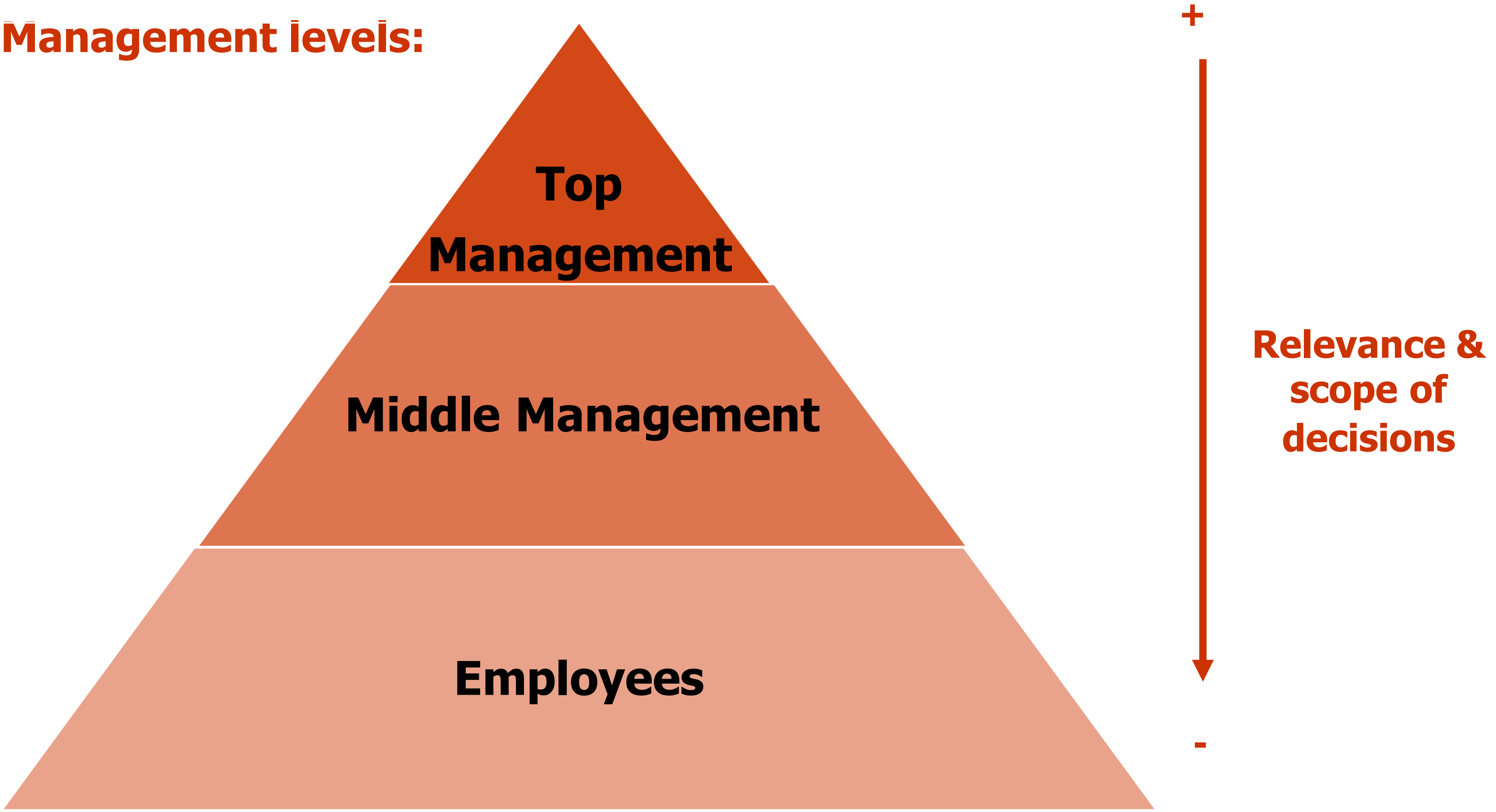
- The troubleshooter takes decisions reactively for problems that require solutions.

- The resource allocator designs the structure of their unit and decides how the resources assigned to them are distributed and used.

- The negotiator operates inside and outside the company.

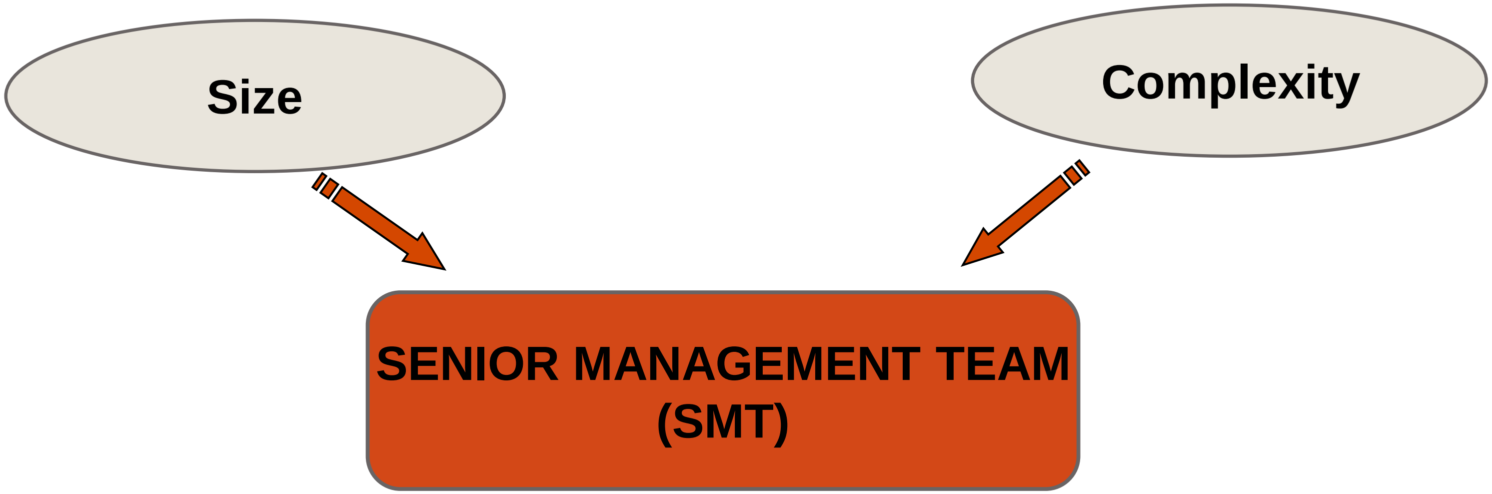
4.2. Ownership and control: business person and manager

Management levels:



4.2. Ownership and control: business person and manager

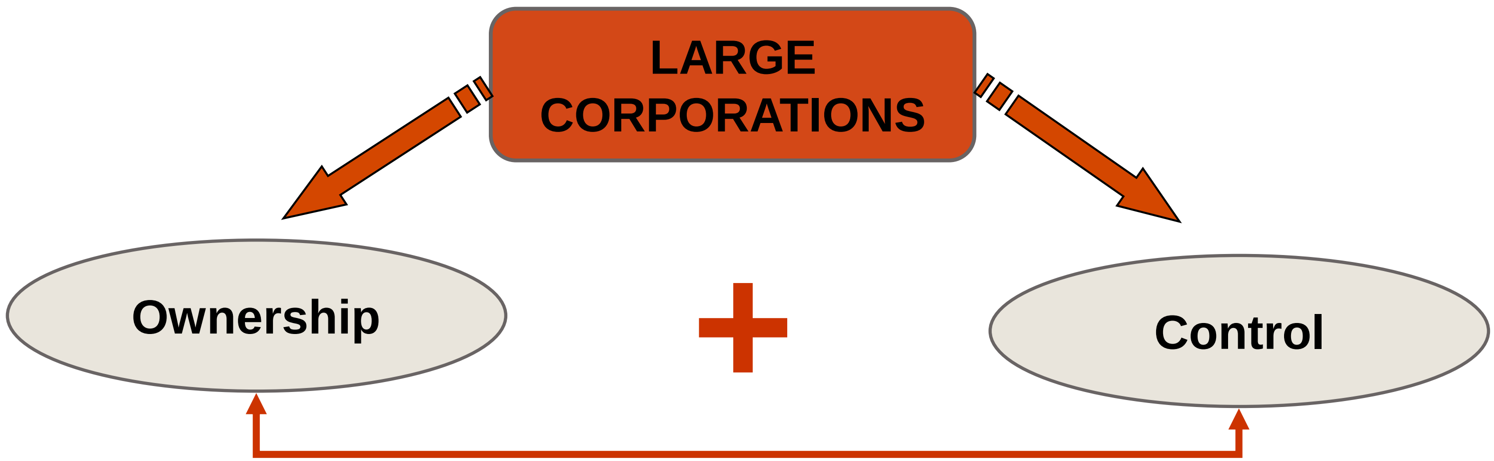
Factors influencing the creation of SMTs



SMT:

- **People with management responsibilities in the company who help to conduct analyses, generate alternatives, and take decisions when dealing with important company decisions.**

4.2. Ownership and control: business person and manager



Corporate governance is the set of mechanisms owners can use to exercise control over the company in order to align the interests of managers with their own.

"Good governance code"

4.2. Ownership and control: business person and manager

- GOVERNANCE is a set of norms and processes that are established in order to control the organization's processes and safeguard the interests of its stakeholders.

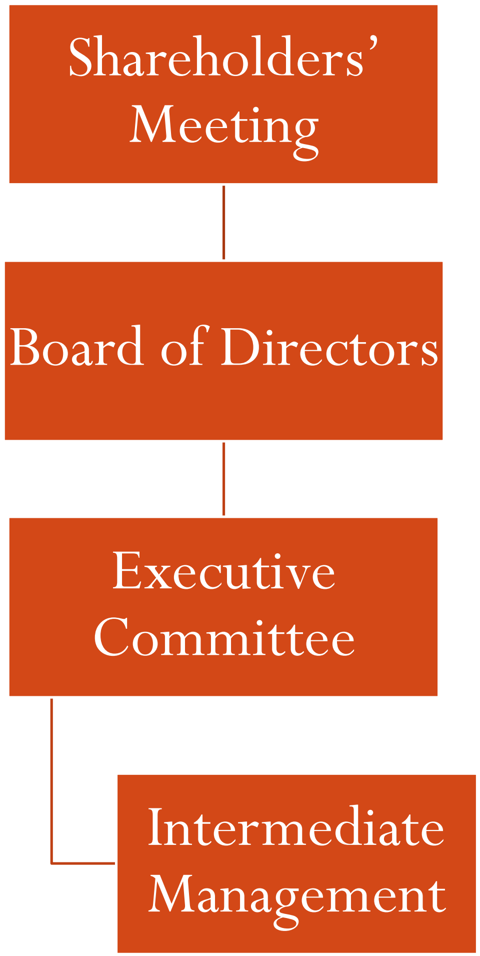
- Why is governance necessary?
  - Agency Problem:
    - Separation between ownership (principal) and operations control (agent).
  - The principles of globally responsible management (surveillance of the interests of all stakeholders).

4.2. Ownership and control: business person and manager

- To enable an adequate level of surveillance, government systems must have:
  - an adequate system of internal controls to safeguard the company's assets,
  - mechanisms to prevent an excessive accumulation of power or influence on a limited number of people,
  - processes to manage the relationships between managers, shareholders, directors, and other stakeholders,
  - management of the company for the benefit of shareholders and main stakeholders as its central objective, and
  - improved transparency and accountability in accordance with expectations of shareholders and other stakeholders as a goal.

4.2. Ownership and control: business person and manager

Governance structure in capitalist companies



Governance structure in cooperative companies

4.2. Ownership and control

Roles and responsibilities at various levels

Group	Position	Scope of responsibility	Functions
Board of Directors	Chairman	Whole organization. Board operation	Lead the Board. Guarantee the Board's operation and effectiveness.
	Directors	Whole organization. Board commissions.	Control the management. Supply resources. Advise on strategy.
Management (Executive) Committee	General Manager	Whole organization	Manage the firm
	Functional Manager (Mk, Ops, R+D, etc.)	Functional aspects of the organization	Manage the department
	Country Manager, Division Manager, etc.	Division or Business Unit	Manage the division/country
Intermediate Management	Project Managers	Project	Develop projects
	Foremen, etc.	Work teams	Implement strategic actions.

Planning

The planning system provides the tools for determining who conducts the activities and when and how they should be conducted in order to achieve the company's objectives.

Types of Plans

- **By time**
  - **Long-term plans**
  - **Short-term plans**

- **By level**
  - **Corporate or strategic plans**
  - **Tactical plans**
  - **Operative plans**

Control

Control may be defined as a process via which a company's activities are supervised in order to verify that they are executed in accordance with prior planning and to correct any deviations that may occur.

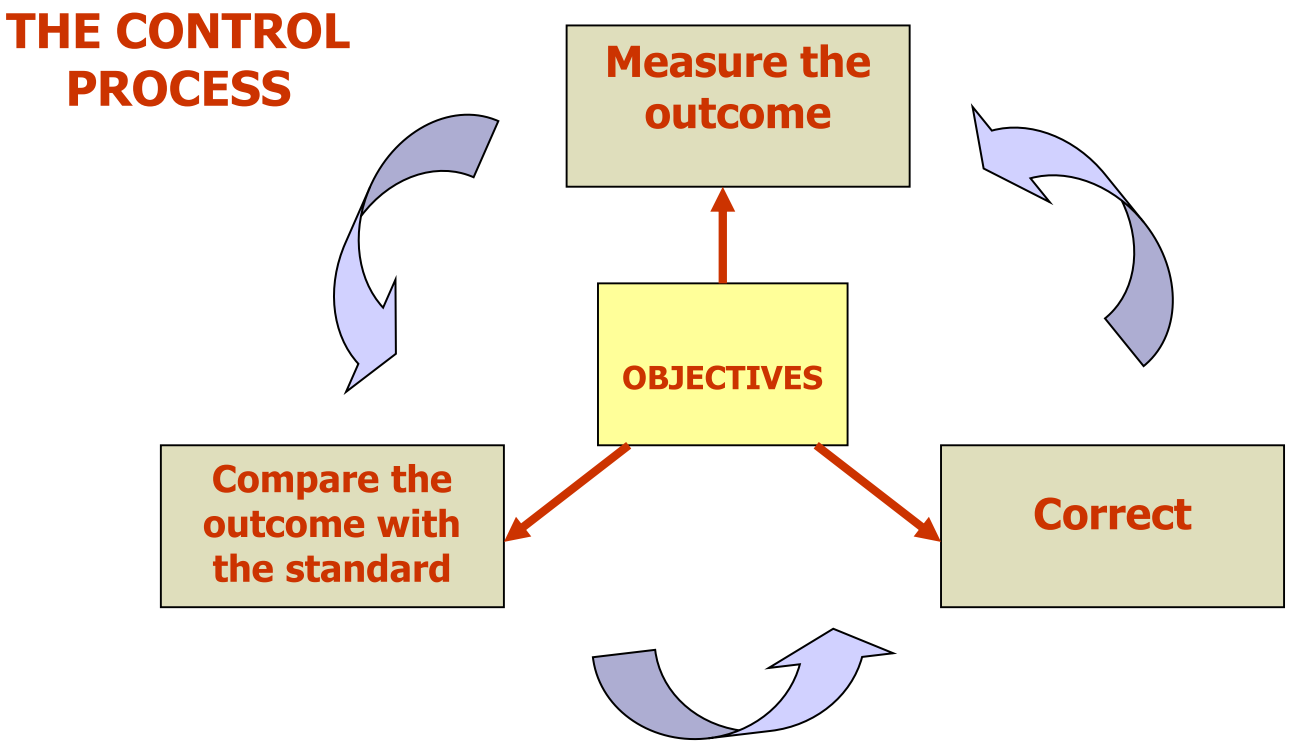
Functions of a control system

- **to measure and correct business activity in order to carry out plans and achieve objectives, and**
- **to change objectives and plans if these do not match the reality of the business.**

Control process

- **Measurement**
- **Comparison**
- **Correction**

4.3. Directive Function



Types of Control

- **Depending on when they come into effect:**
  - **To control *a posteriori* or apply corrective control measures after the activities have been performed.**
  - **To control *a priori* or apply preventive control measures before the activities are performed (to prevent undesired outcomes).**

4.3. Directive Function

The **organization** is a physical and/or conceptual space for interaction between a group of resources and agents that aims to achieve specific goals.

The **organizational structure** is the set of principles, norms of conduct and norms of relationship that allow an organization to adequately combine its resources in order to achieve a common goal. It can be **formal or informal.**

The **organizational layout (chart)** is the graphic representation of the structure of a firm or organization. It shows the power relationships, formal communication channels, formal work groups, departments/ divisions, and formal lines of responsibility.

The relationship between structure and performance

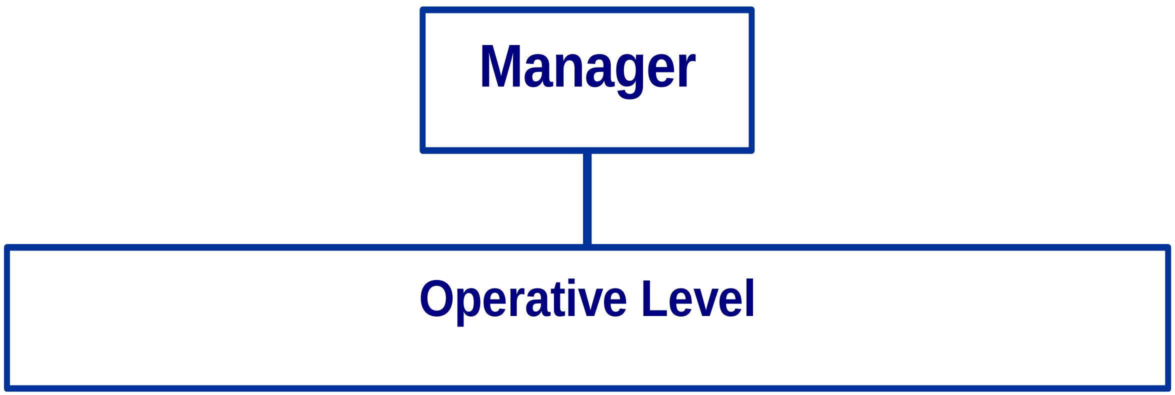
- As a company grows, it becomes necessary to divide up the work and coordinate the tasks, thereby creating a structure in which employees can work.
- When an organization has performance issues, the first changes are often made to the structure.
- This reflects the common notion that structure affects performance:
  - by clarifying expectations and enabling control, and
  - by avoiding confusion and the costs incurred by poor organization.

Design of a structure

- Structure involves how the work is divided, supervised and coordinated.
- It defines the responsibilities of each division, department and individual, i.e. what is expected of them,
- It is depicted in an organizational chart (the formal representation of the structure)

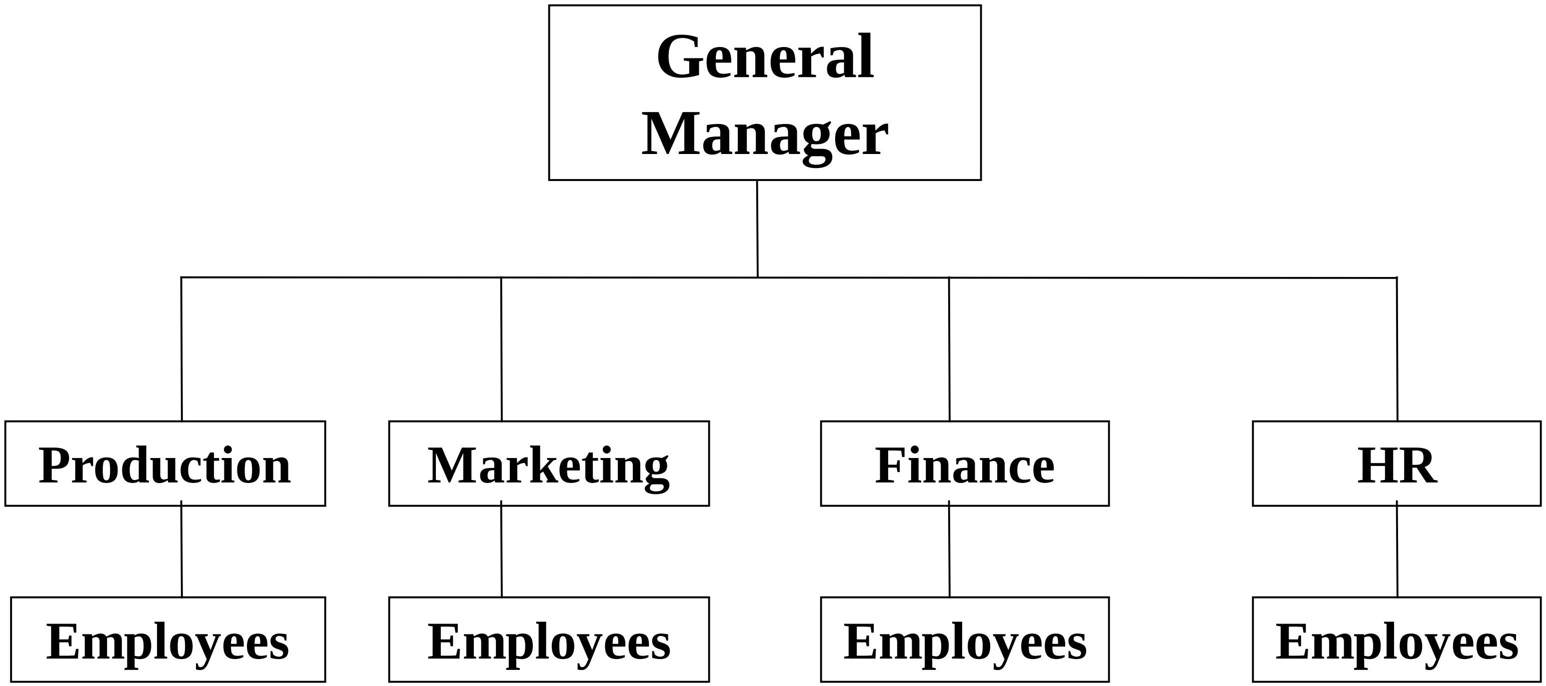
This chart shows the power relationships, formal communication channels, formal work groups, departments or divisions, and formal lines of responsibility.

Simple Structure or One-Person Organization



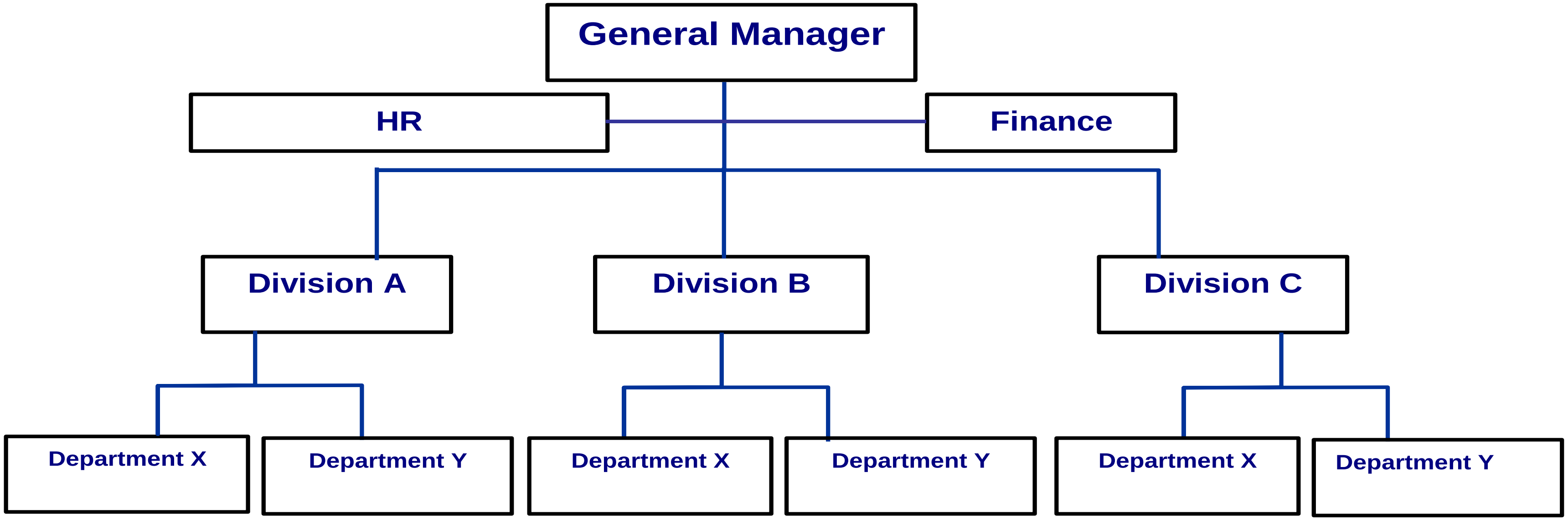
4.3. Directive Function

Functional Structure

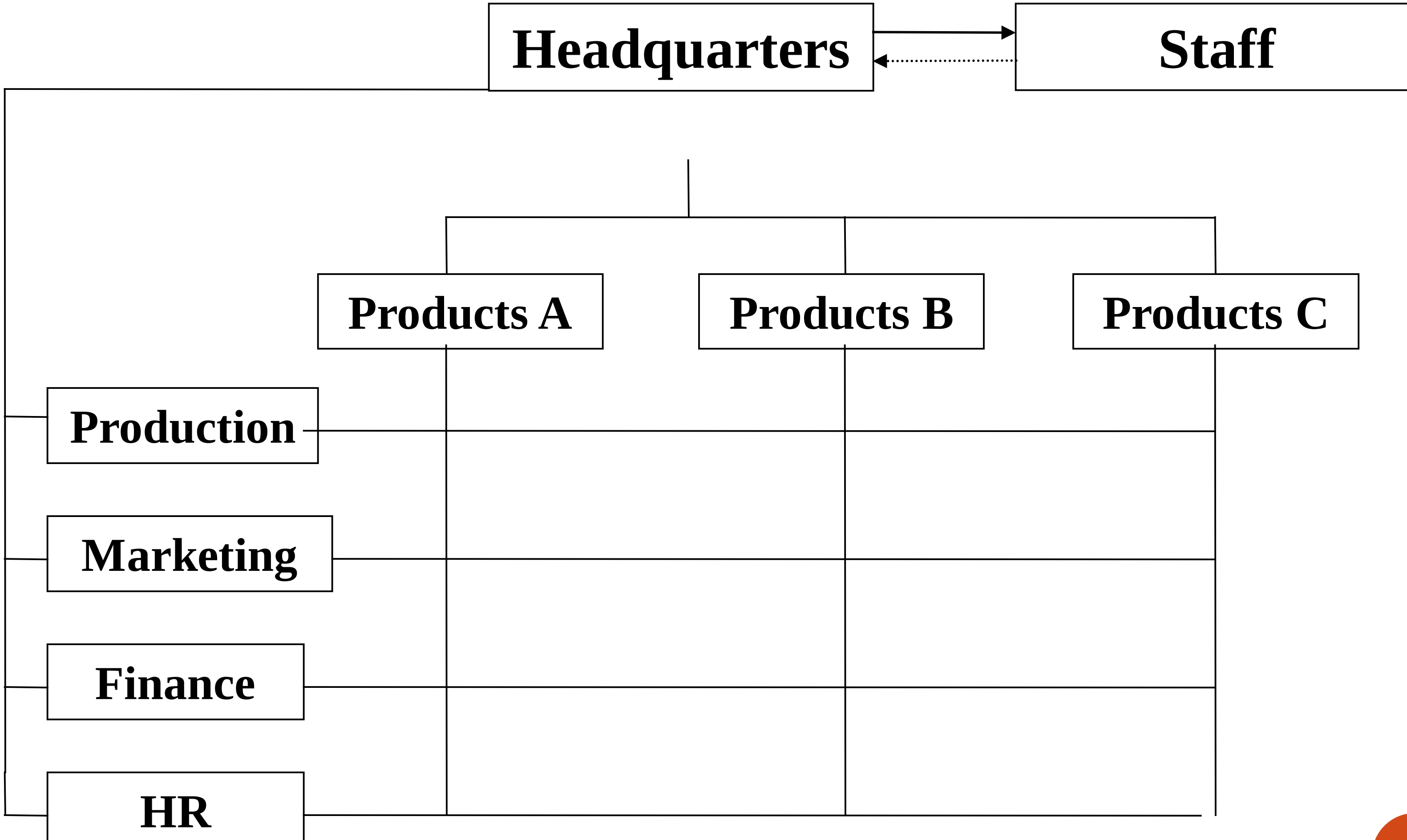


4.3. Directive Function

Divisional Structure



Matrix Organization



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4.4. Company environment and SWOT/PESTEL analysis

The environment comprises

forces and institutions outside the organization that may affect organizational performance. These may be positive (opportunities) or negative (threats).

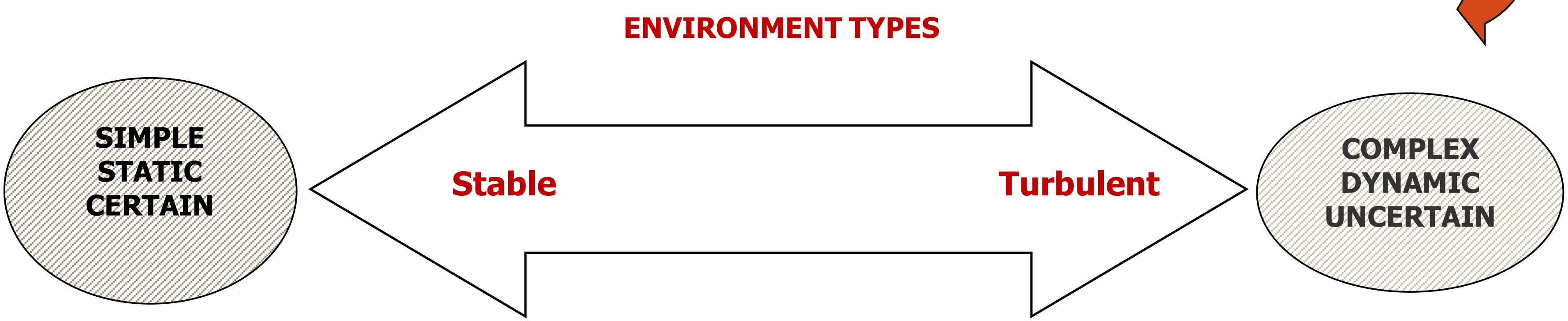
The Environment may be

- **General**, i.e. common to all firms in a country, regardless of their sector.
- **Competitive**, i.e. common to all firms competing in the same business.

4.4. Company environment and SWOT/PESTEL analysis

CLASSIFICATION VARIABLES

1. **Degree of complexity:** simple vs complex
2. **Degree of dynamism:** static vs dynamic
3. **Degree of uncertainty:** certain vs uncertain



4.4. Company environment and SWOT/PESTEL analysis

Tools for environmental analysis

General Environment → **PESTEL ANALYSIS**

Competitive Environment → **ANALYSIS OF SECTOR STRUCTURE (MODEL OF THE FIVE COMPETITIVE FORCES)**

4.4. Company environment and SWOT/PESTEL analysis

The **General Environment** is common to all companies working with the same social, economic, political and technological background. It is generally the same for all companies in the same country, since all share the same context of economic expectations and the same institutional, political and legal framework. All companies face the same social and cultural changes in the population and are immersed in a similar technological infrastructure.

4.4. Company environment and SWOT/PESTEL analysis

Political Factors

Fiscal policy, government stability, trade union system, business laws and climate, laws on exports, etc.

Economic Factors

Economic cycles, growth in GNP, interest rates, money supply, inflation, unemployment, available rent, etc.

Socio-cultural factors

Demography, social mobility, changes in lifestyle, attitudes towards work and leisure, educational levels, etc.

4.4. Company environment and SWOT/PESTEL analysis

Technological Factors

Public spending in R+D

Government and industry approach to technological changes

New discoveries and developments

Speed with technological transfers

Obsolescence rates, etc.

Ecological or environmental Factors

Environmental protection laws, energy consumption, residues

Legal Factors

Laws on competency, mercantile law, labor law

4.4. Company environment and SWOT/PESTEL analysis

GENERAL ENVIRONMENT

Environmental Scanning
PESTEL Analysis

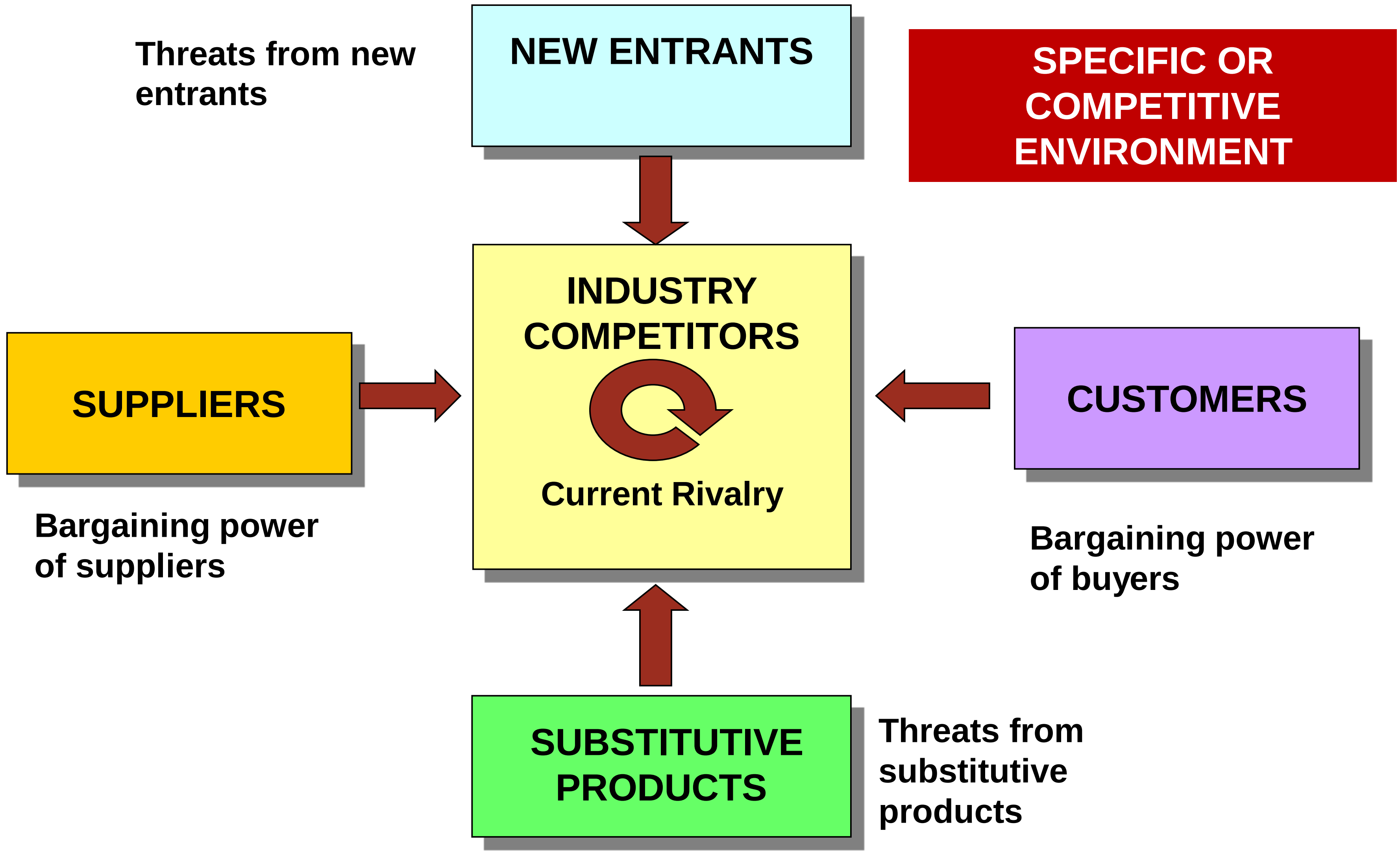
Political and legal
Economic
Socio-cultural
Technological
Ecological/Environmental
Legal

Step 1 — **Delimit the Strategic Factors**

Step 2 — **Describe the development of the Strategic Factors**

Step 3 — **Assess and establish the hierarchy of opportunities and threats**

4.4. Company environment and SWOT/PESTEL analysis



4.4. Company environment and SWOT/PESTEL analysis

SPECIFIC OR COMPETITIVE ENVIRONMENT

Substitutive products/services perform the same or similar functions (satisfy similar needs) while being technically different.

Why may the existence of substitutive products in a sector affect the profitability of companies in the sector?

- **The level of substitution**
- **Relative prices**

SPECIFIC OR COMPETITIVE ENVIRONMENT

Threat from the potential entry of new competitors

Potential competitors are new firms that may enter a particular industry in the future.

How may the entry of new competitors affect the profitability of companies in a sector?

- **Barriers to entry**
- **Expected reaction from firms in the industry.**

SPECIFIC OR COMPETITIVE ENVIRONMENT

Rivalry among competitors

Competitors are firms that use similar technology to cover the same needs in the same market.

Are there any indicators of the degree of rivalry in a sector?

How may this degree of rivalry affect the profitability of firms in a sector?

- **The number of competitors and the level of concentration**
- **Growth in the industry**
- **The level of differentiation**
- **Exit barriers**

Customers' bargaining power

The customers in a sector are people or companies that buy or directly use the product or service marketed by the industry.

How can strong customer bargaining power affect the profitability of companies in a sector?

- **The number of customers and the level of concentration**
- **The level of differentiation**
- **The level of customer information**

4.4. Company environment and SWOT/PESTEL analysis

SPECIFIC OR COMPETITIVE ENVIRONMENT

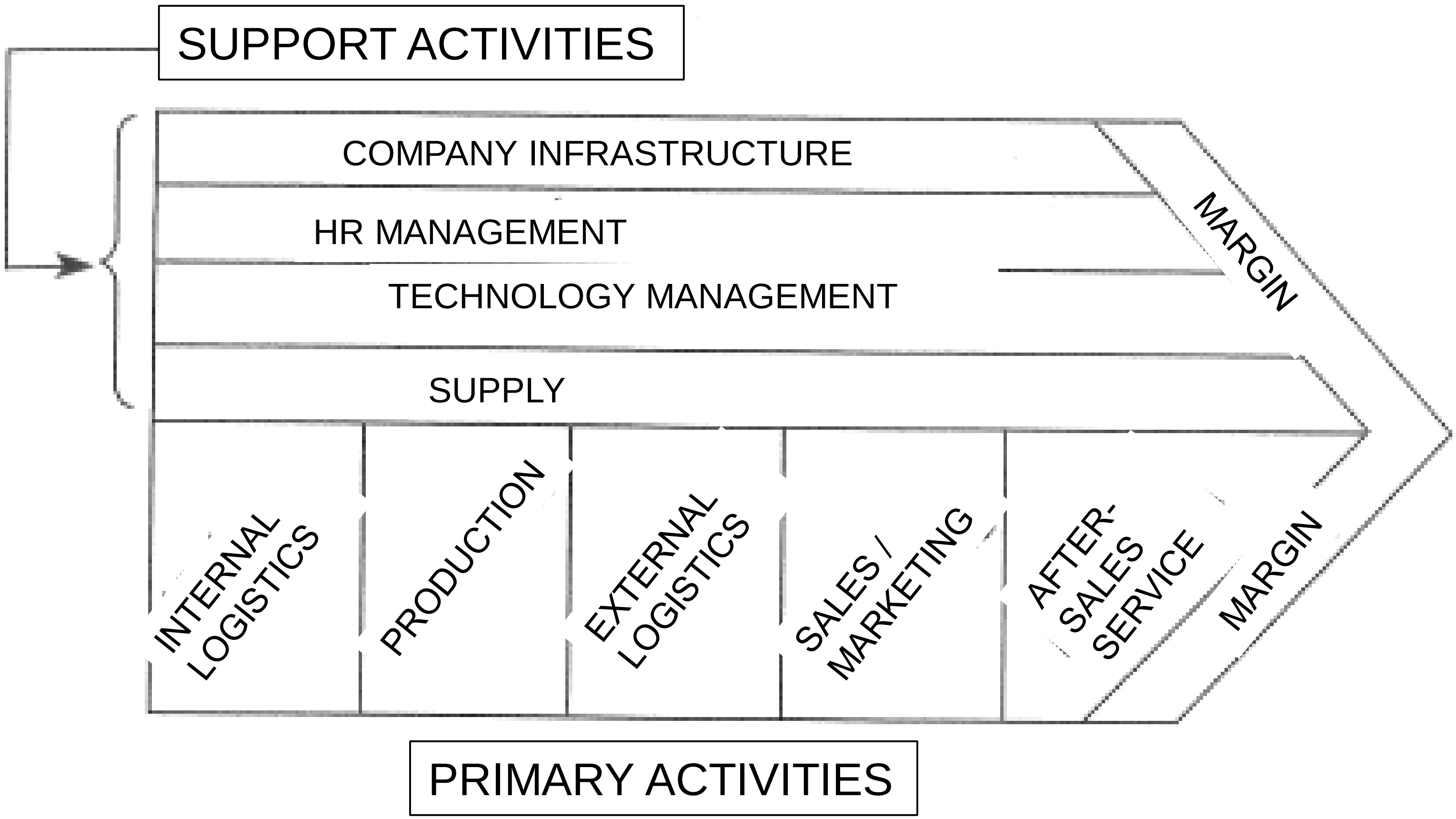
Suppliers' bargaining power

The suppliers in a sector are the firms that satisfy a sector's needs for raw materials (commodities), machinery, personnel, etc.

How can strong supplier bargaining power affect the profitability of companies in a sector?

- **The number of suppliers and the level of concentration**
- **The importance of the supplier**
- **The level of differentiation**

THE VALUE CHAIN



THE VALUE CHAIN

La cadena de valor de Merck

Merck and Company es una de las mayores empresas de productos farmacéuticos del mundo. Su negocio principal está relacionado con productos para la salud humana, aunque también desarrolla otros productos químicos y veterinarios.

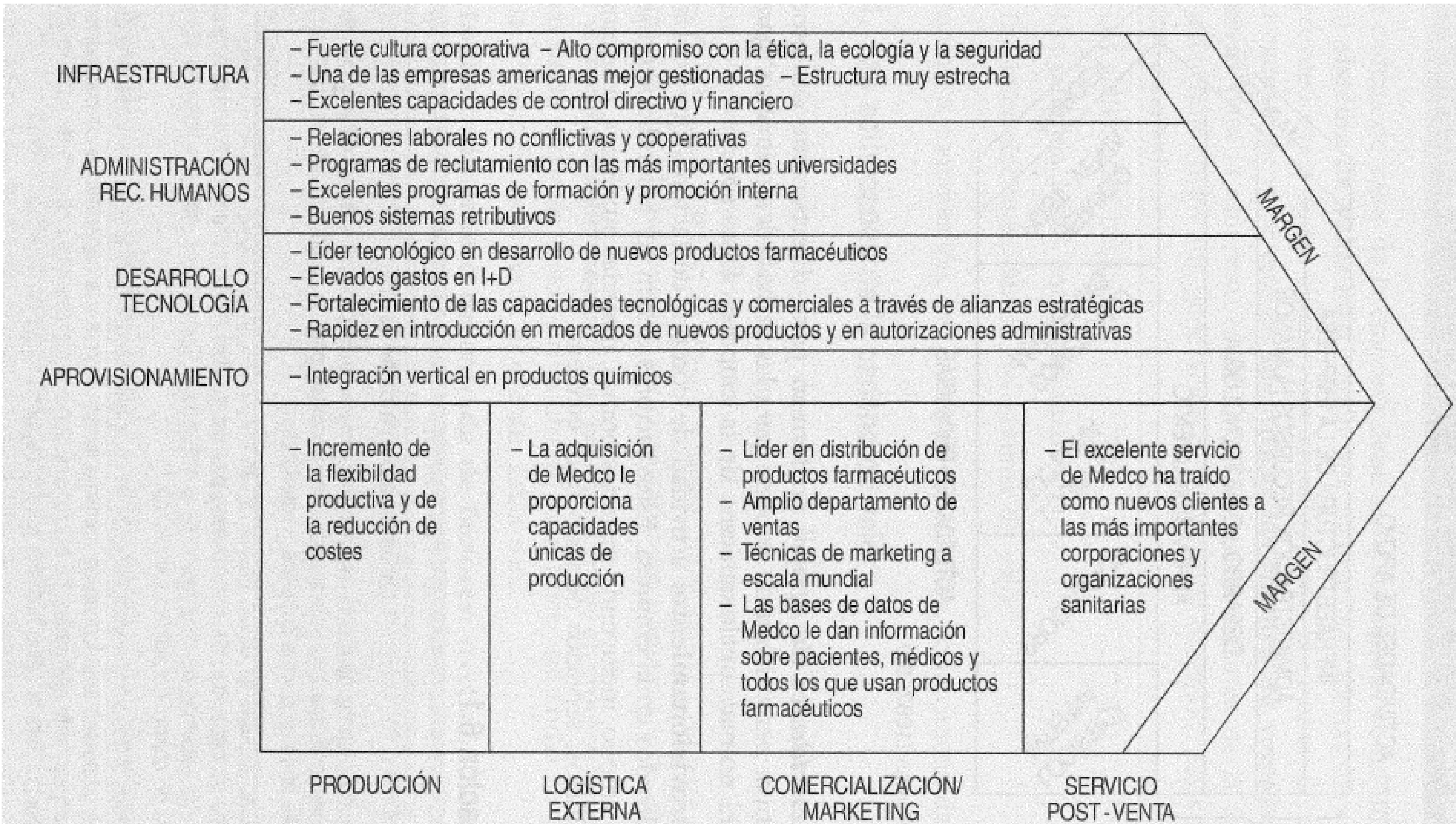
Sus potencialidades se basan en tres áreas principales: Investigación y Desarrollo (I+D), que determina su capacidad de crear nuevos productos, Márketing, con uno de los más amplios y sofisticados sistemas de distribución de la industria, y Operaciones, sobre la base de estrictos sistemas de control de calidad y eficiencia.

A mediados de los años noventa adquirió la compañía Medco Containment Services, una de las primeras empresas americanas de mensajería, con lo que sus capacidades de distribución se vieron ampliamente mejoradas. La siguiente ilustración representa su cadena de valor relativa a los productos para la salud humana para la segunda mitad de los años noventa.

4.4. Company environment and SWOT/PESTEL analysis

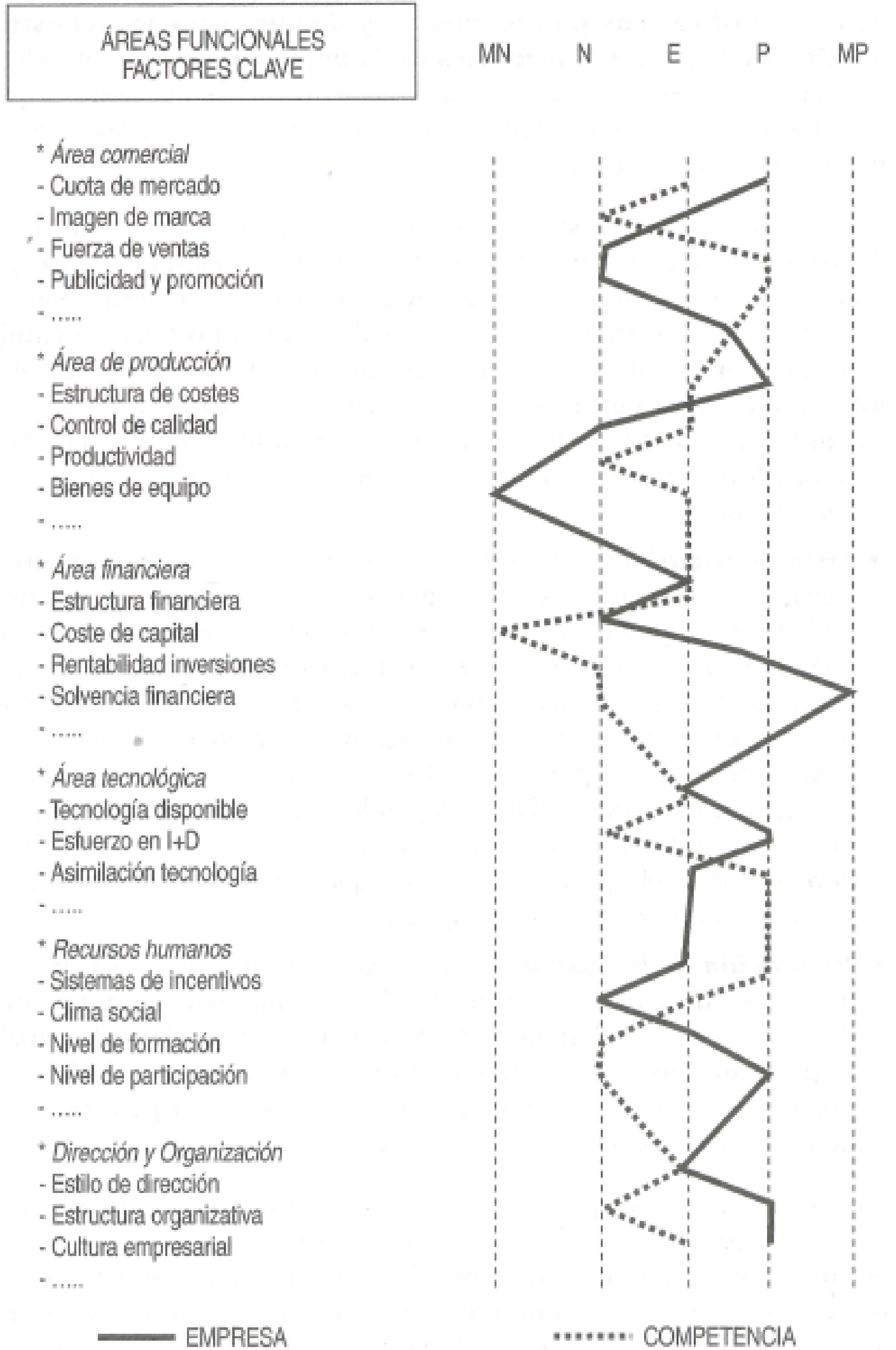
INTERNAL ANALYSIS

THE VALUE CHAIN



4.4. Company environment and SWOT/PESTEL analysis

COMPARATIVE INTERNAL ANALYSIS



4.4. Company environment and SWOT/PESTEL analysis

SWOT MATRIX

SWOT MATRIX STRUCTURE

−	+
EXTERNAL **A** Riesgos que plantea el entorno a largo plazo (< 1 año)	EXTERNAL **O** Aspectos positivos del entorno que deben ser aprovechados
INTERNAL **D** Aspectos negativos con respecto a sus recursos u organización interna	INTERNAL **F** Ventajas que surgen dentro de la organización y que deberán apoyar la formulación de la estrategia

4.4. Company environment and SWOT/PESTEL analysis

SWOT MATRIX

EXAMPLE OF SWOT ANALYSIS

Puntos fuertes	Puntos débiles
• Capacidad directiva • Personal formado • Tecnología propia patentada • Buenas relaciones con clientes y proveedores • Disponibilidad de recursos financieros • Adecuada estructura de financiación • Alta motivación del personal • Buena cartera de productos	• Mala reputación • Dificultad de acceso a los canales de distribución • Escaso esfuerzo publicitario • Cuota de mercado reducida • Costes de producción elevados • Rentabilidad inferior a la media del sector
Oportunidades	**Amenazas**
• Alto ritmo de crecimiento del mercado • Abundantes posibilidades de segmentación de la industria • Facilidad de acceso a los mercados exteriores • Ubicación dentro de un distrito industrial con amplios servicios comunes • Sector de proveedores con una alta capacidad de innovación	• Existencia de múltiples productos sustitutivos • Facilidad de entrada de nuevos competidores • Cambios rápidos en las necesidades y gustos de los consumidores • Mala coyuntura económica • Carestía del precio del dinero • Infraestructuras de carácter general deficientes • Enorme burocracia para el desarrollo de nuevos negocios

4.5. Entrepreneurship, sustainability and corporate social responsibility (CSR)

The creation of new business helps to promote

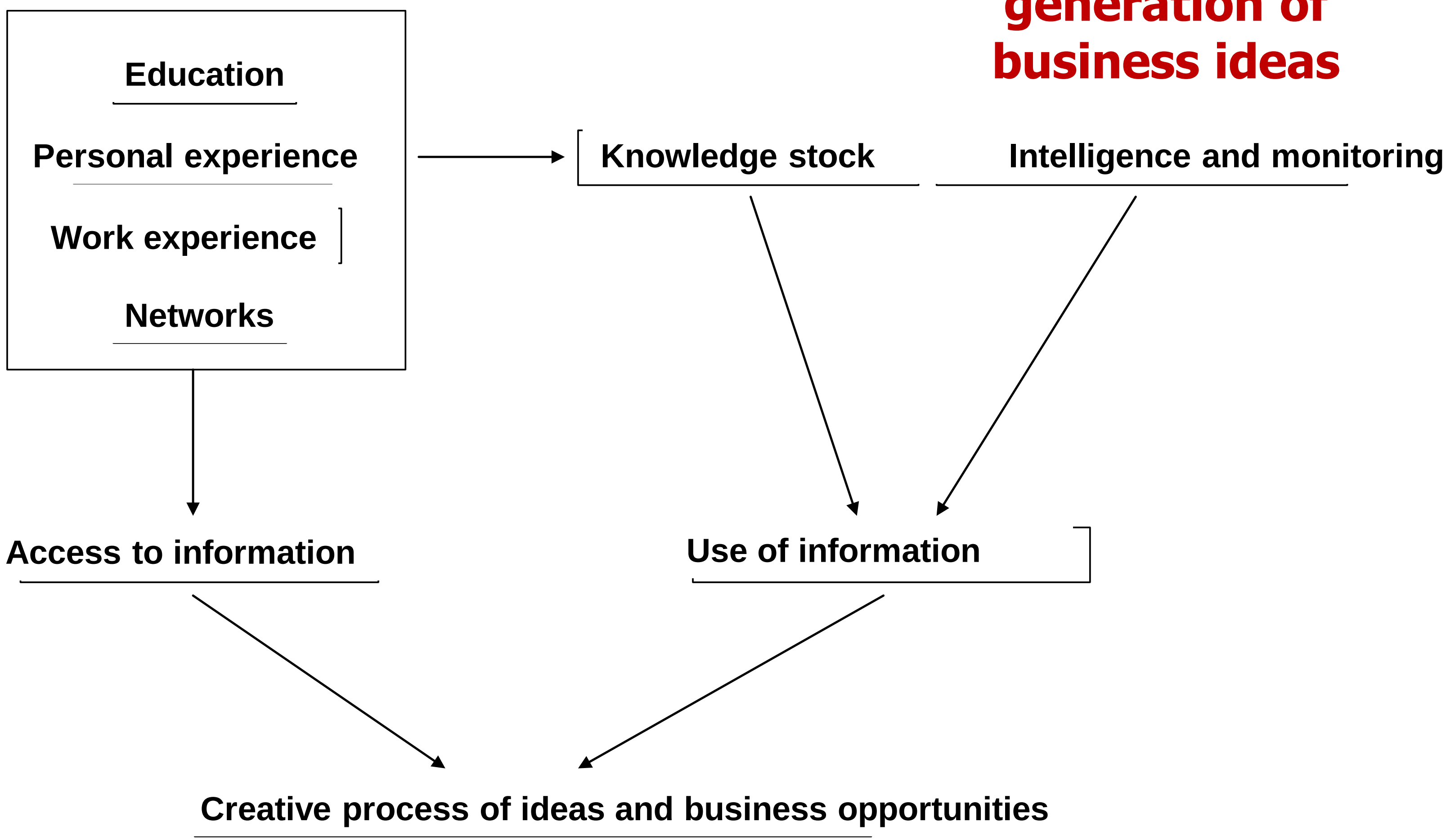
- economic growth
- new employment
- a modernized economy

Starting point: an **IDEA**

- The business idea develops the objective, activities and form of the new firm.
- Its origins lie in multiple places, e.g. family and friends, specialized sources, other people's ideas (franchises, takeovers of existing firms).
- It must be based on a business opportunity (though not necessarily a revolutionary one).
- The **business project** arises from the original idea.

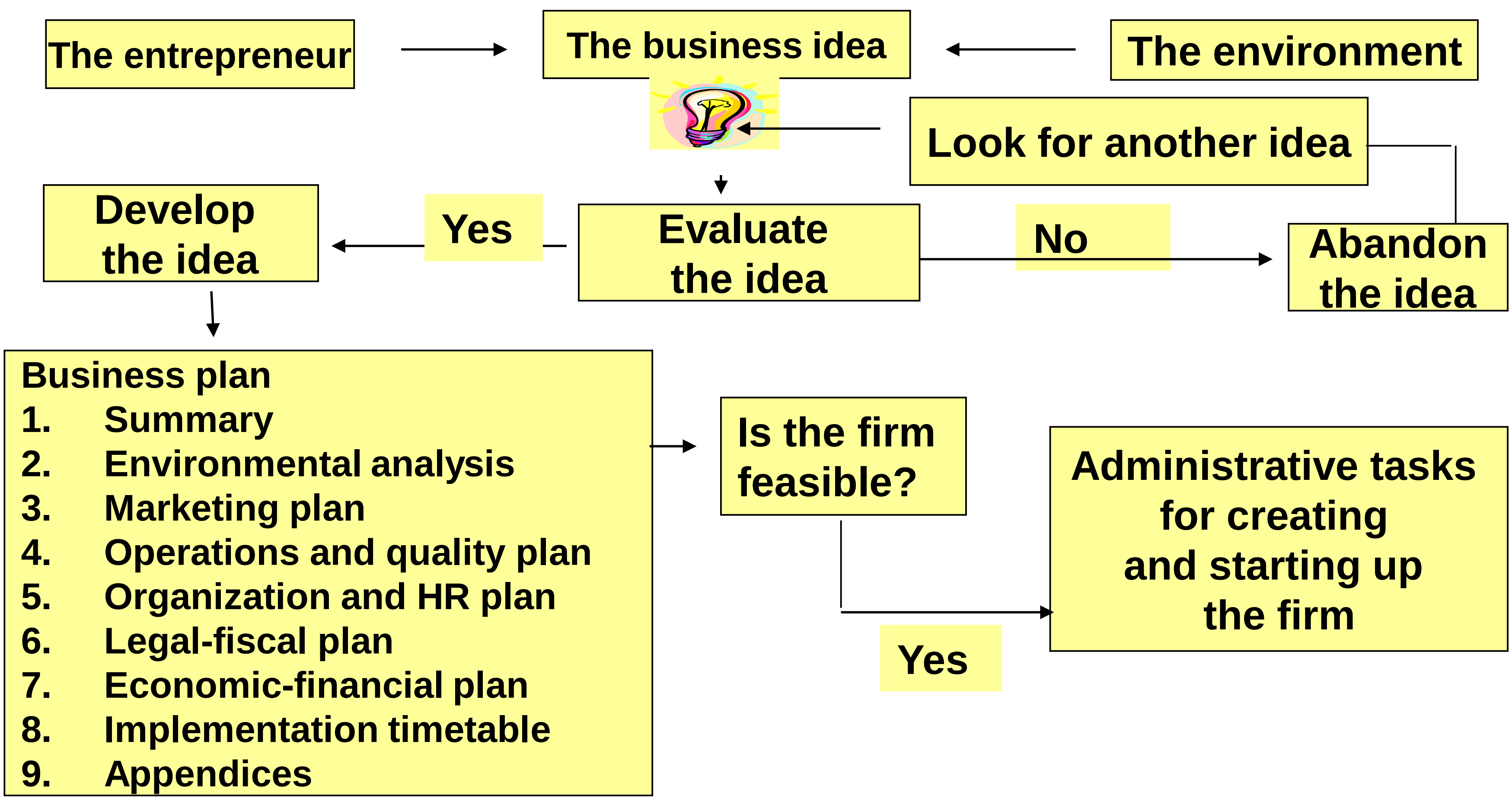
4.5. Entrepreneurship, sustainability and CSR

Sources for the generation of business ideas



4.5. Entrepreneurship, sustainability and CSR

General map of the new-firm creation process



4.5. Entrepreneurship, sustainability and CSR

Are there any differences between…?

- Entrepreneurship

- New-firm creation

- Self-employment

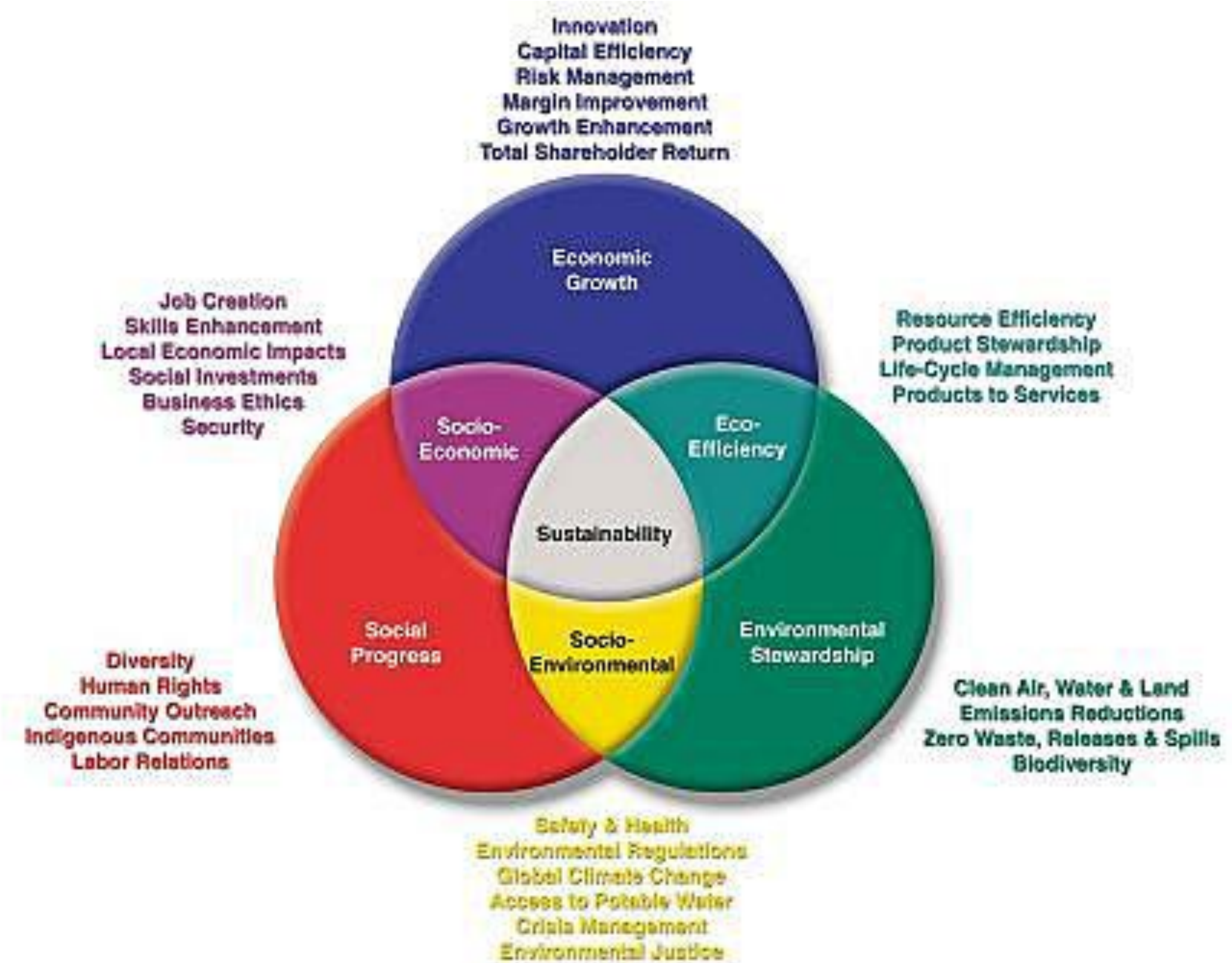
4.5. Entrepreneurship, sustainability and CSR

- Sustainable development is defined in the Brundtland Report (1987) as development that

"meets the needs of the present without compromising the ability of future generations to meet their own needs."

- The term 'sustainable development' was coined as an alternative to the terms economic development and economic growth.
- Sustainable development is based on three factors (three p's), i.e. society (people), economy (profit) and environment (planet).

4.5. Entrepreneurship, sustainability and CSR



4.5. Entrepreneurship, sustainability and CSR

- On 25th September, 2015, 193 world leaders committed to 17 sustainable development goals in order to achieve three extraordinary objectives within the next 15 years – eradicate extreme poverty; fight inequality and injustice; and solve climate change. These sustainable development goals could help to achieve these three objectives – anywhere, for each one of us.

UN: http://www.un.org/sustainabledevelopment/sustainable-development-goals/

3.3. Development of the firm: direction and modes

http://www.un.org/sustainabledevelopment/takeaction/

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Basic responsibilities or social liabilities of a company

All a company's obligations based on legal or economic imperatives that have their origin either in the rules that were established when it was set up (e.g. its obligations to shareholders) or are established by current legislation in the environment in which it operates (e.g. employment laws).

4.5. Entrepreneurship, sustainability and CSR

A company's social responsibility

These are all liabilities arising from the ethical imperatives the company has imposed on itself and that go beyond what is required by current legislation.

Social responsibility may involve two levels of action:

- **Priority social responsabilities** are specific improvements for groups that are directly related to the company (employees, customers, etc.).
- **Responsabilities for social change** are actions that help to develop a corporate social environment (e.g. fighting social inequalities, promoting cultural development, etc.).