

# Organizations

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Lesson: 16/10

## 1 Introduction on organizations

Lesson for the basic understanding of some terms and concepts when you come up with business development. One of those is the concept of organizations.

### 1.1 What comes to your mind if we talk about organizations?

- Roles/People with roles
- hierarchy
- Process (that tells people how to work)
- Common goal
- Instructions (Related to people/roles)
- Structures
- Both Public and Private! (Wide concept)

Most organizations are groups of people. Few cases of people working alone (Libero professionista con partita iva). But there are few types of organizations.

### 1.2 How does it relate with innovation?

An organization is the implementation of the idea of an innovation. The purpose of a company is to do something, it have a mission. If you want to do innovation, and you have the idea, you still need to breach to the market, is difficult to do it alone.

Example: Gaming Development. If you are a programmer and you develop a game, at a certain point you will end your product. But you need someone that allow you to bring it to the market. You need a group of people to work at your idea.

The more people work at your project, the more complex innovation you can do. You have more expertise behind you.

### 1.3 Intrapreneurship

We'll see now what a company is and how it works, it will be useful for us when we'll enter the world of work, and try to make our own career.

It will develop our Intrapreneurship skills.

Example: Hiring Interview. The first approach we will have with a company will be with their HR (Human Resources). If you try to make yourself sexy talking about your programming skills with Python, is not the right person to talk to. You have to know the structure of the company to understand who you are talking to.

## 2 Organization Definition

"An organization is:

- An organized body of people with a particular purpose, especially a business, society, association, etc.: a research organization.
- The action of organizing something: the organization of conferences and seminars.
  - The structure or arrangement of related or connected items: the spatial organization of the cells.
  - An efficient and orderly approach to tasks: apparent disorder and lack of organization."

From the New Oxford American Dictionary (Oct 2016).

## 3 Business Definition

The term "business" is evolving. We'll next see the definition of today, the last year and of 3 years ago.

### 3.1 Business Definition, (Wikipedia, Oct. 2019)

"Business is the activity of making one's living or making money by producing or buying and selling products (such as goods and services). Simply put, it is 'any activity or enterprise entered into for profit. It does not mean it is a company, a corporation, partnership, or have any such formal organization, but it can range from a street peddler to General Motors.'

Having a business name does not separate the business entity from the owner, which means that the owner of the business is responsible and liable for debts incurred by the business. If the business acquires debts, the creditors can go after the owner's personal possessions. A business structure does not allow for corporate tax rates. The proprietor is personally taxed on all income from the business.

The term is also often used colloquially (but not by lawyers or by public officials) to refer to a company. A company, on the other hand, is a separate legal entity and provides for limited liability, as well as corporate tax rates. A company structure is more complicated and expensive to set up, but offers more protection and benefits for the owner”

Main features: The business is the activity of making money producing(or buy) and selling products. Even a street peddler has a business. The owner is responsible of the business. It have a colloquial meaning for company.

### **3.2 Business Definition, (Wikipedia, Oct 2018)**

“Business is the activity of making one’s living or making money by producing or buying and selling products (goods and services). Simply put, it is ”any activity or enterprise entered into for profit. It does not mean it is a company, a corporation, partnership, or have any such formal organization, but it can range from a street peddler to General Motors.” The term is also often used colloquially (but not by lawyers or public officials) to refer to a company, but this article will not deal with that sense of the word.

- Anyone carrying on an activity that earns them a profit is doing business or running a business, and perhaps this is why there is a misconception that business and company is the same thing.
- A business name structure does not separate the business entity from the owner, which means that the owner of the business is responsible and liable for all debts incurred by the business. If the business acquires debts, the creditors can go after the owner’s personal possessions. A business structure does not allow for corporate tax rates. The proprietor is personally taxed on all income from the business.
- A company on the other hand, is a separate legal entity and provides for limited liability as well as corporate tax rates. A company structure is more complicated and expensive to set up, but offers more protection and benefits for the owner.”

Main features: Almost the same of 2019.

### **3.3 Business Definition, (Wikipedia, Oct 2016)**

”A business, also known as an enterprise, company or a firm, is an organizational entity involved in the provision of goods and services to consumers. Businesses are prevalent in capitalist economies, where most of them are privately owned and provide goods and services to customers in exchange for other goods, services, or money. Businesses may also be social non-profit enterprises or state-owned public enterprises targeted for specific social and economic objectives. A business owned by multiple individuals may be formed as an incorporated

company or jointly organised as a partnership. Countries have different laws that may ascribe different rights to the various business entities.

Business can refer to a particular organization or to an entire market sector, e.g. "the music business". Compound forms such as agribusiness represent subsets of the word's broader meaning, which encompasses all activity by suppliers of goods and services. The goal is for sales to be more than expenditures resulting in a profit or gain or surplus."

Main features: Was different. The business provide goods and services to costumer. Business can be social no-profit enterprise. The business can refer to an entire market sector (ex. The business of Oil/Fruit/...). For a business you have to spend less then how much you are paid.

## 4 Company Definition, ( Wikipedia, Oct 2019)

"A company . . . is a legal entity made up of an association of people, be they natural, legal, or a mixture of both, for carrying on a commercial or industrial enterprise. Company members share a common purpose, and unite in order to focus their various talents and organize their collectively available skills or resources to achieve specific, declared goals. Companies take various forms such as:

- voluntary associations, which may include non-profit organization
- business entities with an aim of gaining a profit
- financial entities and banks

A company or association of persons can be created at law as legal person so that the company in itself can accept limited liability for civil responsibility and taxation incurred as members perform (or fail to discharge) their duty within the publicly declared "birth certificate" or published policy. Companies as legal persons may associate and register themselves collectively as other companies – often known as a corporate group. When the company closes, it may need a "death certificate" to avoid further legal obligations."

Main features: The definition is a fixed type of concept didn't changed in the last 3 years. Is a legal entity.

A company can be composed by shareholders (soci), that are legal persons.

[Example: Student company] 3 of us set up a company, each of them holds 33percent of the company, called the share, related to the capital of the company. If at a certain point Siemens come and try to buy the 33percent of a member he can sell it. A company is made both of legal and natural persons. Parts of the stocks (azioni) can be bought by any legal person.

A company have a common purpose! And is well organized, taking various forms.

The holders have liability! The state can take your house too if your physical person have too much responsibility within the company.

## 4.1 Physical person vs. Legal person

A physical person is for example us, physical people with name and surname. A legal person is a unique identified entity which can represent an organization, a company, ... . Doesn't mean a person with arms and legs, but an entity that have rights and duties! An identification of a group of people and what the group is doing/producing. The state can check the incomes and tax them, given the balance sheet. The main point is that the state knows that a legal person exist!

## 4.2 Examples of Corporate companies, i.e. groups of legal persons as holders

- Alphabet (transformation of Google, buying participations in other companies Uber, ...)
- TeamSystem

## 5 Value Chain

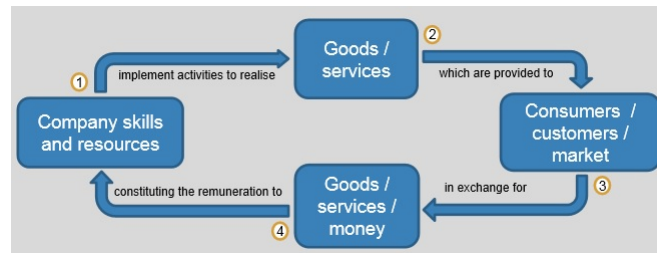


Figure 1: Value chain

Express how a company works. If you start to produce a game, you develop it, you put in the store system, people download it, you are payed. If you produce chairs, you buy the wood, you produce the chair, you sell the chair, and buy more woods to produce other chairs.

This circle concept is the value chain! Is how you see the flow of the production.

This circle should produce value! You have to sell for more than what you payed at the beginning.

### 5.1 Company features summary

- Legal person
- Mission

- Structure (relatively stable, may evolve)
- Functions/activities
- Should try to reiterate what it's able to do! (if your company builds chairs, is difficult to become a game developer the next day ).
- Standardization of costs/resources: If you are able to sell more things you are already been doing, the more advantage you make. (You pay year by year investments you made at the start)

The value chain can disassemble the functions of a company!

## 5.2 Porter's Value chain

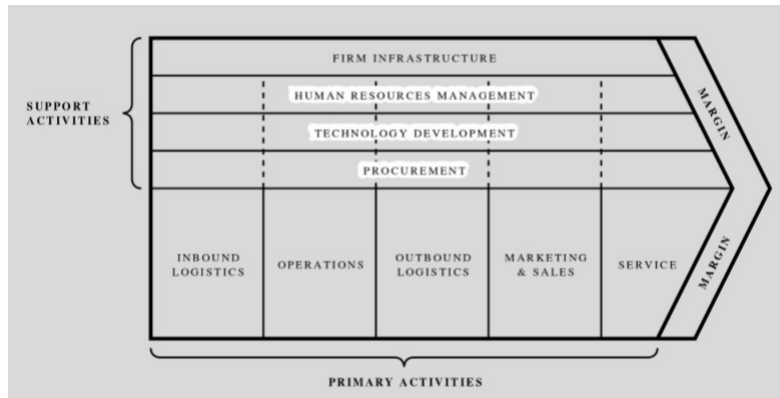


Figure 2: Porter's value chain

Disassembles the company into its major strategic activities, or business units. The aim is to understand cost drivers/ revenue resources/ potential differentiation.

There are primary activities (that create the final product), and support activities (administration, horizontal activities).

## 5.3 Primary Activities

- Inbound logistics: arranging the inbound movement of materials, parts, and/or finished inventory from suppliers to manufacturing or assembly plants, warehouses, or retail stores
- Operations: concerned with managing the process that converts inputs (in the forms of raw materials, labor, and energy) into outputs (in the form of goods and/or services)

- Outbound logistics: is the process related to the storage and movement of the final product and the related information flows from the end of the production line to the end user
- Marketing and sales: selling a product or service and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large
- Service (or after-sales): includes all the activities required to keep the product/service working effectively after it is sold and delivered to the buyer

#### 5.4 Support activities

- Infrastructure: consists of activities such as accounting, legal, finance, control, public relations, quality assurance and general (strategic) management
- Human resources management: consists of all activities involved in recruiting, hiring, training, developing, compensating and (if necessary) dismissing or laying off personnel.
- Technological development: pertains to the equipment, hardware, software, procedures and technical knowledge brought to bear in the firm's transformation of inputs into outputs.
- Procurement: the acquisition of goods, services or works from an outside external source

#### 5.5 Margin, what does cost more in a company? (cost centers)

- Marketing? Usually is expensive, if you have to beat a lot of other companies it cost a lot! Depending on the product of the company.
- Operations! You have to pay bills/workers/raw materials/...

## 6 Closed and Open Innovations

### 6.1 Closed Innovation

The companies want to make their own product! Take inside the company every piece of the chain. Minimize the dependancies from other companies. If you need to create some complex product you have problems due to leak of flexibility.

## 6.2 Open Innovation

Shared knowledge. Everything that is created in term of knowledge is shared! Integrate the shared knowledge inside the company to create value. Is completely flexible! You depends to other individuals too. But is kind of unstable.

You can't use the same model of a company for an open and a closed innovation environment. There are some well defined models!

## 7 Organizational structures

### 7.1 Functional organization

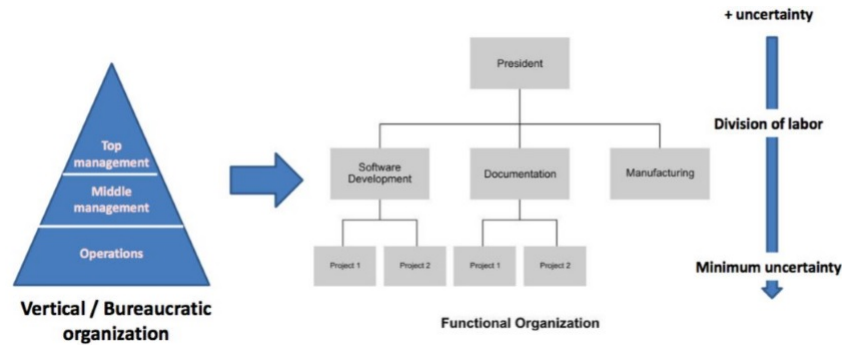


Figure 3: Functional Organization

Usually adopted for a closed innovation environment (environment = uncertainty of the success of my product) model. It has an established hierarchy (president above managers, then task divided into subgroups/departments), and limited flexibility. The hierarchic organization and division of works is done in order to minimize the uncertainty.

What's the impact on value chain by adopting this model? In the production!

The flexibility is a huge problem of this model, how can we have more flexibility?



## 7.2 Divisional organization

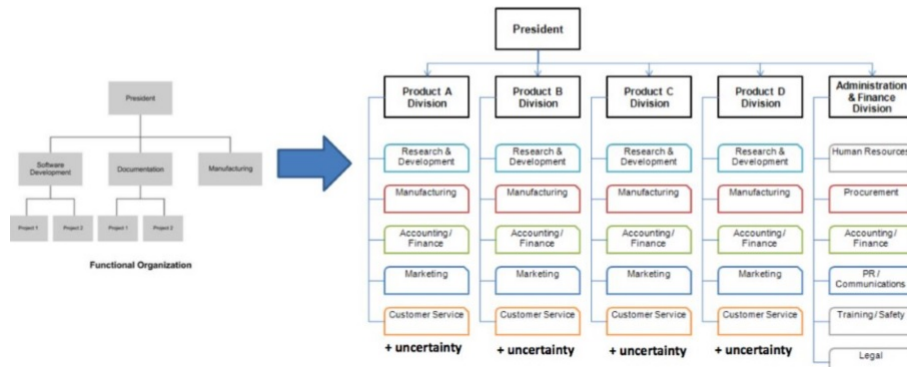


Figure 4: Divisional Organization

Still a top-down approach! The uncertainty depends on a product (like before). But, the product is assigned to a division! The flexibility is assigned to a specific product now, but we have a lot of redundancy! We have a lot of repeated blocks between products!

We should share those.....

## 7.3 Matrix organization

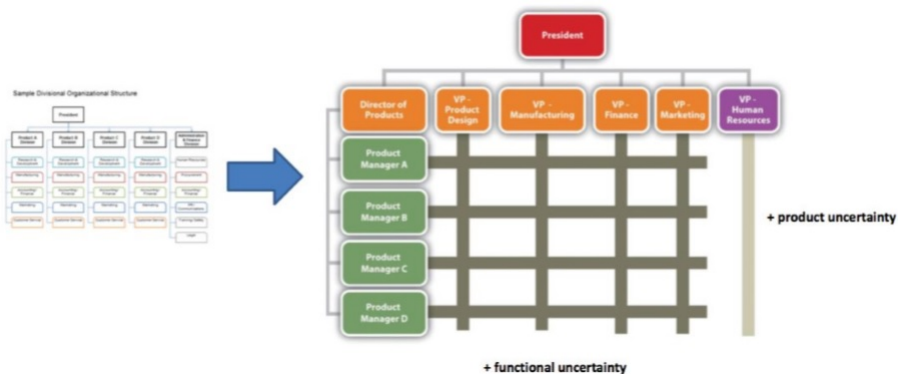


Figure 5: Matrix Organization

Again a top-down approach, there's again a division of products, but now, there are shared functions without redundancy!

But, there are more uncertainties given by those shared functions. We have 2 managers, one for functional and one for the product! there are a lot of dependencies!

How to eliminate those?

## 7.4 Constellations or Networks

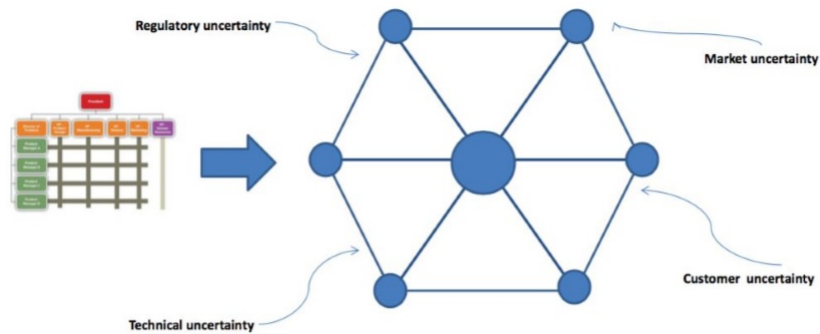


Figure 6: Constellation of Networks Organization

There is a lot of uncertainty! Even tho we are full flexible!  
This model can be applied to an open or closed environment?

## 7.5 Spaghetti organization



Figure 7: Spaghetti Organization

No hierarchy! No roles/projects/desks/.....

## 7.6 Examples of companies and their structures!

- Matrix: Consultancies company (The problems/products/customers and the answers/division/solvers)
- Divisional: Unitn (Rettorato on top, departments going down)
- Constellations or Networks: CERN (the product is a very complex task, that require a lot of shared knowledge!)
- Spaghetti: Startups, Co-working spaces.

## 8 What about Innovation?

If you work in a certain environment, try to adapt the company to it! A company can transform/evolve, and should try to change the environment for her purpose, depending on its capacity of innovation.