



# Organizations

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# Rationale

- Why we should organize instead of doing things on our own?
- What types of organization “ideal types” we encounter?
- Which purpose they serve for?
- How to they relate do innovation?



# What is an “organization”?

**organization** | ,ôrgənə'zāSH(ə)n |  
noun

**1** an organized body of people with a particular purpose, especially a business, society, association, etc.: *a research organization*.

**2** 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 New Oxford American Dictionary



# What is a “business”?

Business (from Wikipedia, 07/10/2016)

“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.**”



# Company

Company (from Wikipedia, 07/10/2016)

“A Company is a legal entity made up of an association of persons, 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
- a group of soldiers
- 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.

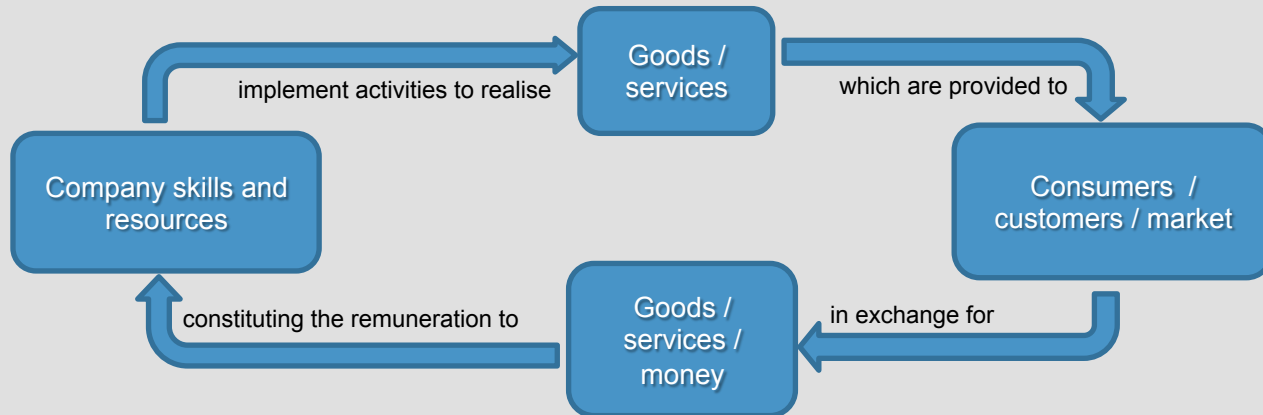
Because companies are legal persons, they also may associate and register themselves as companies – often known as a corporate group. When the company closes it may need a "death certificate" to avoid further legal obligations.”



# Definitions

In another way:

A business, enterprise, company or firm is a legal, economic and social entity (stable form of human organisation) using its collectively available skills and resources for realising goods and services and providing them to consumers in exchange for other goods, services or money.





# Value Chain



# Basics



- A business is basically focussed on creating economic value
- A business is a system which exploits available resources (cash, people, technology) to transform inputs (components, material, know-how, semi-finished products) into outputs (products, goods, services)





# Company features

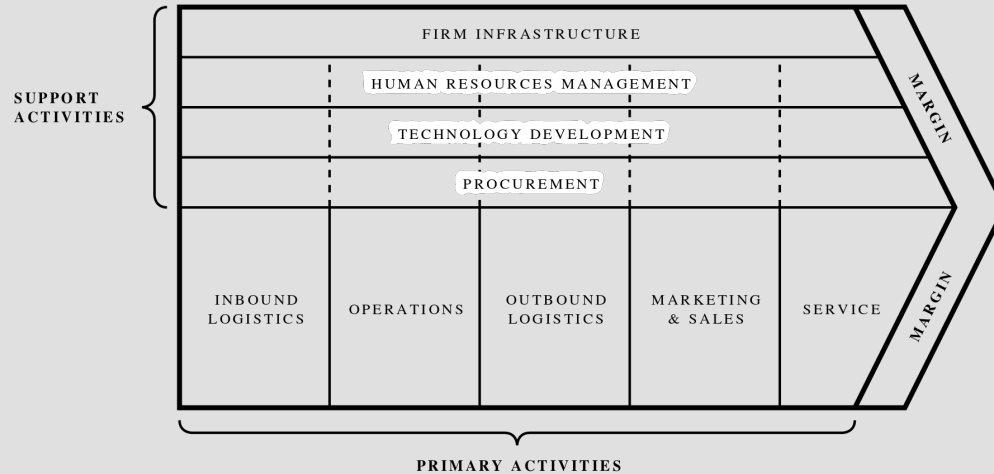
- Legal person
- Mission / objectives
  - As an economic systems, the company has mission / objectives which may not necessarily coincide with those of single stakeholders
- Structure
  - Set of relatively stable relations within subsystems
  - More or less formalised
  - May evolve in time with incremental adjustments (adaptation or small modifications) o with discontinuities (restructuring)
- Functions
  - Set of activities and tasks with similar characteristics which aims at fulfilling of business mission and objectives
  - Derived on the basis of the objectives' breakdown



# Porter's Value Chain

- The Value Chain disassembles a company into its major strategic activities, or business units
- Each business unit is a set of activities fulfilled to design, produce, sell, deliver and support the usage of goods
- The Value Chain is a representation of such activities
- It aims at understanding the costs drivers, the revenue sources, and the potential differentiation
- A company obtains a value added if it implements these strategic activities in a more economic or efficient way than competitors

# Value Chain



- PRIMARY ACTIVITIES: directly engaged in the creation of the product or service, for selling and delivering them, or for after-sales services to customers
- SUPPORT ACTIVITIES: supporting primary activities by providing input, technologies, human resources, etc.



# 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 for the buyer after it is sold and delivered

# 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



# Organizational Structures



# From closed to open innovation type of organization



## Closed innovation

Internalize  
to control  
**MAKE**

**Advantage:**  
minimize  
dependency

**Disadvantage:**  
lack of flexibility

Knowledge is a  
scarce resource

**Trade-off**

Knowledge is abundant

## Open innovation

Externalize: you  
cannot do all on  
your own  
**BUY**

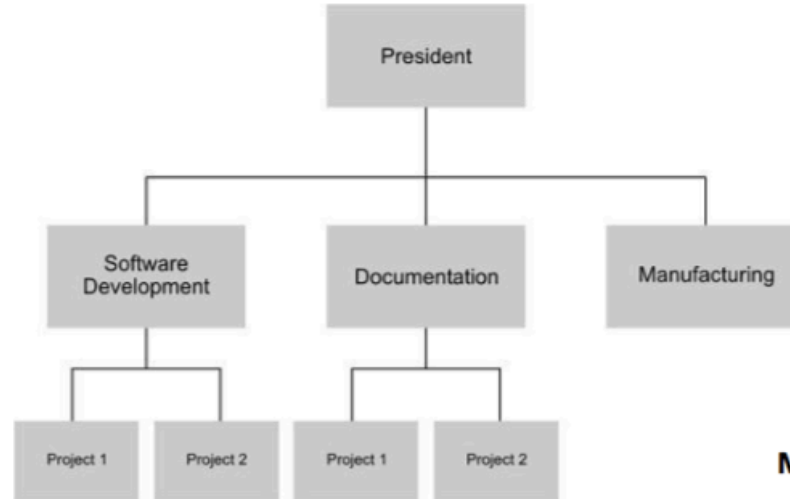
**Advantage:**  
total flexibility

**Disadvantage:**  
instability

# Functional Organization/1



**Vertical / Bureaucratic organization**



**Functional Organization**

+ uncertainty

Division of labor

Minimum uncertainty



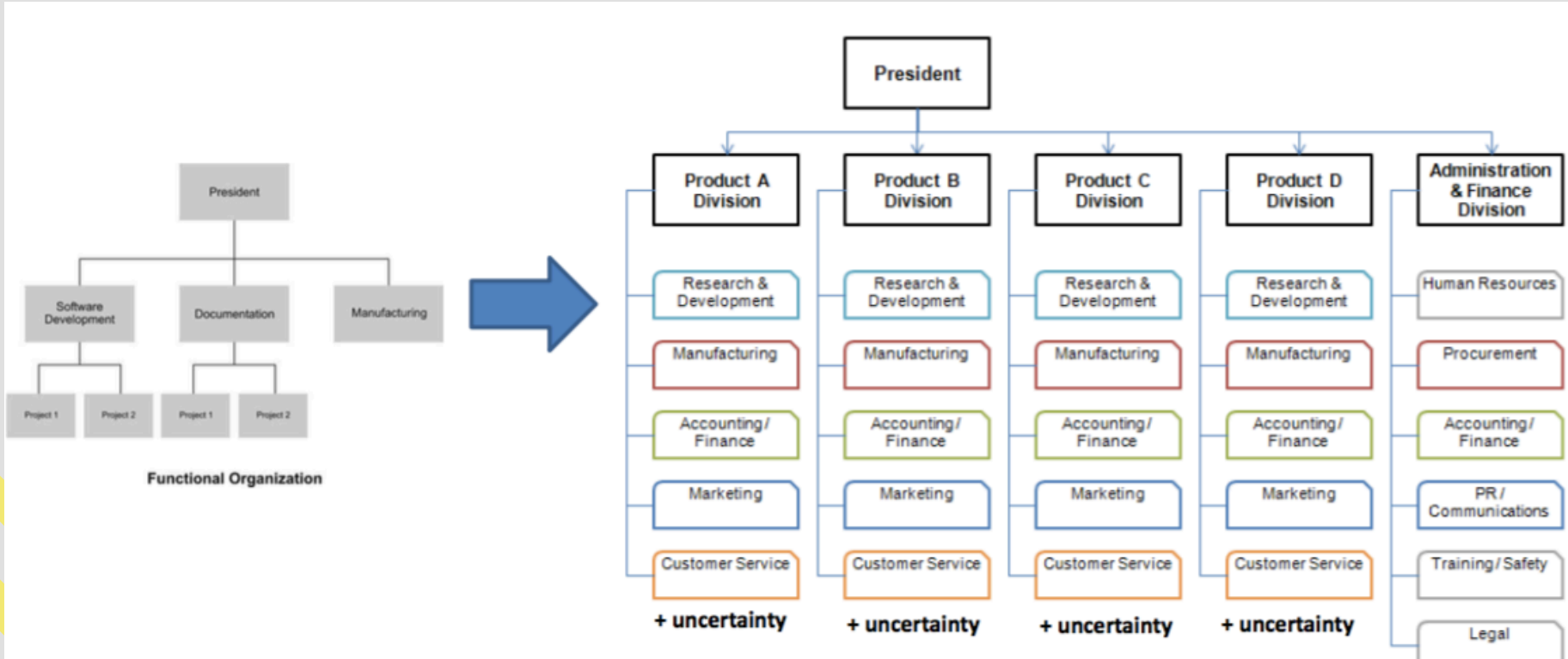


# Functional Organization/2



- Aggregation of tasks dealing with similar technical issues / functions to share the information processing work
- It is managed top-down
- R&D push
- Few decide what needs to be done (either R&D or Marketing Top Managers)
- High control
- Lack of flexibility

# Divisional Organization/1



# Divisional Organization/2

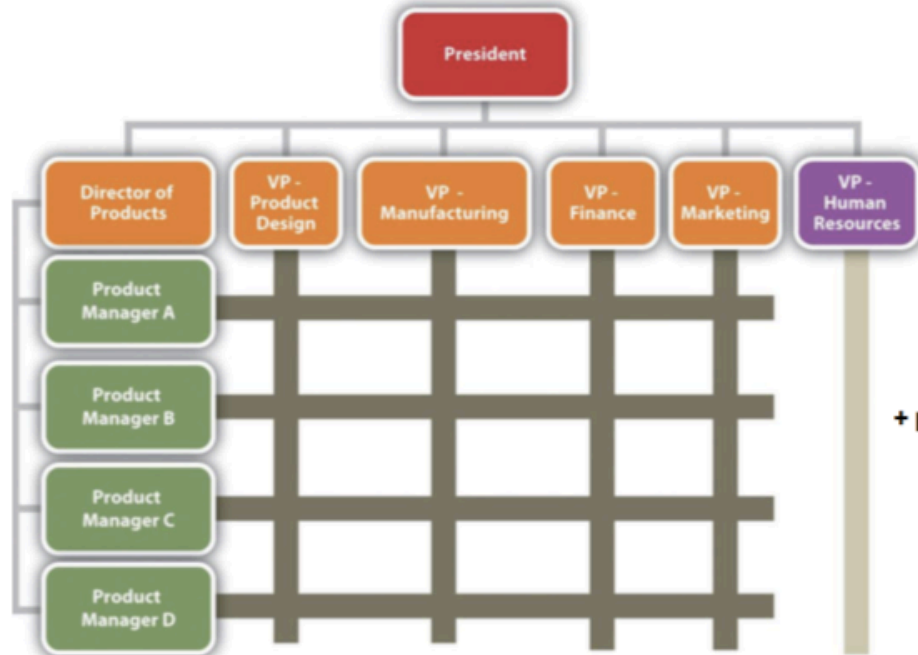


- Uncertainty is driven by customers and products (aggregation of tasks dealing with similar product lines)
- Still top - down decision chain
- Market pull
- More flexibility
- Heavy redundancy

# Matrix Organization/1



Sample Divisional Organizational Structure



+ product uncertainty

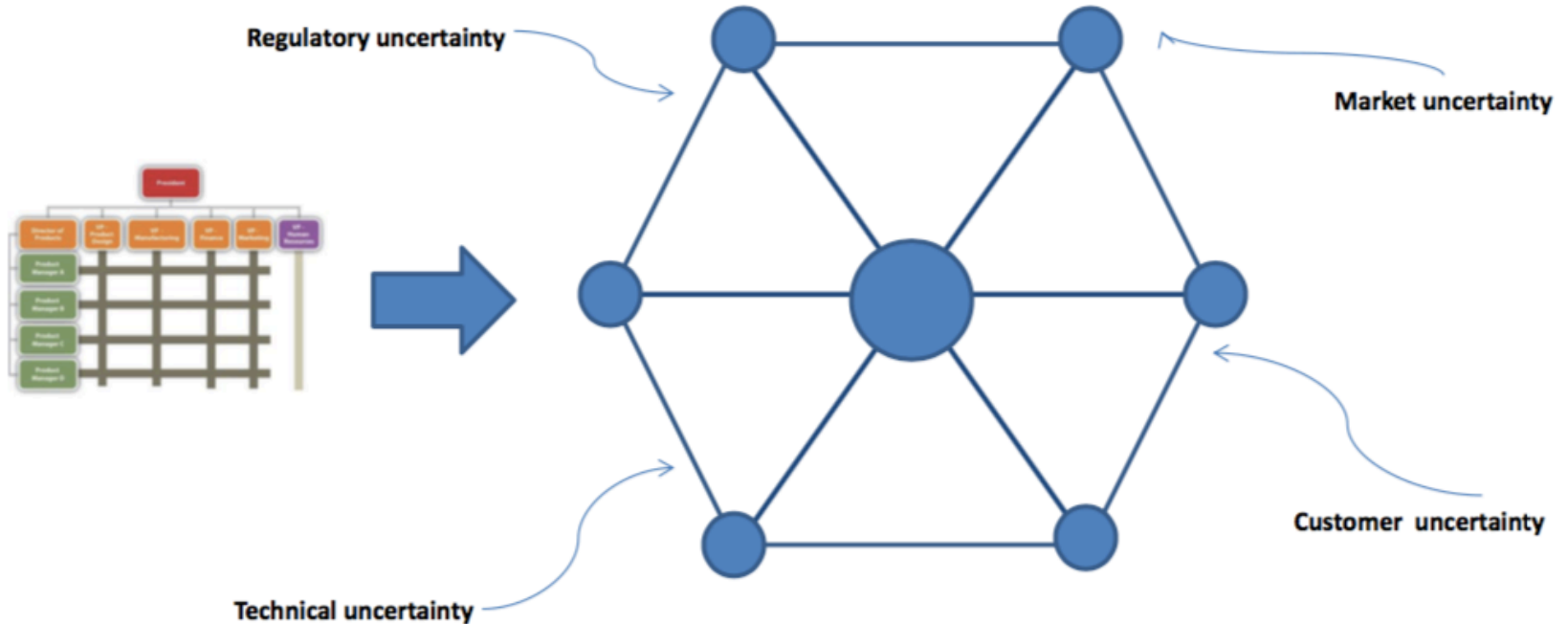
+ functional uncertainty

# Matrix Organization/2



- Uncertainty is driven by both functions and products (aggregation of tasks dealing with similar product lines)
- Shared resources
- Double line of command

# Constellations or Networks/1



# Constellations or Networks/2



- Uncertainty is driven by too many factors besides the core competence of the organization
- Focus on the core, outsource non-core
- Lack of control
- Open Innovation driven

# Spaghetti Organization/1





# Spaghetti Organization/2



- No hierarchy
- Knowledge intensive
- Information based
- Oticon case study (Denmark, 1988)

# And what about innovation?



Make sense of the “**Environment**”

- adapt your organization to its features
- ask yourself if these are given, to be explored or they can be manipulated

Your capacity to innovate depends on your capacity:

- to transform the **environment**
- and to shape it according to your world view
- ...to “freeze” it once you shaped it



**Thanks!**





# References

- Definitions elaborated from Wikipedia pages
- Porter, Michael E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. New York: Simon and Schuster. Retrieved 9 September 2013
- Revised course material “Economia e organizzazione aziendale - Ingegneria Meccanica UNIUD” from M. De Bona
- Oticon case study (Denmark, 1988)



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