What is a Firm?

- An organized entity composed of people and resources.

→ it seeks to generate economic benefits through its specific activity.

Why Do Companies Exist?

- alternative to market transactions in order to avoid transaction costs by producing their needs internally.

What are Transaction Costs?

- the expenses incurred when buying, selling or exchanging goods, services or assets.

Types

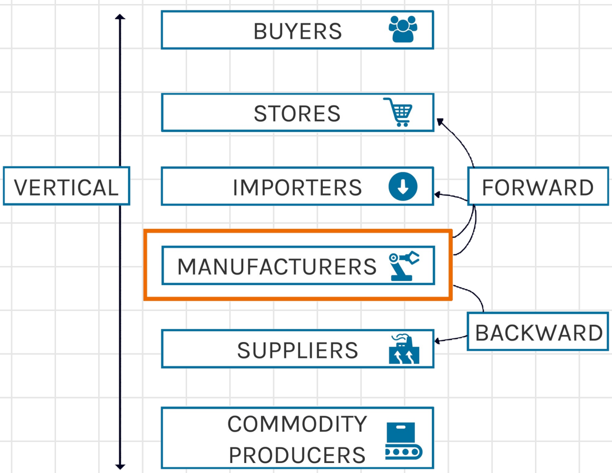
- research and information. → good available? lowest price?
- negotiation and decision. → drafting an appropriate contract.
- surveillance and enforcement → monitoring employee behavior, enforcing terms of contracts.

Application of Transaction Cost Theory

Vertical Integration: acquisition of supplier companies.

Outsourcing Activities: ex: cleaning services in hands of a specialized companies.

Strategic Alliances: to share distribution center and reduce coordination and negotiation costs in the distribution of their products.



Division Of Labour

- proposed by Adam Smith.
- specialization on performing specific tasks / roles allowing greater efficiency and productivity.

Economics of Scale

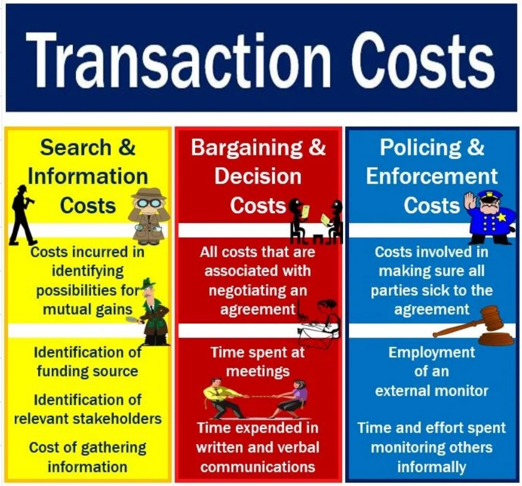
- reduction of the unit production cost as the volume of production increases. (fixed cost distribution).

→ cost advantages that a company can achieve when it increases its level of production.

Economics of Scope

- reducing unit production costs by producing a wider range of products using the same resources or process.

→ the cost advantages that a company can achieve by producing a variety of goods or services together rather than separately.



WHAT do Companies Exist for?

- objective? } social role
- purpose?

Corporate Social Responsibilities (CSR)

ethic duty to contribute positively to society by promoting environmental sustainability, supporting local communities, ensuring fair treatment of employees, etc.

Friedman Doctrine

→ primary social responsibility = maximize profits for its shareholder (within bounds of the law).

→ businesses should not engage in activities tha deviate from solely generating profits.

SHAREHOLDERS

→ individual entities that own shares or stock in a company.

→ their goal is to maximize financial returns on their investment.

→ voting rights in sharholder meetings.

STAKEHOLDERS

→ broader group that includes anyone who is affected by or can affect the actions and desicions of a company.

→ includes employees, suppliers, local communities, governmental bodies and society at large.

→ stakeholders have financial, social, environmental and ethical interests and considerations.

ESG (Environmental, Social and Governance)

E: carbon emissions, energy efficiency, waste management, pollution control and natural resources.

S: labor practices, workplace diversity, inclusion, employee relations, human rights, product safety and quality, community engagement, etc.

G: systems, structures and process through which a company is directed and controlled.

EVOLUTION OF MANAGEMENT

MAX Weber → Bureaucratic Management (1864-1920)

- division of labor and job specialization used to align employees to their tasks.
- formal hierarchy and a well defined chain of command distinguish the level of authority.
- rules and regulations: standard operating procedures.
- impersonal relationships to promote fair and equal treatment.
- competence, not personality is the basis for job promotion.
- formal written records used to document everything.

ADVANTAGES

- efficiency
- equity
- accountability
- ease of administration

DISADVANTAGES

- rigidity
- delays
- resistance to change
- depersonalization

Frederick Taylor – Scientific Management

↪ how a specific job was performed, what steps, amount of time.

↪ "75% science and 25% common sense".

Taylor's Principles

1. precise scientific approach for each worker task.
2. carefully recruit, select, train and develop each worker.
3. salary incentives.
4. cooperation between staff and management.
5. division of labour and responsibility.

Contributions

- standarization, efficiency, cost reduction.
- rigorous study of tasks and positions.
- importance of personal selection and training.

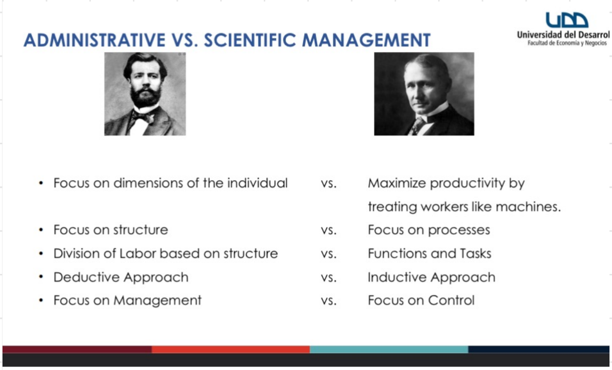
Critics

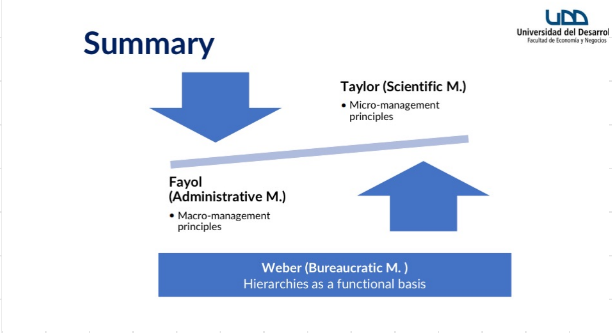
- job dissatisfaction, efficiency, cost reduction.
- higher needs of employees not appreciated.
- worker's ideas and suggestions were not listened.

Henry Fayol – Administrative Management

Functional Areas

- Administration: regulate, integrate and control areas.
- Technical: production, manufactoring, transformation.
- Financial: search and administration of capital.
- Security: protection of property and people.





Neoclassical and Modern Management Theories 1920 - 1930

↪ consideration of the human side of an organization and the social needs of employees.

Human Relations Movement

↪ Hawthorne Experiment

- employee motivation through emotional relations > motivation by money.

BEHAVIORAL MOVEMENT → Abraham Maslow, Douglas McGregor.

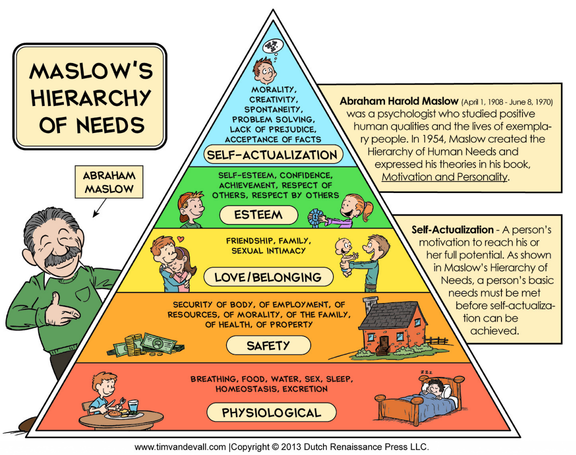
↪ Hierarchy of Needs (1943)

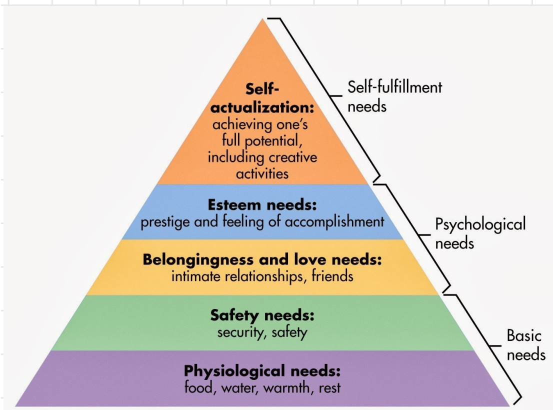
1. physiological / basic needs
2. security needs
3. social needs : belonging and love
4. esteem : recognition needs
5. self - actualization needs

→ Hierarchy order.

→ Progression Principle : lower level needs should be satisfied before higher level needs.

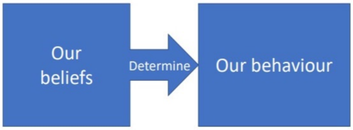
→ Deficit Principle : once a need is satisfied it is no longer a motivator.

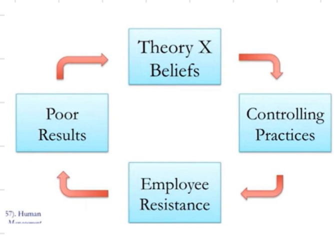




Theory X & Theory Y - McGregor

↪ What motivates people to work?





Theory X

BELIEF: employees do not like to work and need to be motivated.

BEHAVIOR: manager focused on control and supervision, establishing clear rules and procedures.

Theory Y

BELIEF: employees are hardworking, motivated through opportunities for growth.

BEHAVIOR: managers focused on developing employee's leadership giving them freedom to make decisions.

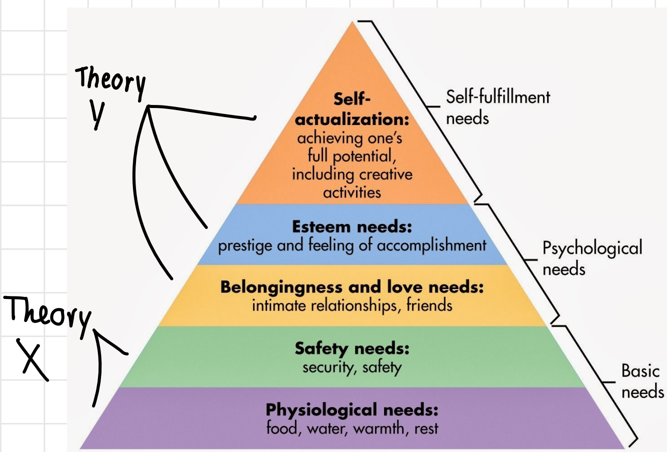
* individuals can accomplish their own goals <u>and also</u> the organization's goals at the same time.

Arguments in favor

- leadership >
- understand cultural differences
- autonomy value → Y
- stability value → X

" against

- simplistic and stereotyped theories
- little focus on work environment
- doesn't consider external factors



WHAT is Business Strategy?

→ actions and decisions taken by an organization in order to achieve its long-term objectives.

→ the creation of a unique and sustainable competitive advantage.

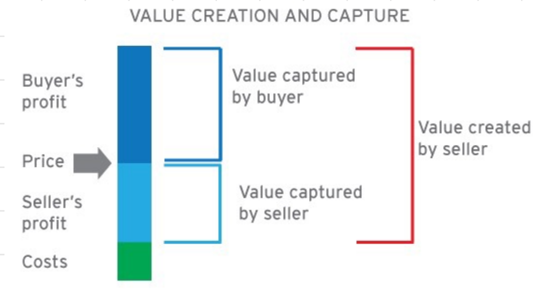
→ choosing a clear and distinctive market position.

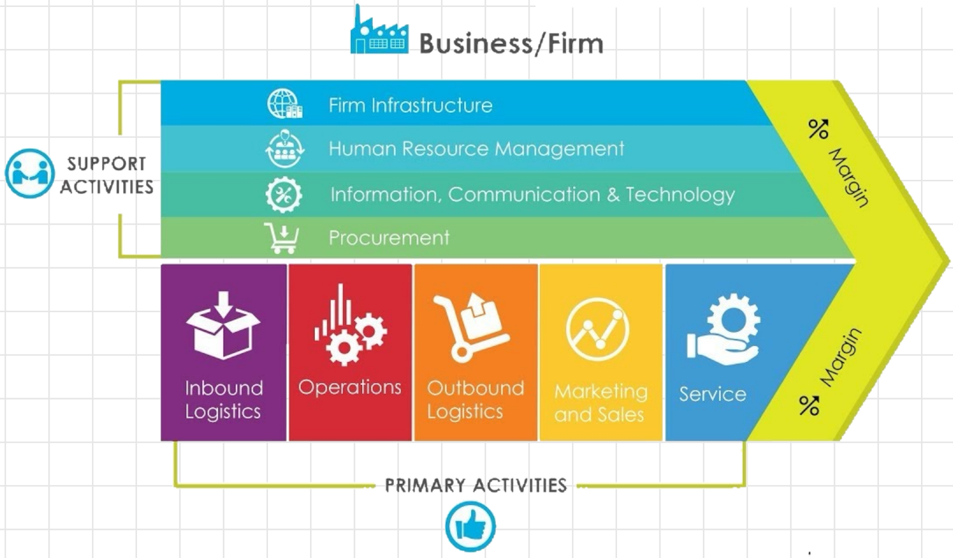
OBJECTIVE : maximize company value.

→ Σ (margin x sales)

increase margin :
- reduce costs
- increase price

Increase sales :
- grow in current market
- enter a new market

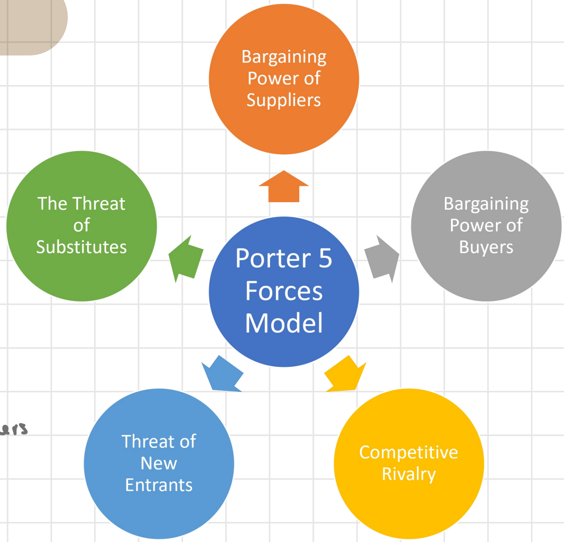




* Porter's competitive strategies

Porter's 5 Forces Model

1. understan the level of competition
2. ... which determines the profitability
3. evaluat external threats and opportunities
4. succes depends on your ability to understand and respond to competitive forces.



5. **bargain/power of buyers**: degree of power customers have over a company.
- → ↑ power = ↓ prices = ↓ profitability
- → more customers = less bargain of power
- → buyer's price sensitivety
- → switching costs for buyers
- → substitute products → buyers choose an alternative.

4. **bargaining power of suppliers**
- → supplier concentration = ↓ providers = ↑ power
- → uniqueness of product
- → importance of quality
- → cost of switching suppliers
- → substitutes

3. **threat of new entrances**
- → barriers of entry
- → acces to distribution channels
- → regulatory policies
- → capital requirements
- → brand loyalty

2. **threat of substitute products**
- → performance and price
- → ↑ substitutes = ↓ profitability
- → cost of switching to substitutes

1. **rivalry between existing companies**
- → n° and diversity of competitors
- → industry growth rate
- → product differentiation
- → exit barriers : cost of leaving the market
- → capacity utilization : competitive pricing