

Unit 2

THE COMPANY AND ITS ENVIRONMENT

1. THE COMPANY

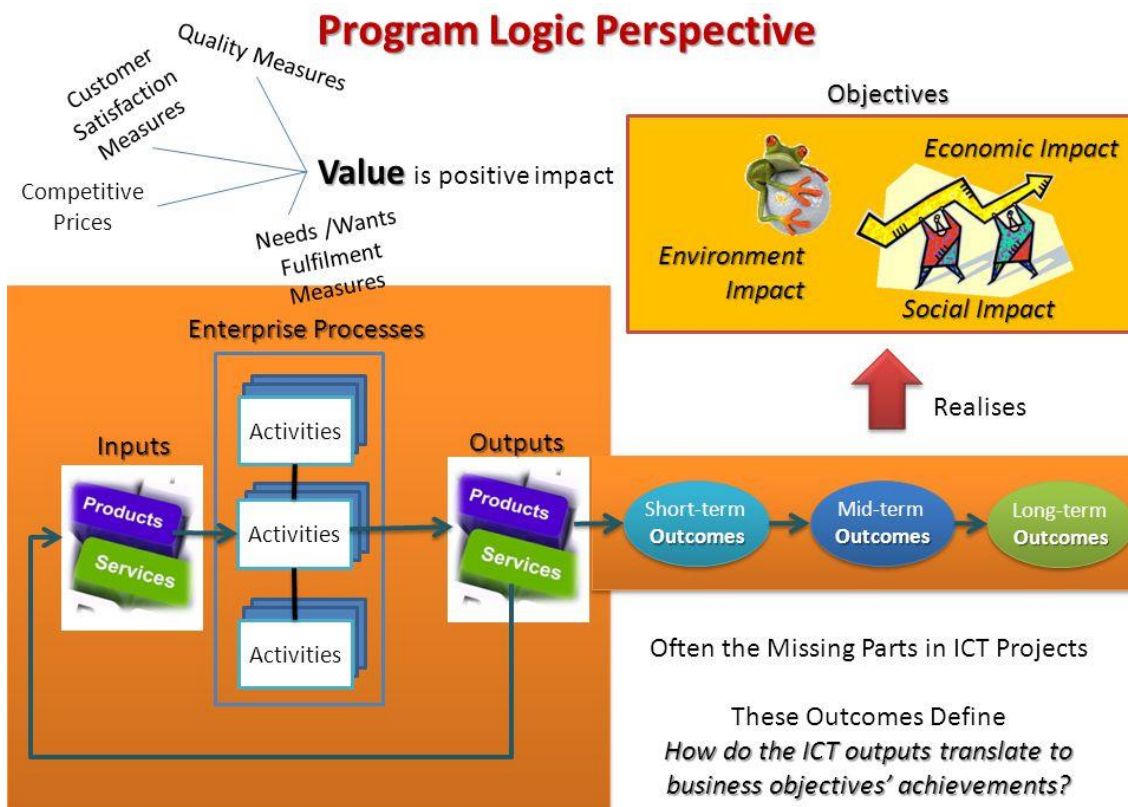
** Concept

The company is an entity with its own legal personality that produces GOODS and SERVICES. A company integrates a set of elements organized and directed to achieve a series of objectives through the performance of an economic activity.

** The company as a system. Elements of the company

According to General Systems Theory, a system is "a set of interrelated elements, designed to achieve a specific objective".

The company (SME) is conceived as an open system in permanent interaction with the environment or socioeconomic framework from which it receives inputs and to which it offers outputs, once the former have been subjected to different processes of transformation.



Exercise:

What are the most important inputs (inputs) and outputs (outputs) in a company in your sector?

The transformation processes to which the Inputs are subjected, are specified, within the companies, in the performance of different basic functions that will allow them to achieve their objectives.

These functions are also known as "functional areas". The outgoing of a company will depend on the effective coordination of all areas.

**** Main functional areas of the company**

- **Production area:** production of goods and services.
- **Sales or marketing area:** buying and selling.
- **Finance and accounting area:** search and management of capitals that allow investments and all the accounting functions of the company.
- **Human resources area:** personnel functions, prevention of occupational risks.
- **Administration (Management) area,** which comprises, in turn, four functions: planning, organizing, commanding and controlling.

- **Other areas:**
 - **Information and Technology:** almost all businesses nowadays make use of computers and information systems. The Information Technology (IT) Department is responsible for the architecture, hardware, software and networking of computers in a business. Their main tasks include data management, development and operation of network and website maintenance.

 - **Public Relations:** is the practice of deliberately managing the release and spread of information between a business and the public. Public relations (PR) and publicity differ in that PR is controlled internally, whereas publicity is not controlled and contributed by external parties.

 - **Research and development** – R&D – is the process by which a company works to obtain new knowledge that it might use to create new technology, products, services, or systems that it will either use or sell. The goal most often is to add to the company's bottom line.



Depending on its activity, the company will adopt the functional structure that best meets its needs.

In addition, every company is made up of different elements or resources, all of which are necessary to carry out its activity.

Video: Functional areas of a company

<https://www.youtube.com/watch?v=ohm4b6tqDEw>

**** Elements (resources) of a business**

- **Financial Resources: Funding.** The most important element in starting a business is funding. Even the most basic home business incurs a multitude of startup costs, including registering a business name, obtaining a business telephone line and printing business cards.

Financial resources can be obtained from a variety of sources, the easiest being from the personal accounts of the company's founder. Alternatively, loans and lines of credit may be granted from financial institutions, friends and relatives, private investors and so on. In addition, many grants are offered from private and public sources to entrepreneurs of all demographics and personal situations.

- **Human Resources: Employees**
The success of an organization is heavily reliant on the talent and strength of its employees. The hiring of experienced professionals with track records of excellence within their area of expertise ensures that the mission and goals of the company will be carried out efficiently and with competence. Strong team members can be recruited using a variety of methods. Staffing agencies and executive search firms specialize in placing talent of all levels within every industry. An alternative is to find employees through referrals from individuals whose judgment is trusted.
- **Educational Resources: Industry Know How**

Perhaps the greatest thing an entrepreneur can do when establishing a new business is to gain as much education possible. By understanding his competition and gaining an in-depth knowledge of his industry, the entrepreneur will be better prepared to make smarter decisions regarding the direction of his firm. Educational resources can be found in his local chamber of commerce as well as the Small Business Administration.

- **Physical Resources: Premises and Equipment**

Every organization must have the appropriate physical resources to survive. This includes a proper work space, working telephone line, adequate information systems and effective marketing materials. This aspect of business planning can be one of the costliest. As such, it is important for an entrepreneur to realistically assess his needs before making any purchases.

- **Emotional Resources: Support Systems**

Starting a business can be an extremely stressful endeavor for an entrepreneur to undertake. To maintain his sanity as well as stay motivated, it is important the entrepreneur has a support team that can give inspirations and guidance as needed. This team may be composed of friends and family as well as a mentor or professional group.

Exercise:

Martina Ramos owns a fashion store in Santander, where she and two employees work. What area elements of her company?

**** The economic-social function of the company.**

The company, in its continuous interaction with the environment, performs different functions of great importance for society that can be classified into two categories, CREATION OF VALUE and SOCIAL FUNCTION:

- **Value creation:** Due to companies' activity we obtain products and services that make our life easier. R + D + i (Research, Development and Innovation) is a key activity in today's society, and it is mainly developed by companies.
- **Social function:** companies provide the necessary income to live, either through the wages they pay to their employees or the benefits obtained by their owners. In addition, they promote technological advancement and innovation.

**** Objectives of the companies**

These functions have to be compatible with the objectives that companies intend to achieve, among which, it could be highlighted the following:

- **Get the maximum benefit (I-E).** It is the main objective, since the survival of the company

depends on it.

- **Growing.** Companies must reinvest their profits to grow and increase their market share and improve their future situation.
- **Customer satisfaction.** Customer loyalty is the key to business success. Without customers, a company is nothing.
- **Quality.** It must involve all the activities of the company, from production to distribution.
- **Survival.** Sometimes the economic situation is so delicate that the company can only hope to stay and wait for the situation to change.
- **Social objectives.** The idea that companies cannot limit themselves to achieving purely economic objectives is becoming more and more widespread. In fact, business must take into account other aspects, such as the respect for the environment.

Exercise:

Juan Gallardo is a partner of a financial entity focused primarily to granting loans to people who have difficulties in order to obtain them from banks. He believes that the sole objective of the company should be to earn as much money as possible. He argues if his opinion is correct and value his speculative attitude.

Video:

Business aims and objectives

<https://www.youtube.com/watch?v=OzWTEe4bna4>

**** Types of companies: classification criteria.**

When classifying the types of companies, several criteria can be used:

- ☐ According to size: small, medium, large.
- ☐ Scope of action: local, national, multinational.
- ☐ According to the economic sector: primary, secondary, tertiary.
- ☐ According to the ownership of the company: public, private, mixed.
- ☐ According to the legal form: The most frequently found legal structures are:
 - Sole Trader/Sole Proprietor (Empresario Individual or Autónomo)
 - Partnership (Sociedad Civil)
 - Limited Liability Company (Sociedad Limitada/SL or Sociedad de Responsabilidad Limitada/SRL)
 - Public Limited Company (Sociedad Anonima /SA)
 - New Enterprise Limited Company (Sociedad Limitada Nueva Empresa/SLNE)
 - Co-ownership (Comunidad de Bienes/CB)

Small or medium-sized enterprises (SMEs), SMEs can be classified according to various criteria

according to an EU Recommendation that applies to all policies, programs and measures that the Commission arbitrates for SMEs. Being considered a company is the first step to qualify for SME status. According to the new definition, a company is "an entity that carries out an economic activity, regardless of its legal form".

Therefore, the key factor when talking about an SME is the economic activity, not the legal form. There are three criteria that are taken into account when determining whether or not it is an SME:

- Staff
- Annual turnover
- Annual balance sheet

The European Commission defines SMEs as those enterprises employing fewer than 250 persons that have a turnover of less than 50 million euros and/or a balance sheet total of less than 43 million euros (see Commission Recommendation 2003/361/EC). SMEs are further broken down into micro, small and medium enterprises (see table 1 for details).

Enterprise category	Persons employed	Turnover or	Balance sheet total
Medium	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Table 1: Criteria for medium, small and micro -sized enterprises

Video: Types of enterprises:

<https://www.youtube.com/watch?v=F0kbe0z933w>

<https://www.youtube.com/watch?v=rljmd9bnrO0>

2. THE ORGANIZATIONAL STRUCTURE OF THE COMPANY

**** Business organization models.**

A company is a special form of organization that combines human and material resources in order to achieve one goal: economic profit.

This organization needs to define the tasks that are going to be developed, divide and distribute the work among the people who are going to carry it out (attributions), and determine the relationships that must exist between them and set their responsibilities (hierarchies).

There are different organizational principles common to every company:

- **Unity of objective:** all the components of the organization must contribute, depending on their possibilities, to achieving its objective.
- **Span of control:** determine the most convenient number of people that the boss can effectively direct.
- **Principle of delegation:** delegate functions to the lowest levels possible.

- **Unity of command:** the instructions of two or more bosses must not be contradictory.
- **Hierarchical principle:** there must be a clear line of authority, a hierarchical chain of command.
- **Principle of responsibility:** from the inferior to the superior according to the delegated authority.

The organizational structure of the company is the hierarchy and division scheme of the functions that compose it. The company structure describes the framework of your organization and is usually divided into departments or divisions.

The main **OBJECTIVE** of establishing an organizational structure is the division of labor among the members of the organization.

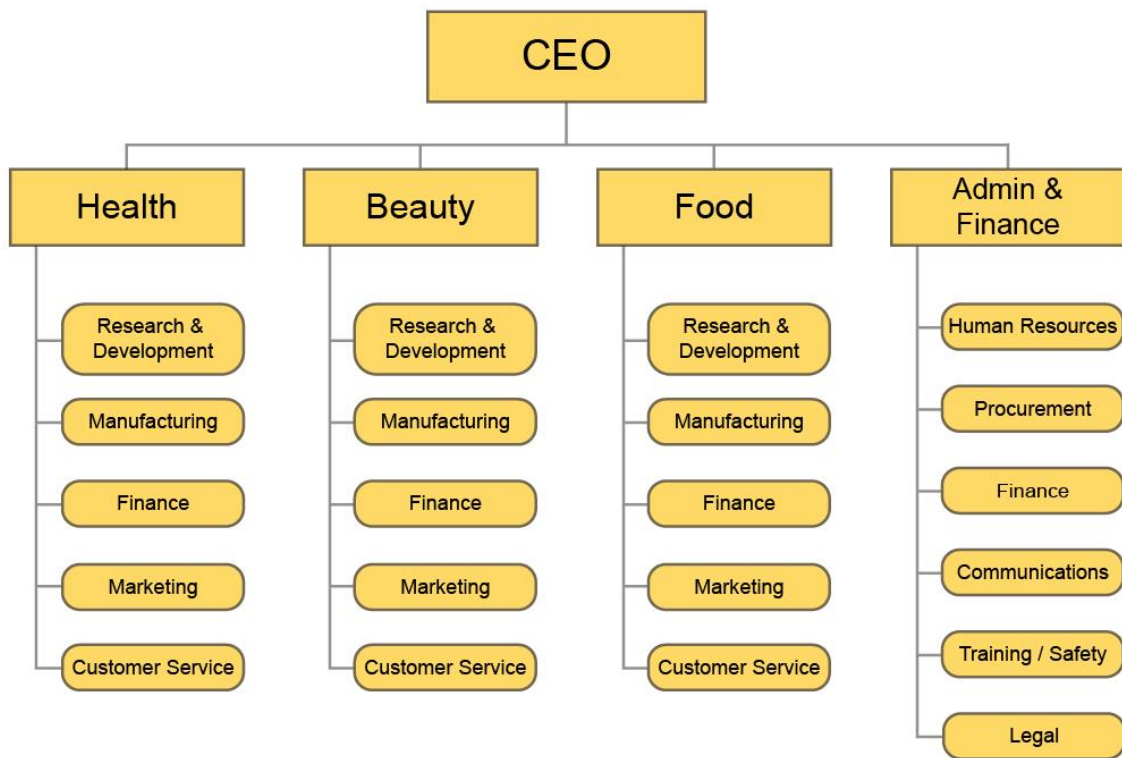
This process is called and the divisions that result from the same organizational units or departments.

It is possible to distinguish **several types of departmentalization**:

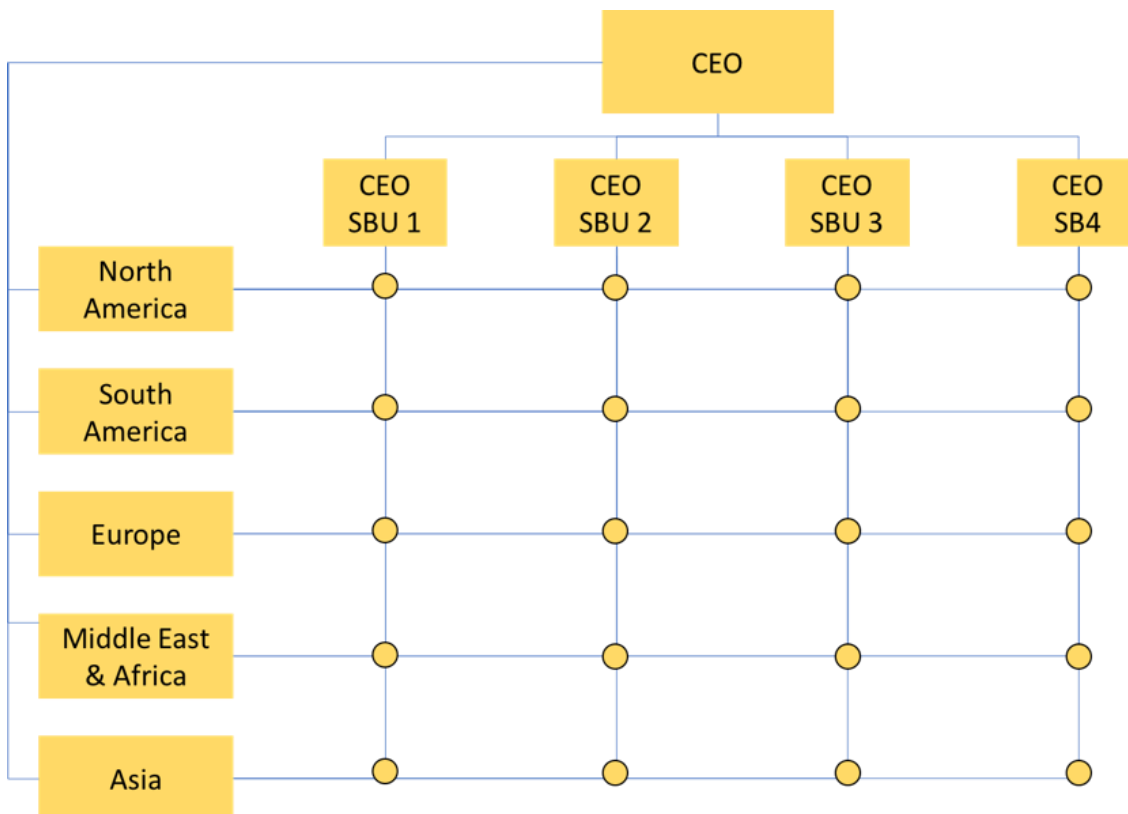
- **By functions:** it is based on the functional division of work, separating the tasks according to the main types of activities carried out in the company (production, marketing, finance, personnel...). Each organizational unit can be subdivided, in turn, into other units.
- **Geographical:** typical of large companies that sell or manufacture their product in different geographical areas (greater knowledge of the market, lower distribution costs ...)
- **By products:** typical of those companies that manufacture different types of products (each department corresponds to a type of product).



Functional structure organizational chart.



Product structure organizational chart



Matrix structure with geographic and product (SBU) structure

From an organizational point of view, it is possible to distinguish two types of organizations:

- **Vertical organization:** inspired by the principle of hierarchy and unity of command. Orders always come from the immediate superior.
- **Horizontal organization:** it is based on the principle of division of work and specialization. It breaks with the principle of unity of command.

Video: Organizational structures

<https://www.youtube.com/watch?v=LCAAivdxVTU>

Video: Vertical and horizontal structure in a organization:

https://www.youtube.com/watch?v=KGQFN5_5eo0

Video: Organizational culture in Google:

<https://www.youtube.com/watch?v=M56pf-DjHmQ>

**** Organizational charts.**

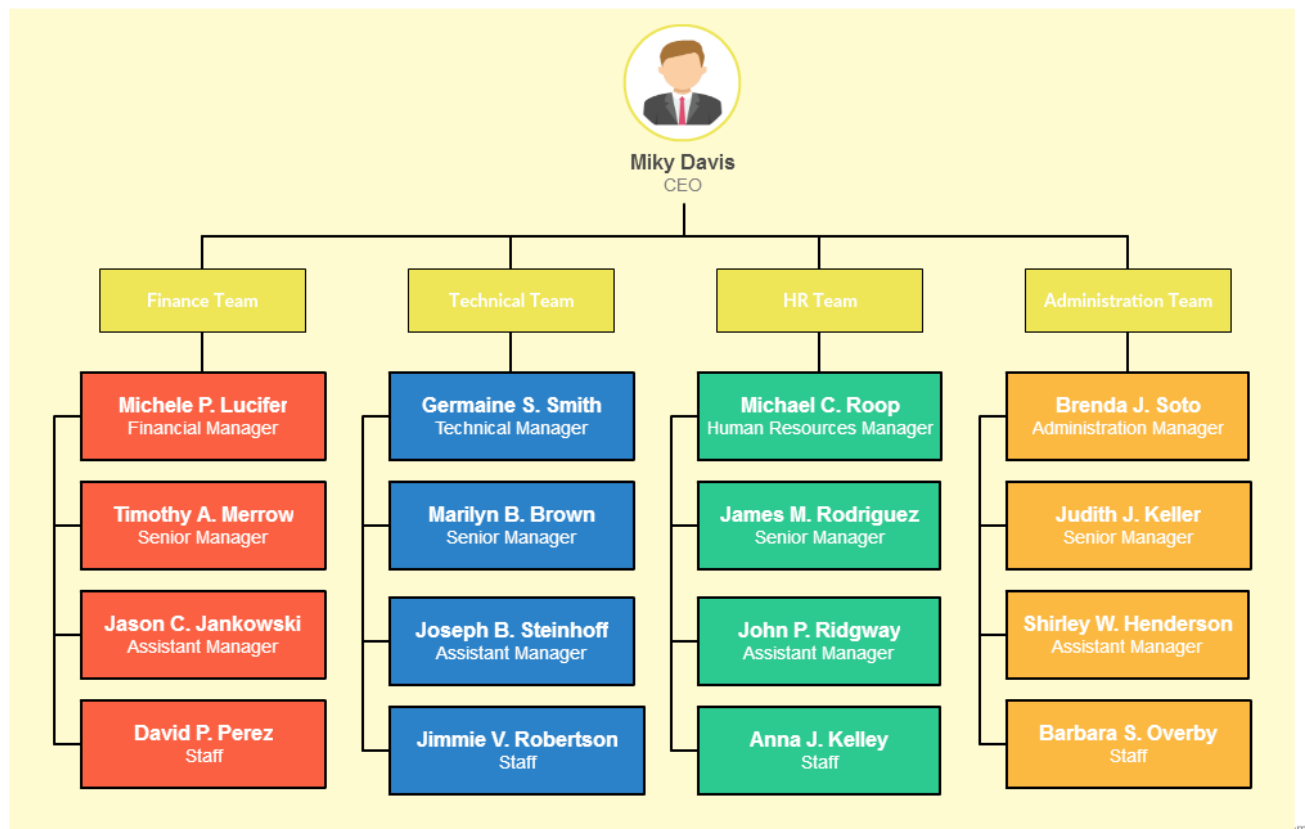
The graphic representation of the organizational structure of a company is done through an ORGANIZATIONAL CHART. An organization chart reflects the different departments, positions, hierarchies, and support and dependency relationships existing among its members.

We can distinguish several classes of organization charts according to their shape:

1) Hierarchical/Vertical Structure

The hierarchical model is the most popular organizational chart type. There are a few models that are derived from this model.

In a hierarchical organization structure, employees are grouped with every employee having one clear supervisor. The grouping is done based on a few factors, hence many models derived from this.



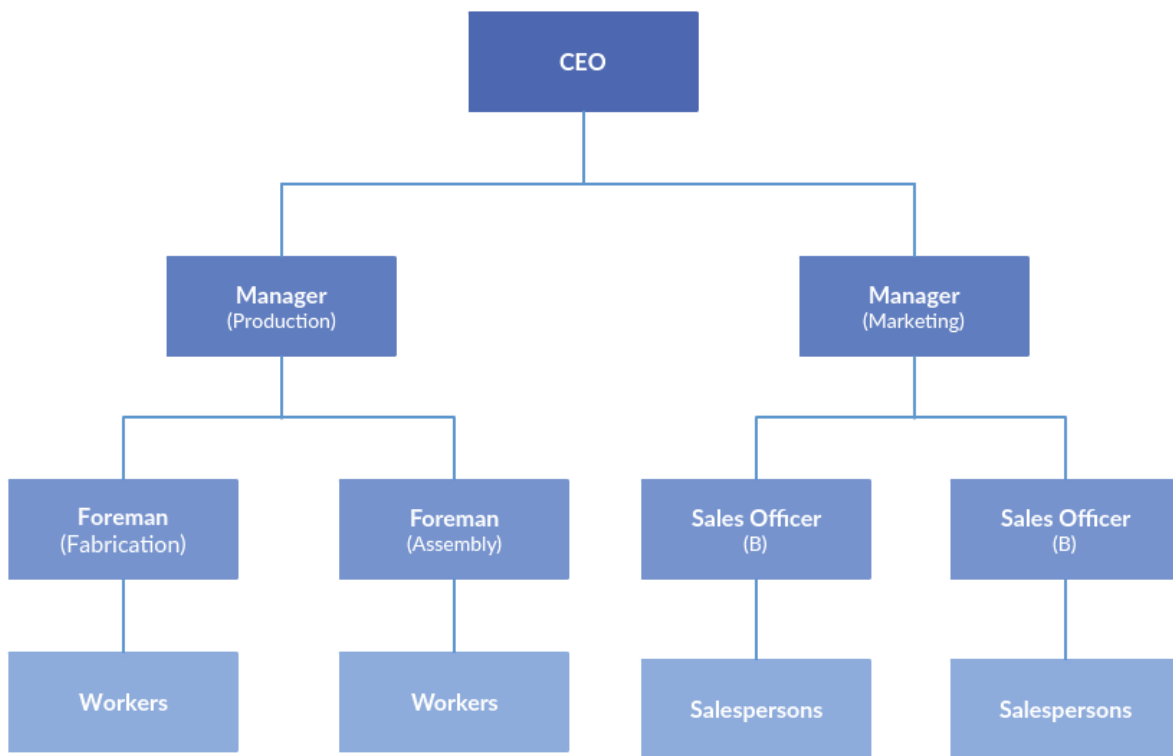
A functional organizational structure chart, a variation of the hierarchical model

2) Line Organizational Structure

Line organizational structure is one of the simplest types of organizational structures. Its authority flows from top to bottom. Specialized and supportive services do not take place in these organizations.

The chain of command and each department head has control over their departments. Independent decisions can be taken by line officers because of its unified structure.

The main advantage of a line organizational structure can be identified as the effective communication that brings stability to the organization.



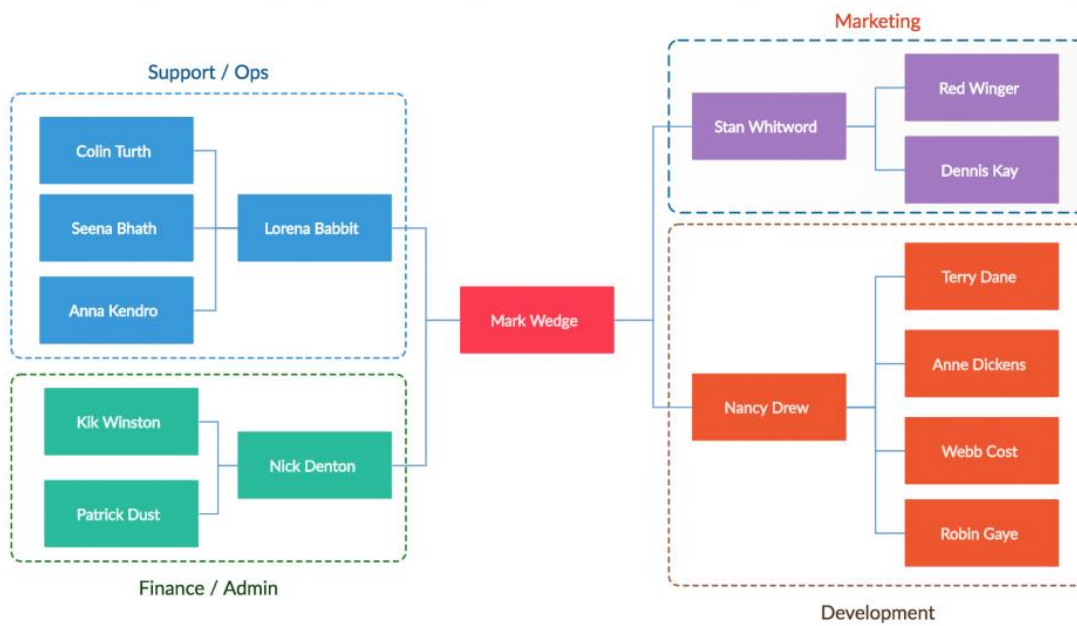
Line organizational structure chart

3) Horizontal/Flat Structure

This is an organizational chart type mostly adopted by small companies and start-ups in their early stage. It's almost impossible to use this model for larger companies with many projects and employees.

The most important thing about this structure is that many levels of middle management are eliminated. This enables employees to make decisions quickly and independently. Thus a well-trained workforce can be more productive by directly getting involved in the decision-making process.

Org Chart Layout for a Flat Organization

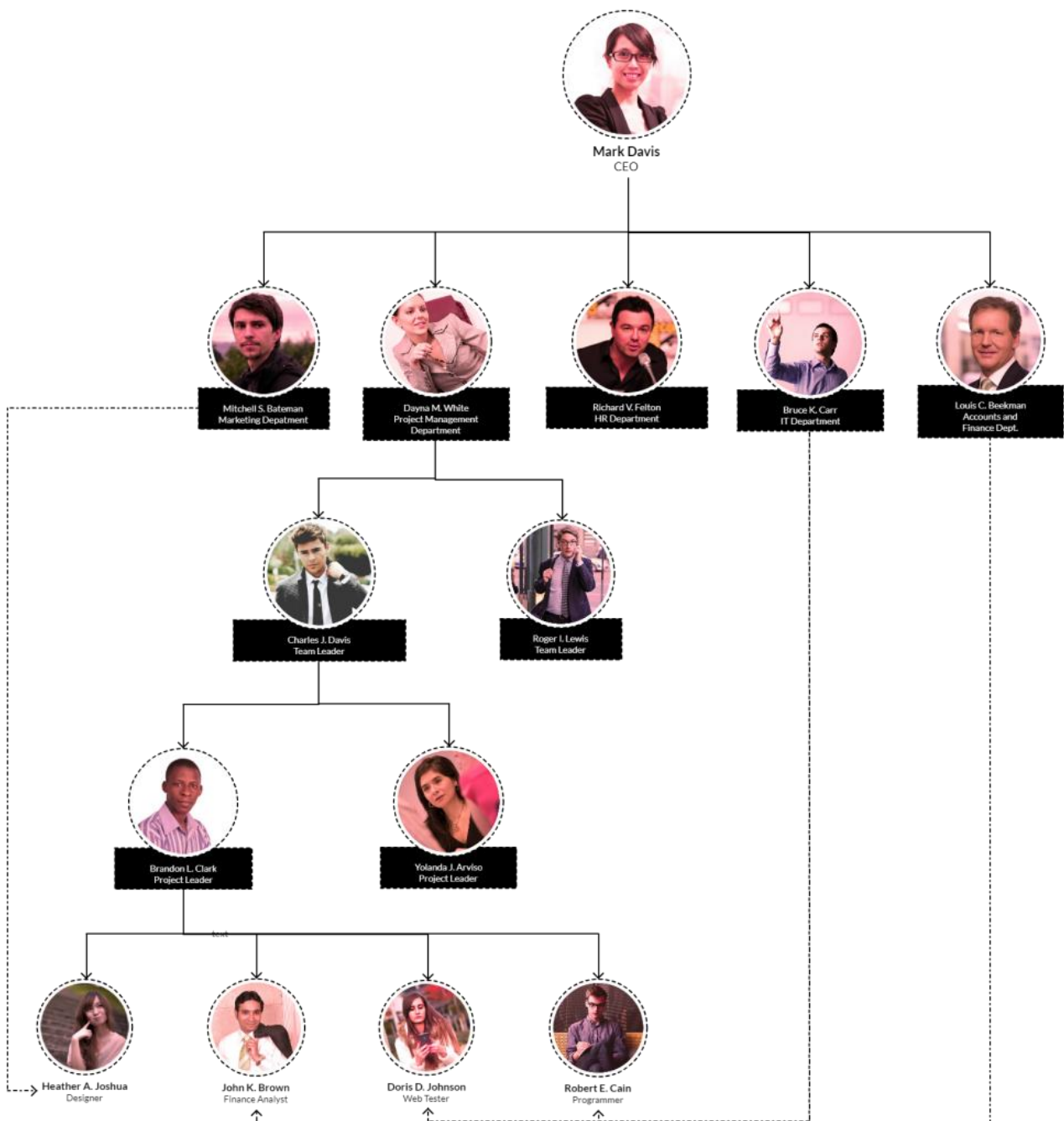


Flat Organizational Structure Types

4) Team-based Organizational Structure

Team-based organizational structures are made of teams working towards a common goal while working on their individual tasks. They are less hierarchical and they have flexible structures that reinforce problem-solving, decision-making and teamwork.

Team organization structures have changed the way many industries work. Globalization has allowed people in all industries around the world to produce goods and services cooperatively. Especially, manufacturing companies must work together with the suppliers around the globe while keeping the cost to a minimum while producing high-quality products.

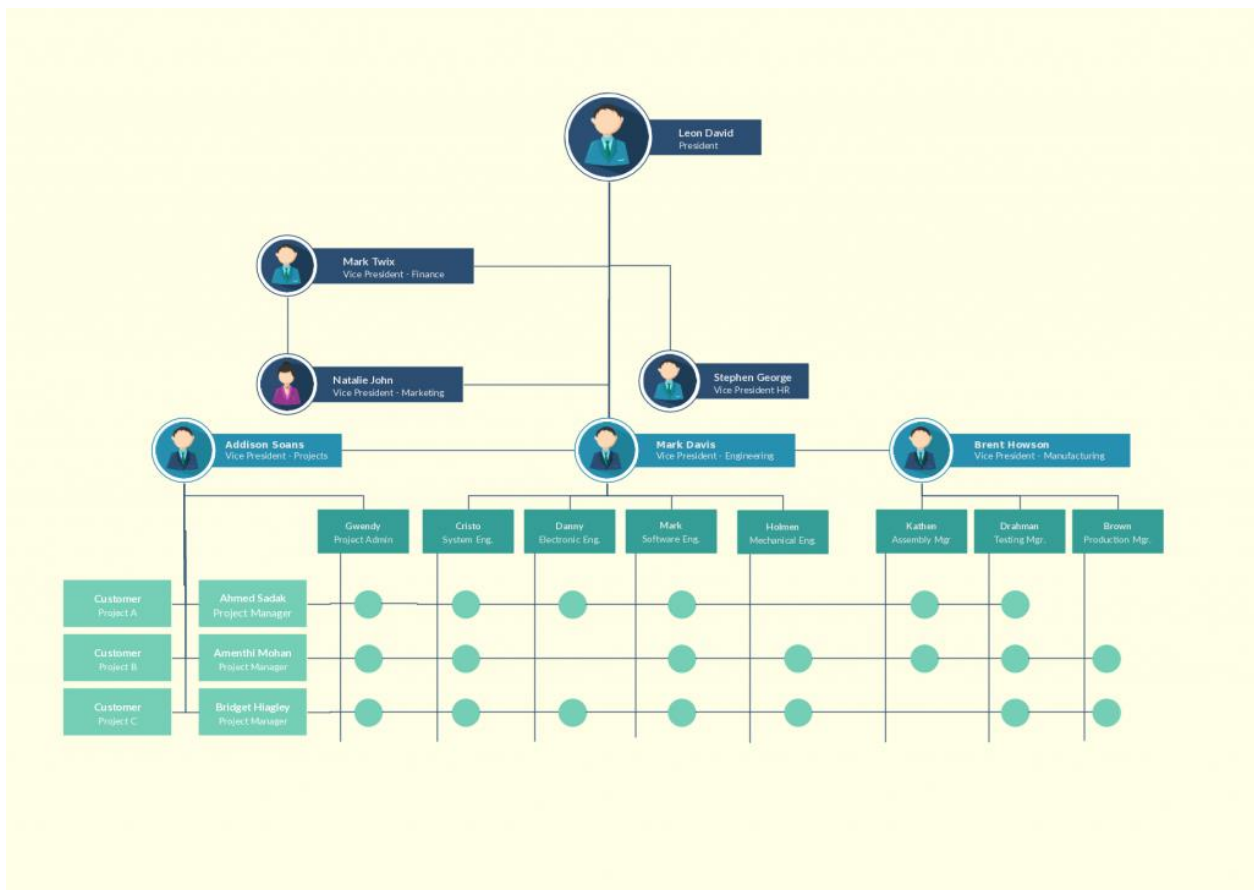


Team-based organizational structure chart

3) Matrix Structure

In a Matrix organizational structure, the reporting relationships are set up as a grid, or matrix, rather than in the traditional hierarchy. It is a type of organizational management in which people with similar skills are pooled for work assignments, resulting in more than one manager to report to.

For example, all engineers may be in one engineering department and report to an engineering manager. But these same engineers may be assigned to different projects and might be reporting to those project managers as well. Therefore some engineers might have to work with multiple managers in their job role.

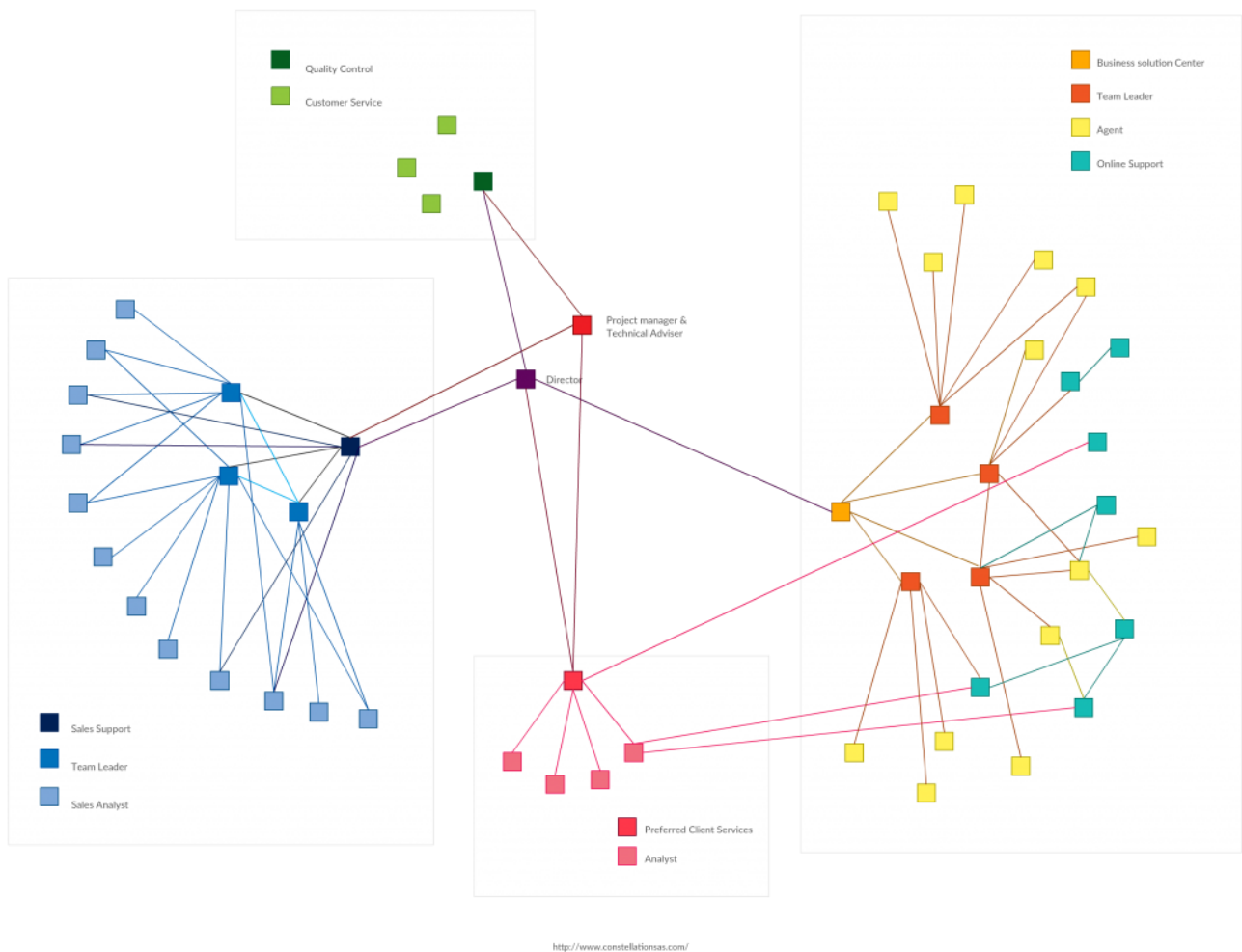


4) Network Structure

Network organizational structure helps visualize both internal and external relationships between managers and top-level management. They are not only less hierarchical but are also more decentralized and more flexible than other structures.

The idea behind the network structure is based on social networks. Its structure relies on open communication and reliable partners; both internal and external. The network structure is viewed as agiler than other structures because it has few tiers, more control and bottom flow of decision making.

Using a Network organizational structure is sometimes a disadvantage because of its complexity.

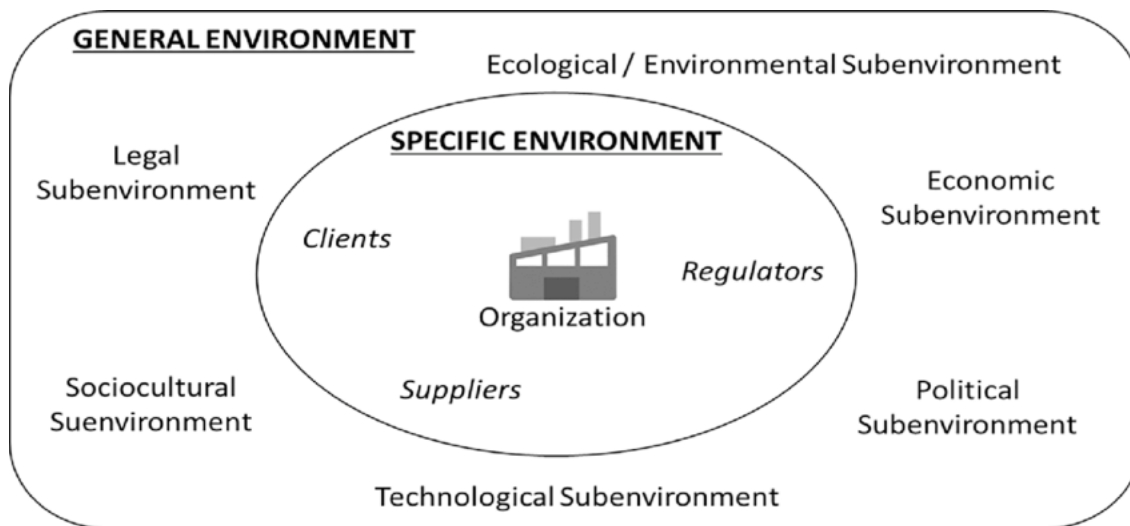


Video: Types of organizational structures in management

<https://www.youtube.com/watch?v=4o6v0XIylzA>

3. THE COMPANY'S ENVIRONMENT

The company is not an isolated entity, but it interacts with everything that surrounds it, i.e., it is related to its environment. In fact, a company is an open system. Traditionally, the company environment is divided into two large groups: specific and general. The graphic below illustrates both types of environments:



Due to the degree of interrelation that exists between the company and the environment, it is necessary to have an attitude of permanent analysis of the environment in order to identify the repercussions that they have on it. This analysis will allow you to:

- Detect in time the opportunities and threats that the environment presents for its survival, to take advantage of the former and transform the latter into opportunities.
- Identify the internal changes that you have to implement to improve your relationship with the environment and better adapt to it.

The general environment: macroenvironment.

The macroenvironment is made up of general variables that affect the demand for products and the companies that produce goods and services, and that the company cannot control. These variables are related to the external environment that surrounds the company and are economic, sociocultural, technological, political, legal, environmental and international factors.

- **Economic factors:** are given by the situation and the economic structure of each country, region or municipality where the company is located (public deficit, inflation, rise in interest, increase in unemployment...).
- **Sociocultural factors:** refer to the characteristics of the society in which the company operates (demographic factors, educational level, cultural values, aging of the population, incorporation of women into work ...). These factors can have a great impact on the consumption habits of society, either by the appearance of new needs in society, by the decrease in the income level of families, etc ...). Companies have to be attentive to these situations, as they can represent a competitive advantage or disadvantage.
- **Political and legal factors:** they affect all aspects of business activity (tax, commercial, labor legislation, financial regime ...).
- **Technological factors:** technology influences companies at different levels, either by developing new production techniques, introducing new ways of doing things ... The company

must assess the viability of introducing technological innovations in its activity.

- **Environmental factors:** the concern for the protection of the environment may initially make production processes more expensive, but in the long run, the cost may be lower and become a competitive advantage.
- **International factors:** globalization and new technologies affect companies on a global scale, by facilitating the sale of products and reducing dependence on local suppliers. Globalization refers to the increasing integration of economies around the world, especially through trade and financial flows. ICT have reduced transport costs and allow you to buy products anywhere in the world.

Video: General environment of a company

<https://www.youtube.com/watch?v=m5vGZF6xCBm>

The specific environment: microenvironment.

It refers to the environment closest to the company and is formed by different factors that specifically affect companies belonging to the same sector and over which it may have some control capacity.

Companies must control the evolution of the sector in which they operate and be aware of the competitive forces that act in it, such as: competition, suppliers, customers and substitute products.

- **Competition.** The more competitors there are in a sector, the greater the rivalry between the companies that operate in it. This rivalry between companies will make them resort to different strategies to "survive" (make more advertising, lower prices, improve service, etc ...). There are several factors that make this rivalry between companies increase:
 - A high number of competing companies in the sector.
 - Product differentiation: if this is scarce, buyers will more easily go to the competition. Buyers will change vendors without noticing differences in the product.
 - Strong entry and exit barriers (that companies have highly specialized assets that are difficult to sell or reuse).
- **Suppliers.** Suppliers can increase their bargaining power over companies in a sector by threatening to raise prices or reducing the quality of the products or services they supply.
- **Customers.** Buyers can force competition between companies in the sector by demanding price reductions, quality improvements or greater services from sellers.

Example: the high quality standards that a company like El Corte Inglés requires from its suppliers raises their business image, but at the same time reduces their negotiating power.

- **Substitute products.** The entry of substitute products in the market will cause prices to fall to face competition and therefore also reduce the benefits of the sector. Substitutes are those products that have similar characteristics to the point that the use of one implies the non-use of the other (eg sugar and saccharin).

Video: Specific environment of a company

<https://www.youtube.com/watch?v=WKfZaNRHLw>

Activities:

A company is dedicated to the repair and maintenance of computer equipment. Which is its specific environment?

What factors of the general environment in Spain can attract companies from other countries to settle here?

The location of the company.

A business idea can be great, but a good part of its success or failure will be based on where you decide to physically locate it. The choice of the ideal place will depend on the characteristics of the business activity to be carried out.

It is a long-term strategic decision since it is difficult to modify due to its high cost. The main variables that the entrepreneur has to consider when choosing the location are:

- ✓ The type of activity and the legal regulations.
- ✓ Good communications and closeness to customers and suppliers.
- ✓ Sufficient availability of qualified labor.
- ✓ Cost of the purchase or rental of the premises or land.
- ✓ Possible aid or subsidies from public administrations.

When choosing the location of the company, all these factors must be taken into account simultaneously and a complete study of the company's environment must be carried out. There are different methods to facilitate this analysis, among which the SWOT matrix stands out.

Video: The Business location

<https://www.youtube.com/watch?v=eU2VMJ2d1ks>

Analysis of the relations of a SME with the environment: SWOT analysis.

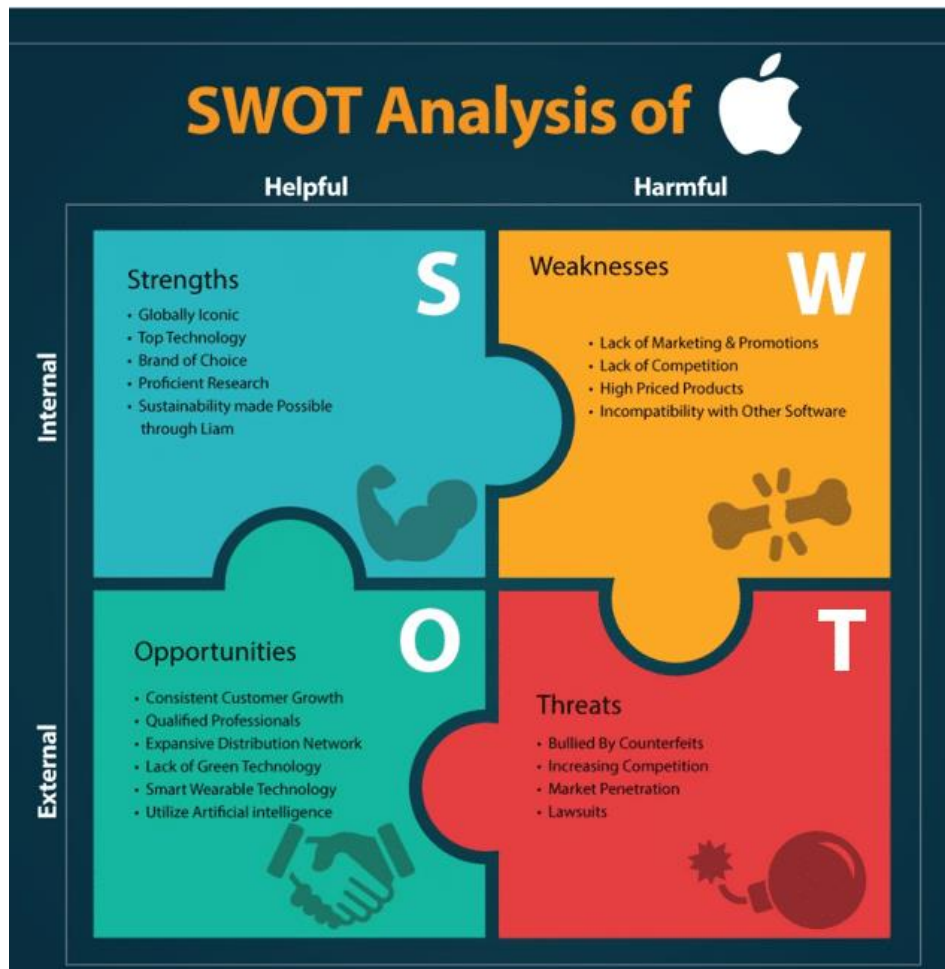
The SWOT analysis constitutes a first step for the analysis of the environment and the formulation of objectives and strategies of the company. Companies must pay special attention to the analysis of the environment to foresee the repercussions that this may have on them in order to:

- Detect opportunities and threats in the environment.
- Identify the internal changes to be made to improve their relationship with the environment.

This analysis is specified in the elaboration of two tables. The first consists of drawing up a list of internal factors that may affect the company (strengths and weaknesses) and external factors (threats and opportunities)



Example:



The combinations of these variables will result in different alternatives strategies that are reflected in the second SWOT matrix:

The organisation	Stengths – S <ol style="list-style-type: none"> Existing brand Existing customer base Existing distribution 	Weaknesses – W <ol style="list-style-type: none"> Brand perception Intermediary use Technology/skills X-channel support
Opportunities – O <ol style="list-style-type: none"> Cross-selling New markets New services Alliances/Co-branding 	SO strategies Leverage strengths to maximise opportunities = Attacking strategy	WO strategies Counter weaknesses through exploiting opportunities = Build strengths for attacking strategy
Threats – T <ol style="list-style-type: none"> Customer choice New entrants New competitive products Channel conflicts 	ST strategies Leverage strengths to minimise threats = Defensive strategy	WT strategies Counter weaknesses and threats = Build strengths for defensive strategy

4. BUSINESS CULTURE AND CORPORATE IMAGE

Corporate culture is the projection that an organization makes of its identity, its values and its business strategy. It is formed by a set of shared values and must be assumed by all its members. The corporate culture influences the day-to-day life of the company and its operation: it helps to build the corporate identity or image, brings together its members, favors the involvement of the staff in the business project and determines the internal climate of the company.

Elements of corporate culture.

The three fundamental elements that make up corporate culture are MISSION, VISION and VALUES.

- **MISSION:** it is the reason for the existence of a company. It represents your identity and personality in the present moment. The mission of the company must be known by all members of the organization, as it represents the philosophy of the company and is maintained over time despite the fact that it undergoes small changes forced by business dynamics.
- **VISION:** it is an image of the desired future for the organization. It is to see how we want the company to be in the future. The vision must be doable, motivating and inspiring, simple and easy to communicate.
- **VALUES:** these are principles considered valid within an organization and are assumed and developed by all its members. They must be mostly accepted, dynamic, with ethical content and they must commit all workers to the mission and vision of the company.

Video: Mission, vision and values statements

<https://www.youtube.com/watch?v=8wem6FZAucw>

Exercise

Sebastián Pinilla is the owner of a company in your productive sector, and he is aware that it must define its own business culture and a favorable corporate image.

Advise him on what steps he could take to achieve this.

Corporate image

Every company carries out an exchange of information with the outside world. In this exchange, the company, consciously or unconsciously, transmits a certain corporate image, which contributes to the public perceiving the company in a certain way.

The image of the company is created and transmitted in two ways:

- Spontaneously, simply through the performance of the company that is observed by employees, customers, suppliers ...
- On purpose. In this case, the main tools to spread the corporate image of a company are:

Carlos J. Riquelme



- The promotion plan, which includes public relations and communication campaigns.
- External communication: all workers are the image of the company in dealing with customers, suppliers or any third person who has a relationship with the company.

Brands and logos help to spread the image of many companies, to the point that the mere sight of an image gives strength and confidence.

Exercise:

Consider the case of a company in your productive sector and explain what image you perceive of this enterprise.

Video: Logo Design: Tips to Create the Perfect Logo for Your Business

<https://www.youtube.com/watch?v=AarxYoCHzOg>

Social responsibility of the company

The ILO (International Labor Organization) defines corporate social responsibility (or CSR), as a new way of doing business, in which companies try to find a state of balance between the need to achieve economic, financial and development objectives with the social or environmental impact of their activities.

In this new context, companies must uphold and display ethics as an integral and indisputable part of their business behavior.

The advantages of having an adequate CSR are:

- Improve the image of the company.
- Increase the degree of employee commitment.
- Boost customer loyalty.
- Build trust in shareholders.

The reason for this phenomenon is to be found in externalities, which are the repercussions of business activity, translated into the negative impact that business activity generates on society.

Among the main areas of application of CSR, the following four stand out: respect for human and labor rights, respect for the environment, consumer protection, health protection and the fight against corruption.

Video: Social responsibility of a company

<https://ethicsunwrapped.utexas.edu/glossary/corporate-social-responsibility>

The social balance.

Companies generate costs and also social benefits. To assess the influence that the company has on its environment, the social balance sheet is used.

The social balance sheet is a business management tool that allows the quantitative and qualitative evaluation of the benefits and social costs generated by the company. It is, therefore, a management tool.

Objectives of the Social Balance:

- Carry out the diagnosis of business management in relation to social responsibility (SR).
- Evaluate the actions in terms of cost-benefit.
- Obtain information to adequately inform stakeholders about their social practices.

Below it is a table with possible social benefits (assets) and social costs (liabilities) caused by companies:

SOCIAL BENEFITS	SOCIAL COSTS
Job creation	Environmental pollution
Donations to social projects	Difficult to maintain work-life balance
Business activities that reduce costs (recycling ...)	Occupational diseases (stress)

Unlike the balance sheet, the social balance is a voluntary document, despite which, the number of companies that present it is increasing: some companies do it to create a good image, but a large part of them do it with the conviction that the social benefit will result in a benefit for the company in the medium and long term.

Exercise:

Reason how consumers can contribute to companies incorporating more social responsibility policies.

Exercise:

Javier and Ernesto are two proprietary partners of Abetín S. L., a company dedicated to the production and the sale of Christmas trees, a product whose consumption increases every year. One of their priorities from the beginning has been respect for the environment and the creation of a ecological image. To achieve this they have established a sustainable exploitation system of the forest areas of their property.

- a) What objectives does the company have?
- b) How does the environment affect you?
- c) Define their culture and the corporate image of their firm
- d) How does this company influence its environment?

a) Objective. In addition to making a profit, this company prioritizes social objectives, more specifically respect for the environment.

b) Specific environment. It will be necessary to highlight potential clients, who increase the demand of this product, and current and future competitors, attracted by the growth of the market. Regarding the general environment, it is necessary to underline the environmental and socio-cultural factors, due to the influence of the Anglo-Saxon culture.

c) Culture. Values shared by the company. Apart from other ethical values, the values related to the conservation of the environment must be assumed by all staff. The company image will be in line with this, and it is intended to be as 'green' as possible, to attract like-minded customers.

d) Environment. The company influences for better or for worse, in the area of responsibility social and environmental:

- Negative effects. Alteration of the forest environment, despite doing everything possible to minimize its impact.
- Positive effects. The work of this company to transmit values of respect for the environment.