Chapter 1: Company Overview

Part I: Definition and Characteristics of a Company

1. Definition:

“A company is an organization whose main function is to produce goods and services (...) for sale, to meet a need and generate benefits or profit” .

It is a structured economic unit that manufactures consumer products (such as food, fuel, paper) or capital goods (such as cars, refrigerators, machines). It can also provide services (like dry cleaning, banking, restaurants, transportation, temporary work, etc.).

The company produces goods or services to meet the needs of its clients.

These products, goods, and services correspond to a need. They constitute an offer that must meet demand. The confrontation of supply and demand forms the market.

The market: This is the group of clients who buy or are likely to buy the company’s products.

The company has an economic role: it grows the invested capital and thus generates profit, distributing purchasing power through salaries. By providing work to its employees, it also has a social role. It achieves revenue by selling its production or services.

Revenue: This is the total amount of money collected by the company from selling its production over a day, month, or more often a fiscal year.

Note:

- Expenditures - Revenues = Profit
- Expenditures = Revenue: No profit - No profit to invest.
- Expenditures > Revenue: No profit - Risk of bankruptcy.
- Expenditures < Revenue: Profit to invest - The company is doing well and making money.

2. Additional Characteristics of a Company

A company can be defined from several perspectives:

- A place of production.
- A social organization.
- An open system.
- A goal-oriented system.
- An autonomous decision-making center.

- A distribution center.
- A system in evolution.

2.1) Place of Production: Why, How, For Whom, What

- **Why?** When individuals stopped satisfying their needs through self-consumption. This began in the Middle Ages, when people started traveling.
    - **Principle of Scarcity:** At a certain point in its evolution, humanity saw its needs grow, which nature could no longer fulfill. Humans organized themselves (craftsmen, companions...) with specialization to produce new goods. Needs are classified in Maslow's hierarchy of needs.
- **How?** To produce, you need:
    - Raw materials.
    - Capital factor (f(K,T)).
    - Productive combination.
    - Money.
    - Tools.
    - Labor factor.

The company determines its production factors based on its activity. It aims to position its activity where these factors are abundantly available and as inexpensive as possible.

- Companies favoring capital factor (K) are called capital-intensive.
- Companies favoring labor factor (T) are labor-intensive.

2.2) A Social Organization

- Not everyone is part of the company: you need a contract, indicating the employee’s subordination to the company and its goals, in line with the company’s internal regulations.
- Everyone has a specific role: each employee has functions to fulfill, with clearly defined tasks in large companies.
- There is a hierarchy: employees are informed of whom they report to and work with.
- There is a communication system: formal (hierarchical) and informal (cross-functional).

2.3) An Open System

Instead of focusing on internal functioning, the company deals with inputs (raw materials, labor, money, information) and outputs (products, services, waste).

2.4) A Goal-Oriented System

- Its main goal is to generate profit (unlike a public administration).

- It can sometimes pursue other goals, like providing a public service, even if it’s not profitable, or temporarily sacrificing profit to maintain a competitive position.

2.5) An Autonomous Decision-Making Center

There are different types of decisions:

- Operational (labeling, shelving).
- Tactical: organizing the implementation of operational decisions.
- Strategic: defining the company’s long-term direction.

2.6) A Distribution Center

The company creates added value = Revenue – Intermediate costs. It distributes this added value to the economy, with the main beneficiaries being employees, shareholders, lenders (financial markets, banks), the state (taxes), and the company itself through self-financing.

2.7) A System in Evolution

The company is a privileged place for transforming progress and inventions into products and innovations.

Part II: Company structures

1. Definition of Structure

The structure is the set of means implemented to divide the work and coordinate tasks. It acts as the skeleton of the company, describing the internal organization: the services, functions, professional relationships, and hierarchical levels. Dividing work means placing each individual in the role that suits their abilities and skills. There are two types of work division:

- **Vertical Division:** The determination of the levels that make up the company system.
- **Horizontal Division:** Each vertically determined level is divided into peers (people of the same grade and level).

Task coordination refers to the set of connections between work divisions. Generally, vertical division separates those who plan from those who execute, while horizontal division separates tasks at the same level.

Each company chooses its structure based on several determinants.

a. Determinants of Structure Choice

Technology: The introduction of machines reduces the number of employees, leading to fewer divisions within the structure.
Age: A newly established structure tends to be simple, in contrast to an older one.
Size: As the organization grows, the structure becomes larger and more complex.
Environment: A company operating in an unstable environment must adopt a flexible structure.
Mentality of leaders: The mindset of the leader, including their degree of openness or resistance to change.

b. Definition of Organizational Chart

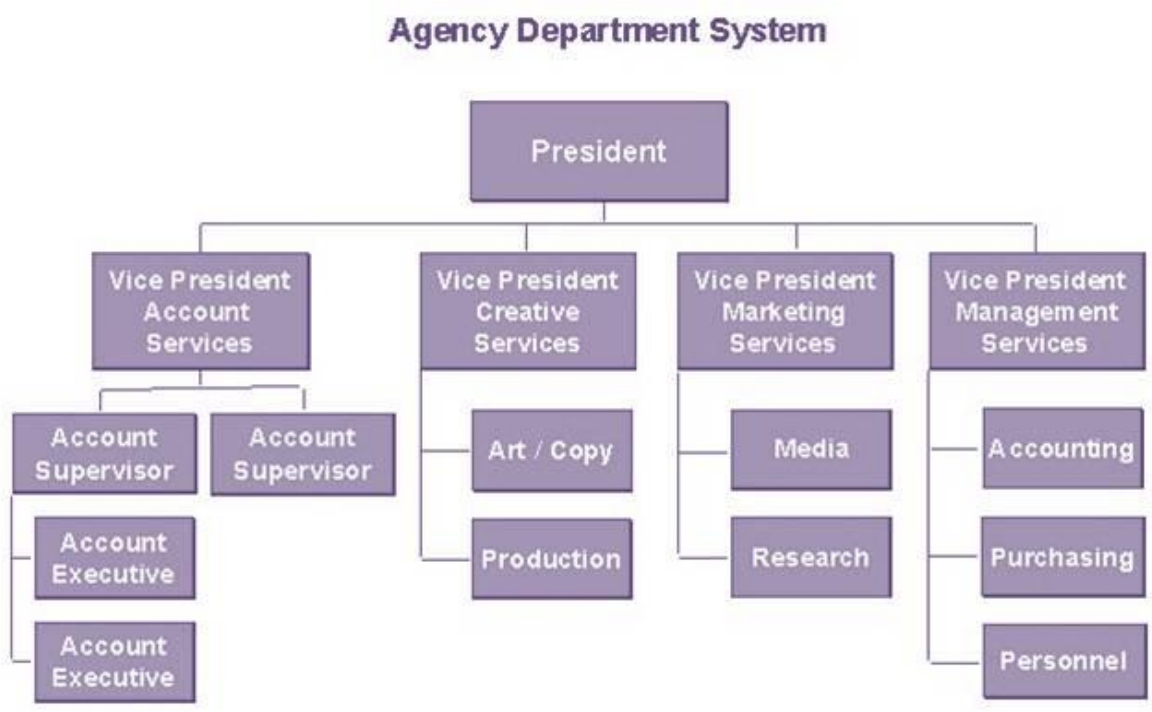
The organizational chart is the diagram that presents the internal structure of the company. It serves as the company's skeleton. In this organization, two elements are present:

- **Work division:** Generally represented by columns.
- **Task coordination:** Generally represented by lines.

2. Types of Structures

2.1 Hierarchical Structure

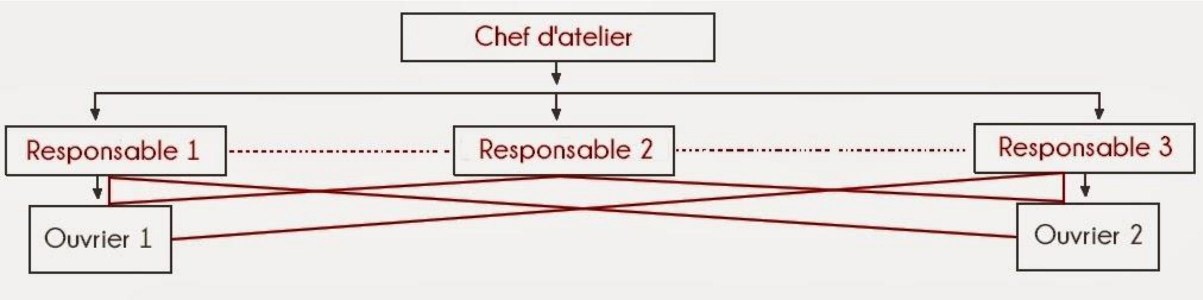
- **a. Organizational Chart**



- **b. Basic Principles**
  - **Unity of Command:** Each individual has a single, unique supervisor.
  - **Delegation of Power:** Delegating power to hierarchical responsibilities (director).
- **c. Advantages and Disadvantages**
  - **Advantages:**
    - Simple and easy structure.
    - Clear abilities and competencies.
    - Each individual knows where the information comes from and to whom it should be passed (well-defined responsibility).
  - **Disadvantages:**
    - Risk of information distortion due to long chains of command.
    - Overburdened directors (too many tasks).
    - Lack of communication (authority lines).
    - Unequal distribution of power and authority.
    - Risk of conflicts among peers.

2.2 Functional Structure

- **a. Organizational Chart**



- **b. Basic Principles**
  - No unity of command (multiple lines of authority).
  - Workers (from 1 to 20) have three supervisors.
  - Delegation of power to functional supervisors (workshop manager, supervisor).
  - No clear line of authority.
- **c. Advantages and Disadvantages**
  - **Advantages:**
    - Communication between functional supervisors.
    - Sharing of power.
    - Coordination between team members across various tasks.
  - **Disadvantages:**
    - Overload for subordinates.
    - Risk of social conflicts, especially among peers.

2.3 The hierarchical-functional structure

Basic principles
This structure represents a blend of the two previous structures. It is composed of:

- **Staff units** (usually advisers or headquarters), which play an advisory role, and
- **Line units** (i.e., hierarchical lines with functional relationships).

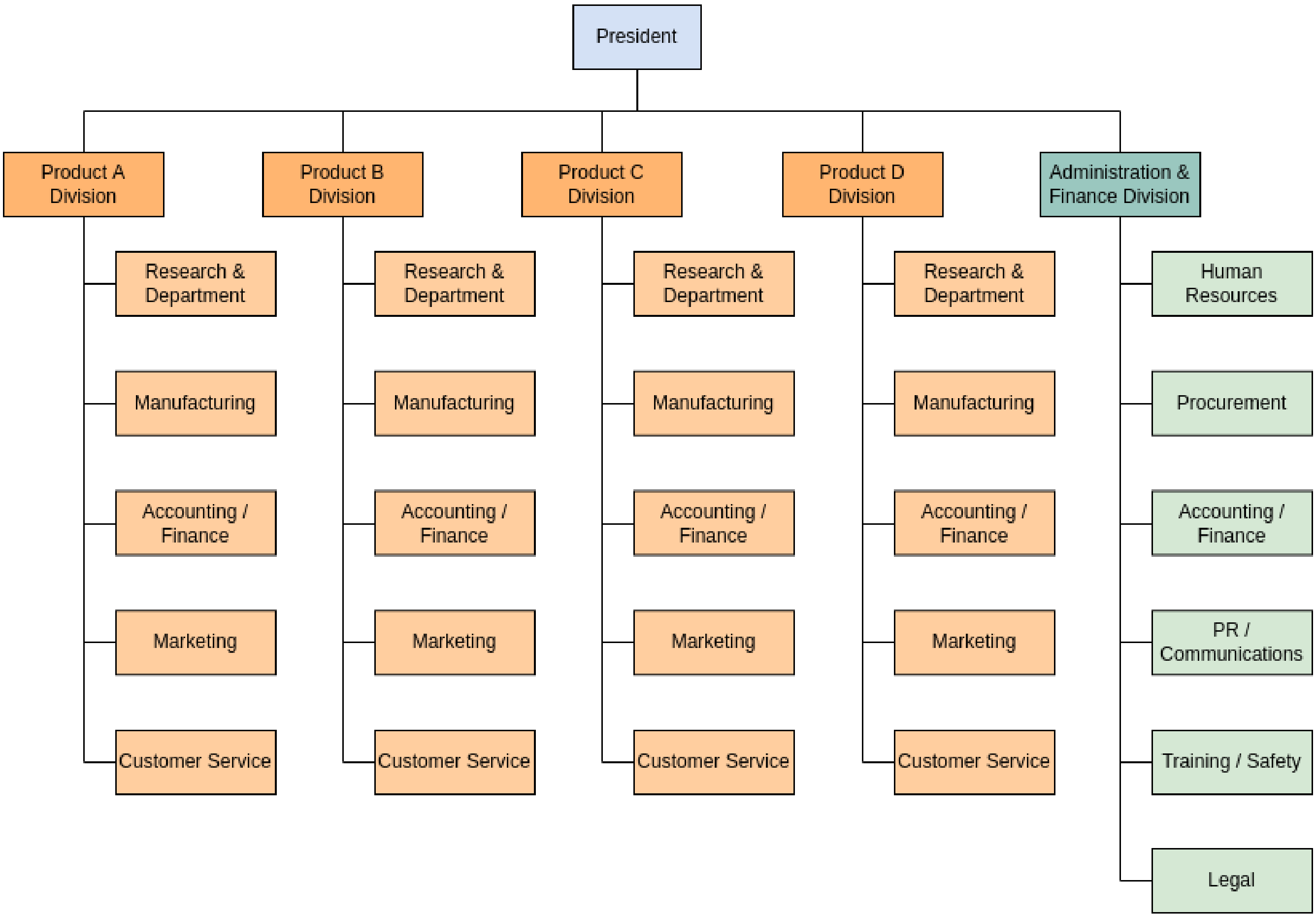
This structure is based on:

- **Unity of command**: Each member has a single, unique supervisor.
- **The principle of specialization**: Each department is specialized in a specific function.

2.4 Divisional Structure

This structure is adopted by companies with product diversification and/or diversified clients and/or geographical zones.

- **a. Organizational Chart**



- **b. Basic Principles**
  - Unity of command.
  - Division by product, zone, or client category.
  - Delegation of power to functional hierarchical responsibilities.
- **c. Advantages and Disadvantages**
  - **Advantages:**
    - Autonomy of divisions.
    - Specialization leading to task precision.
    - Possibility of competition between divisions.
    - Over time, the company can achieve economies of scale.

- **Disadvantages:**
    - Heavy personnel costs.
    - Risk of conflicts between peers.
    - Resource optimization issues can lead to overall overload.

2.5 Matrix Structure

This structure is based on the principle of dual command. It combines division by function and by division, where each individual has two supervisors:

- A project manager who changes based on needs.
- A permanent superior.

It is centered on the idea of a "project group." Activities are divided based on two criteria: by product or by project.

- **Advantages:** Well suited for product or market-based management, allowing the use of two supervisors' competencies.
- **Disadvantages:** Sometimes lacks coordination (due to dual command), risk of conflicts, and high costs.