

TOPIC 3

The company and its functions

Academic year: 2023-2024

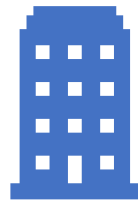
Subject: Pharmaceutical Management and Planning

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Company, ownership and control

What is a company?

*A company is an **organisational unit** dedicated to profit-making industrial or commercial activities or services.
(according to the RAE)*

Who owns the company?

Who manages it?

How has the notion of 'company' been conceptualised?

- **Primitive company** (until the fifteenth century)
- **Trading company** (from the sixteenth to the eighteenth century)
- **Capitalist company** (from the nineteenth century to the late twentieth century)
- **Flexible company** (from the late twentieth century to the twenty-first century)

What will come next?

Elements of the company

- Material, intangible and human resources.
- General functions:
 - The company **organises and manages** the production process, though it must **comply** with the **regulations** established by government agencies.
 - It assumes **technical and economic risks** inherent to the previous function, which are nuanced by the principles of company **responsibility and control**.

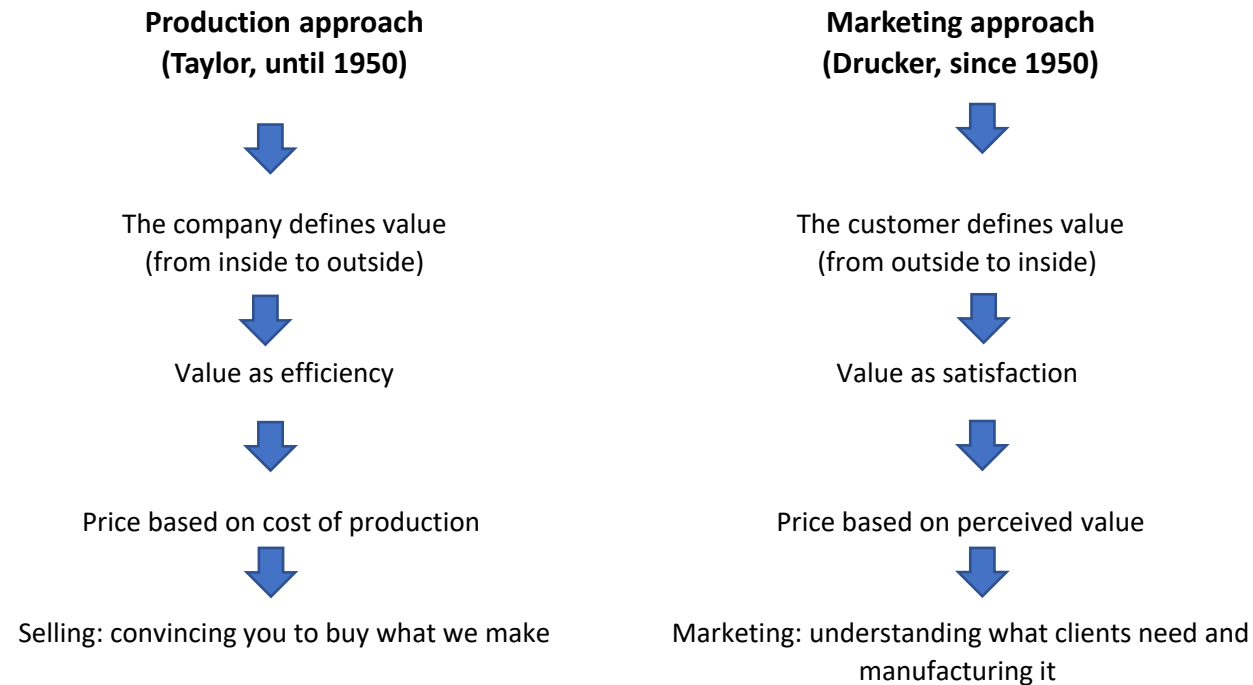


Company subsystems or business functions

- **Business management** defines the company's objectives, resources and organisation in the long, medium and short terms.
- **Economic and financial management** handles issues related to accounting, finance and tax.
- **Marketing** is dedicated to market research, sales management, etc.
- **Production management** designs the product, conceives the process required to make it, and controls the quality of the materials and processes used.
- **Human resources management** is responsible for staff selection, staff training and industrial relations, etc.

Company Objectives

- From profit maximisation to value creation



Company Objectives

- “Competitive Strategy” (1980) = Michael Porter introduced the concept of value chain.
 - The activities of procurement, production and distribution involve not only costs but are the steps in which value is added to the finished product.
 - The customer does not care who performs each activity and cares only about the quality of the final product. Managing quality relationships with reliable suppliers becomes crucial for the company.

Types of companies

- According to ownership of the capital:
 - **Private**, when the company is privately owned. Some private companies are owned by their workers, who, in some cases, are also their customers or suppliers.
 - **Public**, when the capital belongs to the state, autonomous communities, provincial councils, town councils or entities dependent on those institutions.
 - **Mixed**, when ownership is shared between public bodies and private individuals.

Types of companies

- Depending on size:

Company	CRITERIA		
	Annual balance sheet (million euros)	Annual turnover	Workers (number of persons employed)
Microbusiness	Does not exceed 2	Does not exceed 2	Less than 10
Small business	Does not exceed 10	Does not exceed 10	Less than 50
SME	Does not exceed 43	Does not exceed 50	Less than 250
Large enterprise	More than 43	More than 50	Equal to or more than 250

Types of companies (according to some business consultants)



Gorillas are strong, with powerful muscles and powerful teeth. All other apes respect them. However, they are slow, heavy and 'traditional'. They are based on what they know and barely explore because they are sedentary.

Chimpanzees are more agile than gorillas and explore their environment more than gorillas do. However, they do so only when they need to.



Monkeys, on the other hand, are continually moving. They live in extended communities, help each other, and constantly explore new territories in order to survive.

Types of companies

- Depending on their activity:
 - a) **Goods-producing companies.** These can be subdivided into agricultural, extractive, artisanal, industrial capital goods manufacturing companies and industrial consumer goods manufacturing companies, etc.
 - b) **Service-providing companies.** These can be subdivided into commercial companies (wholesalers, retailers), transport, insurance, financial, leisure, culture, education, communications, etc.).

Types of companies

According to [NACE 2009](#):

- Group A
[Agriculture, livestock, forestry and fisheries](#)
- Group B
[Extractive industries](#)
- Group C
Manufacturing Industries
- Group D
[Electricity, gas, steam and air conditioning](#)
- Group E
[Water supply, sanitation, waste management and decontamination](#)
- Group F
[Construction](#)

Types of companies

- NACE, but why ...?
 - **It promotes the implementation of national statistics** that can be classified according to established activities.
 - **It enables statistical units and entities to be classified** according to their economic activity.

Types of companies

- **According to the legal form of company organisation and ownership:**
 - a) Trading companies
 - b) Individual and social enterprises
- **According to a different criterion, companies can be:**
 - **Regular or irregular**, depending on the formalities of their constitution and their access to a public register.
 - **Pure merchants** (collective, of limited partnership, anonymous, or limited) or **special** (cooperatives, mutual societies, mutual guarantee societies, etc.).
 - **Ones that limit the liability of their partners to the committed capital** (limited by shares, anonymous and limited) **or ones that do not** (collective or limited partnerships).

Company subsystems/functions/departments

- Administration and management
- Commercial
- Operations
- Investment and financing
- Research and development
- Human resources management
- Information

Can you add any other function to this list?

Company subsystems

The company's administration and management function can be described as its 'brain' function. Its main activities are:

1. Formulating objectives: profitability, growth, productivity, etc.
2. Identifying internal and external constraints.
3. Defining the desired evolutions for each long-term objective.
4. Determining the expected results.
5. Detecting possible divergences.
6. Diagnosing the current situation and identifying strengths and weaknesses.
7. Finding strategic solutions.
8. Analysing and evaluating different potential strategies while assessing the reactions of competitors and the consequences for the organisation in relation to financial, product and operational aspects.

Company subsystems

- The **commercial function** is developed in accordance with two main aspects: commercial research and marketing mix.
Commercial research involves the following activities:
 - detecting consumer needs,
 - deciding which goods must satisfy them, and
 - quantifying the corresponding sales estimate.
- The marketing mix is the series of actions the company implements in order to encourage the act of purchase by consumers. The variables on which it acts are:
 - Product
 - Price
 - Promotion
 - Place

Company subsystems

The operations function aims to obtain goods and services according to the needs detected via its commercial and/or research and development functions. The main activities under this function are:

1. Defining long-term objectives in accordance with the company's overall objectives and strategies consistent with them.
2. Defining investments in structure that are hugely important for technological, economic, financial, and other less quantifiable criteria.
3. Scanning the medium and short-term horizons through different related activities.
4. Implementing and developing the controls required to detect and correct possible deviations from the objectives set.

Company subsystems

The investment and financing function

- **What is it for?**
 - Acquiring both non-current assets (land, facilities, machinery, etc.)
 - and current assets (cash, stock, receivables, etc.).
- **What does it entail?** The need to optimise financial resources.
- **Where does it come from?** From corporate self-financing and external financing.
- **What does it also depend on?** On information provided by the company's other functions.

Company subsystems

- **The research and development function** is responsible for promoting, analysing and carrying out research on company materials, processes or products to apply them to products or services that can be marketed, while better covering the needs of current or potential customers. Its mission ranges from the invention itself to its final objective, i.e. the innovation of products, processes or services that improve the results of the company.

Careful! “Do not confuse invention with innovation”

Company subsystems

- **Human resources (HR) management:**

- Procures the human resources the company needs according to the profiles identified.

- Affects the behaviour of people so that their actions are directed towards achieving the company's objectives.

Company subsystems

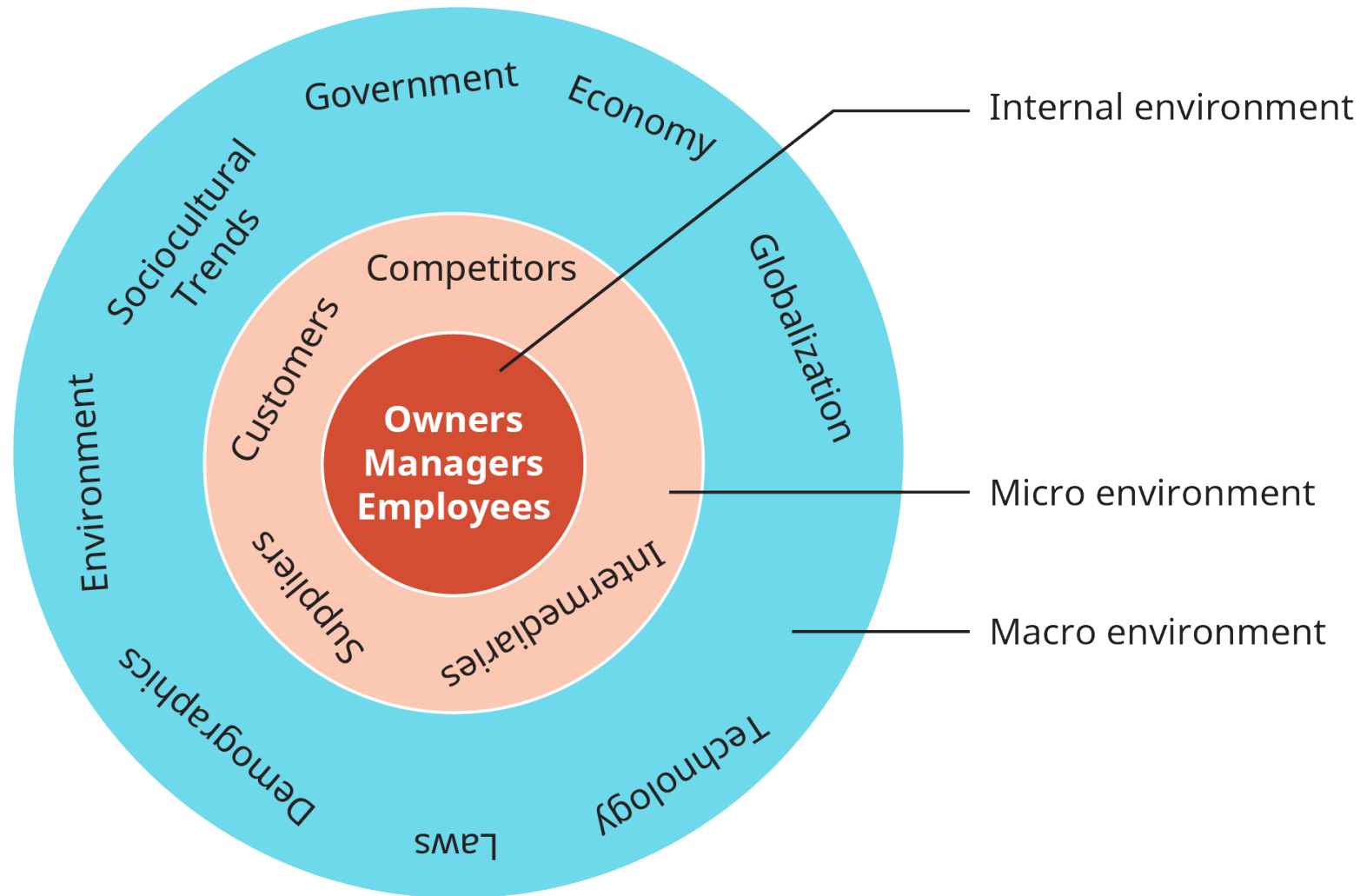
- Processes involved in the **HR** function:
 - **Basic processes:** Job analysis and personnel planning
 - **Integration processes:** including recruiting, selecting, and socialising personnel.
 - **Development processes:** Promotion and training.
 - **Evaluation process.**
 - **Compensation processes:** Job valuation and the remuneration system.

Company subsystems

- Processes involved in the **information management** function:

In groups, discuss what type of processes are components of this function.

Analysis of the company and its environment



Elements of advanced analysis of the environment: general and competitive

- The company's environment is made up of all the external forces that influence decision-making and condition its results.
- Difficulties are due to:
 - Cost
 - Information overload
- Only three or four factors will be the drivers to become competitive. It is essential to distinguish the vital from the important. Those selected will be the **strategic factors of the environment**.
- It is necessary to formulate both corporate and business strategies.
- **Types of environment:**
 - General
 - Specific or competitive

The general environment



The competitive environment

- An analysis for each sector or business in which a company participates is required.
- Defining the boundaries of a sector or business is complex. A sector is made up of companies that offer similar products (needs and technology) in a **similar market** (geographical or customer group).
- Industry is defined from the point of view of supply substitution as for instance, companies with the same technology.
- The substitute products of a sector or business are defined from the point of view of demand substitution. They come from another industry, which means, they use a different technology.

Competitive environment: Porter's 5-Forces Analysis



PESTEL Analysis - General context

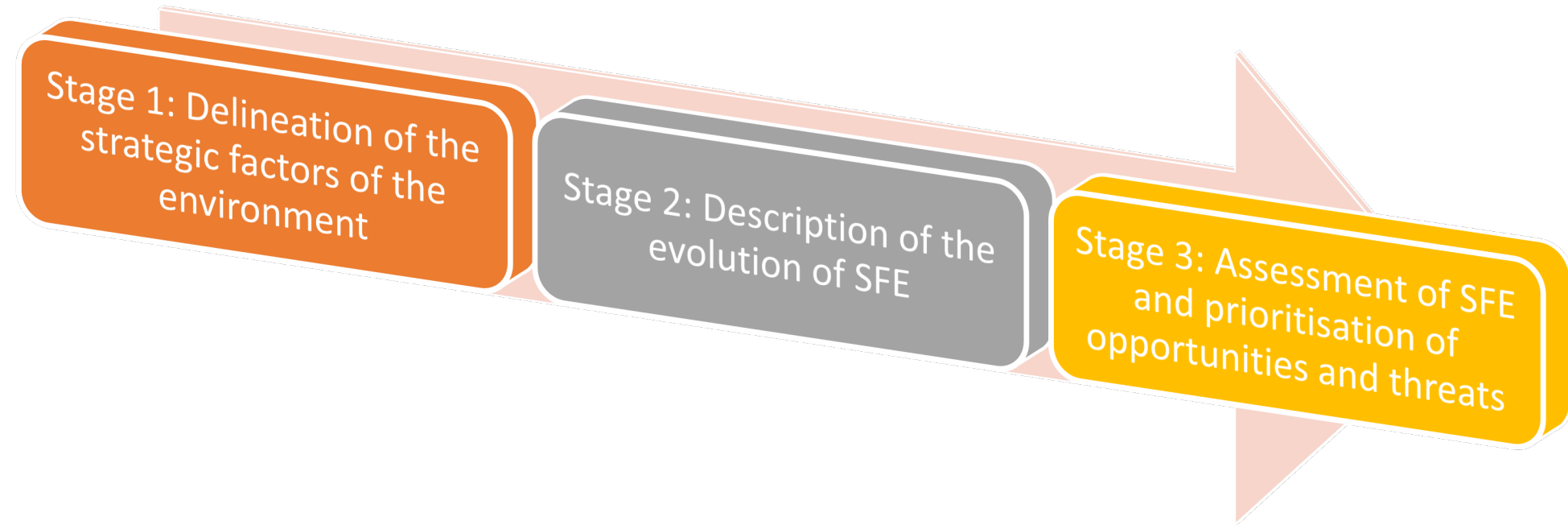
From purely economic analysis to PEST...EL (H)

- P for Political
- E for Economic
- S for Social
- T for Technological
- ...
- E for Ecological
- L for Legal
- (and H for “Health”)

PESTEL Analysis

PESTEL analysis involves the delimitation, description and hierarchy of the opportunities for and threats to a company from strategic factors of a **p**olitical, **e**conomic, **s**ocial, **t**echnological, **e**cological and **l**egal nature.

Stages in PESTEL analysis



PESTEL analysis factors

Political factors:

- The types of political systems and their characteristics and stability
- The government; stability and potential for change; its interventionist tendency
- The transparency and maturity of the political system
- The trade union system
- The promotion of business activity
- Foreign trade legislation

PESTEL analysis factors

Economic factors:

- Macro-variables that help to evaluate the current and future situation of an economy and its cycles.
- Economic: GDP, inflation, employment.
- The interest rate. The money supply.
- The evolution of employment. Unemployment rate.
- Consumption, disposable income, savings. Investment. Public expenditure.

PESTEL analysis factors

Social factors:

- Demography (the birth rate/the mortality rate, immigration/emigration).
- Education levels.
- Cultural changes. Changes in values. Lifestyle changes. Attitudes towards work and leisure.
- Social mobility.

PESTEL analysis factors

Technological factors:

- The country's technological infrastructures.
- The government's and the sector's focus on technological effort. Research expenditure.
- New discoveries/development.s
- The speed of technology transfers. Obsolescence rates.

PESTEL analysis factors

Ecological or environmental factors:

- Growth in consumer and policyholder awareness towards respect for the environment: position vis-à-vis raw materials (GMOs, organic farming), packaging (plastics), recycling, energy consumption (reduction, green energy), process sustainability.
- Environmental protection. Protection against waste.
- Renewables.

PESTEL analysis factors

Legal factors:

- The country's institutional system.
- The rules governing economic, legal and social relations. The current and future regulatory bodies in labour, tax, and commercial matters, etc.
- Competition legislation.

Analysis of the competitive environment – Specific context

What is the competitive environment?

The competitive environment includes all factors external to the company that depend on the sector in which a company competes or that may have a significant impact on its results.

Porter's Diamond – Model of the 5 forces



Competitors

... or rivals in an industrial sector are all companies that use a similar technology to cover certain needs in the same market.

What does competition depend on?

- *The number of competitors and their concentration*
- *Growth in the industrial sector*
- *The degree of differentiation in the sector*
- *The fixed costs of the activity*
- *Exit barriers*

Substitute companies

These are companies that manufacture products or perform services that cover the same needs but use different technological processes.

E.g. frozen vs canned (or fresh) vegetables

What does competition depend on?

- *The degree of substitution*
- *Relative prices*

New entrants or new competitors

These include all companies that want to become, or are in a position to become, competing companies. They include companies competing in nearby markets that may decide to enter the sector.

What does competition depend on?

- *The existence of entry barriers: economies of scale, product differentiation, legal or administrative barriers, phytosanitary barriers, etc.*

Suppliers

These are all the companies that cover the sector's needs in relation to raw materials, machinery and personnel, etc.

What does competition depend on?

- *The number of suppliers and their degree of concentration*
- *The degree of differentiation*
- *The existence of substitute products*
- *The importance of the sector for suppliers*
- *The threat of forward vertical integration*
- *The importance of the supplier to the product's final cost*

Customers

The customers in an industrial sector are made up of all the individuals or companies that are direct buyers of the product marketed by the sector.

The customer is not always the final consumer!!

What does competition depend on? (See the next slide)

Customers

What does competition depend on?

- *The number of clients and their degree of concentration*
- *The importance of the product to customer costs*
- *The degree of differentiation in the products of the sector*
- *The degree of profitability in the customer's industrial sector*
- *The threat of backward vertical integration*
- *The information available to the customer*

The sixth competitive force

This refers to complementary products or services, which can increase the attractiveness of an industrial sector.

Ex. The video game console industry is complementary to the video game industry

Limitations of the 5-forces model

- It represents a static image of competition (technological development/company strategy).
- It does not take into account the existence of complementary products (the so-called “6th force”)
- It does not consider border agents (NGOs, unions, consumers, etc.)
- Digital influence can vary among different forces.
- Is profitability conditioned by the industry or internal resources?

SWOT ANALYSIS



Corporate Social Responsibility (CSR) and Compliance

The social impact of business activity

- So far we have learnt that the environment influences business activity.
- Corporate social responsibility focuses on the inverse relationship:

“Do the activities of companies affect their environment?”

- There are multiple levels (e.g. social, economic, political, legal, ecological, and technological, etc.).

Does this sound familiar to you?

What is CSR?

- According to the Green Paper of the Commission of the European Communities, 2001, CSR is:

“a concept by which companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders voluntarily”

CSR

- According to the World Business Council for Sustainable Development, 2006, CSR is:

“the commitment of companies to contribute to sustainable economic development, working with employees, their families, the local community and society in general to improve their quality of life”.

CSR

- Listed in 2006 by the World Business Council for Sustainable Development, which comprises over 200 companies:
 1. Business is part of the solution to sustainable development, and sustainable development is an effective long-term means as a growth strategy for companies.
 2. Business cannot succeed in societies that fail.
 3. Poverty is a key enemy for stable societies.
 4. Market access for all is conducive to sustainable development.
 5. Good governance is necessary to make business a part of the solution.
 6. Companies have to earn their license to operate, innovate and grow.
 7. Innovation and technology development are crucial for sustainable development.
 8. Eco-efficiency – doing more with less – is at the heart of business opportunities for sustainable development.
 9. Ecosystems in balance - a prerequisite for companies.
 10. Cooperation is at odds with confrontation.

CSR

It is important to also bear in mind Orjuela (2011):

“The company must understand that everything it does (and how it does it) builds meanings for the environment, which is very important to take into account, as this can be used for the generation of values in society.”

CSR

“Corporate Social Responsibility (CSR) is a way of running companies based on management of the impacts their activity generates on their customers, employees, shareholders, local communities, the environment, and society in general.”

[Observatorio de Responsabilidad Social Corporativa](#), 2022

CSR

- CSR reflects the **commitment** companies adopt in relation to ethical issues in business or business ethics.
- Ethics are understood as the **knowledge** that aims to guide human action in a rational sense.
- The function of ethics is to help people guide the principles, values and norms that should be present in their choices with regard to the behaviours to follow, and to study why these behaviours are **consistent or not** with respect to the rights of people.
- What difference do you see with respect to **other knowledge** (e.g. religion and law)?

Ethical norms, legal norms and religious norms

	Religion	Law	Moral
Who issues the mandate?	God.	The legislative body legitimised for it.	The person himself or herself.
Who is the mandate for?	Everyone.	Members of that political community.	The person himself or herself.
To whom is the mandate answered?	God.	The courts.	The person himself or herself.
From whom can obedience be expected?	Believers in God.	Members of that political community.	Everyone.

(Adela Cortina, 1994: 46)

The legal, ethical and stakeholder framework. Towards good governance.

Example:

“It may be **legal** in a country (and therefore valid and consistent with current legislation) to hire minors. But many of us may consider what is legal in that country to be **immoral** from the ethical standpoint.

In this case, the legal and the moral **may therefore not coincide**. Behaviour may be considered consistent or contrary to a particular religion (for example, a sin or not a sin in the Christian tradition). What is illegal, immoral, or a sin may or may not coincide.”

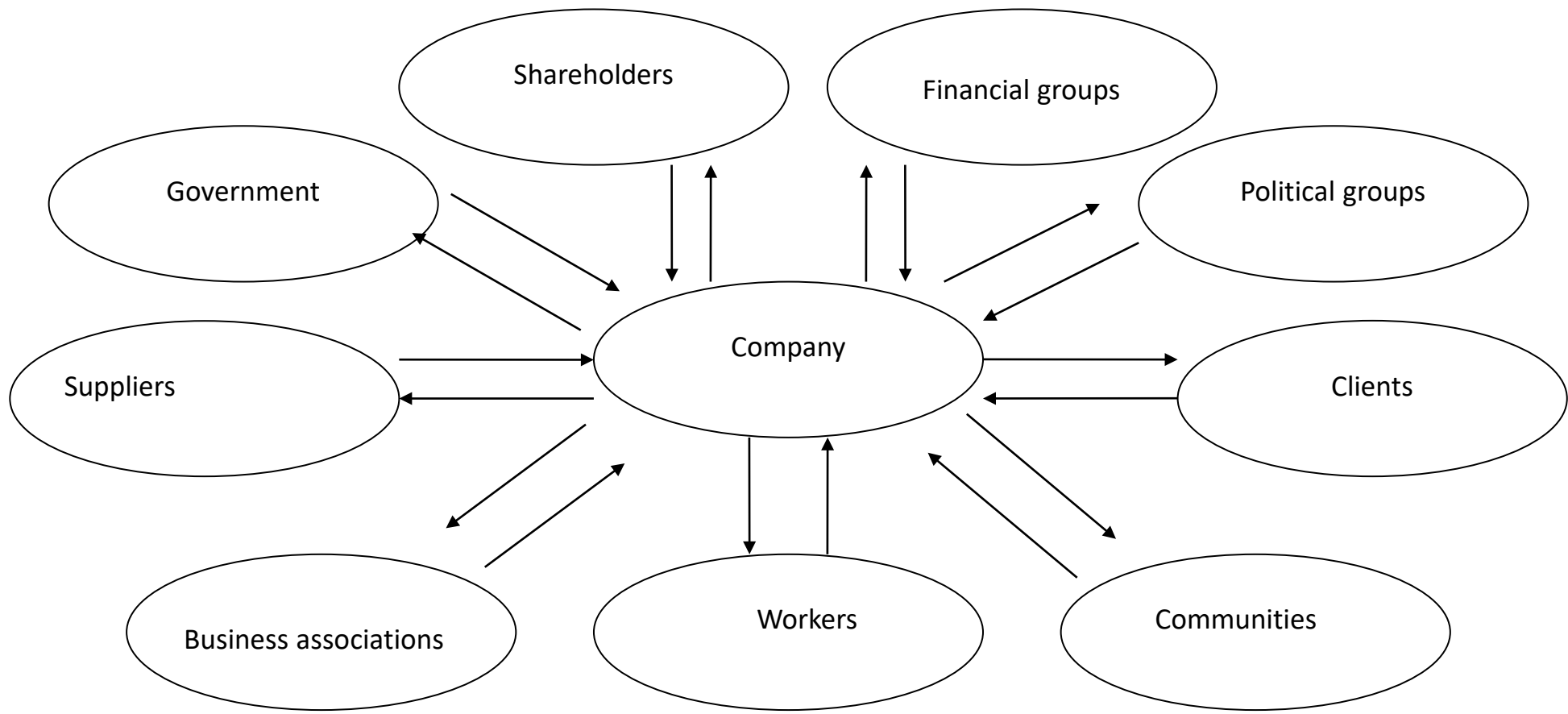
(Iborra et al., 2014; 206-207)

Public policies and CSR (for consultation)

- [Introduction to Corporate Social Responsibility](#) (CSR observatory)
- UP TO DATE INFORMATION IS AVAILABLE [HERE](#)

What is the relationship between CSR and the stakeholders?

- CSR reflects the company's ethical commitment to its:
 - ✓ *Employees*
 - ✓ *Clients*
 - ✓ *Suppliers*
 - ✓ *Consumers*
 - ✓ *Local communities (national or international)*
- CSR is an explicit, public commitment on which relationships of trust are built between the company and those with whom it interacts.
- It is a channel for capturing innovations from society (the user as a source for innovation).



STAKEHOLDERS

INTERESTS

Organisation

History of the organisation

Industry basics

Organisational structure

Economic realisation

Competitive environment

Mission or purpose

Rules of the organisation

Social affairs and interest group management systems

STAKEHOLDERS

INTERESTS

Workers

General policy

Proceeds

Remuneration and safety at work

Indemnities and rewards

Training, development and career plans

Worker assistance/subsidy programmes

Health promotion

Absenteeism and job rotation

Leave of absence

Relations with trade unions

Layoffs and unemployment

Retirement

Employment equity and discrimination

Women in the leadership and on the boards of the organisation

Daily worries and adjustment to the family

Communication with workers

Occupational risk and safety at work

Workers with full-time, temporary or contracted hours

Other employee or human resource matters

STAKEHOLDERS

INTERESTS

Shareholders

General policies

Communication with shareholders and complaints

Dividends and share appreciation

Shareholder advocacy

Shareholder rights

Other shareholder matters

STAKEHOLDERS

INTERESTS

Financial groups

Liquidity and solvency of the company

Short- and long-term profitability

Degree of security

Treasury generation

STAKEHOLDERS

INTERESTS

Clients

General policy

Quality

Communication with customers

Product safety

Customer complaints

Services for special clients

Other customer matters

STAKEHOLDERS

INTERESTS

Suppliers

Stable and lasting relationships

General policy

Relative power

Other supplier matters

STAKEHOLDERS

INTERESTS

Government

Compliance with the law

Compliance with work

Compliance with competition

Data accuracy

Involvement in public policies

STAKEHOLDERS

INTERESTS

Community

Safety in operations

Generation of employment opportunities

Contribution to the community

Favourable actions

Substitution of renewable resources

Social investments and donations

Community relations

Public health, safety and security

Conservation of materials and energy

Environmental assessment in projects

Other environmental issues

Different perspectives on CSR

Type of CSR	Shareholder CSR	Altruistic CSR	Reciprocal CSR	Citizen CSR
Objective	Benefit	Giving back to society	Mutual advantages	Responsibility Transparency Sustainability Accountability
How? Paths or ways	Rationalisation Self-interest	Chequebook philanthropy	Patronage; community activities; volunteering; cause marketing; public relations	Applied ethics; global corporate governance; dialogue with stakeholders; <i>input</i> and <i>output</i> of corporate strategy
Measure	Financial results	Donations	Activity-based reports	Triple dimension: economic, social and environmental performance; holistic.
Recipients	Shareholders, other indirect recipients	Community groups and causes	Company and community	Company: survival, position, role; all stakeholders; society
Advantages Benefits	Financial	May not be evaluated	Profitability; business objectives; HR	Tangible and potentially intangible
Term	Short vision	Intermittent. May be periodic (e.g. annual)	Medium or long-term planning	Long-term planning

Transparency in CSR: government and voluntary initiatives

- The commitment to CSR is becoming public with ever-greater frequency.
- How? Ways or paths:
 - 1) The company's adherence to international declarations.
 - 2) Accreditation and certification systems such as SA8000 and ISO 26000.

Current CSR standardisation instruments

Tools	Advantages	Disadvantages	Implementation	External control
List of socially responsible companies	Zero cost Image	Only accessible large companies	Restricted to large companies	Intermediate
Sustainability indexes	Prestige	Only accessible for large companies	Restricted to large companies Excludes some sectors	Intermediate
Codes of conduct	Reduced cost Easy to implement Flexible	Difficult to control effectively	Widely used	Very scarce
Ratification of standards	Less expensive Easy to implement	Difficult to control effectively	Reduced	Reduced
Social memories	Moderate cost	Partial information	Widely used	Reduced
Accreditations	Maximum guarantee of good practices	Certification cost Little knowledge	Very rarely used	Maximum

Conclusions

- There have been different business concepts.
- Note the important change that took place in the mid-twentieth century when the company went from being oriented 'inwards' (the production process) to being oriented 'outwards' (the consumer).
- Companies divide their activity into different functions.
- We live in a time in which differentiation, rather than efficiency, is sought.