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BUSINESS ORGANIZATIONS AND FIRMS

Unit 1 — Slide 1.1

(Cap. 1 – Business Administration and Accounting)

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Economia aziendale: definition and purpose

BUSINESS MANAGEMENT (Economia aziendale)

A branch of social sciences that studies the life, survival and behavior of organizations (aziende).

Studies organizations
from an economic perspective

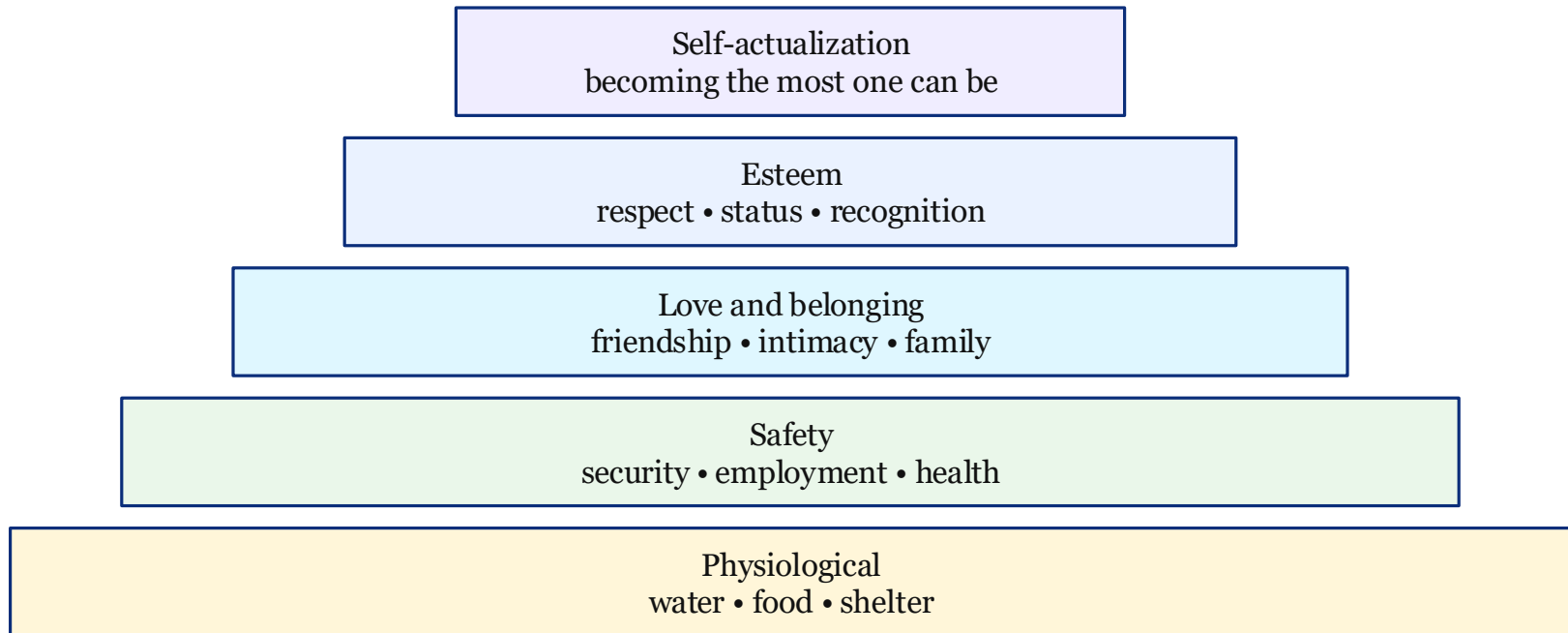
Focuses on human needs
and community service

Explains how value is
created and managed

Core idea

Organizations exist to meet human needs. Economic and financial value are tools that make this possible over time.

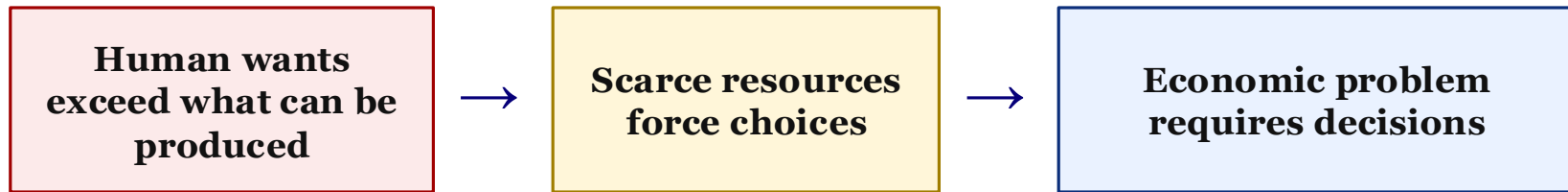
Human needs: the starting point



Needs can become markets



Scarcity creates economic activity



Two categories of economic activity

Production
obtaining goods and services

Consumption
using goods and services to meet needs

When does it create value?

Value of outputs

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Value of inputs

Decision-making may be individual or organizational; real decisions are often bounded by bias, incomplete information and conflicting objectives.

Institution vs business organization

Institution

Stable system of social rules that structures interaction

- firms
- families
- non-profits
- public sector organizations

Business organization (azienda)

An institution observed through its economic activity

- production of goods/services
- consumption of goods/services
- economic perspective on human activity

The difference mirrors the distinction between human activity and economic activity.

Four business organization categories

FIRMS

produce private goods and services

HOUSEHOLDS

consume private and public goods

PUBLIC SECTOR

produces public goods and services

NON-PROFITS

at the intersection of the other three

Economia aziendale studies all four categories and how they perform economic activity effectively and efficiently.

Three premises for the analysis

1

Economic activities are performed to meet human needs.

2

Profit and financial value are means, not the ultimate end.

3

People do not act alone: they form stable organizations to pursue needs collectively.

Key takeaway: organizations are collective tools for satisfying needs through economic activity.

Households: aims and economic activity

HOUSEHOLDS

Their main aims are usually non-financial and not directly economic.

Typical aspirations

social

ethical

religious

affective

cultural

To achieve these goals, households still perform economic transactions and activities.

Households and firms: a two-way market

HOUSEHOLDS

FIRMS

Demand goods and services

money →
← goods/services

Supply goods and services

Own production factors
labour • capital

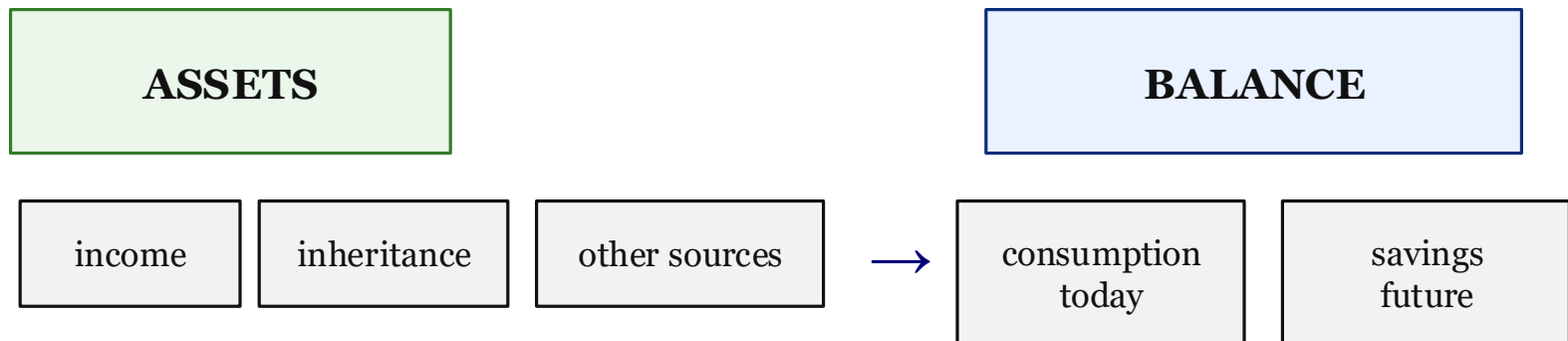
labour/capital →
← income

Demand production factors

Markets bring together buyers and sellers.

Households: wealth management

Besides consumption, households manage assets and choose the right balance between saving and spending.



Economic activity is therefore not only about buying goods: it also includes managing family resources over time.

Firms and market production

**A firm coordinates
production and
distribution**

**of economic goods
and services**

Economic goal

Generate monetary remuneration
for capital providers and workers.

Non-economic goals

- societal improvement
- employee development
- fair wealth distribution
- environmental respect
- sustainable development

The firm is not only a money-making machine: it is also a social actor.

How firms create value



The market test

Market value of products

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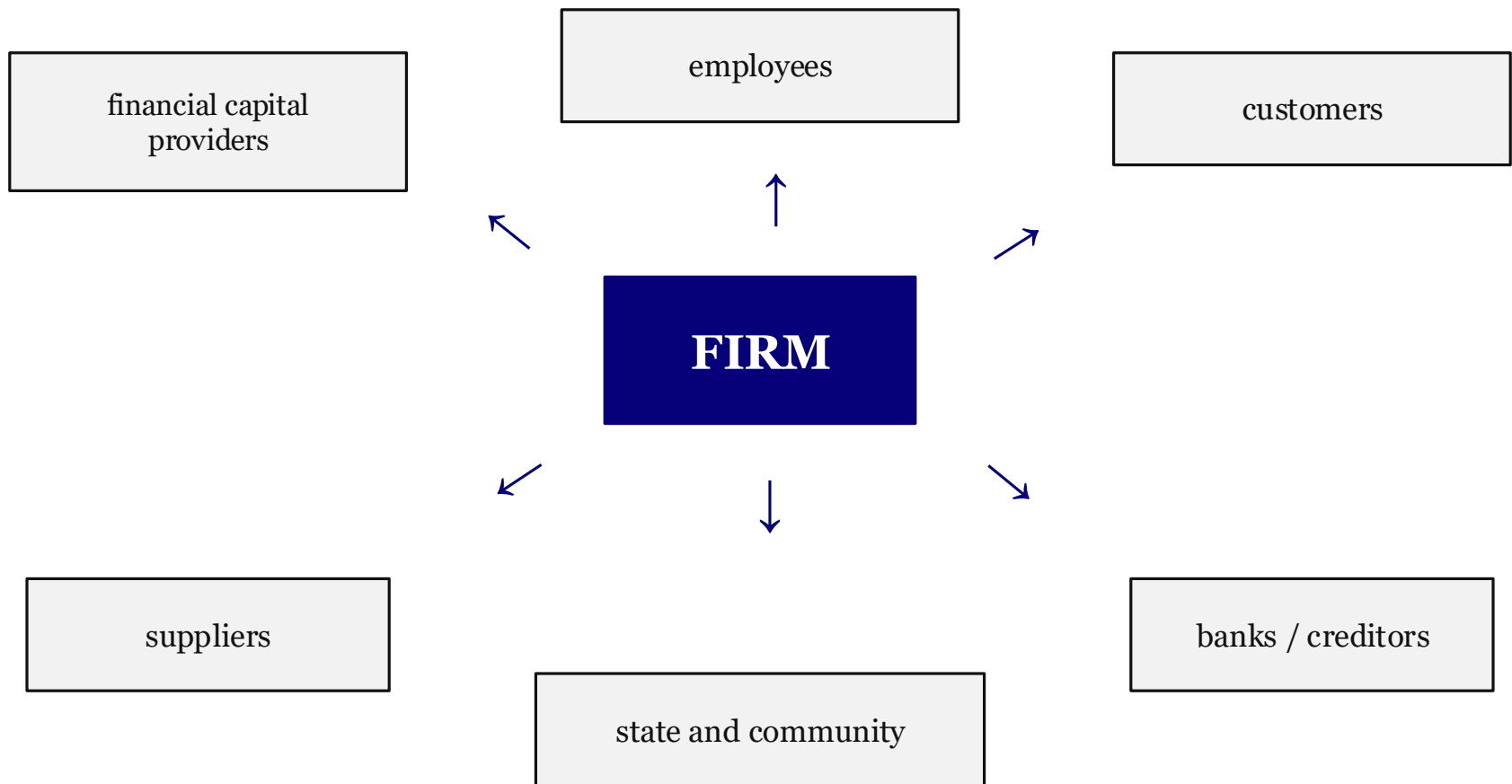
Value of production factors

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Profit

Profit is then distributed as remuneration to those who helped create wealth.

Stakeholders and shared value



Stakeholder theory: managers should consider legitimate interests of those who affect or are affected by the firm.

Transaction costs: why firms exist

Without a firm

Separate contracts at every stage

- search for suppliers
- negotiate prices
- write contracts
- monitor fulfilment
- manage risk

Inside a firm

Managers coordinate activities

- fewer market contracts
- lower transaction costs
- better control of complex processes
- shared technology and knowledge

Coase's insight: organizing production through firms can be cheaper than using the market for every single transaction.

Economic specialization

Specialization means different actors develop specific parts of economic activity based on unique skills and competences.

1. Between organization types
firms • households • public sector • non-profits

2. Within a category
different firms / public bodies specialize in different goods and services

3. Within one organization
functional specialization + division of labour

4. Country level
trade and comparative advantages

Benefit: efficiency and economies of scale. Risk: coordination costs, demotivation and less flexibility.

Firm types: multiple classifications

Legal structure

- sole proprietor
- partnership
- company
- cooperative
- public corporation

Size

- micro
- small
- medium
- large

Core business

- manufacturing
- service
- trading
- platform

Manufacturing

tangible outputs
physical
transformation

Services

acts / processes
customer contact

Trading

buy and resell
logistics + promotion

Platforms

ICT + data
network effects

Public sector organizations

PUBLIC SECTOR

Public functions

Acts by authorities to meet citizens' needs

- ministries and departments
- local governments
- authorities
- justice, health, education units

Public services

Services provided for citizens and communities

- health care
- education
- transport
- water management
- waste removal

Boundaries are blurry: a municipality may perform both functions and services.

Why the State intervenes

Two main objectives

Social efficiency
use scarce resources well

Equity
horizontal + vertical fairness

Market failures that justify intervention

monopoly

externalities

public goods

**information
asymmetry**

merit goods

Intervention can also pursue social objectives: discourage harmful consumption, promote sustainability, or respond to crises.

State tools and New Public Management

Main intervention tools

**1. Direct provision
public goods and services**

**2. Laws and regulations
protect consumers, regulate monopolies**

**3. Taxes and subsidies
correct distortions, redistribute income**

New Public Management (NPM)

From bureaucracy



**to business-like
management**

- performance targets
- efficiency and audits
- results accountability
- decentralized units
- customer orientation

NPM spread from the late 1970s–mid 1980s, driven by economic, political, social, intellectual and technological factors.

Non-profit organizations: the third sector

PUBLIC SECTOR

BUSINESS SECTOR
(firms)

NON-PROFIT SECTOR
“third sector”

The non-profit sector includes organizations and activities that are alternative to both the public sector and private firms.

Key role: filling spaces where public administration and markets do not fully meet needs.

Where non-profits are prominent

welfare provision

education

**community
development**

international relations

**environmental
protection**

arts and culture

These fields often combine social value, community participation and long-term benefits that are not easily captured by profit alone.

Why non-profits exist

The problem

Some groups should have access to goods or services:

- firms may not provide them
- public bodies may not provide them
- quantity/quality may be insufficient

The non-profit response

Mission-driven provision of goods and services:

- altruistic values
- social commitment
- community needs
- access and inclusion