

Fundamentals of Company Organisation



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1. DEFINITIONS AND FUNDAMENTALS

Man (understood as mankind) is a social being and therefore tends to unite with others. The first effect of this aggregation is the reciprocal exchange of goods and/or services, which creates a market, which requires an organisation.

Each organised human activity creates the need for two fundamental and opposing needs: the division of labour into various tasks (that is, specialisation) and their coordination. Therefore an organisation can be defined, essentially as *“the sum of the methods according to which work is divided into various distinct tasks and by which their coordination is carried out”*.

With regard to company organisation, its modern roots are based in the industrial revolution, developed in the second half of the 18th century, especially, but not only, in England. Adam Smith¹, the father of modern economics, in his fundamental work “The Wealth of Nations” includes many examples that confirm the advantages, from quality and productivity points of view, that derive from the division of labour, by virtue of which every worker concentrates on a specific aspect of the manufacturing process for a product or in supplying a service.

In more comprehensive terms, an organisation can be better defined as *“a set of resources that are directed toward a common purpose, constantly connected to the external context”*.

With this definition, it is possible to establish the constitutive elements that are fundamental to any type of organisation:

- the main purpose or “mission”;
- the context of reference.

Each company, from its foundation, has its own organisation and, therefore, its own structure that has its own reason for existing with regard to a main purpose or *mission*, which takes on the value of an *“absolute priority in relation to the other objectives that an organisation may have”*.

An organisation’s mission is therefore the founding element on the base of which the system structures itself internally and toward which the resources, the choices, the decisions and behaviours are oriented, forming a common bond.

¹ Born in Scotland in 1723 and in 1751 he became a professor at the University of Glasgow. In 1776 he published *“The Wealth of Nations”*. He is the father of economics.



The *mission's* essential requirements are that all members of the organisation are *aware* of it, *understand* it and *share* in it.

How the *mission* was conceived also defines the context of reference, that is:

- institutions;
- market;
- technology;
- banks;
- unions;
- other stakeholders

in which the organisation must act and with which it must constantly relate in terms of compatibility and adequacy. It follows that in order to analyze the aspects of an organisation, not only what happens inside the system must be considered but also what occurs in its context of reference.

As a result, two other important organisation characteristics emerge:

- **relativity** and, therefore,
- **dynamism**.

Carrying out an organisational analysis therefore means to give up logic of an absolutistic type to enter into a dimension of a relativistic (*dynamic attention to purpose, environment, system*) and utilitarian nature (*overall optimisation through compromises between partial objectives that are possibly contrasting*).

2. INTERNAL VARIABLES

An organisation's **internal variables** are traditionally as follows;

- **structure**, the "form" to attribute to the organisation that is consistent with the mission to be pursued, or more specifically, the overall relationships that connect the elements that constitute an organisational entity (graphically represented by the organisational chart, see next paragraph);
- **strategies**, the pursuit of the mission by creating secondary objectives;
- **operative mechanisms**, the instruments that make structures operative;
- **human resources**, an organisation's main resource;
- **reward system**, behaviour evaluation criteria.

The internal variables cannot naturally disregard each other, but are interdependent, and influence and define each other.



There is no ideal organisational system model that complies with an abstract configuration.

There is, however, an optimal organisational model based on the type of business and the environment.

Within a reasonably stable context of reference, an approach to the optimal organisational model can be done by successively adjusting the internal variables. If the context of reference is, instead, of a turbulent and unforeseeable nature, the search for an optimal model will be distinguished by the continuous dynamism of the internal variables, with the objective of maintaining reciprocal coherence.

These are the main concepts that form the base of the so-called "**situational approach**" (that is, adjustment of the organisation to the context) that has become the dominating one in modern organisational analysis.

3. PARTS OF THE ORGANISATION

Organisations are structured for managing interactions between the various parts that make it up:

- *the operators, who carry out the activities directly connected to obtaining the products/services where there is the maximum level of standardisation;*
- *the technicians (and equivalent personnel), who have direct authority over the processes and who therefore have the maximum control over them;*
- *the managers, who have the global responsibility for the organisation and its development, including the pursuit of the "mission";*
- *the support staff, that provides external support for the flow of the operational activities.*

These positions must be properly specified in an **organisational chart** and their tasks defined (the concept of "**who does what**") through **shared procedures and/or practice** (the concept of "**how to do what**").

The organisational chart outlines the roles and responsibilities of all individuals and defines their corresponding hierarchical, functional and consultative relationships. It is the last item to be created, as the structures, units, departments and functions must be defined previously; the organisational chart is its summary and formalisation.

The organisational chart is used to identify the authority of some of its members within the scope of

the organisation.

However the individuals that have more power cannot control all business activities in a minute and detailed manner and therefore must be able to delegate.

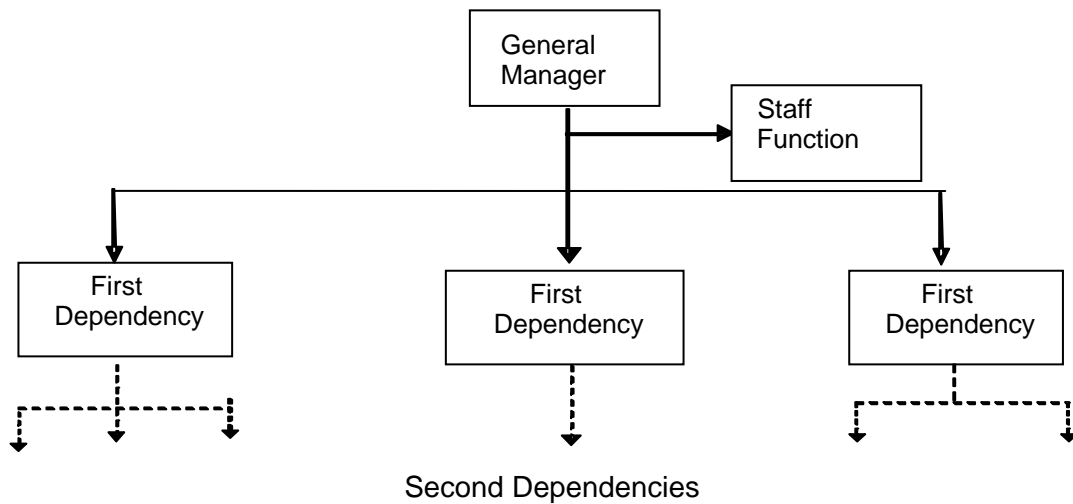


Figure 1 – Organisational Chart

Delegation means giving other people or bodies certain assignments or powers. Based on the delegation that is received, the delegates can exercise their power and may in turn delegate a part to others.

4. ORGANISATIONAL ROLE

An organisational role can be properly described as *“the area of activity entrusted to a person who fills a certain position, within an organisational system, that is distinguished by a defined objective”*.

This area of activity is made up of:

- a **“prescriptive area”**, which is responsible for applying methodologies and procedures within a known and regulated context;
- a **“discretionary area”**, which is responsible for interpreting unconventional and/or unusual situations or aspects and;
- an **“innovative area”**, which is responsible for suggesting possible changes for updating the organisational role itself;

The dominant relationships between the described areas are largely dependent on the type of organisational structure and, therefore, on the context in which the organisation operates.



As an organisational role is an area given to an employee who, as a person, can only “personalise” the role itself (***practiced role***), making it coincide more or less with the formal design outlined by the organisation (***expected role***). Trying to make the practised role closer to the expected role is of fundamental importance in order for the system to function well and, therefore, the congruence between the organisational role and the characteristics of the person to whom the role has been assigned is relevant (***the right person for the right job***).

5. COORDINATION MECHANISMS

As previously stated, organisation implies two fundamental needs: the division of labour into distinct tasks and their coordination. The first need appears generally to be obvious and typical of every productive process; the second need is more complex however and requires specific “*coordination mechanisms*” that can be identified, in short, as follows:

- reciprocal adaptation;
- direct supervision;
- process standardisation;
- result standardisation;
- operative capacity standardisation.

Reciprocal adaptation results in coordination through the simple process of informal communication, allowing those who do the work to also control it. Being a primitive coordination mechanism, reciprocal adaptation is used, naturally, by very simple companies.

Direct supervision, that is, the identification of a supervisor with coordination responsibilities, becomes necessary in less simple conditions where reciprocal adaptation between workers is no longer sufficient.

As a productive system becomes more complex, standardisation becomes necessary for:

- **processes**, where coordination is done during the planning and validation phase, before starting the activity;
- **results**, where the characteristics of reference for the product/service are predetermined;
- **operative capacity**, where the minimum knowledge of the personnel who does the work is defined.

A certain amount of reciprocal adaptation (concept of “**concurrency**”) and direct supervision (concept of “**leadership**”) is therefore always necessary, independently of the amount to which standardisation has been put into practice, and even more so when the standardisation itself is



difficult or less appropriate for the specific productive process (“**situational approach**”).

Both “concurrency” and “leadership” concern the sphere of personal characteristics and require: in the first case, a sufficient predisposition to collaborate, in the second, adequate and natural **authority**. Both of these characteristics can be improved upon (perhaps through persuasion and involvement) but cannot be acquired if they do not exist at all.

6. OBJECTIVES AND STRATEGIES

The decision, which is done on a primary purpose or *mission* level, if a company should be “**masters in one art**” (that is, specialised in one sector) or be “**eclectic**” (that is, work in a wider and more general context) defines, as a result, the following priorities:

- in the first case, it seems clear that the quality level of the product/service must be kept high and the market must be made aware of it by properly managing the company’s image (the corresponding instruments are: skill and communication);
- in the second case, the dominant items are productivity and market share (with the corresponding instruments: process control, benchmarking and outsourcing).

Once these basic objectives are defined, the strategies for obtaining them are not always the result of planning, which is often useless over a long period as precise forecasts are not possible, but are rather the starting point for a journey subject to variations and changes.

In this regard, using the image of the ant that knows very well to where it must carry the grain of wheat, but selects the path based on the obstacles that it finds, Henry Mintzberg² coined the expression “**crafting strategy**” to underline the concept of an emerging process, which is far away from the classic image of strategists sitting around a table, intent on predicting the future.

The most effective managers are not those who are detached from operations but, on the contrary, are those who are immersed in it while being able to extrapolate from it messages of synthesis.

7. COMPANY SIZES

Large sized and reasonably diversified companies are characterised, in general, by greater managerial complexity, but at the same time they can obtain economies of scale that help them reduce production costs and make a profit to be used for investments and research.

² Born in Canada in 1939, engineer and University professor, he published “**The Nature of Managerial Work**” in 1973



On the contrary, although small and medium sized businesses have in general greater operative flexibility that allows them to adapt more quickly to changes in their context, they can also have insufficient financing capacity and access to credit, overall costs that are higher in proportion and, oftentimes, a need to use external support services.

It follows that large technological innovations (*“inventions”*) are oftentimes produced in large sized companies, whereas their diffusion (*“imitations”*) is widely shared with small and medium sized companies.

The irregular succession of the flow of inventions, and their relative imitations, that are produced by the companies, determines the so called economic cycles, theorised by Joseph Schumpeter³, that influence the market, when not determining it, both with regard to the intensity as well as the orientation of the exchanges.

The small and medium sized companies are more likely than the larger sized ones to carry out *“niche production”*, for which a high amount of specific skill is required for a demanding market with regard to the characteristics of the products and/or services that are purchased.

8. THE HIERARCHY AND REPLACEMENTS

The company and the market in which it operates are immersed, as already mentioned, in the so-called “social context” from which they are determined and which they determine, in an indivisible bipartite relationship.

At the start of the last century, in a rather stabile economic context, the large companies were mostly organised in a bureaucratic manner, according to a pyramid-shaped hierarchy as proposed by Max Weber⁴, which well satisfied the needs of predictable development.

Weber describes the functioning of authority based on bureaucracy in the following manner:

- an organisation revolves around official functions that are bound by rules and each area has a very precise task; the functions are structured into positions, which in turn are organised into a hierarchy that follows rules and regulations that are learned about during a training period;
- regulations, decisions and acts are recorded in writing.

³ Born in Germany in 1883, University professor, and among the main economists of a marginalist tradition. In 1939 he published **“Business cycles”**

⁴ Born in Germany in 1864, sociologist and economist, he published **“The protestant ethic and the spirit of**



Weber considers bureaucracy to be the most efficient form of organisation, as within it, work is carried out with precision, knowledge of precedents, continuity, discretion, unity and the reduction of all friction.

Within a bureaucratic structure that is organised along rational lines, abuse of power is reduced to a minimum because:

- positions are classified in a hierarchical order;
- operations are carried out in compliance with objective regulations;
- officials are given specific tasks and areas of responsibility;
- tasks are assigned based upon qualifications, selecting the individuals most adapt for each job.

Officials on any hierarchical level are requested to carry out a certain number of activities, the most important of which are:

- train and motivate personnel (also by managing reward mechanisms);
- assign work, coordinating and controlling it;
- evaluate the results.

Weber did not deny the possible shortcomings of bureaucratic structures, as:

- the upward journey for information can be muddled;
- the system may make it difficult to treat individual cases, because rules and procedures require treating individuals as if they were all equal;
- bureaucratization can lead to depersonalisation and therefore, to the lack of individual initiative.

These shortcomings, if present, must be acknowledged and corrected, as far as possible.

Following this historical approach, the terms “**hierarchy**” and “**organisation**” seem to have become inseparable and many cannot even imagine how an organisation could be without important hierarchical levels.

On the contrary, an organisation can have a **more horizontal structure** and operate with a reasonably reduced hierarchy by adopting alternative mechanisms that are based on involvement and an orientation toward results.

The hierarchy is, in fact, only one of the forms through which coordinated labour results can be achieved (*also a wide range of supplementary instruments, such as automation and modern*

capitalism” in 1904



electronic and telecommunication technologies, can carry out coordination functions).

Today, the modern economy seems to be saturated with instable energy due to the global expansion of production, markets and finance and the diffusion of new technologies, especially (but not only) in the communication sector. Therefore, to survive market dynamism, a company must be organised so it can react efficiency and dynamically and therefore, with minimal bureaucracy.

It is at times better to run some risk in a system that works rather than pursue obsolescence in a system that lacks initiative.

9. MANAGEMENT BY OBJECTIVES

Management by objectives can be considered the antithesis of the traditional bureaucratic concept described and theorised by Weber. It foresees that every manager imposes his action by identifying and pursuing specific objectives, as quantifiable as possible, that are contracted with the hierarchy and to be reached within a certain period of time.

The fields in which objectives are established are at least those (but are not necessarily limited to) in which the results have a direct influence on the life of the organisation, such as for example:

- market position.
- investments and innovation,
- human and financial resources,

Due to the fact that they are pertinent to the life of the organisation, the objectives must obviously be shared by those who are involved in their achievement. It follows that the main traits of management by objective are, therefore:

- competitive democracy;
- the personalisation of work relationships;
- attention directed toward purposes rather than toward regulations;
- the mobility of positions based on results.

In this context, while the most vicious old bureaucratic circles are reduced, it is possible, perhaps in extreme conditions, that new problems are created on new fronts, such as for example:

- excessive pressure on management;
- excessive internal competition;
- difficulty in fulfilling long term objectives ;



- difficulty in coordinating different objectives.

Also these new problems, if present, must be acknowledged and corrected.

10. MANAGEMENT SYSTEMS

10.1 Functional system

This is the oldest and most well known system, which is called functional because each control role corresponds to a “function” that is part of the productive process, conceived as a flow that starts from the top and proceeds downward. Below the general manager, there are various operative managers (purchasing, production, etc.) and, cascading, other control areas that are increasingly narrower but always corresponding to specific functional levels. The principle of agreement between responsibility and authority applies within these areas. Staff roles without direct authority but with support tasks are foreseen to support the positions that are directly connected to the productive process.

Functional management is even more widespread in small and medium sized companies with less sophisticated technology, mainly bureaucratic controls and a basically stable market.

10.2 Divisional system

A functional system will enter into a crisis when company development imposes a more complex structure, with a growing range of products/services and with the need for greater decisional flexibility. The divisional system satisfies these conditions, as it groups the various activities into “**divisions**” based upon the type of product/services instead of based on the productive activities.

In a divisional system, the general manager defines company policy and attends to the strategies of diversification and the dynamic balance between the divisions, whereas division managers are responsible for managerial, operative and administrative decisions.

10.3 Project based system

A project based system is created when the combination between technological development and market requirements forces a company to create products and/or services, that are in general complex and defined in time, very targeted and with highly technical contents. Therefore a project based organisation is prepared and superimposed horizontally over the previous one assigned to performing institutional tasks. The involved personnel (generally skilled professionals) then become part of two company structures, an institutional one that applies for ordinary activities, and the project structure, which is fully entrusted to a “**project manager**”, who performs a temporary task.



The project based organisation offers the advantages of being flexible, well-organised and temporary.

10.4 Matrix based system

The matrix based organisation can be considered as an evolution of the project based organisation. It also foresees superimposing a dynamic structure for non-routine tasks over the institutional structure, but rotates personnel in multiple projects over periods that can be very different from each other and in function of specific needs.

With a matrix based organisation, it is possible to increase even more the flexibility made possible by the project based organisation.

11. PROCESS BASED APPROACH

If an organisation is structured into functional units that are vertically managed and to which specific responsibilities have been assigned, it is possible that the problems that arise at the interfaces of the functional units (and that concern the global interests of the organisation) are given a lower priority in comparison to what is dedicated toward the partial objectives of the functional unit itself, significantly reducing the effectiveness of the system as a result (if the objective is to improve purchasing, the topic should be faced in terms of improving the provisioning process and not only the purchasing department).

The process based approach introduces, therefore, also horizontal management that crosses the barriers between the various functional units and unifies their attention on the predefined objectives.

A process can in fact be defined as a “*set of correlated and interacting activities that transform input into output and that require the availability of both human as well as material resources*”.

Input and output elements can be tangible (*equipment, material, components, etc.*) or intangible (*energy, information, etc.*). Output elements may be something that is desired (*intermediate products, etc*) or undesired (*waste, pollution, etc.*).

The following process types can be identified:

- **organisation management processes** (connected to strategic planning, the identification of objectives, communication and the availability of resources);
- **resource management processes;**
- **productive process;**

- **analysis processes** (necessary for collecting and processing data needed for performance analysis).

The processes can also be classified as:

- **primary**, or that have a direct and determinate impact on the ability to satisfy contractual requirements (e.g.: welding processes);
- **support**, which, albeit necessary, have an indirect influence on the characteristics of the product/service (e.g.: accounting processes);

The implementation of a process based approach normally foresees at least the following main phases:

- identifying the processes and their sequence;;
- identifying process owners;
- identifying resources;
- identifying control methods
- verifying results;
- defining improvement actions if necessary.

The following diagram shows a generic process configuration, transversally to the functions (the arrows show the input/output, internal and/or external of the functions).

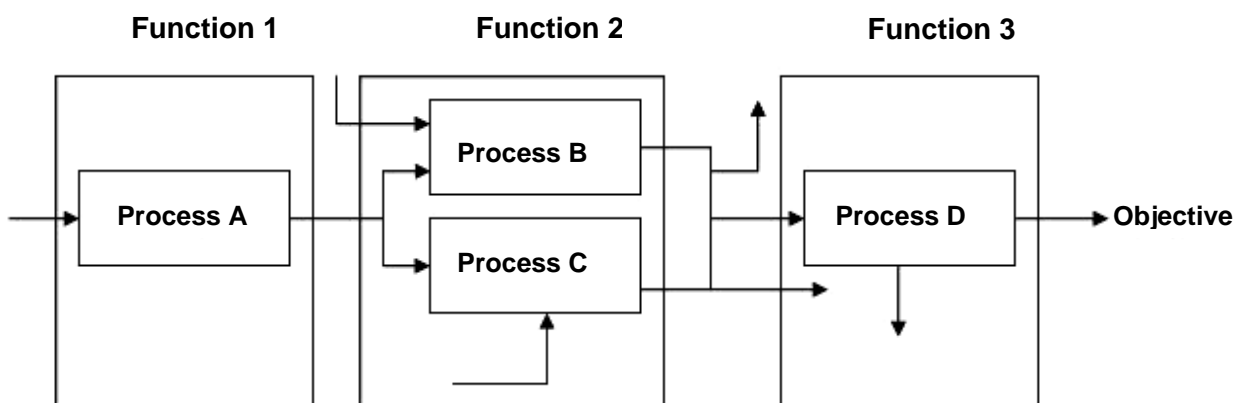


Figure 2 – Generic configuration of a process

12. ORGANISATIONAL MODELS

The framework within which organisational choices can be made is defined within the scope of the following:

- the bureaucracy theorised by Weber is the most suitable structure for guaranteeing a regular



and standardised administration;

- bureaucracy is however affected by various operative pathologies ;
- at least two forms of bureaucracy must be recognised, one concerning operational and mechanical labour and one with considerable professional content;
- to break away from bureaucratic pathologies, less hierarchical management styles must be created
 - that are based on reaching specific objectives ;
- these styles should not however be applied in an indiscriminate manner to any type of activity, their application is best adapted to innovative areas that are directed toward specific results;
- more than an organisational style, it can coexist in the same organisation.

The growing complexity of the external context has demonstrated, as previously stated, that a universal and stable model does not exist for organising every type of company. If, on the one hand, a company's structure is a function of its development, on the other, growing environmental turbulence requires flexibility. The search for organisational efficiency is therefore connected with different "**organisational criteria**" based on the context in which the company operates.

The first criterion corresponds to **conditions of stability**, when production levels and characteristics remain relatively stable over time.

The second criterion corresponds to conditions of **operative flexibility**, when the organisation finds it must face changes on production levels or to *changes in demand*.

The third criterion corresponds to conditions of **strategic flexibility**, when a company must face changes that concern both qualitative as well as volume characteristics of its production, which are caused by processes of technological obsolescence, but also by the success of international markets or social and cultural changes.

Finally, the fourth criterion is defined out of the need for **constantly changing** structures, which is caused by continuous and deep changes to productive process technologies and controls.

Whereas the first three criteria meet the need to adapt to changes that are limited, or in any case are not full scope and with scarce or non-excessive elements of unpredictability, the fourth criterion places a company in conditions of having to face multiple, unforeseen structural changes.

From what has been stated, a complete framework is revealed, from which however at least



two firm points emerge:

- the plurality of organisational forms;
- the impossibility to free yourself completely of traditional bureaucracy, especially when it is connected to a mechanical activity with little or no discretionary power.

This approach establishes that the organisational structure of a company is based on a series of strategic factors that may be summarised:

- in sizes;
- in the complexity and diversification of technology;
- in the degree of predictability of the context.

With reference to this framework, various standard structural configurations or organisational models are possible (according to Mintzberg):

- **simple**, based on direct supervision and does not require bureaucracy or staff units and is used in smaller and/or strongly charismatic companies;
- **mechanical**, based on process standardisation, the most substantial part is composed of workers with jobs that have little or no discretionary power and is mostly found in large scale industrial manufacturing and in large service organisations ;
- **professional**, based on the standardisation of personnel skills and characterised by an operating team made up of qualified professionals, requires significant staff units, and is typical of organisations that produce individual products with a high technological content or that provide skilled services in a market that is not particularly differentiated;
- **divisional**, based on the standardisation of process/product characteristics, its main application is found in "high tech" companies with a heterogeneous market, foresees wide internal autonomy and is dominated by a strong division of labour;
- **ad hoc**, based on reciprocal adaptation, not hierarchical and informal, it is well adapted, paradoxically, to very complex organisations composed of specialists and with very dynamic objectives such as, for example, electronic and/or IT companies.

Obviously there are also intermediate configurations in which standard configurations are integrated to satisfy a specific context.

Therefore, with reference to what was stated previously, the main parameters that characterise an organisational model can be identified as follows:

- the market;
- production characteristics;
- work organisation;



- the type of authority;
- communication;
- the personnel.

Three organisational models are shown below that can be adapted, respectively:

- to a mechanical company that produces standard products;
- to a mechanical company that produces single products;
- to a company that provides skilled services

Parameters	Standard production	Single component production	Supplier of skilled services
Market	Moderate change	Constant but foreseeable change	Constant change in a dynamic context
Production characteristics	Creation of standard products	Creation of products that are changeable based on customer requests	Adaptation of the service to rapid technological evolution
Work organisation	Jobs defined both from a hierarchical as well as from a functional point of view	Jobs defined with significant functional relationships	Jobs defined with significant functional relationships and are able to adjust to different conditions
Type of authority	Observance of the hierarchy	Observance of the hierarchy, recognising the authority of who solves the problems	Observance of the hierarchy, recognising the authority of who solves the problems, in an environment with considerable autonomy
Communications	Procedures and/or praxis	Procedures and/or praxis, integrated by specific adaptations, when necessary	Procedures and/or praxis, integrated by specific adaptations
Personnel	Attention on your own job	Attention on your own job and its evolutive aspects	Attention on the solution of problems concerning your own job

13. THE CRISIS OF THE ORGANISATION

When a company has a crisis and an economic imbalance continues, the company is no longer able to create value but, on the contrary, destroys it. A crisis emerges when there are not enough proceeds to cover the costs and the company organisation is not able to correct the negative trend. In these situations, companies will reorganise, looking for a new relationship between the structure and the market.

In order to guarantee a sufficient profit for the organisation's business, first of all, the so-called **“strategic price”** must be identified, which is the highest price that is acceptable for the target



market toward which the product/service is directed that in any case does not inspire a possible competitor to invest in order to enter the same market.

In the industrial sector, the strategic price is:

- higher the more that the product/service is “**knowledge intensive**” and the larger the market is;
- simpler to identify as the market and the processes of using the product/processes are more well known.

After deducting a “**contribution margin**” consistent with the development, production and market introduction of the product/service from the strategic price, the “**derived cost**” is defined, toward which the “*the organisational process must be directed*”.

It is essential that you start from the strategic price in order to determine the derived cost, and not the other way around, if you want to create a cost structure that is both profitable and difficult to match by possible competitors.

To respect the cost target, a company that operates in the industrial sector has three main levers available: the first is the optimisation of the supply chain; the second is the optimisation of manufacturing, by controlling processes and sub-supplier management; the third involves looking for possible partnerships that could lead to quickly acquiring new skills and/or market positions.

Unlike new forms of a traditional market, a globalised market is distinguished by the transformations it brings about in the working world, calling for, in particular, short term behaviour. Activities that involve high profits in an environment with little competition have been shown to be, in the long run, counterproductive for an organisation, as they do not stimulate adaptation or innovation.

An obstacle to reorganisation can be the lack of resources, which is even more important when the reorganisation itself is widespread. When there are few resources, instead of concentrating on the objective of obtaining others, the company should dedicate itself, at least at the beginning, to use what it does have available in a better manner, working on the sensitive areas, as defined in a elegant manner by **W. Chan Kim**⁵:

- “**hot points**”, these are areas that require fewer resources yet have a high improvement and performance potential;

⁵ Professor of Strategy and International Management at the INSEAD Business School



- “**cold points**”, these are areas that, on the contrary, require more resources and have a lower improvement and performance potential;
- “**cattle market**”, this is the transfer of resources from areas that have too many to those that have too little.

By learning to correctly use the resources it has available, an organisation can face, and in many cases, resolve possible situations of crisis.

14. SOCIAL RESPONSIBILITY

The last aspect regarding the context of company organisation is the concept of social responsibility, which conceives a company as an institution from which society depends for its wellbeing. In this sense, successful companies will be, in the near future, those that are able to create “**added value**” not only for their shareholders, customers and employees, but also for the community in general. The taking on of visible social responsibility, which all companies will be asked to do, should become a fundamental element of economic configuration in the near future.

This new international approach concerns, in particular:

- respect for human rights;
- respect for worker rights;
- safeguarding against the exploitation of minors;
- guarantees of safety and health at work.

From this point of view, the company’s role within the social context takes on a different connotation (directly contributing toward sustaining costs borne by the entire national economic sector), therefore, while broader commitments are requested, safeguarding actions must also be foreseen at the same time with regard to the market and, more in general, entrepreneurship.