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Faculty of Economic, Common Core Department

Commercial and Management Sciences

Lectures in Economics of the Firm

Intended for First-Year Students
Common Core in Economic, Commercial and Management Sciences

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Table of Contents

Lecture 2: The Economic Institution and Its Environment

Lecture 3: Organization of the Economic Enterprise

Lecture 5: Tools of Economic Analysis

Introduction

Introduction

The subject of *Economics of the Firm* is one of the essential and fundamental modules for first-year common core students, as it focuses on studying the firm and its various aspects. The firm is considered the nucleus of any country's economy and a key factor in its development and achievement of economic growth.

Due to the wide range of topics related to the firm—which often leaves students confused by the diversity and, at times, the divergence of sources—this booklet has been prepared to serve as a reference framework in English for *Economics of the Firm* for first-year students.

This booklet has been developed in accordance with the ministerial curriculum and is presented in a simple and clear style that facilitates students' understanding of the topics.

Lecture One: The Concept of the Firm and Its Historical Evolution

Economic firms have taken various forms and paths depending on the systems that shaped societies. These institutions have long attracted the attention of thinkers and economists across different eras, due to their crucial role in multiple fields—particularly in stimulating and driving economic growth, which in turn advances the nation’s overall economic development.

1. The Historical Evolution of the Firm

The modern firm as we know it today has gone through several key stages, which can be summarized as follows:

1.1 First Stage: Simple Household Production

Life in early human history was simple, and people's needs were minimal. Each individual produced what they needed for personal and family consumption. Work was divided among family members—spouses, children, and siblings—with each person specializing in a particular task or stage of production. This was the earliest form of what would later become the firm. This stage was characterized by what is known as the household economy, where production was overseen by the head of the family or tribe, and only what was produced was consumed. There was an automatic balance between production and consumption.

1.2 Second Stage: The Feudal Era

This phase corresponds to the Middle Ages in Europe, where the feudal system prevailed. Peasants worked as serfs on lands owned by nobles or kings, producing crops in return for very low wages—or merely for food and shelter. Land ownership was no longer collective but instead controlled by the most powerful individuals, who created laws and exerted authority over those living on the land. The economy of this period was largely closed, with minimal trade or exchange outside local boundaries.

1.3 Third Stage: The Craft Economy

With the rise of cities, craft-based firms emerged as the basic unit of economic production. These were small-scale investments using simple and primitive tools. It was the era of craftsmanship—small capital, basic tools, and a few workers, often family members or apprentices. Craft guilds were formed, each consisting of artisans specialized in producing a specific product, led by a skilled master craftsman. Despite challenges such as high raw material costs exceeding set prices, this system persisted for a long time. Over time, a new class of merchants or intermediaries emerged, purchasing raw materials and commissioning artisans to manufacture products, which were then sold in markets. This evolution marked the beginning of the factory **system**, which gathered a large number of workers in one location, divided tasks according to abilities, and introduced supervision and control mechanisms.

1.4 Fourth Stage: Industrial Capitalism

The 18th century, known as the era of the Industrial Revolution, brought major changes. Industry flourished, with iron, mechanics, and chemicals becoming the backbone of the economy. Countries like England, France, Germany, and the United States saw their production of iron and steel jump from under one million to over 20 million tons annually. The era was marked by industrial concentration, especially in coal, steel, and textile sectors. These developments led to the invention and use of machinery, which replaced many manual processes. Although machines transformed production methods, they could not entirely replace human labor.

1.5 Fifth Stage: The Information Revolution to the Present Day

Following World War II, the world experienced a new revolution—the information revolution—which transformed societal routines and elevated the status of information, giving this era the title The Information Age. This revolution led to a gradual shift toward an information-based economy that relies on knowledge, communication, and technology, rather than natural resources and manual labor.

Due to the increasing interconnection of human activities, information in all its forms became valuable and a source of competitive advantage among firms. The information sector has become one of the most dynamic sectors both nationally and internationally, turning information industries into a major driver of the global economy.

Technological advancements in information and communication have forced firms to adapt their structures and operations to stay in sync with modern trends. This paved the way for the emergence of networked organizations and intelligent firms that rely on knowledge workers and electronic management systems. In parallel, the development of information and communication technologies also gave rise to e-commerce, which in turn led to the creation of digital enterprises.

2. The Concept of the Firm

The definitions of the economic firm vary according to the ideas and opinions of economists, schools of thought, and historical periods. It is difficult to establish a comprehensive and universal definition of the firm due to several factors, including:

- The continuous evolution of the firm in terms of its organizational methods and legal structures since its inception to the present day.
- The complexity and expansion of firms' productive activities, including the emergence of companies that operate across multiple sectors and locations, such as multinational corporations.
- Differences in economic and ideological perspectives, leading to varied views of the firm between socialist and capitalist economists.

Although the concept of the firm as a practice is quite old—as previously mentioned—its emergence and recognition under the term *firm* is relatively recent. Most scholars agree that France was the first country to introduce the term "entreprise", along with the accompanying term "entrepreneur", in the 15th century. The word “entreprise” is derived from *entreprendre*, which means “to undertake” or “to commit to accomplishing an important task,” i.e., to take on a relatively significant mission.

Many scholars adopt three main approaches when defining the firm:

• The Firm as an Economic Agent

From this perspective, the firm is defined as an entity that coordinates production factors in order to produce goods or services destined for the market (supply), thereby responding to market needs (demand). The firm includes a decision-making center represented by managerial authority and organizational capabilities. In economic terms, the firm is considered an economic unit that carries out

production and related activities (storage, purchasing, selling) to achieve specific objectives.
Thus, for economists, the firm is a structured unit for production and distribution, producing goods and services and distributing them in the market using various production factors.

• The Firm as a Social Organization

From this viewpoint, the firm is seen as a group of individuals who collectively and cooperatively participate in a structured organization to produce goods and services. This is achieved through the organization of authority, task distribution, decision-making, etc.
J. Lobstin, in his book, refers to the firm as "a stable and permanent group of individuals engaged in specific activities to provide the community with products or services, using technical and financial resources."
From the social perspective, the firm is a network of human resources and competencies that work together to achieve collective goals using material, financial, and technological means.

• The Firm as a System

This approach views the firm as a **syst**em, a concept first introduced by the biologist *Ludwig von Bertalanffy* in 1937 and later developed in management theory by *Chester Barnard* in his 1938 book *Functions of the Executive*.
A system is defined as a set of interconnected elements that interact through multiple relationships, forming a coherent and organized whole aimed at achieving a common goal.
Proponents of this theory argue that many management problems can be resolved by viewing the firm as an open system composed of interdependent and interactive subsystems, rather than focusing solely on specific elements such as the organizational structure, work procedures, personnel, internal environment, or managerial roles.
This does not diminish the importance of individual components, but rather encourages a holistic perspective of the entire system.

In this sense, a firm can be defined as an open system made up of interacting elements—material, human, moral, and technical—that work together toward the organization's goal.

Common Definitions of the Economic Firm

- A firm is a production unit and a decision-making center that also acts as a social entity making decisions to penetrate as many markets as possible and achieve its objectives.
- A firm is defined as "a relatively independent economic and social organization where decisions are made regarding the combination of human, financial, material, and informational resources to create added value within a specific time and space framework."
- A firm is a production cell that gathers a number of economic factors (labor, capital, energy, information, etc.) to produce goods and/or services intended for market sale to generate profit.
- A firm is "any legal entity, whether an individual or a corporate body, that has financial independence in decision-making and produces commercial goods and services."
- A firm is "any economically independent organization operating within a specific legal and social framework, with the goal of combining production factors to produce or exchange goods or services with other economic agents. This is done to achieve suitable outcomes within economic conditions that vary depending on the location, time period, size, and nature of the activity."

From All the Above, We Can Summarize the Main Characteristics of a Firm as Follows:

- The firm emphasizes its economic function, i.e., the rational integration of production factors and the use of human, financial, material, and informational resources to produce or exchange goods and services.
- The firm requires the presence of individuals, a goal, an organizational structure, and capital.

- The firm serves as a center of decision-making.
- The firm enjoys financial autonomy and legal personality, with defined rights, obligations, powers, and responsibilities.

Here is the English translation of the provided Arabic text:

3. Concepts Related to the Economic Enterprise:

It is worth noting that there are several concepts associated with the enterprise, the most important of which are:

3.1 Organization ("L'Organisation")

An organization is a purposeful human group that focuses on the social dimension and the optimal management of community life. Typically, it is the organization that manages an enterprise or other organizations and establishes the rules for their operation. An organization forms at the moment two or more individuals agree to contribute to achieving the aspirations of a group of people.

3.2 Enterprise ("L'Entreprise")

An enterprise is an economic and social structure composed of one or more individuals working in an organized manner to produce or exchange various products. The establishment of an enterprise is subject to legal procedures. Legally, a single-person enterprise can be created, but practically, it is impossible for one person to handle production, sales, purchases, accounting, etc., alone. Therefore, coordination with others is essential.

In addition to the four main components (goal, people, capital, and organizational structure), an enterprise includes other entities that manage it. The economic enterprise is exposed to a degree of risk and has a distinct legal personality that requires registration in the commercial registry, and it must bear all the obligations of its legal existence, such as taxes and fees, and undergo periodic account auditing through the necessary records.

3.3 Company ("La Société")

A company is a contract by which two or more persons agree to contribute to a project aimed at making a profit by providing a share of capital or labor, in order to share any resulting profit or loss.

3.4 Establishment ("L'Établissement")

M. L. Baudin defined an establishment as "a group of permanent individuals working in the same place under the authority of the same organizer (the entrepreneur)." That is, it is a group of people working in the same location for the same managing authority (the enterprise's manager). An enterprise may consist of one or several establishments.

4. The Evolution of the Economic Enterprise in Economic Thought:

The interpretation and definition of the economic enterprise differ according to the perspectives of economic schools throughout the development of economic thought. Each school contributed differently to defining the economic enterprise.

4.1 The Classical School:

The classical school contributed to establishing various principles and theories about the economic enterprise from 1900 to 1930. It tried to address the enterprise from different angles: economic, social, administrative, etc.

"Taylor," a pioneer of economic thought in that period, emphasized the role of human resources in organizing and rationalizing the enterprise through scientific work organization—via vertical specialization and scientific distribution of labor and activities.

"Fayol" contributed by theorizing enterprise management, proposing a simple definition based on five core principles: planning, organizing, commanding, coordinating, and controlling—key elements of organization and management.

"Elton Mayo" focused on the rationality of the enterprise as the key to growth and success, by establishing scientific foundations for organization and identifying real motivators for workers, such as improving human relations within the enterprise.

Classical theory considered organizations as tools that introduced structure into enterprises through strict rules and principles. Marshall was among the first economists to use the concept of the organization, which he defined as a social system in which economic activity operates independently.

The enterprise, meanwhile, was seen as the structure through which production occurs. Classical economists believed an enterprise could only be called so if it aimed for profit—a notion central to classical thought as per PERROUX. Hence, the enterprise is an economic unit that combines production factors to produce goods and services for sale in the market. The nature of ownership is irrelevant; what matters is the objective of achieving production and profit.

4.2 The Neoclassical School:

The neoclassical theory of the enterprise is based on four main assumptions: individual autonomy, rationality, perfect information, and market efficiency. It views the enterprise as a "black box" that automatically transforms production factors (raw materials, capital, labor) into final products (goods and services) using the best combination, aiming to maximize profit.

These assumptions limit the functional analysis of the enterprise, as the model disregards internal organizational structure. Production quantity is determined by a production function maximized to achieve profit, constrained by each individual's production capacity. The entrepreneur's profit-maximizing behavior relies on rationality, which assumes producers can identify all alternatives that yield maximum profit and have complete information to assess their impact on the production function.

Based on this, the producer sets and selects from indifference curves to find the one yielding the highest profit with the same inputs. Thus, the neoclassical model gives a negative image of the enterprise—as a simple production function, merely converting inputs into outputs. This reductionist view was the starting point of criticisms against neoclassical thought.

According to SIMON, the enterprise is characterized by organization and consists of multiple stakeholders with different interests. Decisions are the result of negotiations among these parties—not just individual optimization as the neoclassical school suggests.

4.3 The Modern School:

The modern theory of organizations emerged in response to criticisms of the neoclassical theory. These criticisms include:

- The neoclassical theory represents the enterprise as being owned and managed by an individual—a concept only applicable to small and medium enterprises. In large corporations, management is performed by a board of directors representing shareholders. According to MEANS and BERLE, this separation of ownership and management is a modern characteristic of the enterprise. It leads to potential conflicts in profit maximization unless there is alignment of goals among members. Otherwise, managers may aim to maximize sales or market share instead of profit, especially if their income and reputation depend on sales volume, as noted by BAUMOL. This idea is central to agency theory.

In this view, the modern enterprise is a set of contracts organizing how inputs are combined to produce outputs and how resulting returns are distributed among those providing the inputs.

- The neoclassical theory assumes producers can define indifference curves to optimize profit using input combinations, treating all inputs (including labor) equally. Labor is thus considered just another commodity, with no attention to worker supervision or skill variation. LIEBENSTEIN H highlights that productivity differences between enterprises using the same inputs can be explained by varying efficiencies of those inputs in different enterprises.
- The neoclassical theory focuses on producer rationality and market efficiency but neglects the reasons for the existence of enterprises. COASE showed that enterprises exist to reduce transaction costs between economic agents due to market inefficiencies. High transaction costs explain why economic actors resort to organizational structures instead of markets to produce. Williamson expanded this idea, arguing that transaction costs are the basic unit of economic activity. He concluded that rationality is not absolute—since producers do not have complete information and acquiring it

involves costs. Thus, according to him, the enterprise is a decision-making structure that arbitrates between market organization and internal organization.

5- Objectives of the Economic Enterprise

Economic enterprises aim to achieve several objectives, which vary depending on the owners, the nature of the enterprise, and the field of activity. These can be summarized into the following main objectives:

5.1 Economic Objectives

These include:

- **Profit Generation or Satisfaction Achievement**: No enterprise can survive without generating profit, as profit ensures its sustainability and growth. Through profits, debts are paid, profits are distributed to partners, or reserves are built to cover unforeseen losses or burdens. Therefore, profit is considered one of the main indicators of the economic health of an enterprise. However, with the emergence of modern management theories and the separation of ownership from management, it is now acknowledged that various stakeholders exist within an enterprise (e.g., shareholders aim to maximize profit, workers aim to improve wages and working conditions, and managers seek authority and benefits). Thus, the economic enterprise is seen as an alliance between these stakeholders, and its common goal becomes satisfaction achievement, ensuring the enterprise's continuity.
- **Meeting Societal Needs**: Achieving profit or satisfaction is only possible by fulfilling the needs of the society in which the enterprise operates—locally, nationally, regionally, or internationally.
- **Rationalizing Production**: To achieve its economic objectives, an enterprise must use production factors efficiently and increase productivity through precise planning of production and distribution, and by monitoring the implementation of these plans. In other words, the enterprise must use its assets wisely and manage its workforce in a way that fulfills the diverse needs of society.

5.2 Social Objectives

These include:

- **Ensuring Acceptable Wage Levels**: Workers receive wages or salaries in return for their work in enterprises. This remuneration is a legitimate and customary right, and in many cases, state laws define a minimum wage that ensures workers can meet their basic needs. This is known as the guaranteed minimum wage.
- **Improving Workers' Standard of Living**: Technological and cultural advancements have led to new products that contributed to societal development and changes in people's tastes. These improvements are supported by ensuring acceptable wage levels.
- **Establishing Specific Consumption Patterns**: Economic enterprises often influence consumer habits across different social classes by introducing new products or influencing tastes through advertising and promotion, whether for new or existing products.
- **Promoting Worker Organization and Cohesion**: As enterprises are social cells that bring together diverse workers with varying educational backgrounds and social or political affiliations, institutions establish mechanisms such as worker councils and informal relationships to promote harmony and understanding among employees.
- **Providing Insurance and Facilities for Workers**: Enterprises offer various types of insurance such as health insurance, work injury insurance, and retirement benefits. They also provide housing—either functional or regular—for their workers, particularly in public institutions. Additional facilities may include consumption stores, cafeterias, etc.

5.3 Cultural and Sports Objectives

In the context of benefits offered to workers, enterprises also focus on training and recreation, which include:

- **Providing Recreational and Cultural Opportunities**: Some enterprises offer their employees and their families access to cultural and recreational activities such as theater and excursions to increase employee satisfaction and loyalty, which in turn boosts performance.

- **Training New Workers and Re-Skilling Existing Ones**: Due to the rapid evolution and complexity of production methods, it has become necessary to train new employees, despite their theoretical background from universities and training centers. Continuous technological developments also require retraining of older workers to adapt to new production and marketing techniques.
- **Allocating Time for Sports Activities**: Some large enterprises, particularly in Japan, allow employees to engage in sports at specific times during the day (e.g., after lunch). They also organize employee sports festivals, which promote health, reduce boredom, and strengthen relationships among employees and between employees and the enterprise, positively affecting productivity.

5.4 Technological Objectives

In addition to the above, the economic enterprise plays a crucial role in the technological field, notably in:

- **Research and Development (R&D)**: Modern enterprises strive to establish dedicated departments for the scientific development of production methods and tools, allocating substantial budgets for this purpose to increase profits. In developed countries, spending on scientific research represents a significant share of national income, especially in recent years, as enterprises compete to find the best production methods and tools to enhance productivity.
- **Support Role**: Economic enterprises also support the national policy in research and technological development, especially large enterprises due to their substantial overall weight.

6- Classification of Economic Enterprises

There are several criteria for classifying economic enterprises, the most important of which are:

6.1 According to the Legal Criterion:

Enterprises are classified according to the legal criterion into two main categories:

6.1.1 Private Enterprises:

These can take the following forms:

- **Individual Enterprises:** These are enterprises owned by a single person. They are characterized by ease of organization, and the owner is the primary and final person responsible for the outcomes of the enterprise's activities. They usually include craft units, retail shops, hotels, etc.
- **Partnership Enterprises:** These are enterprises owned by more than one person and can only be established if certain conditions are met according to commercial law, such as mutual consent among partners and each partner contributing a part of the capital either in cash, in kind, or as a labor share. These partnerships are divided into three types:

6.1.1.b-1 Partnerships of Persons: In this type, the partner has unlimited liability for the company's debts, extending to their personal assets (joint and several liability). This type includes:

- General Partnerships
- Limited Partnerships
- Silent Partnerships

6.1.1.b-2 Limited Liability Companies: According to Algerian commercial law, these companies are established between partners who do not bear losses beyond their contributions, which are equal and non-transferable shares. Their capital is limited and divided into equal shares, and the number of partners is also limited.

6.1.1.b-3 Joint-Stock Companies (Capital Companies): These companies consist of a group of people (an unlimited number) who provide shares of capital in the form of stocks, with liability limited to the value of those shares.

6.1.2 Public Enterprises:

These are companies fully owned by the state, either as national enterprises or enterprises affiliated with local authorities. They may also be enterprises jointly owned by the public and private sectors.

6.2 According to Ownership Type:

There are several types, including:

- **6.2.1 Private Enterprises:** Enterprises owned by an individual or a group of individuals, whether capital companies, partnerships, or limited liability companies.
- **6.2.2 Mixed Enterprises:** Enterprises jointly owned by both the private sector and the public sector.
- **6.2.3 Public Enterprises:** Enterprises owned by the state, where officials do not have the right to dispose of, sell, or close the enterprise unless the state approves.

6.3 According to Size:

Economic enterprises can be classified by the number of employees into the following types:

- **6.3.1 Small and Medium Enterprises (SMEs):** This classification includes all enterprises employing fewer than 500 workers, subdivided into:
  - Micro Enterprises: Employ 1 to 9 workers
  - Small Enterprises: Employ 10 to 199 workers
  - Medium Enterprises: Employ 200 to 499 workers
- **6.3.2 Large Enterprises:** Enterprises employing more than 500 workers.

6.4 According to Economic Sector:

Economic activities are divided into three sectors:

- **6.4.1 Primary Sector (Secteur Primaire):** This sector includes enterprises specialized in agriculture.
- **6.4.2 Secondary Sector (Secteur Secondaire):** This represents the industrial sector, i.e., industrial enterprises.
- **6.4.3 Tertiary Sector (Secteur Tertiaire):** This sector covers service enterprises. It is worth noting that the service sector has experienced remarkable growth over the last two decades, especially due to subcontracted service enterprises such as IT services, security, and consultancy.

6.5 According to Nationality:

Economic enterprises are classified based on the nationality of their owners or the countries in which they operate into the following types:

- **6.5.1 National Enterprises:** Local enterprises operating within the country and owned by nationals.
- **6.5.2 Foreign Enterprises:** Enterprises operating within the country but owned by nationals of a single foreign country, e.g., Italian enterprises.
- **6.5.3 Mixed Enterprises:** Enterprises operating within the country and jointly owned by individuals from the same country and individuals from another foreign country, e.g., Algerian-French enterprises.
- **6.5.4 Multinational Enterprises:** Enterprises operating within the country and owned by individuals of different foreign nationalities, such as enterprises from Gulf countries.

7- Development of Algerian Public Institutions

Since Algeria's independence in 1962 and the launch of developmental work especially from 1967, the subject of organizing the national economy has been a matter of reflection and implementation, in accordance with the economic policy to be followed by the public authority represented by the state. Below, we discuss the various stages of development of the public economic institution in Algeria:

7-1 The First Stage: The Self-Management Phase (1962-1964)

The experience of industrial and agricultural self-management arose from the conditions experienced by the Algerian economy immediately after independence. After the departure of the European colonists from the national territory, they left behind many damaged farms and institutions, broken machinery, and even documents and records that were burned or destroyed, which led to the disruption of the production cycle.

Despite these difficulties, the determination of Algerian workers and farmers remained firm. They spontaneously took over managing these farms and institutions. This effort led to the embodiment of a new management model called "self-management." The political authorities at the time endorsed this type of administration by issuing several decrees that defined the organizational form of self-managed farms and institutions, which included:

- The decree of November 23, 1962, regarding the formation of self-management committees within industrial, mining, and craft institutions.
- The decree of March 18, 1963, protecting abandoned property from looting.
- The decree of March 28, 1963, establishing the following bodies: Workers' Council, General Workers' Council, Management Committee, Director.

Reasons for the emergence of this management style:

The emergence of self-management was a logical result of the social, economic, and political conditions Algeria faced on the eve of independence. Its causes include:

- The mass departure of Europeans who owned farms and production institutions.
- Preventing the rise of a bourgeoisie that exploited the situation and continued to seize properties after the colonists left, by regulating the process of self-management of institutions and farms.

How institutions were managed under this model:

After workers elected the self-management committee, its members democratically selected a chairperson among themselves. Alongside the chairperson, a director was appointed by the supervising ministry. This created a contradiction in the content of self-management, reflecting hesitation in applying the principle of centralization versus decentralization in managing economic institutions. There existed a duality consisting of an appointed director and an elected body, with the director having broad powers making him a stronger authority than the elected body. This indicated the persistence of centralization, bureaucratic complications, and a lack of real worker participation in management and decision-making.

7-2 The Second Stage: The National Companies Phase (1965-1970)

This period was characterized by a lamentable production system, with institutions deep in crisis. However, from the beginning of 1965, authorities began considering the creation of industrial and commercial institutions controlled by the state but managed in a capitalist manner. This socialist phase initially took on the character of "state capitalism" because full implementation of socialism was not feasible except gradually.

In 1965, the first strategic companies of a national production system were established, such as:

- The National Iron and Steel Company,
- SONATRACH, the National Oil and Gas Company,
- The National Insurance Company (SA),
- The National Textile Industries Company (SONITEX).

Important measures were taken to ensure the proper operation and development of these institutions. During 1965-1971, the central apparatus and supervision defined the companies' functions and objectives within the framework of a general strategy. These companies could not limit themselves to their core objectives, as they also had other conflicting goals. For example, institutions were expected to meet workers' social demands, which marked this period by the emergence of laws governing institutions. These laws aimed at workers' participation in decisions, management, and control, giving the institution a new character. These laws were inspired by French laws, but in reality, they remained merely words on paper. Institutions were far from achieving their set objectives due to the monopoly of power by the director and the difficulty of communicating with workers. This centralized decision-making and bureaucratic management style led to failure in showing efficiency and effectiveness, making a transition to another organization inevitable.

7-3 The Third Stage: The Socialist Management Phase (1971-1980)

This phase marked the shift to socialist management of institutions, transitioning from the form of a general institution or project to a socialist institution. This was influenced by several factors, chiefly considering the self-management experience, with its positives and negatives, as a motivation to find a formula that embodied effective participation in management. It also involved transforming the management of national public institutions from a traditional style to a new one where workers became active elements responsible for management and supervision through their actual contributions.

Workers' participation in managing the national public institution was embodied through an elected council that "oversaw the proper management of the institution, increased production, continuously improved quality, eliminated waste, maintained discipline at work, and achieved the goals of the plan."

Workers' participation at that time was a direct result of socialist management, which organized two main functions for the benefit of workers: contributing to decision-making and supervising the institution's operations. However, this period faced many obstacles on two levels:

At the internal environment of the institution:

The shortcomings and contradictions in managing the national public institution can be summarized as follows:

1. **Multiplicity of decision-making centers:** Reasons for dual management and multiple decision-making and leadership centers included:

- Lack of worker knowledge of management principles, limited culture, and inadequate technical and political training.
- Emergence of antagonistic relationships between managers and worker representatives.
- Influence of imported management models applied without regard to the realities and particularities of the national economy and environment.

2. **Multiplicity of tasks and functions:** The institution's scattered efforts toward secondary interests of a social nature, such as health, housing, transportation, sports, recreation, and childcare for workers' children. These issues significantly affected production work and

financial resources, impacting productivity and institutional performance.

3. **The institution's large size:** Managing many secondary and traditional tasks such as supply, distribution, and production caused administrative bloat, redundancy, overlapping responsibilities, and excessive fragmentation of units and functions. This complicated control, cost management, internal information systems, and centralized decision-making, resulting in major losses at the end of the production process in most institutions.
4. **Lack of skill framing and marginalization of cadres:** Lack of proper framing, insufficient assimilation of skills, and poor control of production processes. National cadres were marginalized by multinational companies executing national development projects despite technical assistance and expertise from foreigners, preventing effective cadre integration.
5. **Excessive labor inflation (invisible unemployment):** Labor accumulation and disregard for appropriate workforce size in productive institutions, especially industrial ones, where the workforce sometimes exceeded 30% of total labor. This was due to lack of reference economic studies, ignorance of management tools, poor planning of periodic needs, and job employment. National public institutions became fertile grounds for attracting labor due to individualistic management tendencies of some directors.

At the external environment of the institution:

The shortcomings involved a series of regulations governing relations between institutions and supervisory, oversight, and mediation bodies. This period was marked by excessive centralization of relations that hindered the public institution and blocked initiatives for development or progress. Among these issues:

1. The supervising authority's intervention in every minor and major matter led administrative supervisors to adopt evasive policies and conceal facts in performance reports. Those assigned to analyze and follow these reports at the supervisory level were often not technically or economically qualified to understand the contents or keep up with emerging problems on the ground.

2. Redefining the institution’s role under a new perspective including:

- Genuine responsibility for social needs to address deficiencies and improve living conditions amid challenges;
- Raising production competencies to better utilize available energies;
- Directing the national production system toward optimal use by improving performance conditions, ensuring harmony, integration, and securing system channels;
- Adopting an organizational framework aimed primarily at lifting constraints and overcoming obstacles by ending bureaucratic supervision and providing a suitable environment to achieve these goals.

7-4- Fourth Stage: Period of Financial and Structural Restructuring (1981–1987)

With the developments experienced by the Algerian institution characterized by its large scale and complexity in administration during that period, and the obstacles faced by the socialist management system, the institution reached a point where measures and solutions had to be taken to overcome the accumulated difficulties and problems over the years. These problems had multiple causes and often involved several external parties outside the institution.

The restructuring process went through two overlapping phases starting from February 1981 until August 1982. This period witnessed the fragmentation of large, massive institutions into smaller units according to certain criteria aimed at better controlling the management of institutions and rationally exploiting various national resources. These criteria were: the geographical distribution of public institution administrations and defining activities based on national products. Each institution had a directorate, and the total directorates were geographically distributed across the country. The number of these newly created entities reached 348 during this period.
This process was accompanied by financial support involving partial debt cancellation and the conversion of operational loans into long-term ones

borne by the public treasury, known as financial restructuring. Its goal was to clean the institution's accounts, provide it with new equity capital, and allow it to grow in the future.

The second phase of restructuring began at the end of 1982 and concerned the follow-up on the implementation of restructuring across various institutions to prepare normal operating conditions for the institutions (administrative organizations, establishment of social headquarters, etc.).

7-5- Fifth Stage: Period of Public Institution Autonomy after 1988

The autonomy of economic public institutions began to be discussed after 1988. Criteria were set to determine how the state would move towards autonomy and also to establish structures that would facilitate the management of institutions under autonomy.

However, public institutions did not gain their autonomy immediately after the issuance of Law No. 88-01. The process was preceded by financial cleansing since, at that time, they did not have any private funds at all; most recorded a negative balance alongside private funds. Therefore, the government carried out a financial cleanup by writing off many debts, purchasing part of others, postponing payments of some, and compensating for losses caused by the decline in the dinar's exchange rate. Institutions were also asked to re-evaluate their investments.

The autonomy process was linked to reforms centered mainly on economic public institutions to achieve satisfactory and consistent results throughout the reform stages. The government found itself facing a choice that it had to undertake: the privatization of economic public institutions and opening up to the market economy

Lecture 2: The Economic Institution and Its Environment

1. Concept of the Institution's Environment

Before discussing the institution's environment, we first define the environment in its general sense. The environment refers to all the variables related to the institution's objectives that affect its efficiency and effectiveness. These variables are largely subject to management control, such as political decisions, customs, traditions, etc.

From this, we observe that the environment is divided into an internal environment, which consists of the organizational structure, physical and human resources, and organizational culture; and an external environment (the institution's surroundings), which includes all factors surrounding the institution that are beyond its control.

The institution's environment means the factors surrounding the institution that influence it and its management. These factors partially constrain and direct the institution. The institution receives the environmental variables and effects as external inputs that are difficult to control and must work to determine its course through various means such as planning, strategy, and other management tools. The more it succeeds in avoiding external pressures while adapting to and balancing with its environment, the more successful it is in continuing and achieving its objectives.

Some also view the institution's environment as the set of factors that create opportunities and threats for the institution, emphasizing the role of the environment in shaping the institution's strategy.

2. Characteristics of the Institution's Environment:

The institution's environment is characterized by the following traits:

- **Stability:** The environment varies from one institution to another; it may be stable or dynamic. Factors such as economic variables, government instability, unexpected changes in customer demands, competition, and rapid changes in the institution's size contribute to an unstable environment.
- **Complexity:** The external environment (surroundings) may be simple or complex. For example, a craft institution producing simple products using basic knowledge has a simpler environment compared

to an aviation company that must use highly advanced scientific knowledge to produce very complex products. The latter's environment is marked by complexity and overlapping influences of forces.

- **Market Diversity:** The institution may operate in very integrated markets or diversified ones.
- **Hostility:** The presence of aggressive (hostile) competitors can make the institution's environment very hostile.
- **Richness:** The environment may be rich, providing the institution with all necessary resources (suppliers, qualified labor, technology).

Other characteristics can be summarized as:

- **Uniqueness or Distinctiveness:** The impact of the environment differs in degree from one institution to another.
- **Dynamic Nature:** The environment is constantly changing, not static.
- **Difficulty of Control:** It is difficult to control environmental variables, especially the general external environment, even if some influence on certain variables is possible.
- **Interdependence and Overlap:** Environmental variables influence each other and overlap.

3. Reasons for Studying the Environment:

Institutions of all types and forms share many aspects and factors that highlight the importance of studying the environment, which can be summarized as follows:

- All public and private institutions operate under a set of environmental constraints or variables (economic, political, social, cultural).
- Every institution is an open system affected by the environment and affecting it in return.
- The development and implementation of marketing policies and strategies, as well as the execution of administrative functions and tasks commonly known in marketing or any other field (planning, organizing, coordinating, directing, controlling, decision-making),

must occur in light of environmental variables or constraints affecting both the inputs and outputs of every institution.

- Regardless of the differences among institutions concerning the nature and goals of their stakeholders, each institution is an alliance or coalition of various parties seeking to achieve a set of goals that differ in nature and often conflict in how to achieve them. For example, consumer goals differ from supplier goals, as do government and worker goals. Hence, the survival and success of an institution largely depend on its ability to meet the objectives of these stakeholders despite their diversity, differences, and conflicts.
- The degree to which environmental variables influence the execution of activities and achievement of objectives varies in degree, not in type, across institutions.
- All institutions are directly or indirectly affected, to varying degrees, by many external environmental constraints and variables, both nationally and internationally.
- The degree of influence of environmental variables or constraints varies according to the institution's objectives. For instance, a decrease in average per capita income (with other factors constant) may affect demand for a certain product or profitability goals, while a decrease in religious or cultural awareness may not affect those goals.
- The ability to control the market or maintain competitive position generally varies depending on the institution's capacity to adapt to environmental variables and meet the goals of its internal and external stakeholders. The ability to exploit current or anticipated marketing opportunities and to confront threats greatly increases the likelihood of achieving high effectiveness or marketing control.
- Marketing planning begins primarily with analyzing current and anticipated marketing opportunities within the environment.

4. Components of the Business Environment

The business environment consists of a variety of variables and elements, which can be explained as follows:

4.1. Immediate Environment

Also known as the specific environment (direct external environment or competitive environment), it includes factors that have a direct impact on the performance of the company, such as:

- Suppliers,
- Customers,
- Distributors,
- Related government agencies,
- Competitors.

The company must interact with all these stakeholders. Generally, the specific or competitive environment refers to the set of variables that have a direct effect on all companies operating in a particular industry. An industry is defined as a group of companies that provide identical or substitutable goods or services. This includes:

- The level of competition among existing firms,
- Potential competitors,
- Suppliers,
- Buyers,
- Substitute products,
- Other forces related to stakeholders.

The interaction between these variables can positively or negatively affect the competitiveness of companies within the industry, thereby impacting their market shares, revenues, and profits.

4.2. Indirect Environment

Also referred to as the general environment (general or indirect external environment), this encompasses the geographic context in which all companies—including the concerned company—operate. Therefore, its influence extends to all companies. Key elements include:

4.2.1. Economic Environment

Strategy formulation depends on economic forecasts. The economic environment consists of the economic forces affecting society and all its institutions. These include:

- Income levels,
- Demand,

- Availability of production factors,
- Inflation,
- Monetary and fiscal policies of the state.

4.2.2. Political Environment

The political system comprises institutions, regulations, and individuals whose main role is to govern and manage society as a whole. Political factors are among the most important elements of the overall environment, often driven by political decisions that reflect economic interests.

4.2.3. Social Environment

This has a significant influence on businesses, particularly regarding:

- Product demand,
- Employee values,
- Internal workplace practices.

Important social variables include:

- Population growth, which can be a business opportunity due to increased demand;
- Women entering the workforce, leading to higher household incomes and greater demand for goods;
- Higher education levels, resulting in higher aspirations for work and consumption, contributing to a stable and productive work environment.

4.2.4. Technological Environment

This includes tools and innovations in production, such as automation and robotics. Technological advances are now critical for controlling production and markets. Rapid technological changes require businesses to:

- Acquire new technologies to strengthen their competitive position,
- Continuously train employees to adapt to modern production methods.

4.2.5. Ecological Environment

Ecology deals with the relationship between living beings and their environment. The natural balance is increasingly under threat. Examples include:

- Living in noisy areas leading to chronic stress,

- Airports and highways negatively affecting humans, animals, and plants,
- Industrial and nuclear pollution damaging valleys and farmland.

To mitigate such negative effects, companies should:

- Promote the use of unleaded gasoline,
- Use eco-friendly packaging,
- Monitor emissions and waste.

4.2.6. Legal Environment

Labour laws, trade unions, tax regulations, environmental protection laws, consumer protection laws, and import-export laws all significantly influence business policies and operations. Algerian companies, for example, face major challenges in effectively applying state regulations, which can threaten their activities and long-term viability.

4.2.7. International Environment

This refers to a country's actions that directly or indirectly affect company performance. For example, the state might:

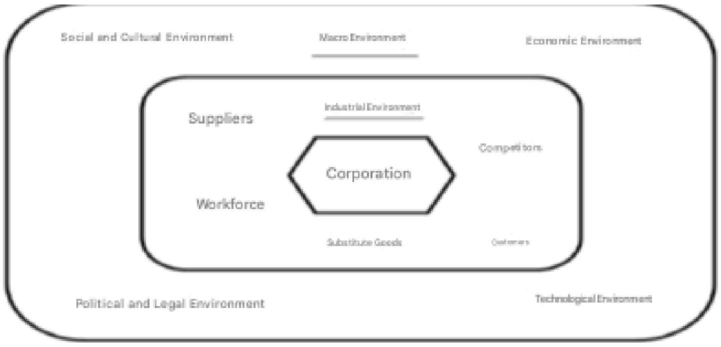
- Protect domestic industries,
- Encourage foreign investment,
- Fund certain industries to increase competitiveness.

Economic blocs can create market opportunities by expanding accessible markets. However, they may also pose threats to certain businesses—e.g., high customs duties imposed to enter those markets.

In general, there are four types of business environments:

- **Stable Environment:** Rare changes that are often negligible.
- **Transitional Environment:** Changes are infrequent but significant when they occur. Once the company adapts, the environment becomes stable.
- **Unstable Environment:** Frequent changes requiring continuous adaptation.
- **Turbulent Environment:** Rapid and intense changes necessitating ongoing innovation and scientific research to ensure survival and growth.

Figure (01): Components of the Business Environment



Source: Goul Farhat, The Essentials of Business Economics, Algeria, El-Khaldounia Publishing, 2008, p. 44.

5. The Mutual Effects Between the Company and Its Environment

5.1. Effects of the Environment on the Company

The environment is the sole source of the production factors consumed by the company to deliver its outputs. This environment includes individuals who contribute their physical efforts in the form of labor or intellectual efforts in the management of the company, in addition to their role as consumers. The geographical environment also provides the company with raw materials and plays a role in the development of the means of production used—all of which are critical for the company's survival and growth.

5.1.1. The Effect of Human Development

The human being is the only creature capable of rational and wise behavior, and the outcome of such behavior depends on how well individuals perform the tasks assigned to them. This in turn is linked to the quality of their training and education, which allows for balanced and sustained development to achieve a comfortable standard of living.

Members of society can influence the company in three ways:

- **a. Through the Worker:** The worker is closely connected to the company due to their direct involvement in production. The quantity and quality of this contribution depend on the quality of the workforce, shaped by physiological and moral factors. These moral factors are a cumulative result of upbringing, education, and training. The better these aspects are, the more efficient the worker becomes, thereby improving the company's productivity.

- **b. Through the Manager:** The manager plays a key role in organizing and directing company activities. If the manager is competent, honest, and has a spirit of initiative, the company is more likely to achieve excellent results—assuming other essential elements are also present. Conversely, a lack of competence or training can result in poor outcomes or even jeopardize the company's sustainability.
- **c. Through the Consumer:** Consumers purchase the company's products in the markets. If they are well-educated, they can easily understand, choose, and properly use products, increasing sales through better awareness of advertising and promotions. On the other hand, a poorly educated population negatively impacts sales and revenue.

5.1.2. The Effect of Raw Materials

Raw materials are among the critical elements influencing the company's activities. A consistent and sufficient supply of acceptable-quality raw materials prevents production halts. The human factor plays a key role here too, as the quality and quantity of materials depend on the capabilities and technological advancement of the individuals and companies that prepare them.

5.1.3. The Effect of Technological Development

The company uses various machines and equipment as part of its production factors, which are usually produced by other companies. The performance of a company is therefore linked to the quality of the equipment and the workers' ability to use it effectively. This highlights the role of human capital in innovation and the production of new machinery.

5.2. Effects of the Company on the Environment

The existence of a company within a society and in a specific geographical space means that it inevitably interacts with and influences its environment through its production and actions, especially if the company is large or powerful.

Two types of effects can be distinguished:

5.2.1. Social Effects

Social effects vary in impact depending on the type of economic system the company operates in and the company's size and economic or financial influence. These effects can be positive or negative:

- **a. Job Creation:** Establishing solid companies contributes to job creation, which varies in quantity based on the company’s size. Thus, companies help reduce unemployment. The technology used also affects employment—labor-intensive technologies are more common in societies with abundant labor, while capital-intensive technologies are used in more industrially advanced societies.
- **b. Impact on Wages:** Prominent companies influence wage levels. A financially strong company may offer higher wages to attract labor, indirectly affecting wages in other economic sectors and improving workers' living standards.
- **c. Changes in Lifestyle:** The establishment of companies in certain areas can change the local lifestyle by imposing new working hours, rest times, and altering daily habits.
- **d. Influence on Consumption:** The company’s pricing and credit policies affect both the quantity and type of consumer spending. Increased variety and competition lead to lower prices. Advertising creates new consumer habits by introducing new products, with media like TV and the internet playing a central role in this process.

5.2.2. General Economic Effects

The company contributes to shaping the economic landscape through the following:

- **a. Promoting Urbanization:** The establishment of companies in rural or underdeveloped areas leads to the construction of worker housing, roads, and public facilities, eventually prompting the creation of schools, hospitals, and even new towns—supporting national development policies.

- **b. Emergence of Commercial Institutions:** A growing population in an area due to company activity necessitates the creation of new commercial establishments to meet the needs of workers, which in turn encourages further economic activity.
- **c. Economic Integration:** Especially in heavy industries, companies require various semi-finished or complementary products. These are usually produced by different companies, thereby supporting economic integration and interdependence.
- **d. Influence on Prices:** Just as companies affect wages, they also influence the prices of goods—especially integrated products—resulting in several economic and social benefits.

In conclusion, the reciprocal influence between the company and its environment is substantial. Companies must maintain constant interaction with their environment and its changes to meet societal needs and sustain their market position. Therefore, public authorities play a crucial role in creating a favorable general environment for companies by enhancing legal, administrative, and regulatory frameworks to unlock creative potential. Decision-makers must take the necessary steps to optimize the environment to achieve the desired level of efficiency. As management sciences become increasingly precise, they move away from the improvisation that characterizes many of our companies today. Strategic management, thus, requires a thorough analysis of the environment to identify opportunities and threats in order to enhance output and efficiency—otherwise, failure is inevitable.

Lecture 3:
Organization of the Economic Enterprise

Organization is the foundation for the advancement and prosperity of societies. It represents the framework that brings together, arranges, and coordinates individual efforts to achieve specific objectives. The same logic applies within enterprises, where organization is considered the second managerial function after planning. Planning results in the optimal decision or what is known as the enterprise's plan—a statement or report outlining the types of resources and various actions to be taken by managers to achieve desired goals.

Once the plan is in place, the enterprise must implement it. To facilitate this process, the enterprise designs workgroups, departments, and units that work coherently with each other by distributing tasks and responsibilities among managers and defining the necessary and appropriate authority for them. This is what is known as **organization**.

1. Definition of Organization

Many definitions have been proposed for organization. Some of them include:

- **El-Houari** sees organization as the framework that defines relationships between various functions and duties to achieve organizational objectives. It is the field within which management operates and is considered one of the manager’s functions.
- **Zaki Makki Ismail** defines it as the specification of tasks through which objectives are defined, then arranged into well-defined functions, duties, and rights, followed by selecting the people to carry them out.
- **Schermer** considers it the process that includes task definition, resource allocation, and preparation of interrelated activities of individuals and groups to implement plans.
- **Barnard** views it as a system that defines activities, human resources, and relationships between them within a particular administrative framework.
- **John Gors** defines it as the method by which employees are organized to manage the achievement of agreed-upon goals by distributing authority and defining responsibilities.

Comprehensive Definition: Organization is the framework that gathers, arranges, and coordinates individuals' efforts to achieve defined objectives.

2. Importance of Organization

The importance of organization lies in the following:

- **Improved quality and performance**: Organization ensures that groups of individuals work together in a coordinated and integrated manner, which leads to better performance through synergy and collaboration.
- **Clarification of authority relationships**: Organization makes authority relationships clear from the base to the top of the organizational pyramid. Each individual knows who assigns tasks, who supervises them, and to whom they are accountable—this makes efforts more efficient through clarified responsibilities and power dynamics.
- **Favorable environment for training and growth**: Organization creates an atmosphere conducive to training, talent development, and providing necessary resources, which enhances motivation, loyalty, and decision-making within a predefined framework.

3. Types of Organization

There are two main types of organization:

- **Formal Organization**: This refers to the structure that defines the organization chart, relationships, levels, division of labor, and allocation of responsibilities as outlined in the legal document establishing the organization. It includes the rules and arrangements applied by management and reflects the official relationships among employees for implementing the organization's policies.
- **Informal Organization**: This arises naturally through the interactions among employees. It reflects the natural relationships that develop among groups of workers during work. These small groups form spontaneously due to several factors, such as the need to fulfill social and psychological needs, prolonged co-presence in a single location, shared profession, common goals, similar social backgrounds, or similar attitudes and interests.

4. Elements of Organization

The elements of organization include:

- Activities or tasks performed by the organization to achieve its goals.
- Individuals or workers at different administrative and technical levels.
- Resources or capabilities available to the organization.
- Systems, procedures, methods, steps, and phases planned for carrying out tasks and activities.
- Structure or method through which individuals are allocated across tasks and activities, defining their functional relationships and communication lines.
- Authority and responsibility assigned to each organizational function.

5. Characteristics of Organization

These include:

- **Unity of Command**: Subordinates should receive orders only from one direct supervisor. They should also report only to that supervisor.
- **Chain of Command**: Also known as the principle of hierarchy, as defined by Fayol. It means that the organization should have a functional hierarchy that clarifies the relationships between superiors and subordinates and shows the direction of authority lines from top to bottom.
  - **Appropriate Span of Supervision**: This refers to the optimal number of subordinates a manager can efficiently supervise. Opinions vary, and it depends on several factors:
  - Work method,
  - Degree of authority delegation,
  - Physical proximity between managers and subordinates,
  - Type of technology used.
- **Delegation of Authority**: This involves the manager assigning some of his powers to subordinates, which helps to:
  - Reduce workload,
  - Focus on important matters such as planning,
  - Provide assistants with leadership training opportunities,
  - Speed up decision-making and problem-solving.

- **Clarity in Defining Responsibilities**: Duties and responsibilities of all members in the organization should be clear, specific, understood, and publicly known. This helps managers avoid chaos, reduce overlap in activities, and fairly reward or penalize employees.
- **Balance Between Authority and Responsibility**: Responsibility is linked to task performance. It is illogical to hold someone responsible for a task without giving them the authority to carry it out.
- **Consideration of Human Capacity When Assigning Tasks**: No one should be burdened beyond their capacity. Since an organization is a blend of tasks and capabilities, the abilities of each member must be evaluated to assign them appropriate duties.
- **Effective Communication Network**: To ensure information flows smoothly from lower to higher levels and vice versa, clear authority lines must be drawn. Optimal organization fosters cooperation among individuals at the same or close levels, reducing the risk of informal relationships and structures.
- **Flexibility and Simplicity**: The structure should allow modifications as required by development, without drastic changes. It should also remain simple, avoiding unnecessary units or an excessive number of supervisors relative to subordinates.
- **Organizational Stability**: Changes should only occur for strong reasons. Tasks should not be created to suit an individual, nor should responsibilities be split just to accommodate someone else.

6. Stages of Organization

Organizational structuring reflects the institution's plans and objectives and proceeds through the following stages:

1. **Announcing Objectives**: Objectives must be clearly announced so they can be understood. Based on these, institutional and individual activities are defined, and overall work is broken down into individual tasks.
2. **Grouping Related Tasks into Units**: Similar tasks and functions are grouped into single units if they are of the same nature or are interrelated.

3. **Defining Duties and Functions of Each Unit**: Responsibilities must be clearly assigned to each unit leader, defining who evaluates their performance and who has the authority over them. Analytical, guiding, and advisory functions must be well defined.
4. **Assigning Personnel to Various Positions**: The right person must be placed in the right position.
5. **Determining Methods for Integration**: This involves coordinating efforts toward achieving the organization's goals efficiently. Institutional success depends on coordination across different units. Effective coordination tools include **committees**, whether temporary (ad hoc) or permanent and executive ones. Their advantages include assisting the general manager, correcting decisions, and representing the interests of different parties.

7. Principles of Organization

These include:

7.1. Span of Control:

This refers to the number of individuals a manager can efficiently and effectively supervise. There is no definitive number, but generally, it ranges from 10 to 30 employees for general staff, and 3 to 8 for administrative staff. In routine tasks, employees are trained to perform specific duties, and as they master them, supervision needs decrease. However, supervision remains important for maintaining quality and efficiency.

7.2. Unity of Command and Leadership:

This principle stresses that each subordinate should report to only one superior. A subordinate answering to multiple superiors for the same task can lead to confusion, procrastination, favoritism, and dissatisfaction, resulting in chaos and overlapping responsibilities.

7.3. Centralization and Decentralization:

Organizational power can be distributed in two ways:

- **Centralization**: Power is concentrated at the top level of management. It is used to reinforce administrative control and central authority.

- **Decentralization**: Power is distributed from the central authority (top management) to other units that operate under the former's supervision. As organizations grow and expand geographically, decentralization becomes more necessary due to environmental differences across branches.

In practice, no organization is entirely centralized or decentralized. Each approach has pros and cons, and the choice depends on several factors:

- **Organization Size**: Larger organizations tend to need more decentralization.
- **Management Philosophy**: The beliefs of top managers about effectiveness influence this choice.
- **Decision Importance**: Important or sensitive decisions are best made centrally, while routine ones can be decentralized.
- **Availability of Effective Supervision**: Decentralization is viable only if there is an effective control system in place.

7.4. Delegation of Authority:

Authority is the right to direct others, make decisions, and issue orders. Authority creates a relationship between higher and lower positions. It comes from:

- **Formal sources**: Derived from one's official position and its assigned duties.
- **Informal sources**: Based on subordinates' admiration for a leader's wisdom or charisma.

However, a manager cannot delegate all authority, as this would undermine their position. Also, delegation does not relieve the manager of their original responsibility; they remain accountable and can reclaim authority if needed.

7.5. Coordination:

Once an organization is structured into units and departments, their cooperation must be ensured to prevent conflicts and work toward common goals. Coordination means organizing all efforts in the organization to ensure unity of action and efficient resource use. It takes various forms:

- **Vertical coordination**: Between higher and lower levels.

- **Horizontal coordination**: Among similar levels or units.
- **Internal coordination**: Between departments within the organization.
- **External coordination**: Between the organization and other related organizations.

7.6. Authority and Responsibility:

- **Authority** is the right to issue orders and act (or not) to achieve organizational goals. It is linked to one's position and must serve organizational objectives.
- **Responsibility** is the obligation of subordinates to carry out assigned duties under a contractual agreement. While authority can be delegated, responsibility cannot. The original superior remains accountable.

Hence, responsibility always accompanies authority, and they must be balanced.

7.7. Functional Homogeneity:

An organization becomes more effective when its jobs are grouped by functional similarity. Jobs are categorized based on their characteristics and duties, and based on the qualifications needed to perform them. There are two main classification approaches:

- **Employee-focused**: Job classification depends on the employee's qualifications and experience. Promotion is based on seniority, and pay is tied to educational background. Positions are ranked into grades, each with a fixed salary, regardless of job duties.
- **Job-focused**: Classification is based on the nature of the job itself. Jobs are not seen as permanent, and evaluation depends on tenure and length of service.

8. Organizational Theories

8.1. Classical Theory:

This theory treats employees in the organization in a mechanical way, clearly ignoring their human and personal aspects. It views the worker as a machine who must adapt to the working conditions and tasks assigned to them. The theory grants management full authority to control the worker and terminate them at will. It emphasizes the need to set performance standards, the importance of division of labor, and increased productivity.

8.2. Behavioral Theory:

This theory views the individual employee as the foundation of the organization, and argues that they are not driven solely by financial incentives, but also by the fulfillment of various personal needs through the organization. However, this theory has faced criticism, primarily for ignoring the importance of organizational structure, the nature of jobs and tasks, and for reducing the relationship between management and workers to purely human relations. Critics also argue it exaggerates the impact of human relations on productivity and underestimates the role of material incentives in motivating employees.

8.3. Systems Theory:

This theory views the organization as a system composed of interconnected components, each influencing the other. It sees the organization as an open system that interacts with environmental elements and adapts to any administrative problems that may arise. This perspective maintains that an open system can ensure its own stability, continuity, and competitiveness through its integration and interaction with the surrounding environment.

9. Organizational Structures and Influencing Factors

9.1. Organizational Structures

Organizational structuring aims to comprehensively organize the institution so that individuals can work collectively toward a shared goal. These structures group tasks and individuals into administrative units. The design of the organization includes the formal relationships necessary at a given time to accomplish organizational tasks. The organizational chart reflects these planned or formal relationships, determining authority, responsibility, and the distribution of labor and effort.

However, task completion often requires unplanned procedures and decision-making based on informal relationships within the organization—

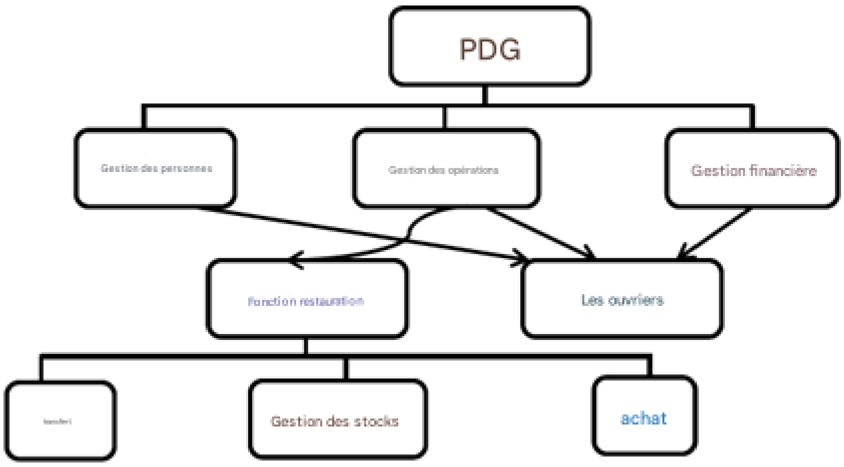
this is known as the *informal organization*, which arises and develops within the formal structure.

There are several types of organizational structures, including:

9.1.1. Functional Organizational Structure:

This structure is based on the actual functions of the institution, such as marketing, production, procurement, HR, etc. It is the most common type used by small organizations for grouping activities and resources. It makes each function clearly visible by grouping tasks and workers into departments according to their function.

Figure (02): Functional Structure



Source: Souad Naif Bernouti, Human Resource Management, Amman: Dar Wael for Distribution, 2004, p. 54.

Advantages:

- ✓ Effective and easy supervision of interrelated operations.
- ✓ Based on specialization, making each function distinct.
- ✓ Encourages productivity and efficiency.
- ✓ Effective use of resources and economies of scale.
- ✓ Flexible.
- ✓ Facilitates monitoring and control.
- Suitable for stable environments.

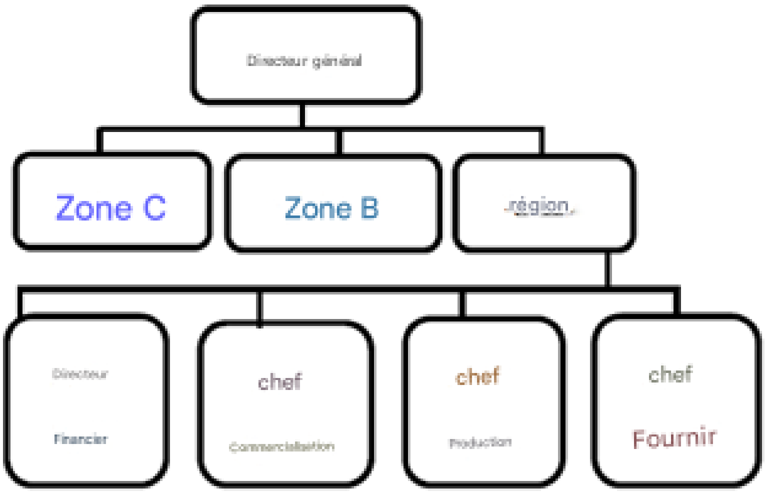
Disadvantages:

- Limited coordination, as the structure is based on separate functions; coordination becomes the general manager's responsibility, making it difficult and time-consuming.
- The general manager is responsible for resolving conflicts at all levels, leading to task overload and neglect of more important duties.
- Activities are centralized.
- Best suited for small organizations or those with homogeneous products and markets.
- Rigid and unable to adapt to strategic changes due to its alignment with stable environments.

9.1.2. Divisional Structure (by Department):

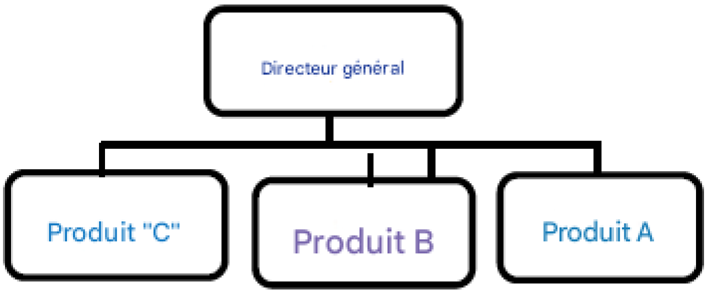
When products, markets, geographic areas, or customer segments are diverse, activities can be grouped into divisions. Each division may focus on a specific product or customer type. Functional roles are not separated but appear within each division. Large organizations with multiple branches often adopt this structure, which is not suitable for companies with a single product. It is based on products or markets (regions), each forming a homogeneous division with its own autonomy

Figure (03): Organizational Structure by Region



Source: Abdelrazek Ben Habib, Economics and Management of the Institution, University Publications Office, Algeria, 4th ed., 2009, p. 63.

Figure (04): Organizational Structure by Product



Source: Same reference as above.

Advantages:

- ✓ High responsiveness.
- ✓ Encourages specialization within departments.
- ✓ Increases productivity due to specialization and ease of coordination.
- ✓ Coordination is easier since each division manager coordinates internally.
- ✓ Decentralized authority and responsibility, reducing the burden on the general manager. Responsibilities and authorities are clearly defined, enabling better performance monitoring.
- ✓ Conflicts are resolved at the division level, saving time.
- ✓ Suitable for medium and large organizations. It can be adapted based on regions, areas, and countries, making it suitable for multinational corporations.
- ✓ Enables the development of highly skilled strategic planners.

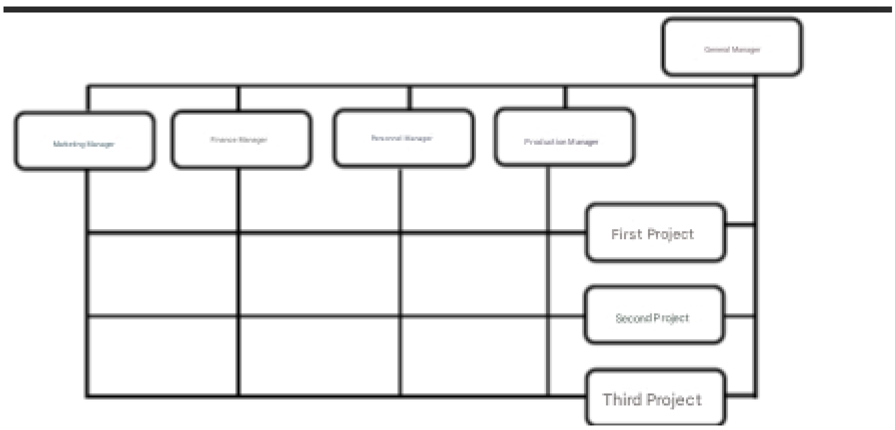
Disadvantages:

- ✓ Not suitable for small organizations or those with a single product.
- ✓ May result in interdepartmental dependency in terms of performance and goal achievement.
- ✓ Economies of scale are often lost due to departmental decentralization.
- ✓ Managing interdepartmental and regional relationships becomes increasingly complex.

9.1.3. Matrix Organizational Structure:

This structure simultaneously considers the distribution of both functions and departments. Each individual has a role that belongs to a department within the organization. The matrix structure emerged in the 1970s and, because it integrates both functional and divisional structures, each part is linked to a functional area on one hand and to a department on the other, as illustrated in the following figure

Figure (05): Matrix Structure



Source: Sinan Al-Moussawi, Human Resource Management and the Impact of Globalization on It, Majdalawi Publishing and Distribution, Jordan, 2004, p. 47

Advantages:

The matrix structure is characterized by the following:

- ✓ A flexible structure that allows the organization to eliminate any product, department, or branch at any time without affecting the overall organizational structure.
- ✓ Suitable for large and medium-sized organizations; it has been used in Algeria particularly in the maintenance sector.
- ✓ Facilitates the implementation of mutual adjustment mechanisms and enables faster adaptation to complex problems such as facing risks and threats.

Disadvantages:

The matrix structure has several drawbacks, including:

- ✓ The principle of unity of command is not applied, which may cause individuals to abandon their responsibilities.
- ✓ Overlapping responsibilities due to the lack of a single command can lead to frequent internal conflicts.
- ✓ Difficulty in monitoring and control due to overlapping responsibilities.
- ✓ This structure tends to be chaotic, with frequent power struggles, excessive meetings, and decision paralysis—thus requiring a high level of managerial skill.

9.2. Factors Influencing the Design of Organizational Structure

These factors can be grouped as follows:

9.2.1. Internal Factors:

- **Size of the organization:** The larger the organization, the greater the need for division of labor and specialization.

- **Diversity of activities and products:** A greater variety increases the complexity of the organizational structure.
- **Employee characteristics:** The more improved the employees' living conditions and educational levels, the less rigid and more flexible the structure becomes, with greater participation in decision-making.
- **Geographical spread:** As the organization expands its geographic coverage, the number of regions it serves increases, leading to a greater tendency to divide labor.

9.2.2. External Factors:

- **Stability of the environment:** An unstable environment requires highly flexible and dynamic structures.
- **Degree of technological change:** A high rate of technological change necessitates adjustments in both the organizational structure and the preparation of units.

Lecture 04: Functions of the Economic Institution

The performance of an institution is the result of the interaction and integration of its subsystems to achieve the desired general objectives. Institutions are divided into subsystems according to various criteria. Based on the functional criterion, the institution is divided into a set of functions, each comprising a group of similar and homogeneous activities. Due to the simplicity of this criterion and its applicability to various types of institutions, it is commonly used to divide the organization into a number of actual functions.

In the following section, we will focus on three main functions of the institution: **Production**, **Finance**, and **Human Resource Management**.

1. The Production Function in the Economic Institution

1.1. Definition of the Production Function

The production function is one of the most important functions in both production-based and service-oriented institutions. It can be defined as the activity concerned with transforming inputs—such as raw materials, labor, equipment, and capital—into outputs in the form of goods and services according to specific standards.

The importance of production activity varies depending on the nature of the organization's work, especially between organizations that operate in industry and those that operate in commerce or services. It holds greater significance in organizations that produce tangible goods (e.g., factories) compared to those that provide services (e.g., shops or banks), as production in factories involves creating **form utility**—changing the shape of raw materials or services through chemical, mechanical, electrical, or manual processes.

These processes are carried out through complex physical facilities such as machinery and equipment. On the other hand, production activity in shops or banks typically involves creating **time, place, and ownership utilities**.

This function is usually carried out by a specialized administrative unit called **Production Management** in industrial organizations. In service organizations, it is carried out by a unit typically called **Relations Management**.

1.2. Objectives of the Production Function

As a primary activity within organizations, production aims to achieve several key objectives:

- ✓ Producing at the right time through proper production planning and scheduling.
- ✓ Producing in the required quantity within the available production capacity.
- ✓ Producing according to defined specifications and desired quality levels.
- ✓ Producing at the lowest possible cost using available financial resources.

1.3. Trends in Production Management Development

This era is marked by sudden changes and radical developments in various fields, including production management. The most notable development trends include:

- ✓ A focus on Total Quality Management (TQM), not just product quality.
- ✓ Expansion in applying the principle of specialization, which helps reduce costs, increase production, and improve quality.
- ✓ Technological advancements in machinery and production methods, boosting organizational production capacity and output.
- ✓ Increased importance of training for all managerial levels, both new and existing employees.
- ✓ Significant budget allocations for research and development (R&D).
- ✓ Use of quantitative methods in production management, requiring qualified managers capable of handling such techniques.

1.4. Types of Production

Production types refer to how raw materials are handled or how assembly and manufacturing operations are conducted to produce the final product. Some processes are individual (producing one unit at a time), while others are repetitive or continuous. Generally, production can be classified into three main types:

1.4.1. Batch Production

This system specializes in producing a wide range of products that differ in uses, shapes, specifications, and manufacturing technologies. This category includes:

- Large batch production
- Medium batch production
- Small batch production

Batch production is characterized by intermittent production, which requires high-level skills and efficiency in programming and scheduling production operations. A good example is the electrical industry.

Drawback: In batch production, no unit can be released until the entire batch is completed. This means the first unit must wait until the last one is produced.

1.4.2. Make-to-Order Production

In this model, production is based on specific customer orders for large-scale, technologically intensive goods, such as ships or aircraft, which are built on a single production line.

Characteristics of make-to-order factories:

- Products are manufactured in relatively small quantities per order.
- Internal factory setup groups similar machines within one department.
- Potential workload imbalance across departments (some may require overtime while others may be idle).
- Workers must be highly skilled due to constant machine setup for new custom orders.
- Workers need detailed, accurate instructions for each order (what, when, where, how much to produce, and progress reporting).
- High raw material inventory levels due to irregular withdrawals from storage.

Note: Repeated orders for the same product make execution easier and more precise. The responsible manager can also anticipate and prevent production issues.

1.4.3. Continuous Production

This model assumes that the goods are in constant demand by customers. The factory must therefore be equipped to produce multiple products, and its internal layout should be flexible enough to handle different items using the same core processes.

This method is used after assessing product compatibility, as seen in **automobile** and **electrical manufacturing** industries.

A key requirement is **production line balance**, achieved by equalizing operation times for each stage of manufacturing, thus minimizing wasted time due to synchronization issues.

Characteristics of continuous production factories:

- Large volumes of standardized products.
- Use of production lines.
- Balanced machine capacities to avoid delays between processes.
- Use of specialized machinery.
- Low-skilled workers to operate machines, requiring fewer personnel.
- Planning and supervision require highly skilled staff.
- Executing workers require minimal instruction.

1.5 – Production Operations Planning:

Production operations planning is considered one of the most important topics in production management because it involves planning and taking precautions to face future changes. The planning process is based on defining the steps of production operations and how these operations proceed and follow one another, with the aim of delivering the product in the required quantity, with the specified specifications, and at the lowest possible cost. Production operations planning includes the following:

1.5.1 – Production Capacity Planning:

Production capacity planning involves long-term strategic decisions since the construction and design of the factory, and the purchase of machinery and essential equipment, depend on strategic decisions related to

production capacity.
Production capacity levels can be divided into:

- **Design Capacity:** The maximum output a machine is designed for, which cannot be fully achieved due to operational (technical) constraints. It assumes that the machine runs at full speed without interruption throughout workdays using all the necessary resources.
- **Available Capacity:** The capacity that can be utilized under normal conditions, which is always less than the design capacity for operational reasons.
- **Actual Capacity:** The capacity based on what has actually been utilized from the available capacity. It may sometimes equal or exceed the available capacity.

1.5.2 – Setting the Production Plan:

The production plan refers to the production rates required during a specific time period. The plan consists of the following main parts:

- Forecasting future demand by studying market conditions.
- The adopted marketing plan.
- Direct customer orders.

The production plan reflects the management’s aspiration to offer certain quantities of a locally produced product to meet market needs. Sometimes, the management may be overly ambitious, leading to a burden that exceeds the actual production capacity. This imbalance creates bottlenecks in the production process.

1.5.3 – Operations Scheduling:

The production plan outlines the quantity, size, and weight of each product to be manufactured. Based on this, a production schedule is created within a timeframe that determines when work starts and ends. Scheduling activities are divided into:

- **Routing:** Determining where the work will be done.
- **Scheduling:** Determining when the work will be done.
- **Dispatching:** Issuing orders to start the work.
- **Control:** Monitoring the operations to ensure they are being carried out according to the schedule.

Based on routing and scheduling, material and labor needs are determined and arranged to ensure availability at the right time. It is crucial to emphasize production scheduling to ensure timely order delivery without delays.

1.6 – Organizing the Production Function:

The production function is carried out by a specialized administrative unit, which may be a department or division, depending on the importance of production in the organization. The production function is responsible for designing, operating, and controlling production system activities through planning, organizing, directing, and controlling operations.

Key responsibilities of the production department include:

- **Product Design:** The product is the core of all production and operations decisions. The characteristics of the product design greatly influence the production system and its operation. The raw materials used impact the type of machinery required.
- **Capacity Planning and Process Design:** The company must address two key issues during the design phase—how the product will be manufactured and the required production capacity.
- **Site Selection and Layout Planning:** Choosing the project site and arranging production and service units accordingly, along with planning for equipment and workstations.
- **Job Design and Work Organization:** The chosen production process affects the number of workers and the level of skill required.
- **Product Quality:** The company's philosophy on quality is vital in shaping its competitive strategy. Quality considerations influence the design and operation of the production system and are directly affected by product design, equipment, maintenance, employee training, material types, and quality control methods.
- **Coordination Between Production Resources and Demand:** Matching the production plan to available resources based on product demand. This includes decisions on workforce hiring, training, or downsizing, and whether overtime is needed—all aligned with production scheduling and inventory management.
- **Resource and Asset Management:** Ensuring the availability of materials and assets for operations, including the scheduling of

procurement in terms of type, quantity, and timing, and identifying suppliers.

- **Work Scheduling and Workload Management:** This ongoing function determines which orders should be processed in each operation and how to sequence them to reduce inventory levels and minimize production time.

1.7 – Production Control:

Production control is the final stage in the administrative process related to production. Effective control is essential for organizational success. The goal is to ensure the smooth running of the production process and that everything proceeds as planned without deviations. This involves continuous monitoring of production operations. There are four stages of production control, each dependent on the one before it:

- **Planning:** Control procedures can't begin without a prior plan and pre-set standards for comparison. Both short- and long-term production plans must be coordinated.
- **Performance Measurement:** Management must measure implementation levels through performance records that track progress.
- **Comparing Actual Performance to the Plan:** This step involves comparing actual performance with the planned targets.
- **Deviation Identification:** After the comparison, deviations from the plan are identified, which could be positive or negative.
- **Corrective Actions:** If negative deviations exist, corrective actions are taken after investigating the causes. This is a crucial step in any control system.

2. The Financial Function in the Economic Enterprise

2.1. The Nature of the Financial Function:

The financial function is considered one of the essential functions of any ongoing project. Financial management is responsible for planning and securing the organization's financial needs, whether in the short or long term, and at the lowest possible cost. In addition, it includes managing the organization’s funds in the most efficient way, as well as establishing and implementing a financial control system that covers all financial aspects of the organization.

The financial function is not limited to existing projects but extends to projects in the process of being established. It plays a fundamental role in organizing the feasibility study of the project and determining the optimal capital size. It is also responsible for issuing shares and coordinating with banks to organize and underwrite them.

Traditionally, the term "financial management" referred to the means of obtaining and managing funds to meet the financial needs of the organization. However, the modern concept of financial management also includes spending those funds, with a focus on their optimal use.

2.2. The Importance and Objectives of the Financial Function:

The financial function is one of the most important functions of an enterprise due to the significant impact financial decisions have on the continuity of the project. Many decisions—such as building a new factory, expanding an existing project, launching a new product, increasing capital, or obtaining a loan—can have major implications for the project's future success or potential failure. Therefore, the financial manager must be accurate in analysis and credible in drawing conclusions and providing recommendations.

In terms of objectives, profit maximization is often at the forefront of the financial function's goals in any commercial, industrial, or service project. This concept has evolved to also focus on maximizing the owners' wealth and achieving fair profits and an appropriate market share.

Maximizing shareholders' wealth is a strategic objective for financial management, and this is due to several reasons:

- It is a long-term strategy that seeks to increase the financial value of shareholders' investments by approving investment proposals that raise the market value of the enterprise. Within this strategy, the financial manager operates under conditions of uncertainty and must compare different returns with their associated risks. This risk-return relationship helps justify investment decisions and build strategies that organize shareholder wealth within an acceptable risk level.

- The strategy of wealth maximization also considers that shareholders value regular cash distributions. Thus, investors' and shareholders' awareness of the company's policies and the stability of its distributions can affect the market value of the stock. As we know, any increase in the market value of a shareholder's stock automatically leads to an increase in their wealth.

2.3. Financial Planning:

Financial planning is the first and most fundamental step in the financial function. It is necessary for financial management to predict and take precautions for unexpected events. In general, financial planning includes the following activities:

2.3.1. Estimating Financial Needs:

The organization estimates its financial needs for upcoming periods in light of its future plans, which are translated into numbers through budgeting. The organization may need funds to increase its investments in fixed and current assets if its production capacity reaches a point where it cannot meet the demand for its products or services.

These investments—whether aimed at increasing the organization's productive capacity (e.g., adding new production lines) or working capital investments—require additional funds. The organization must estimate and manage these properly. Estimating financial needs is a core responsibility of the financial manager, who must understand the scientific and practical procedures and methods necessary for this task to avoid problems arising from mismatches between cash inflows and outflows.

2.3.2. Identifying Sources of Funds:

Sources of funding for any organization are generally divided into two categories:

A. Internal Sources: These include capital, meaning sources that originate within the organization itself. Many organizations, especially small ones, rely on their owners' capital—funds owned solely by the proprietors—to finance their financial needs.

B. External Sources: These include issuing bonds and borrowing from banks and financial institutions. Some organizations rely on borrowing in varying proportions as part of their financial structure.

Both types of sources come with associated costs, and good management should opt for the least costly sources while monitoring the level and nature of indebtedness within acceptable limits.

There are five factors that influence the decision regarding the type of financing:

- **Suitability:** This refers to obtaining funds that are appropriate for the type of assets being used or purchased. Management aims to align the nature of the funds with the assets they will finance. Organizations typically use short-term sources for current assets and long-term sources for fixed assets.
- **Generated Income:** Maximizing income is one of the main goals of financial planning when choosing the type of funds to use in the financial structure. The financial manager seeks to increase the return on investment by using borrowed funds—in other words, by leveraging external funds to assist the capital of owners in financing operational needs.
- **Risk Level:** Risk refers to the likelihood of owners receiving a certain portion of the realized return. Since owners are last in line during liquidation, they are the first to feel financial distress if the project fails. As such, they bear the primary investment risks. Financial management must therefore assess potential risks to ensure the project's continuity, maintain high return rates, and protect the owners' rights.
- **Flexibility:** Flexibility refers to the ability to adjust the amount of funding—either increasing or decreasing it—based on changing needs. For example, when borrowing to finance current assets, it is preferable to use sources that allow for increasing the funding when needed or repaying larger amounts if surplus liquidity becomes available. Flexibility is crucial during periods of expansion (requiring more funds) and contraction (requiring fewer funds).
- **Timing:** Timing is a key factor affecting the cost of borrowed funds. Good timing in financing and borrowing can result in significant savings. Therefore, financial management must consider this factor carefully when making financing decisions.

Liquidity and Profitability: Financial management faces a major task in balancing two core principles: liquidity and profitability. On one hand, it must invest funds in areas that generate the highest profits for the organization. On the other hand, it must ensure enough liquidity is maintained to meet the organization’s obligations as they fall due.

There are two types of liquidity (or financial solvency):

- **True financial solvency:** The company’s ability to pay all of its debts from its assets in the event of liquidation.
- **Technical financial solvency:** The company's ability to generate enough cash to meet its financial obligations when due.

A company may be solvent in terms of total asset value but insolvent in practice if its funds are tied up in non-cash assets. Conversely, a company may technically be solvent and able to meet its short-term obligations, even if it would be insolvent upon liquidation.

Thus, the fundamental challenge for financial management is managing assets to ensure the company always has enough liquidity to meet its obligations on time. Failure to do so could lead to technical insolvency, which might ultimately result in bankruptcy.

2.4. Organizing the Financial Function:

The organizational structure of financial activities varies from one organization to another and may also change over time. Therefore, there is no single, universally best organizational model that suits all organizations at all times. The structure of the financial function is influenced by several factors, including the organization’s size, product or service diversity, geographical spread, level of technological application, and management’s view of the importance of the financial function.

Organizing the financial function involves:

- Defining the tasks to be performed
- Establishing the appropriate administrative units
- Assigning specific responsibilities to employees
- Setting the qualifications and conditions required for each employee to perform their duties effectively

When organizing the financial function, top management must determine the most appropriate structure—whether to rely on external consultants or solely on the internal financial department. Management must also decide the level of centralization or decentralization for each financial activity.

The concept of the financial function is consistent across all types of organizations; it exists in every project, regardless of size or nature. However, the specifics of the financial function—its importance and position within the organizational chart—may vary from one project to another. In most cases, it is advisable not to delegate financial authority to lower administrative levels. This is because financial decisions are sensitive and critical in profit-driven organizations, and they can significantly impact the project's future.

In terms of internal organization, functional division is often considered the most suitable approach for defining the main and sub-units of the financial structure. For example:

- One unit may handle financial planning,
- Another may manage accounting,
- A third may focus on identifying investment opportunities,
- And a fourth may oversee fund disbursement control.

2.5. Financial Control:

Every function should have a specific system of financial control that evaluates financial decisions and compares planning with execution. For financial control to be effective, it must rely on planned figures and standards used to compare actual performance figures. This allows identifying the nature and extent of deviations from the set plan. Financial control is not limited to detecting and identifying deviations but extends to analyzing these deviations, studying their causes, and taking corrective actions.

Financial control can be classified in many ways, the most important being classification by timing of occurrence, divided into three types:

2.5.1. Preventive Control:

This control aims to avoid errors before they occur and prepare to face them in advance. Examples include setting certain financial systems, such as requiring the financial controller's signature on any payment document before disbursement, or a purchasing system where one employee selects materials, another makes the purchase and payment, and a third records the items into inventory, etc.

2.5.2. Concurrent Control:

This control occurs during work performance, meaning it coincides with the actual execution of tasks. It may happen in several stages, which helps detect errors as they occur and address them to prevent accumulation and worsening.

2.5.3. Subsequent Control:

This control is applied after work completion. It involves comparing planned figures with actual execution to detect, identify deviations, and work on correcting them.

From the perspective of the source of financial control, it can be classified into two main types:

- **A. Internal Control:** Internal control takes place within the organization and may be conducted by the financial manager or controller over financial activities such as purchases and expenses. Many organizations also have internal audit units performing financial control tasks.
- **B. External Control:** External control is performed by specialized external oversight bodies, such as external audit firms, which seek to verify the accuracy of accounting records, the correctness of reported data, and their compliance with generally accepted accounting principles.

3. Human Resource Management Function

3.1. Definition of Human Resource Management Function:

This is one of the essential and primary functions or departments in all types of organizations. Its focus is all the human resources working within the organization and all related functional matters from the time of their hiring until the end of their service. This department carries out a variety of activities (functions, tasks) and practices related to human resources under a special strategy that supports and serves the organization's mission and strategy.

These activities and practices include a wide range of functions and tasks related to important dimensions such as assessing the organization’s human resource needs and providing them with the required specifications and at the right time according to the needs of implementing the organization’s future strategy and goals. It also involves training and developing the organization's human resources and providing a suitable physical and social work environment that helps them perform effectively.

Other important activities include motivating these resources, assisting them in achieving their goals and aspirations, solving their problems, striving to align their goals with those of the organization, instilling love for work, loyalty, and belonging to the organization. The HR function also includes ensuring safety and health in the workplace and providing job security and stability.

One of the most important roles of this department is to make the workforce a unified, cooperative, and supportive team that works at a high organizational effectiveness level, coordinated with the organization’s strategy to achieve its mission and future goals. Since the human element is central to HR management, it naturally relies on human behavior theories in its practices.

In summary, the HR function in modern organizations is the primary management responsible for optimizing the use of human resources through a strategy that includes multiple policies and practices consistent with the organization’s strategy and mission and contributes to achieving them.

3.2.Framework of Human Resource Management and Its Practices:

HR management activities and practices cover many functions and activities related to employment and work in organizations of various types. Collectively, these constitute the scope and field of HR work within the organization, including:

3.2.1. Human Resource Formation Function:

This is a primary activity consisting of integrated, interconnected sub-activities forming a series of tasks through which HR management provides the organization’s human resource needs of various kinds, according to specific specifications (skills, experience, capability, etc.) to fill existing positions. These sub-activities include:

- **Job Design and Analysis:** This activity defines the duties and responsibilities of organizational jobs and the specifications and conditions required for candidates or appointees.
- **Human Resource Planning:** This estimates the organization's future human resource needs in terms of quantity and types, based on the results of job design and analysis.
- **Recruitment:** Based on the results of the previous two activities, this involves attracting human resources from the labor market to apply for employment in the organization.
- **Selection and Appointment:** This activity selects the best candidates from those attracted, using selection criteria developed from job design and analysis, and appoints them to suitable vacant positions.
- **Orientation/Training:**
  This involves providing initial training to newly selected and appointed personnel to enable them to perform their duties effectively from the start.

In light of the above, the human resource formation function is an integrated process aimed primarily at selecting the best candidates and assigning them suitable tasks.

3-2-2- Compensation Function:

The Human Resources Department, through this main function, designs several systems based on which the compensation and rewards for the human resources working in the organization are set, according to objective and fair principles and rules. These systems include the following:

- **Job Evaluation System:** To determine the value and importance of each job in the organization, based on the results of job design and analysis, which clarify the extent of responsibilities, job difficulty, and the specifications of its occupants. Based on the evaluation results, the direct financial compensation that each job deserves and which its occupant receives is determined.

- **Direct Financial Compensation System:** This is a salary and wage structure designed by the Human Resources Department, including criteria on which the salaries and wages of human resources are paid. This structure and its criteria are designed based on the results obtained from job evaluation.
- **Financial Rewards System:** This is a financial incentive system prepared by the Human Resources Department to reward those who work diligently, actively, and efficiently, as determined through performance evaluation results. This system supports the direct financial compensation system.
- **Additional Employee Benefits System:** Also called indirect compensation, it is a non-financial incentive system in the form of various services enjoyed by everyone working in the organization. Examples of such services include health insurance, social security, etc.
- **Performance Evaluation System:** A set of principles, rules, and controls used to evaluate the performance and efficiency of human resources at work. Based on evaluation results, diligent employees are compensated and rewarded, financially distinguishing them from less efficient ones.

It is worth noting that the above-mentioned systems or functions are interconnected and integrated, all aiming to achieve a main goal: providing fairness and objectivity in compensating human resources.

3-2-3- Training and Development of Human Resources:

This function includes two complementary sub-activities aimed at making human resources a competent and highly performing workforce to meet the demands of achieving the organization’s strategy and goals. This function consists of:

- **Learning and Training:** This activity aims to impart new skills to human resources based on performance evaluation, addressing weaknesses and strengthening strengths to develop and improve their performance and enable them to fulfill required tasks effectively in the present.
- **Development:** This activity aims to develop the future performance of human resources to qualify and enable them to perform higher-

level jobs in the future. It involves continuously providing them with new knowledge and enabling them to adapt to changes in the organization.

3-2-4- Maintenance of Human Resources:

Like other HR functions, the maintenance function consists of two integrated sub-activities aimed at ensuring the safety and health of human resources in their workplace:

- **Providing Safety:** By designing joint technical and administrative programs to protect human resources from work-related accidents and injuries they may face while performing their duties.
- **Providing Health:** By designing medical and environmental health programs that protect human resources from diseases caused by the nature and physical environment of the work.

3-2-5- Human Resources Relations:

This function includes two main sub-activities:

- **Integration of Human Resources:** An activity through which programs are designed to activate the participation of human resources in work and decision-making, provide social care, treat them humanely, and resolve organizational conflicts that arise among them in work teams or between them and the organization's management. All this aims to achieve loyalty and belonging toward the organization they work in.
- **Labor Relations:** Previously called "industrial relations," this activity represents the organization's relationship through the HR management with labor unions. The HR management negotiates on behalf of the organization's owners regarding work and employment matters and concludes agreements related to these issues.

3-3- Challenges Facing Human Resources Management:

The world today is evolving, with many changes occurring across political, economic, social, civilizational, and cultural levels. These transformations have required Human Resources Management to also develop in order to keep pace with these changes. The most important challenges it faces include:

- **Labor Market Shift:** Due to the decline of labor in the agricultural sector and its increase in industrial, commercial, and service sectors, affecting employment systems, legislation, and laws.
- **Global Competition:** The world today is a small village or a multi-story building where economies are interconnected and affect each other. Any event in one country impacts the global economy. The massive development in media means intense competition among manufacturing companies. This has caused some national institutions to close due to their inability to keep up with global momentum and dominance of large companies.
- **Shift in Job Interests:** There is a clear shift towards new specializations that appear from time to time, increasing demand for fields such as computing and programming, information technology, accounting, and precise professional jobs, leading to opening operational specializations accordingly.
- **Qualification Levels for Jobs:** Graduates face difficulties when seeking employment due to gaps between required skills and their own. This has led to an expansion of training centers preparing individuals for work and pushed organizations to impose conditions that some consider strict during recruitment.
- **Globalization:** A major challenge for global organizations and their HR departments is this sweeping global trend, with its positives and negatives, as the world transforms into a free, interconnected economic system, etc.

Therefore, Human Resources Management, with its competencies, expertise, information base, and data, can adapt to all the above challenges with the aim of serving its communities and human resources.

3-4- Organization of the Human Resources Function:

The status of HR management is influenced by the volume of tasks it performs and the size of the human element (number of employees). The greater the number, the larger the HR department, in addition to the organization's size, characteristics of the labor market, workforce stability, and supply-demand conditions.

Thus, the organization of HR management in the organization can take one of the following forms:

- **Independence:** Where HR is an independent department like marketing, production, or finance. In this case, HR consists of several sections such as recruitment, training, public relations, employee services, etc.
- **Assigning an Employee in Each Department for HR:** Where each department has a specialized employee responsible for personnel affairs, with major and strategic decisions centralized and held by the general manager (top management).
- **Relationship of HR with Other Departments:** HR management is concerned with all employees in every department. Some tasks are done collaboratively between departments, with initial work done in departments and completed by HR. Hence, the nature of relationships and tasks practiced assumes a certain organizational structure for HR.

3-5- Training and Incentives in Human Resources Management:

Training is a planned and organized effort aimed at imparting new knowledge or refreshing old knowledge, new skills, and changing or building attitudes among participants.

Training is a continuous and ongoing process. It is noteworthy that interest in training is rapidly increasing, as evidenced by the spread of training centers worldwide, large financial allocations for training, advancements in training tools and methods, and strong demand from organizations. This is clear evidence of a training revolution.

Training, past, present, and future, has and will continue to hold an important and prestigious place due to its importance and organizational need. Training, whether individual or group, before, during, or after employment, inside or outside the workplace, remains demanded by workers to increase their knowledge and skills. Training is seen as a long-term human investment whose positive effects reflect on performance and organizational profitability.

The Human Resources Department is responsible for the training section in organizations. It identifies training needs, designs training programs, selects time and place, estimates costs, and chooses trainers.

Therefore, HR is the most important element in organizations, requiring continuous training and development.

Incentives are what the organization provides to the employee, whether material or moral, to reinforce certain behaviors, increase productivity, and achieve profitability. The importance of incentives in organizations lies in their close link to job satisfaction and productivity. Because incentives satisfy certain employee needs, they direct behavior purposefully toward organizational goals.

It is the responsibility of HR to recognize employees' needs, monitor their performance evaluation, and continuously motivate them. Many organizations may have similar basic salaries but differ in incentives, which attracts talented employees.

Lecture 05: Tools of Economic Analysis

Economics is based on two main levels: microeconomics and macroeconomics. Economic analysis is the link between economics at these two levels and managerial and economic decision-making. It provides choices among available alternatives and forecasts future changes, using various tools, whether theoretical or applied.

1. Nature of Economic Analysis

1-1. Concept of Economic Analysis:

Economic analysis is defined as a branch of economics, a scientific method through which we can explain the factors influencing the behavior of economic phenomena, utilizing logical tools to derive different economic theories. This is done by breaking down an economic phenomenon into simple elements, then formulating explanatory hypotheses based on causal relationships. The economic method relies on logical and applied conclusions.

1-2. Objectives of Economic Analysis:

The objectives of economic analysis include:

- Due to the increase and diversity of individuals' needs under conditions of relative scarcity of resources, a main objective of economic analysis is to clarify how economic institutions distribute society's resources and coordinate their distribution to satisfy individuals' needs.
- Economic analysis aims to evaluate the efficiency of economic projects in distributing and coordinating resources to satisfy consumer desires, where economic welfare is achieved when members of society reach the highest possible satisfaction through the best use of resources and their distribution among various uses.
- It assists in shaping public policy, as economic analysis does not only clarify how the economic system works but also how it works successfully.

2. Levels of Economic Analysis

At different levels, we distinguish between microeconomic analysis, macroeconomic analysis, sectoral analysis, and global analysis.

2-1. Microeconomics:

Deals with individual units in the economy, usually the individual, household, or firm. It focuses on consumer behavior and how the household distributes its income by spending on various goods and services. Microeconomics also determines the level of production enabling the firm to maximize profits. It analyzes the behavior of individual economic units, which may be:

- **Consumer units:** such as distributing the limited family income among its needs for goods and services;
- **Productive units:** such as allocating resources owned by the firm among competing activities.

Microeconomics solves problems like:

- How are resources allocated to produce certain types of goods and services?
- How are goods and services distributed among individuals?
- What is the efficiency of this distribution of goods and services?

Microeconomics is used to understand the economy's operation, especially private enterprises, where there is no centralized planning and coordination, and decisions are made by consumers and producers.

2-2. Macroeconomic Analysis:

Generally deals with economic activity at the national (aggregate) level. It addresses aggregate economic variables related to major economic processes: production and national output, consumption, savings, investment, imports, and exports. It studies how to achieve balance among these variables and the effects of imbalance on unemployment, inflation, exchange rates, especially on economic growth and living standards. Main topics include:

- Study and analysis of macroeconomic variables such as total output, national income, employment, general price levels, and general wage levels.
- Aggregate demand (total spending) and aggregate supply (total output of goods and services) and how equilibrium income is determined.

- Analysis of problems related to inflation and unemployment and attempts to find solutions, as well as issues of economic growth and balance of payments.
- Study of the state's role in economic activity through monetary and fiscal policies aimed at economic stability.

Thus, macroeconomics helps us understand how the economy operates by studying national economic variables and aids in formulating economic policies to solve problems related to population growth, inflation, unemployment, balance of payments, and low production levels. It is also used in growth studies.

2-3. Sectoral Economic Analysis:

A modern method proposed by Stuart Holland in 1975, it is a middle ground between macro and microeconomic analysis. It focuses on a particular economic sector (agriculture, industry, services) or a branch of a sector (health, education, transportation, steel industry, chemical industry, etc.).

Sectoral economic analysis increasingly contributes to economic sciences and titles like industrial economics, agricultural economics, service economics, or transport economics are common in economic literature.

2-4. Global Economic Analysis:

A new approach viewing national economies as integrated parts forming a single global economy. This analysis is based on the unlimited development of productive forces, the expansion of multinational corporations, increasing interdependence among countries, and the importance of each region specializing in producing goods and services with relative advantages. It forms a new analysis based on linked growth and progress among all countries.

It examines economic relations between countries and regions not from the perspective of a single country's trade or balance of payments but from the perspective of the effectiveness of customs protection or national economic liberalization in achieving growth and increasing welfare globally.

It also studies the role of international economic organizations in promoting and spreading growth across regions.

3. Types of Economic Analysis

Economic analysis can be divided according to several criteria:

3-1. By Size:

- **Partial (Micro) Analysis:** Also called unit analysis, it studies small economic units representing economic activity.
- **Aggregate (Macro) Analysis:** Focuses on the national economy as a whole, studying national income or output and components of that income, such as unemployment, consumption, and investment.

3-2. By Scope:

- **Partial Analysis:** Focuses on a specific phenomenon assuming other factors remain constant.
- **Comprehensive Analysis:** Studies all changing factors simultaneously, relying on mathematical equations.

3-3. By Time:

- **Static Analysis:** Time factor has no effect; study is at a specific moment. For example, analyzing price effect on quantity demanded at a certain moment only.
- **Comparative Static Analysis:** Studies equilibrium states and transition from one equilibrium to another without considering factors affecting phenomena during the transition period.
- **Dynamic Analysis:** Opposite of static, it takes into account the time factor.

3-4. By Purpose:

- **Positive Theory-Based Analysis:** Studies economic phenomena as they are to understand effects based on real principles, regardless of social acceptability of goals.
- **Normative or Policy-Based Analysis:** Compares the economic system's operation against certain standards and suggests policies. There is debate whether policy suggestion is part of scientific economic analysis; some say it is not, others argue economists' expertise makes them suited to propose policies, which is common in practice.

4. Tools of Economic Analysis

Two main types, treated fully by economic references, are microeconomic and macroeconomic analysis. The main tools include:

- **Demand Theory:** Demand represents quantities consumers want or can buy of a certain good. The demand function relates quantity demanded to price. The law of demand states: "When the price rises, the quantity demanded falls; when the price falls, the quantity demanded rises."
- **Supply Theory:** Supply represents quantities producers are willing to sell in the market at different prices. The supply function is the mathematical relationship between quantity supplied and price.
- **Elasticities:**
  - *Price Elasticity of Demand:* Change in demand resulting from a change in price.
  - *Cross Elasticity:* Measures substitution or complementarity between goods.
  - *Income Elasticity:* Measures effect of income changes on quantity demanded.
- **Utility Theory:** Utility is a measure of benefit an individual gains from consuming goods. A consumer buys a good only if convinced it will benefit them, meaning it satisfies desires. Distinction is made between total utility and marginal utility.
- **Indifference Curves:** Graphs showing consumer preferences and combinations of goods giving the same satisfaction level, as long as on the same curve.
- **Cost and Revenue Functions:** Costs and revenues are crucial. Total cost = total variable cost + total fixed cost. Revenue is the total amount received from selling products.

5. Basic Assumptions in Economic Analysis

Most important assumptions include:

- Economics studies human behavior.
- Trying to know all aspects of behavior or a phenomenon is impossible.
- It is difficult to control all conditions affecting behavior.

Thus, economists rely on some basic assumptions:

- **Ceteris Paribus (Other Factors Constant):** Due to complexity, some factors are fixed as part of the model.
- **Rationality:** The individual sets goals and tries to achieve them logically without conflict. Behavior is rational if it aligns with the goal; otherwise, irrational.
- **Maximization:** The rational individual aims to maximize something:
    - Consumer aims to maximize utility.
    - Producer aims to maximize profit or sales.
    - Society aims to maximize welfare.
- Economic decisions are made to achieve these objectives.

6. Benefits of Economic Analysis

At all levels and methods, economic analysis offers explanations of what happens in the economic world and provides benefits to decision-makers, economic agents, and consumers:

- Clarifies results of different decision alternatives and provides a conscious basis for choosing among them.
- Gives decision-makers at all levels a basis to forecast future changes in costs, prices, etc.
- Provides a scientific tool to formulate economic policies to increase efficiency at project, sector, national, and global levels.
- Provides a scientific basis to judge the efficiency of the economic system and economic performance at all levels.

Lecture 6: Patterns of Economic Enterprise Growth

This lecture aims to define the nature of enterprise growth by addressing the most important theories explaining growth, namely the traditional economic theory, the enterprise life cycle theory, and the internal process theory of growth. Then, it covers various definitions of enterprise growth that differ depending on time, thinkers' opinions, and economic conditions. Finally, it includes the types of growth within an enterprise.

1- Economic Theories Explaining Enterprise Growth

1.1- Traditional Economic Theory:

The new traditional economic theory (neoclassical) contributed significantly through its study of enterprise and market behavior and the ways to achieve general equilibrium between product markets and factor markets.

According to this theory, the enterprise is a "black box" described only by the quantitative elements crossing its boundaries, transforming inputs (capital and labor) into outputs (goods and services) without considering the details of its activity, which it conducts in a perfectly competitive market characterized by five basic assumptions:

- Market equality containing many buyers and sellers, none of whom can set the price;
- Freedom of entry and exit to and from the market;
- Homogeneous products among market enterprises, so competition is only on price;
- Free movement of production factors both among enterprises and markets;
- Information is available and free so that all economic agents simultaneously and freely know the quantities offered and prices.

Thus, the enterprise appears as a production function linking different factors and the maximum quantity it can produce under market conditions.

Based on neoclassical thinking, Penrose (1963) analyzed the fundamentals of the traditional economic growth theory for enterprises, where the size of the enterprise plays a key role in explaining its growth. There exists an optimal size of the enterprise related to productivity, corresponding to the minimum point of the average cost function of the production function under the influence of factor productivity and economies of scale.

The enterprise combines capital and labor to ensure production. In the short run, the analysis assumes one production factor fixed and another variable:

- **Factor productivity:** measures the increase in output resulting from the increase in the variable factor;

- **Economies of scale:** are cost savings with an increase in production volume due to a reduction in unit costs resulting from the distribution of fixed costs over an increased volume of production.

The pursuit of economies of scale analyzes growth behavior and explains the increase in enterprise size (meaning its production) until it achieves the lowest average cost level that corresponds to the optimal size. The enterprise, aiming for profit and production, balances between capital and labor and only increases production if the output of an additional unit gives an extra return (marginal return) higher than the extra cost of this unit (marginal cost), under budget constraints and cost reduction.

Criticisms of this analysis include:

- It is static;
- The assumptions of perfect competition do not align with economic reality;
- The equilibrium price hypothesis means that enterprise growth occurs only in case of market disequilibrium;
- It ignores activity details and considers the enterprise merely a production machine;
- Profit maximization motive is insufficient to explain enterprise growth, and modern enterprises may not adopt profit as a goal;
- The analysis overemphasizes size in explaining growth.

1.2- Evolutionary Theory: Enterprise Life Cycle Theory

The evolutionary theory likens the enterprise to a living organism, considering it an open system in constant reciprocal relation with its environment.

Among evolutionary approaches, the enterprise life cycle theory explains enterprise growth based on the idea that organizational behavior resembles that of living beings, an idea by Marshall (1920) who compared the enterprise to a living organism (a tree) that grows until it reaches its natural size under environmental conditions, then declines due to natural factors.

Boulding (1950) established the basics of enterprise life cycle theory by applying Von Bertalanffy’s (1973) systems theory to enterprises and their evolutionary nature. Boulding stressed that the enterprise’s continued activity is more important than profit seeking, and the environment determines which enterprises generate profits enabling them to survive and grow.

The life cycle theory has contributed to modeling organizational development, showing that enterprise development is a sequence of five stages representing the enterprise's life:

- Birth: the emergence of the enterprise in economic life;
- Growth: the phase where the enterprise organizes and structures;
- Maturity: the optimal phase that all enterprises seek;
- Decline: the phase preceding enterprise disappearance;
- Death: when the enterprise exits economic life.

According to this theory, growth is just one phase in the enterprise's evolutionary process resulting from its interaction with the environment, representing the ascending phase in the enterprise life cycle accompanied by organizational complexity.

This theory overcomes many shortcomings of the previous one by featuring dynamic analysis and interaction with the environment. However, the analogy of the enterprise as a living organism was criticized because living organisms grow only to a certain extent and within a certain timeframe, whereas enterprises can achieve continuous, unlimited growth.

1.3- Internal Process Theory of Growth

Penrose developed a general theory of enterprise growth based on the internal process of enterprise development. This growth process theory rests on the key idea that the enterprise's resources alone enable growth opportunities and determine the degree of growth achievable within a given period. According to this theory, the enterprise can achieve continuous growth by expanding and diversifying its activities, driven by resource renewal.

The enterprise initially plans its activity, determining the necessary amounts of production factors, then strives to use these factors efficiently. However, indivisibility of production factors causes some resources to remain partially unused, pushing the enterprise to expand into other activities using surplus (idle) resources from the previous activity, which also requires acquiring new resources. Implementation of new activities then leaves other resources unused, and the enterprise resumes growth anew.

Thus, this theory is based on the idea that resource renewal drives enterprise growth, but the enterprise must carry out this renewal properly. For this renewal to be effective, Penrose requires that enterprise managers have sufficient expertise to understand and diagnose the environment and seize growth opportunities.

Resource-based theories by Hamel (1994), Prahalad (1995), and Teece et al. (1997) emphasize the importance of competencies, skills, and teamwork for enterprise survival and growth. Chandler (1990) adds that the enterprise must have organizational capabilities to exploit its energies.

2- Concept of Firm Growth:

Definitions of growth have varied over time, with economic conditions, and according to thinkers' perspectives. Below, we try to present what we consider important.

Bienaymé (1973) believes that the real tendency of a firm is growth and expansion, as it is the most important phenomenon that can change the life of the firm and enable it to stand out in its competitive environment. Bienaymé defined growth as a multidimensional phenomenon that affects the size of the firm and results in multiple criteria for measuring size. Growth can be defined as an increase in the size of the firm over a certain period of time. This period can be long if growth is based on production or short as a result of temporary expansion related to the acceleration of capital turnover and the increase in production capacity. Growth is also a relative phenomenon measured by the rate of size increase over a certain period and compared to competing firms.

Similarly, Gasmi (1988) defines growth as "an increase in the size of the firm over time."

For Penrose (1959), firm growth refers to expansion activities and their implications. It means an increase in the quantitative factors of the firm (such as production, turnover, labor force, facilities, and equipment, etc.) accompanied by internal changes in the firm's characteristics (such as structure, management system, corporate culture, technology used, etc.). Growth is an evolutionary process based on the cumulative growth of collective knowledge and experience.

Starbuck (1965) explains that firm growth is not a spontaneous or automatic phenomenon but the result of an important managerial decision. The decision to increase production results from increased demand and a decision to stimulate and activate demand. Growth is therefore due to increased demand for the firm's products and services. Initially, this requires increasing sales, which leads to increased profits and allows the firm to invest in other production factors to adapt to the new demand level.

Torres (1998) considers growth a complex multidimensional phenomenon punctuated by transformations and crises. This phenomenon is influenced by managers' orientations, strategy, and environment. Sammut (1996) confirms that firm growth relates to the awareness and perception of managers and the total of internal and external organizational components. Growth results from a complex mix of various phenomena arising from environment, financial, organizational, productive, and personal characteristics.

Leurquin (2004), however, sees growth as an indicator of a firm's good standing, whether resulting from meeting its needs or seizing opportunities in the environment. Growth is not just desirable but necessary.

Firm growth appears in two aspects: quantitative growth and qualitative development:

- Quantitative growth has three markers:
    - Increase in the size of production factors used (labor, intermediate consumption, etc.)
    - Increase in product volume (sales, market share, etc.)
    - Improvement in achieved results (profits, capacity for self-financing, etc.)
- Qualitative development refers to important changes in the firm's characteristics during its growth phases, which are difficult to grasp. A firm cannot grow without making significant changes in its structure, activities, internal organization, the technology used, and the necessary integration of creativity and innovation into its culture.

From the above, we can say that firm growth is a dynamic expression of an economic phenomenon reflecting the firm's success in developing its total capacities for the purpose of continuity and survival. This phenomenon involves changes in the firm's outcomes and organizational characteristics.

3- Types of Growth in the Firm:

There are three ways a firm can follow to achieve its strategic choice for growth: internal growth, external growth, and contractual growth.

3-1 Internal Growth:

Internal growth, as the name implies, originates internally and results from the firm's own resources. It is defined as an increase in size and changes in the firm's characteristics achieved by adding or acquiring additional production means established by the firm itself or purchased externally through business transactions. The firm can obtain these means from outside or produce them itself by developing its human, financial, and technical resources.

Bienaymé defined internal growth as growth resulting from an increase in new production capacities by creating or acquiring new production means, leading to increased production both quantitatively and qualitatively with diversification.

Internal growth is based on acquiring (buying or renting) new or used production means integrated with other production factors within the firm.

Paturel gave a reference definition of internal growth as the possession or creation by the firm of assets not ready for production because they need integration with other necessary production factors to achieve outputs.

Therefore, internal growth is the increase in the firm's production capacity resulting from adding new production means either created within the firm or acquired externally.

Internal growth is the most natural growth path for a firm, implicitly requiring reliance on its own resources to ensure its growth and achieve its set goals. It provides significant autonomy that gradually develops through direct investments and value creation. Internal growth typically occurs when the sector in which the firm operates experiences strong growth and the competitive struggle is not severe, meaning the market capacity allows each firm present in the sector to grow without necessarily taking market shares from other competitors.

3-2 External Growth:

After a critical study of many definitions addressing external growth, Paturel gave a relied-upon definition: External growth is "the partial or total direct acquisition of a firm (e.g., by takeover), or indirect acquisition through controlling another firm by owning a significant share of its capital sufficient to control and manage it, or by another firm under the control and management of the acquiring firm. This involves a group of production factors linked internally by organizational relations, capable of production and/or service provision and capturing market share."

Thus, the main characteristic of external growth is the acquisition of production factors that are interconnected, forming an integrated productive unit where production means, labor, expertise, and knowledge merge to produce goods and/or services for customers.

In more dynamic and competitive business markets, external growth is seen as less costly and less risky. This strategy requires the final joining of two or more firms through total acquisition or what is called a merger (*la fusion*), which creates new entities combining the partners' total production means. This can happen through:

- ✓ Merger by absorption (*fusion par absorption*), where the absorbed firm disappears in favor of the acquiring firm.
- ✓ Merger by equality (*fusion égalitaire*), where both firms disappear and a new, larger firm with a new legal identity emerges.
- ✓ Merger by partial contribution of assets (*fusion d'un apport partiel d'actif*), where one firm contributes part of its resources to another or two firms contribute parts of their resources to create a new firm, whose legal identity may belong to the major contributor or be a new one agreed upon by the firms.
- ✓ Merger by division (*fusion par scission*), by sharing the firm's assets among several independent firms.

The distinguishing factor between internal and external growth lies in whether the acquired assets are interconnected or not. Growth is external if the acquired assets are linked together, and internal if these assets need to be linked internally to achieve the production process goal, which is output formation.

3-3- Contractual Growth (la croissance contractuelle):

It is a contract between two or more independent companies aiming to combine their resources to engage in joint productive, commercial, and/or service activities.

If contractual growth is subjected to the criterion distinguishing internal growth from external growth, then this growth may be internal or external, based on the fact that all growth types are forms of contracting between companies, as follows:

- ✓ When a company signs a partnership or cooperation contract with another company (or several companies) involving the creation of a joint branch between the two companies to carry out a project or internationalize the activity, etc., this is considered internal growth because this creation process uses separate means linked together through the contract between the two companies.
- ✓ When a company partners with another company (or several companies) in owning an independent company or jointly controlling it by owning sufficient shares of its capital, this is considered external growth because this ownership process includes interconnected resources.

4- Strategies for Company Growth

From an analytical perspective, the term growth has several aspects: economic, commercial, technical, financial, and administrative. However, it is important to study growth strategically, showing company growth as a strategic, dynamic phenomenon very different from any static phenomenon.

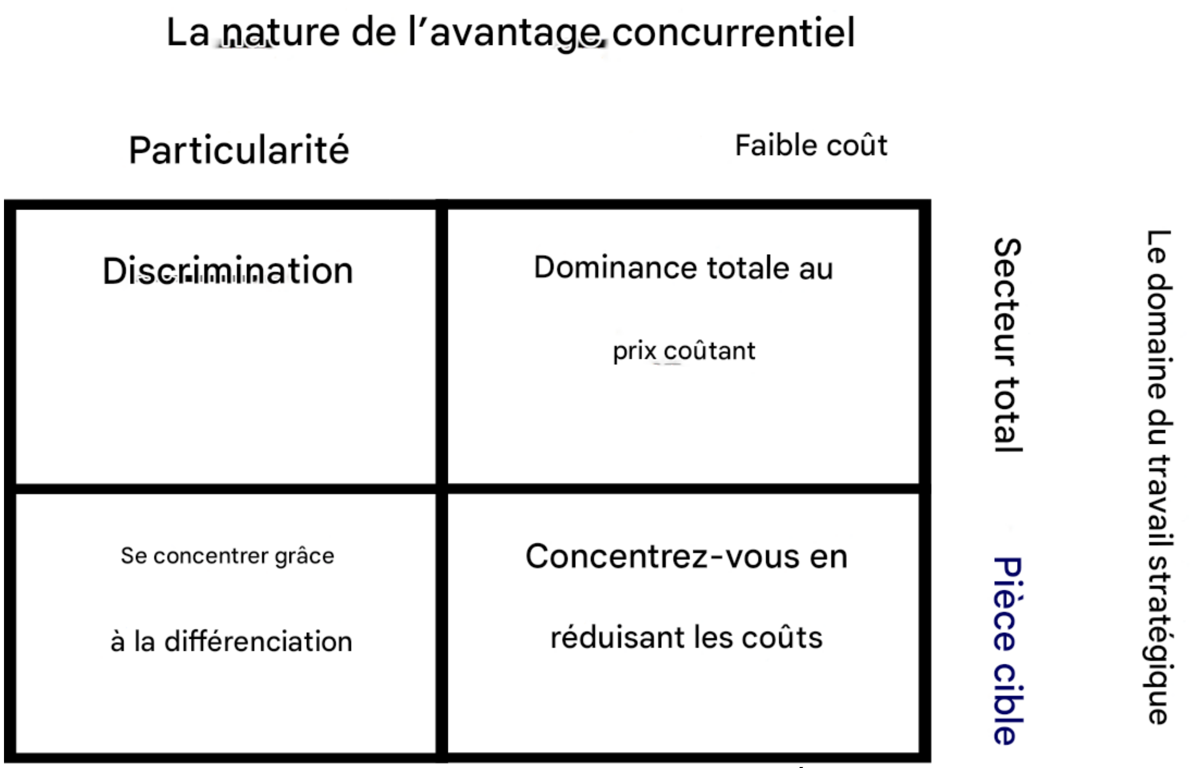
4-1- General Strategies for Company Growth:

To ensure its sustainability in a competitive environment, a company must achieve a competitive advantage. Strategic thinker Porter presents companies with two solutions to develop a competitive advantage:

- Either the company adopts a cost leadership advantage by offering a product at a lower price than competitors;

- Or the company can provide an offer with distinctive characteristics perceived by customers, who are willing to pay more for it. These strategies can be applied to the entire sector or to a specific branch of activity.

Figure (06): General growth strategies



Source: Garibaldi Gérard, L'analyse stratégique, 3rd edition, Édition d'Organisation, Paris, 2002, p54

4-1-1- Overall Cost Leadership Strategy:

This strategy aims to dominate the market by offering a low-cost product. To achieve this, the company must leverage production volume to earn profits related to the experience effect (l'effet d'expérience). This strategy can enable the company to gain a significant market share, making it one of the most important growth strategies.

Key methods to reduce costs include:

- Developing organizational values focused on employees' conscious attention to minimizing costs;
- Offering a basic product without any additional luxuries that increase production costs;

- Modifying high-cost activities and operations, such as replacing manual processes with cheaper alternatives;
- Using inexpensive raw materials without compromising product quality;
- Reducing research, development, and advertising costs.

Having a leading cost position provides a defensive line against competitors because low product costs allow the company to continue making profits during intense competition. Also, a large market share gives the company strong bargaining power with suppliers due to bulk purchasing. Low prices create barriers to entry for new competitors since few firms can afford to compete on cost, resulting in growth effects both in size and competition.

However, companies following this strategy face several economic and technological risks, including:

- Technological changes affecting the experience effect, possibly placing the company behind competitors; therefore, firms must have strong technological intelligence systems;
- Advanced innovations by competitors offering more attractive products and future cost reductions;
- Increasing intermediate costs that erode the company’s cost advantage, reducing profits and impacting growth.

4-1-2- Differentiation Strategy:

This strategy focuses on offering consumers a product with unique and distinctive characteristics that customers perceive and recognize. This definition requires several conditions for the offering:

- A unique offer: the company must face competitors with an offer containing different features;
- A valued offer: it is not enough for the offer to be different; it must create additional value for customers that competitors cannot create or imitate, resulting in a necessarily higher price;
- Perceived and known value: this added value must be recognized and attractive to customers;

- The offer must target the entire sector: it should be directed to all potential customers in the sector, as creating a highly costly unique offer for a very limited group is unreasonable.

When adopting this strategy, companies must beware of several risks, such as:

- Focusing on product features that consumers do not value, leading to high costs without returns and strategic failure;
- Excessive differentiation resulting in very high production costs with features consumers may not need or might forgo for a lower price;
- Failure to create differentiation that cannot be easily imitated, wasting company efforts and expenses;
- Spending heavily on differentiation for a very limited customer base without covering these costs;
- Attempting to impose a very high price for differentiated products.

4-1-3- Focus Strategy:

This competitive strategy targets a limited market segment or a specific group of buyers. Companies adopting this strategy seek to leverage a competitive advantage in the target market sector either by offering lower prices through cost focus or by offering superior products in quality, features, or customer service through differentiation focus.

This strategy enables companies to effectively meet the needs of a particular market segment better than companies serving the entire market. Small companies often prefer this strategy as it suits their capabilities.

Applying this strategy requires several conditions:

- A variety of buyers with diverse needs and distinctive ways of using the product;
- No other competitor focusing on the same target market sector;
- Availability of necessary skills and resources to serve the target market sector;
- Avoidance of sectors controlled by competitors;
- Continuous monitoring of technological environments that affect reducing the need for some or all products offered.

4-2- Specific Strategies for Company Growth:

In his book titled *Corporate Strategy* in 1965, Ansoff was the first to address the strategies enabling a company to achieve growth, which he identified based on possible growth directions for the company.

Figure (07): Growth Direction Matrix

	Product New	**Product Current**
Market Current	Product Development	Market Penetration
Market New	Diversification and Customer Expansion	Customer Expansion

Source: Martin Eymeric and Mazeau Sabine, *Stratégies de diversification et de recentrage*, mémoire de DESS de finance d'entreprise, Université de Rennes 1, 2002, p. 14.

As shown in the figure, the interaction between the product and market dimensions determines the company's growth directions as follows:

- Penetration into the company's current market;
- Expanding the company's customer base while maintaining current products;
- Developing new products for current customers;
- Developing new products and expanding the company's customer base.

These growth directions put the company before two growth strategies: the **specialization strategy** and the **diversification strategy**. The company follows the specialization strategy by staying within its current field of activity (*le domaine d'activité*), where it can ensure continuous growth by working on current (product/market) pairs, either through market penetration, product development, or entering new geographic markets (geographic expansion). On the other hand, the diversification strategy means changing the company's current field of activity where the company aims to seize growth opportunities.

4-2-1- Specialization Strategy:

This strategy relies on the company's efficiency in its current markets and products, focusing all its resources and efforts to improve performance and achieve a decisive competitive advantage. This strategy takes three main forms: penetration strategy, horizontal expansion strategy (developing new products), and vertical expansion strategy (market expansion).

A- Penetration Strategy (stratégie de pénétration):

This strategy is used when the company’s current products and markets allow development according to its objectives. The company concentrates all its resources to produce a high-technology product based on a special skill (product, technology) and limits itself to a single sector where it focuses all its efforts.

Penetration is a strategy based on experience that allows the company to develop distinctive skills better than competitors. The logic of penetration aligns with the overall cost leadership strategy as competition in the market depends on experience to reduce costs. To improve its position, the company must apply competitive prices. The logic of penetration also aligns with the differentiation strategy if the company builds its competitive advantage on a distinctive offer perceived as added value by customers, higher than what competitors offer.

Penetration strategy is often the strategy of young companies, which focus all their means on a special skill. Choosing a location that can be easily controlled is a sound logic for companies at the start-up stage. The company choosing this growth option concentrates all its resources on one type of product, one market, and one technology, striving to increase its market share to become the leader and benefit from all the advantages related to this choice.

The penetration option has several advantages, including quantitative reduction of risks associated with the strategy and concentration of all efforts on reaching one goal. This strategy is based on competencies already known to the company, so it does not require further developments. Additionally, penetration implies less complexity in management and less diversity in activities, allowing for clearer objectives and a more precise direction for the company.

The relative simplicity of managing companies that adopt the penetration strategy allows managers to focus their efforts on the company's fundamental choices and execution. They can also develop the company’s image in the market, improve product quality, influence cost structure, and build good customer relationships. Due to their deep knowledge of customer needs and market attention, they can anticipate market developments.

However, the penetration strategy also presents some disadvantages. It requires the company to focus on a core activity, gathering all resources there, which makes the company directly vulnerable to changes in the environment such as the emergence of new technology, the entry of a strong competitor, or the start of industry decline, leading to significant difficulties. Additionally, specialization of personnel and resources may cause organizational rigidity that prevents the company from seizing new opportunities. For these reasons, companies following the penetration strategy must carefully monitor their environment continuously since constant analysis allows them to develop competitive advantages and respond to threats that pressure the company's survival.

B- Horizontal Expansion Strategy (Market Expansion): stratégie d'expansion horizontale

Applying this strategy assumes that the company remains in its current market positions while advancing into new markets with the same products. This growth option includes the following activities:

- Entering new segments (*nouveaux segments*) of the original market;
- Finding new uses or benefits for the company's current products;
- Accessing new distribution networks;
- Expanding the company's presence in new geographic areas.

This strategic option of market expansion is often applied by companies in capital-intensive industrial sectors where the company owns specialized assets related to producing a certain product and can only make technological changes with great difficulty. In this context, the company's competence is defined by its products rather than by its market functions, and exploiting its capabilities will only appear through a market expansion strategy. Also, companies with high R&D capabilities that apply them only to a limited range of products are compelled to increase their possible geographic markets to grow their R&D investments.

Moreover, the globalization of some markets forces certain companies to internationalize their products to follow their main customers. Companies operating in sectors at the decline stage in a specific geographic area can seek to internationalize their markets or when their products are at the maturity or growth stage.

This strategy has several advantages, including:

- Improving the returns on investments used in production tools or in R&D;
- Exploiting product quality;
- Accessing growing markets if the original market is in decline;
- Gradual internationalization of the company.

To benefit from this market expansion option, the company must change its structure and organization to consider a wide range of environments.

However, this strategy also involves some risks, the most important being:

- The development of more complex organizational forms;
- Risks related to export (financial, commercial, and cultural).

C- Vertical Expansion Strategy (Product Development): stratégie d'expansion vertical

Applying this strategy requires the company to focus on its core positions to develop new products and enhance its sales capabilities. Therefore, the company must exploit its brand, the quality of its current products, and customer loyalty to develop this strategy.

This strategy can be initiated when new technology emerges that allows developing current products in the market. It works effectively only if the company's customers targeted by this strategy are loyal and attracted to the brand.

Introducing a new product means increasing sales capacity, as the company can develop a product range considering its key success factors (*les facteurs clés de succès*) such as production methods, distribution, brand, and technology used, to eventually achieve a broad and coherent product mix targeted to current customers. New products should provide the greatest possible synergy (*la synergie*), allowing the company to increase its overall expertise in all success factors. Under this assumption, expanding the product mix allows extending and prolonging business growth by improving the company's competencies.

This strategy provides the company with:

- Risk coverage related to a single activity;
- Responding to customer demands;
- Gradual market penetration;
- Proper management of the product lifecycle;
- A strategy consistent with marketing logic.

The risks associated with this strategy include:

- Loss of specialization image;
- The need to acquire new expertise;
- Potential risks of diversification scattering;
- Development of more complex organizational forms.

Launching new products for current customers or new customers for current products are two types of marketing diversification that remain within the specialization framework.

4-2-2- Diversification Strategy: stratégie de diversification

To avoid risks related to specialization, many companies choose diversification as a growth option. This strategy gained great popularity in the 1970s because markets experienced exceptional growth periods, allowing companies to enter new activities and easily gain market shares.

Diversification means strategic moves (*les mouvements stratégiques*) achieved by changing the strategic business domain, taking into account a new set of key success factors. These moves translate into either expanding the company's business scope or mixing several businesses.

The diversification strategy relies on dividing the company's activities into several (product/market) pairs. It represents a radical change in the company's business and is thus the riskiest strategy. Companies pursuing this strategy constantly seek growth opportunities beyond those provided by their original sectors, especially when the latter enter maturity phases.

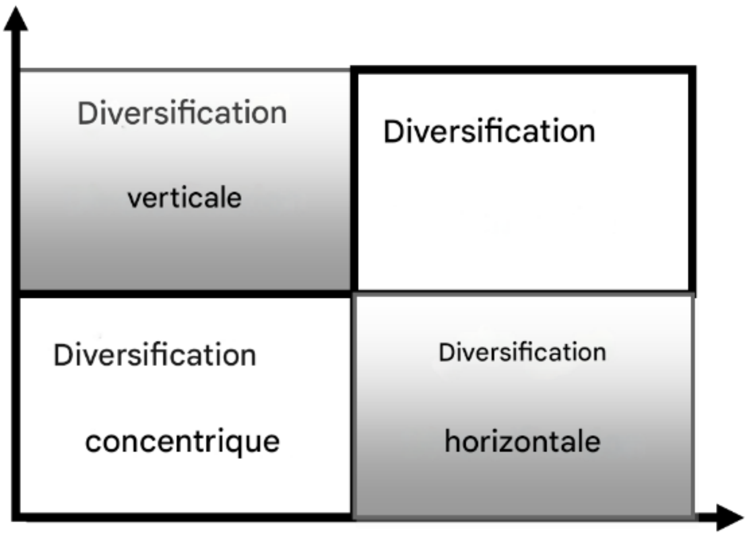
A decline in company activities due to weak demand or increased competition drives it toward new activities or markets. According to Ansoff, a company can diversify because the goals it set cannot be reached within its current activity. After analyzing the gap between set goals and achieved results, managers can decide to direct the company toward new (product/market) pairs to better distribute risks and achieve an acceptable balance in the flow of benefits and income generated by different activities.

Companies may also desire diversification when revenues from original products are insufficient to ensure growth, in addition to the possibility of profitable investment in other sectors. Being present in different sectors with different products allows risk distribution.

A- Forms of Diversification Strategy

As shown in the following matrix, we distinguish four types of diversification strategies: horizontal diversification, vertical diversification, related (concentric) diversification, and conglomerate diversification.

Figure (08): Forms of Diversification Strategy



Source: Samuel Karine Evrard, Stratégie de l'entreprise, Presses Universitaires de Grenoble, Paris, 2006, p. 118

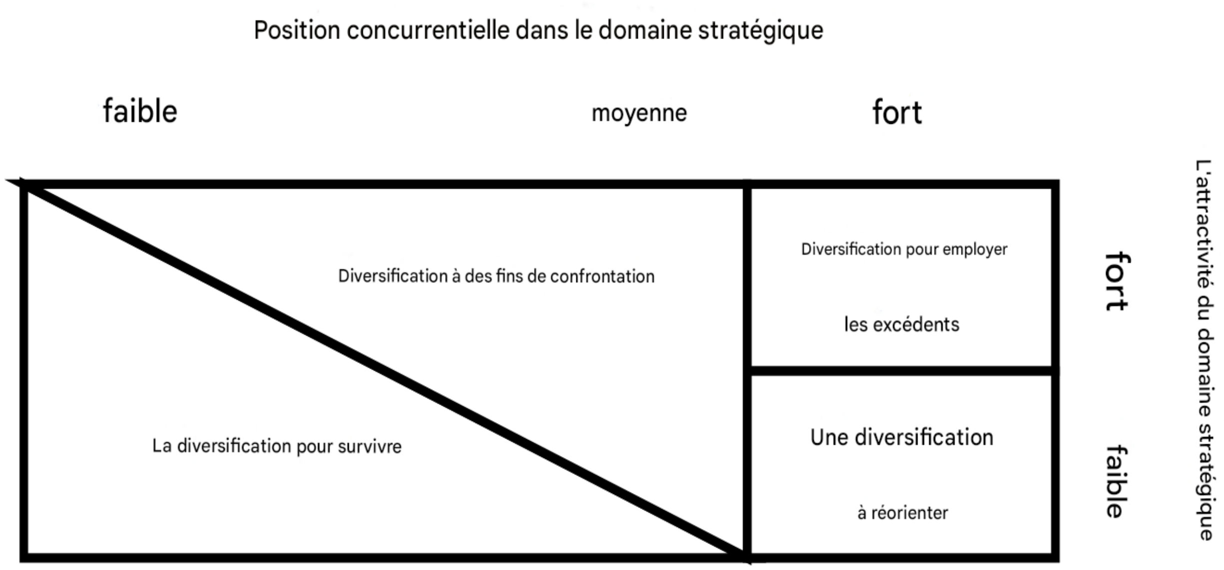
- **Related or Concentric Diversification:** Means the company develops into new activities that share common points with current activities. The company uses one or more links in the current value chain as a pivot toward new activities. This pivot can be commercial, such as using a distribution network for certain customers to distribute the new product; or technological, when the company launches a product range based on shared technology. The pivot may also be the competence gained from the linkages between different value chain stages. Multiple pivots can be used for diversification. Related diversification exploits synergies among different activities.

- **Horizontal Diversification:** Means the company expands toward alternative or similar activities compared to current ones, where the new activities are in the same production chain (*la filière de production*). The diversification lies in the technological characteristics of the product. Interactions with current activities are important, especially regarding customers.
- **Vertical Diversification (Integration):** The company develops into new markets by directing its capabilities toward complementary activities with an upstream (backward integration) or downstream (forward integration) position. Backward integration means development toward upstream positions (e.g., becoming a supplier), while forward integration means development toward downstream positions (e.g., becoming a distributor).
- **Unrelated or Conglomerate Diversification:** Means the company develops into activities with no common points with original activities. The main motive for this strategy is to gain more profits. The company expands into (product/market) pairs unrelated to previously developed competencies and ventures into sectors requiring new resources but offering high growth potential.

B. Types of Diversification Strategies

There are several justifications that drive a company to implement a diversification strategy. The objective behind adopting this strategy varies from one company to another, depending on the competitive position of its strategic domain and the attractiveness of that domain. The following matrix illustrates the different motivations for diversification:

Figure (09): Diversification Matrix and Competitive Position



Source: Strategor, Stratégie, Structure, Décision, Identité, 3rd Edition, Dunod, 1997, p.149

• Diversification for Capital Placement

This type involves a dominant company operating in a mature activity sector that generates significant cash flow. Naturally, it seeks another activity that guarantees a good return on excess capital, without necessarily being related to its original core business.

• Diversification for Redeployment

When a company has a strong competitive position in a strategic but unattractive sector, it seeks activities that offer greater growth opportunities than its current business. The company then selects activities that offer the greatest possible synergy with its existing operations.

• Diversification for Reinforcement

This type is intended for companies in a moderate position compared to their main competitors. In this case, improving the current competitive position becomes difficult. To strengthen its market position, the company adds complementary activities that maximize returns.

• Diversification for Survival

This type is necessary when a company is in a weak competitive position. It looks for new activities that can ensure its survival in the market.

C. Risks of the Diversification Strategy

Although many companies pursue diversification to reduce risks, this strategy itself carries several significant risks:

- ✓ The main risk is the difficulty of accurately assessing the true profitability of the interactions between the original and the new activities. Also, identifying the pivot element (core strength) for diversification is very challenging.
- ✓ The real financial cost of diversification is hard to evaluate because the company may lack all the competitive data required to properly assess the sector it intends to invest in.
- ✓ Lack of strategic coherence between the original and new activities can hinder the financial synergies expected from diversification.
- ✓ The increasing internal complexity demands more sophisticated management methods.
- ✓ The evolving global environment and heightened competition make the outcomes of diversification uncertain. This has led many companies to recentralize, as diversification results remain unpredictable.

4-2-3. Trade-off Between Specialization and Diversification Strategies

A specialization strategy is typically adopted when a company cannot secure a decisive and lasting competitive advantage over its rivals. Since spreading resources too thin is a major threat to growth, specialization allows the company to focus its resources on current activities and suspend the possibility of diversification.

Optimal resource utilization—reflected in achieving the highest possible return—is the foundation for deciding between specialization and diversification. The company must choose between investing in specialization to reinforce its competitive position or pursuing diversification with the potential for high profitability. The following figure outlines the opportunities for a specialization policy in contrast to a diversification strategy.

Conclusion

Conclusion

The economic enterprise is the fundamental structure of all economic activity, being the core unit where business is conducted within an environment that varies across time and societies. Due to ongoing transformations in this environment, the enterprise faces many risks that threaten its survival and the continuity of its operations. Yet, some companies manage to overcome these challenges with ease—some even grow and thrive by turning risks into opportunities.

On the other hand, some enterprises face bankruptcy and collapse at the first sign of risk. This disparity is primarily due to the nature of internal organization and the structure of the company's various functions, which enable it to handle external changes. Therefore, to achieve sustainability and growth, the company must advance rapidly in its strategic thinking and support it with field-level actions aimed at building and enhancing its capacities—through the development of human intellectual capital, mobilizing the potential of human resources, and optimizing the use of physical resources.

In summary, effective and efficient management is the key to progress, success, and organizational development.

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