

INTERNAL AND EXTERNAL FACTORS OF THE ORGANIZATIONAL STRUCTURE

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Abstract

Organizational structure is a system of internal relations and links in the organization. Since adequately designed organizational structure is the key to the success of enterprises, efficient operations and achievement of the objectives of each organization, the basic issue of this paper is the process of organizational design, with particular focus on the different factors that affect this process. For this reason, the purpose of this paper is to describe the impact of certain internal and external factors on the organizational structure, as well as to point out their importance in the design process.

Based on the conducted analysis and research, author has come to many conclusions on the basis of which has been proven that there are many internal and external factors that directly affect the organizational structure. In order to successfully operate in today's turbulent conditions, it is necessary for companies to constantly adjust to a number of factors. A successful response to new changes often requires a process of restructuring through which organizational structure adapts to new needs.

Keywords: organization, organizational structure, internal factors, external factors, organizational design, restructuring.

*JEL classification:*L2

INTRODUCTION

Looking at human life from the time he was left only to nature until today, it can be concluded that his progress and development was conditioned by joining with other people. The reason for this is the fact that man alone could not perform many activities that enable the creation of the world as it exists today. Joining together in different groups, in accordance with the appearance and development of a variety of needs, man began to form various organizations that also represent one of the oldest man's creations. It can be said that the organizations are an integral part of life of every indivi-

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dual without which it cannot function. In this way organizations can ensure the survival and prosperity in the nature that surrounds us.

Since the creation of the first organization until today, many different types of organizations have been developed. People can quickly and efficiently meet their needs and fulfill numerous objectives using them. However, it is necessary to design the organization for successful functioning in modern turbulent conditions. This creative design process is used for forming different systems and therefore for organization. It is primarily related to the design of the organizational structure. However, it is not enough just to create an organizational structure to achieve planned goals, but it is also necessary that it adapts and changes according to the changes which take place in the organization, but also the changes that come from the environment. These changes are related to various internal and external factors.

Based on the above, the research problem in this paper could be easiest defined in the form of questions: whether and how different internal and external factors can affect the process of designing the organizational structure? Given the defined research problem which is economic in nature, the subject of research in this paper can be specified area of the economy, especially the part that is linked to the organization of business systems. Based on the previously defined problem and the object of research, the basic objective of this paper is to identify and explain the influence of observed factors on the organizational structures in business systems. For the purposes of this study the main hypothesis is set. It claims that certain internal and external factors may directly or indirectly affect the organizational structure in such a way that these factors create a need to adapt the organizational structure through the process of its redesign.

In addition to introduction, conclusion and literature, this paper consists of four parts. The first part of the paper includes the introductory considerations of the concept of organization, the role and importance it has for man. The second part relates to definition of the organizational structure and explanation of its role in the organization. The third part is dedicated to the various factors that directly or indirectly may affect the organizational structure. The fourth section presents an example of one company (business system "X") and the shape of its organizational structure, which is conditioned by many factors.

THE ROLE AND IMPORTANCE OF THE ORGANIZATION

When we talk about the definition of the organization, what is unique among all the authors is only its name. They consider that the word organization comes from the Greek word organon, which means an instrument, a

tool, a means, etc. However, when it comes to the definition of the organization, there is no universal understanding of the organization in theory and in practice, but many different understandings and interpretations of this term can be found. The cause of disagreement of the authors is complexity of this category, but also the different approach used during its observation and study. The inability of systematic research of totality of the organization is the reason that these approaches were usually partial analysis and had a definition of only one part of the organization as a result. Such overall survey was not possible due to the time and scope of the research necessary for examining, analyzing and explaining this complex phenomenon.

In order to explain the role and importance of the organization for a man, it is enough to say that their number is constantly growing. There are also many different organizations in the world. Observing their development through history from the first forms of organization which were formed as random hunting groups, to contemporary forms, it can be seen that a man simply cannot do without them. He spends his entire life in organizations, regardless of whether he is directly in them or they only have a certain influence on his work and life activities.

First organizations emerged as a result of man's need to survive because the scope of an individual was limited and many activities have exceeded his individual capacity. At the beginning people have come together to be able to feed and preserve the various hazards of nature. The organization on its path of development arose from different needs. The most important are the physiological needs and security needs, than the needs for belonging, self-esteem and self-actualization, as well as numerous other needs that facilitate and enhance life. This was made possible by bringing together individual forces. In this way, a synergistic effect and a social force can be created through the joint action which accelerates the processes and extends the capabilities. So the most complex tasks could be performed and finished with less effort and lower costs. It was possible to accelerate the achievement of better and bigger results. Thus, reducing the time of execution of tasks speeds up the processes of achieving goals and satisfies different needs.

There are many benefits that people have not only from business, but also from different social organizations (health, educational, cultural, etc.). However, unlike a number of positive effects, frequent organizational discipline appears as a negative effect of individual organizations. Such discipline is imposed by force and it often restrains and brings man into a subordinate position forcing him to perform tasks that he does not want. Regardless of the existence of negative effects, it can be concluded that life without

organizations would be unthinkable, which is enough to show how much they are important for the life of every individual.

ORGANIZATIONAL STRUCTURE AS A SYSTEM OF INTERNAL RELATIONS AND LINKS IN THE ORGANIZATION

When we talk about organization, it is impossible to bypass organizational structure that represents its most important part. It arises as a result of the design process in organizations or the process of organizing as one of the functions of management. This process defines different elements of the organization, assigns tasks to these elements and connects them into one coherent unity. Thus, organizational design determines the appearance and characteristics of organizational structure, based on anatomy (number of elements) and physiology (forms of interaction). In this way, the design or the form of company organization is in fact a model of organizational structure which is usually shown by the image or the schematic drawing.

„Every organization has, in the embryonic or developed form, its structure, its particular system of internal relationships and connections. Each of them has certain quantitatively different factors of labor, which, as such, must, in order to ensure their simultaneous, coordinated action in the direction of the set goal, align and connect in the appropriate, compact unit, in a properly installed and unified system of work“.²

Although the authors agree that organizational structure is the result of the process of organizing, we can find different definitions of these categories in literature and in practice. The reason for this is the fact that the authors asserted different structural elements in the foreground, holding other less important. Thus, some claimed that the structure is actually the organization, others that it is only a schematic representation, third that it is the process, while some identify structure with the system of relations between the elements of the organization. However, what is common with all theorists is that the organizational structure is the complex creation whose purpose is to enable and facilitate the achievement of the objectives of the organization. Most of them consider that this creation is made up of the system or schedules of available resources in organizations (material and human) along with their mutual relations and connections.

According to the definitions of prominent authors, under the organizational structure is considered to be:

² Babić M., Lukić, Z.: *Organization - Theory, structure, design and behavior*, Faculty of Economics, Banja Luka, 2008, p. 117.

- The mean of achieving the objectives and tasks of the organization³,
- The extent to which and the manner in which the organization subjugates and controls its members, distributes tasks and responsibilities, as well as organizational procedures and regulations⁴,
- The totality of the ways in which the organization makes the division of work on various tasks and ensures coordination of the performance of these tasks⁵,
- cause or system layout of departments and operations which need to be performed⁶,
- The organization schedules of organizational potential at different organizational basics⁷,
- The system or network of relationships between different parts of the organization, or even places in it and those who are there⁸,
- The system of relations between people, to accomplish a specific work⁹,
- The system of connections and relationships between elements in the organization which are designed for a relatively long period of time and formally sanctioned by the company statutes¹⁰,
- Formally established system of relationships between individuals and groups, in which the links between them are determined with schedule tasks (clustering), the amount of authority and responsibility¹¹.

Although it can be seen from specified definitions that the organizational structure has its own dynamic and static element, the fact is that it has to be flexible category that must be changed, corrected and supplemented under different influences from the organization and from the environment. This also applies to its static element, graphic scheme of the organizational structure, which is static only if viewed at one time, while it usually changes its appearance in a longer period of time.

How big the importance of creating the structure is can be seen from the attitudes of many authors who claim that the design of the organizational structure is one of the key factors which influence the success of a business

3 Kuzynski, A., Buchenon, D.: *Organizational Behaviour*, Prentice Hall, New York, 1991, p. 369.

4 Kuzynski, A., Buchenon, D. *ibidem*, p. 369.

5 Mitchel, T. R., Larson, J. R.: *People in Organization*, McGraw Hill, Book Co. New York, 1987, p. 43.

6 Moore, F. G.: *Management-Organization and Practice*, Harper and Rouo, New York, 1964, p. 506.

7 Štefan, I.: *Diagnosis and Design of the Organizational Model of Industrial Enterprises*, Kamnik, 1972, p. 56.

8 Rosenzweig, K.: *Organization and Management*, McGraw Hill Inc. New York, 1974, p. 104.

9 Perrow, C.: *A Framework for the Cooperative Analysis of Organizations*, American Sociological Review, 1967, p. 195.

10 Petković, M., Jovanović-Božinović, M.: *Organizational Behavior*, Business School „Megatrend“ Belgrade., 1996, p. 23.

11 Petković, M., Janićijević, N., Bogičević, B.: *Organization - Theories, design, behavior, changes*, Faculty of Economics, Belgrade, 2003, p. 58.

and therefore the growth and development of the organization. This is confirmed by Peter Drucker who believes that »well-designed organizational structure does not create a good performance itself. But organizational structure which is set bad makes it impossible to establish good performance, no matter how good managers are. Improving the organizational structure will therefore always improve organizational performance“.¹²

However, the organizational structure must meet three requirements to make contributions to the business success of the company. The first requirement is the need that structure responds quickly to opportunities and threats from the environment. Further, organizational structure should enable the company to coordinate its activities successfully in order to operate effectively, i.e. to achieve the purpose and defined goals. The third request relates to enabling of company to operate efficiently, i.e. to achieve an optimal relationship between input and output.¹³

FACTORS OF ORGANIZATIONAL STRUCTURE

In order to enable and facilitate the achievement of the objectives of the organization, it is not enough that it is formed. It is also necessary to constantly change and adapt to the different influences that come from the organization or from its environment. There are many factors that affect the organization and thus its organizational structure. These factors are divided into two groups:¹⁴

- The internal factors,
- The external factors.

The first group of factors are those factors that are placed in the organization and are directly under its influence. They can largely be controlled and changed. These factors are very flexible and numerous. The most important internal factors are:

- The size and age of the organization,
- The strategy,
- The types of production,
- Personnel and material factors,
- The location of the organization,
- The stage of development of the organization,
- The ownership status of the organization.

12 Mullines, L. J.: *Management and Organizational Behaviour*, Pitman, London, 1993, p. 308.

13 Petković, M., Jovanović-Božinović, M., ibidem, p. 23.

14 Stefanović, Ž., Petković, M., Kostić, Ž., Kolarić, V.: *Organization - theories, structure, behavior, development*, Faculty of Economics, Belgrade, 1995, p. 173.

The size and age of the organization is the most important factor of the organizational structure in most organizations. The organizational structure is different in small, medium and large enterprises, as well as in younger and older companies. Established and small companies usually apply functional organizational structure as they have small number of underdeveloped functions, while large complex business systems apply complex forms of organizational structures because they have large number of advanced functions. So we can say that organization's behavior becomes more formalized, organizational structure becomes more elaborate and the average organizational unit becomes bigger with increasing size and age of the organization.¹⁵

As strategy is a way or mean of attaining the set objectives of the organization, it is closely related to the structure which must follow strategy. A significant change in strategy also leads to changes in the organizational structure in the new format which will allow the achievement of defined objectives. In this way, the strategy has a direct impact on the organizational structure. As in the process of growth and development of the enterprise every serious change of strategy requires certain changes in the organizational structure, strategy is viewed as the central variable or factor of the organizational structure.¹⁶

Type of production also represents an important factor in the choice of organizational structure. It depends on the mode of production, depending on whether it is linear, mass or dislocated. The choice of structure also depends on the extent of its diversification. Changing the type and scope of production directly leads to a reorganization of the existing structure if it is inefficient for the realization of new organizational procedures. Thus production affects the structure depending on the diversity and quantity of products, as well as production methods.

Staffing material factor is a group of factors that often lead to the reorganization of the company. Although there are different opinions whether the organizational structure should adapt to existing staff or necessary staff should be hired depending on the structure, it is considered that the principle that should be respected is: look for appropriate staff in accordance with the optimum organizational structure. Tolerant adjustment of organizational structure to staff potential is permitted. If these deviations are large, it is necessary to reorganize. In addition to personnel, material and technical elements of the organization along with labor technology also influence the choice of organizational structure.

15 Mintzberg H.: *The Structuring of Organizations*. Englewood Cliffs: Prentice Hall, 1979.

16 Chandler, A.: *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*, Frederick, Maryland, USA, Beard Books, 1969.

Location is an important factor which affects the organizational structure, especially in large systems if they are spread across multiple locations. In this case it is necessary to apply the territorial method, but also other forms of the structure for the organizational units that are dislocated in a way that the functioning and efficiency of their operations can be controlled. If organizational units are placed in other states, local regulations must be taken into account. It is also necessary to create structure depending on whether it comes to urban, rural or industrial zone, which determines the infrastructure, the choice of personnel, business contacts and transport.

The stage of development as a factor of the organizational structure is based on the life cycle theory, according to which the organization is going through different stages of development, and the transition from one phase to another requires reorganization. The newly formed organization usually apply simple organizational structure, while organizations in the growth and maturity stage require more complex forms of structure. The reason for this is the fact that the growth and development of the organization comes to the complexity of organizational relationships, employment growth, increase the number of hierarchical levels and increase the number of interactions within and outside the system.

Number of owners or shareholders, their influence and spheres of interest influence the choice of organizational structure. If this number is smaller, the organizational structure is simpler, and vice versa, if this number is higher, the organizational structure is complex. Thus an increase of this number causes the restructuring of the organization. In this way, the ownership status of the organization or changes in ownership structure creates a need for changes in the organizational structure.

As each organization is an open system that exchanges substance, energy and information with its environment that is constantly changing, it is influenced by numerous external factors which are beyond its influence or this influence is limited. Changes of external factors could be easily predicted in the past because they were expected and happened continuously. In the last twenty years these changes are unpredictable, but they also have greater intensity and frequency. The most important external factors affecting the organizational structure are:

- Institutional conditions,
- Market,
- The development of science,
- Globalization,
- The role of the state in economic flows.

Institutional conditions are general conditions of existence of any organization. They define the legal framework for the establishment and functioning of the organization, and they are determined by the type of social structure of the state. Institutional conditions are expressed with certain laws and regulations, which determine the way of the establishment, construction, operation and control of business in organizations, but also regulate the relations of elements in the organization. Given that these conditions should ensure the stability of the organization, they should not be changed often, which is not the case with countries in transition. Given that no organization could not remain if it does not adapt to institutional terms, their impact on the organization and the organizational structure is very important.

The impact of the market on organization is very significant. It is reflected in the changes taking place in the market forms of functioning. The market affects all segments of the organization, but also its structure, organization of production and service functions, the degree and level of education of staff, organization of transport functions and financing activities. Under the influence of the market significant and major changes are taking place in the organization, and very often it happens that the organization leave the production approach and become more market-oriented organization.

Development of science has a great importance for the organization. This applies particularly to information technology. The emergence of new scientific developments changes business environment and creates a whole new area of business, which has a major impact on the organization and its structure. With the advent and application of new technologies new jobs are opened, the way of doing things is changed, jobs are modernized and new tools and new products appeared. These changes require modern concept of organization and new staff trained to work with new technologies. With the advent of the Internet, integrated information systems, operations that can be done outside organizations and electronic business, faster and more radical changes in technologies of work are required. Mass data processing eliminates errors and provides quality information for decision making. In this way, technology is an important factor of organizational structure, which is confirmed by numerous studies.¹⁷

The impact of the phenomenon of globalization of the world economy, which occurred as a consequence of the development of information technology and economy is of great importance for the organization and its structure. Large and complex business systems such as large corporations exceed the size of the national economy and define the conditions for doing

¹⁷ Robbins, S. P.: *The Essential Elements of Organizational Behavior*, Mate, Zagreb., 1995, p. 214.

business in today's market. The weakening protection of domestic enterprises, their possibility of applying to international companies becomes weaker, while the concept of market changes in a way that the competitive struggle takes place on a global and increasingly virtual marketplace. The capital often moves to regions with more favorable business conditions, while manufacturing, distribution and sales are becoming increasingly international. All these changes directly affect the organization and lead to the development of new models of organizational structure (network, cross-functional teamwork, innovative structure by profit centers).

The role of government in economic trends, in addition to creating the institutional conditions of economic activity, is the emergence of the state as the owner of capital in some organizations, but also as a proofreader of the economy functioning. It may be noted that the state is increasingly withdrawing from direct involvement in business organizations and reduces the impact on business conditions which leads to necessary changes in the organization. So the usual traditional organizational structures are changing in contemporary forms, allowing their survival, growth and development.

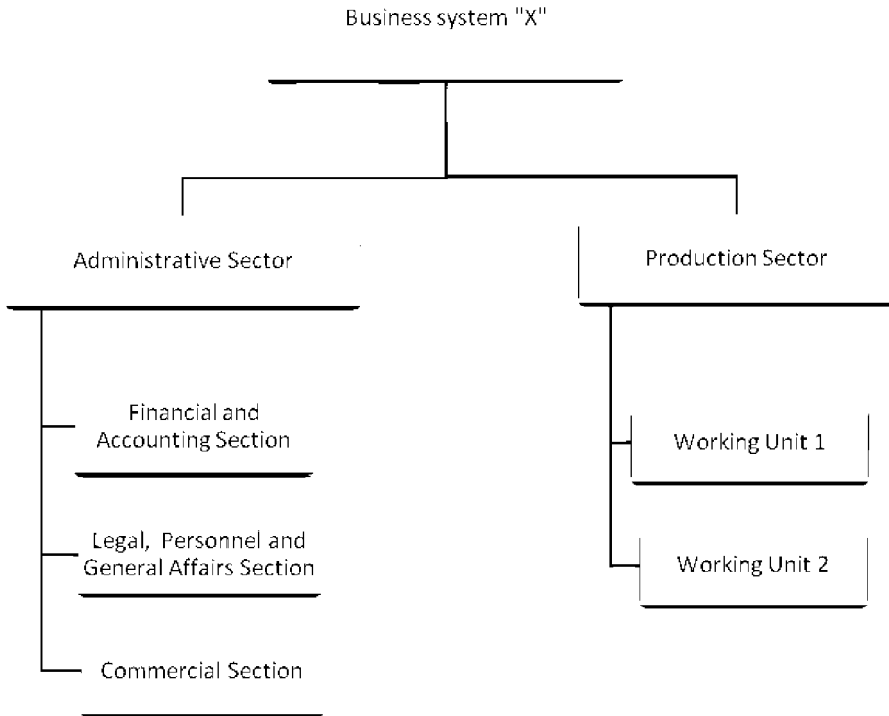
When designing organizational structure and its restructuring, it is necessary to take into account both the individual impact of these factors, as well as their mutual dependence.

FACTORS OF ORGANIZATIONAL STRUCTURE IN BUSINESS SYSTEM „X“

To show the influence of various factors on the organizational structure the easiest way is to analyze this influence on an example. This paper will analyze the business system that deals with the production and sale of bakery products. This company was founded in 2014 in Banja Luka, Republic of Srpska, and it is owned by an individual. It currently employs 19 workers and sells its products in the territory of Banja Luka city.

The present organizational structure of this business system is shown in the following figure.

Figure 1. Organizational structure in business system "X"



Source: author

The figure shows that the observed company has a very simple organizational structure. It is the result of numerous factors that led to such appearance of the structure. From these factors the size and the age of the organization is certainly important. Given that this is a newly established company with 19 employees, which is in the initial stages of development, the company has an initial form of a functional structure. This initial form means that more functions in the company are located in one organizational unit. Considering that this company produces small quantities of products in one location the use of existing structure is justified. This simple organizational structure is a result of ownership status, given that the organization has only one owner. This company was established in accordance with the institutional conditions, and even though it operates on the local market, it must follow the existing production technology in order to be competitive in the market.

Although the aforementioned factors influence the appearance of existing structure, if they change, the company will be forced to make a redesign of

structure to adapt to new conditions. Since it comes to a small company, the restructuring will be necessary in the case of the growth and development of the company, or in the case of increasing its size, number of employees or the number of locations. Significant changes in strategy, changes in the type of production, as well as changes in the ownership status of the organization may also lead to changes in the structure. These changes can be also caused by changes in the legal framework or institutional conditions, changes in market conditions and changes in technology. In these situations, the organizational structure of the company would have a much more complex form.

CONCLUSION

When we look at business systems around the world, especially those from the Republic of Srpska, it can be seen that a large number of these systems do not achieve significant progress, its objectives and planned results. They often operate with the emergence of certain losses. The number of investigations has been carried out in order to determine which the most common causes of a failed business are. Their findings, among others, point to the inadequate design of organizational structures and a lack of flexibility of the structure as important causes.

On the basis of surveys carried out to demonstrate and explain the impact between the observed variables, this paper leads to several conclusions. Organizational structure, which refers to the system of internal relations and communications, is the starting point for achieving the defined goals and achieving the intended results. Based on the research it can be said that properly designed organizational structure is the key to the success of the company. However, many business systems do not have adequately designed organizational structure which in practice creates a lot of difficulties in the functioning of enterprises, but also prevents the exploitation of the many benefits which brings structure created in accordance with the needs. In order to operate successfully in today's turbulent conditions, it is necessary for companies to constantly adjust to a number of factors that come from the system itself, but also from its environment. In order to successfully answer to these changes, it is often necessary to implement the restructuring of the company, which will make organizational structure adapted to the needs. There are numerous internal and external factors affecting the organization structure design. Internal factors are: size and age of the organization, stage of development, strategy, type of production, personnel and material factors and location and ownership status of the organization. The most important external factors include: institutional conditions, the market,

the phenomenon of globalization, the development of science and the role of the state in economic flows.

Based on the foregoing findings, the hypothesis which claims that certain internal and external factors may directly or indirectly affect the organizational structure in such a way that these factors create a need to adapt the organizational structure through the process of its redesign is proven.

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