

## INTERNAL FACTORS OF ORGANIZATIONAL STRUCTURE

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c\_elida@hotmail.com**Abstract**

In order to realize the mission of business organization, which is the reason of its existence, it requires certain organization of elements in a way to result with the achievement of outlined mission. All these elements, the parameters are organized into a single organizational structure. Such a structure shows in which way are the given elements connected to each other, parts of the organization and the hierarchy of authority and commanding. It can be freely stated that the organizational structure is a mean through which managers achieve the outlined aims. Organizational structure once defined, is not unchangeable or given once forever. It is influenced by numerous factors which can be, more or less, influenced by the company. Initial factors for changing the organizational structure can come from the organization itself, and the management can influence them, as opposed to factors coming from the environment, outside, in which the impact is very small or impossible. The aim of this work is precisely to illustrate the internal factors of organizational structure, and interdependence of these factors and the organization. Each business entity exists to realize its mission. Its aim will be achieved by a defined strategy and aims for achieving the intended strategy. In order to accomplish this aim, the management must involve the technology in its implementation phase as well as the human factor, as the most relevant one, without which all this would just remain as a piece of paper. This work will illustrate the internal factors of organizational structure, but will also point out how changes in these factors concomitantly cause the changing of the organizational structure, which leads to the fact that the organizational structure is a flexible category and that the degree of its successful realization is reflected in that flexibility.

**Key words:** *organization, structure, management, factors, mission, strategy, goals, technology, hierarchy, employees.*

**Introduction**

The meaning for the existence of a business entity is the realization of mission and its vision, for what it was established. The company realizes its task by using and combining all the elements of business activity. Managers are the ones who organize the people and define the ways of their connection and operation. The managers realize their mission by defining and setting organizational structure. Only, the well defined organizational structure is a guarantee for the realization of organizational goals. It is not once and forever given, but is subject to changes, which are coming from the organization itself and can be influenced, it can also come from external environment, which can not be influenced.

The company will accomplish its mission by defining its aims, which must fulfil certain conditions in order to be efficiently realizable, and consequently the organizational structure will depend on their characteristics. The aims will be implemented by defining strategies, the ways how the accomplishment is planned. Depending whether the chosen strategy is the leadership cost one or differentiation strategy, it will also depend on which strategy will be chosen. Defined goals and strategies we use to get them implemented can be accomplished by using appropriate technology. In a word, technology is the knowledge to do something. Depending on whether the traditional or modern technology is used, the choice of organizational structure will depend.

The organizational structure is directly related to the size of organization. It is quite clear that a young company will not be organized as a large developed one. From the human potential, as a factor, will depend if the defined organizational structure will be implemented and to what extent the success will be shown. Characteristics, types of products greatly influence the mode of its production, and if the production will be organized as a single, serial or mass production. In this way the product appears as a factor that largely determines how the company will be organized for its production, the way how the organizational structure will

be shaped. What the organizational structure will be depends on the location of the company, videlicet whether all the sections, business units of the company are at the same or different locations. The aim of this document is to present what are those internal factors of organizational structure and what kind of impact they have on the organization structure.

**The concept, definition and factors of business organization**

The objectives and purposes of the former, the original and present organizations are almost identical and all are based on a primary need that the realization of a planned activity to be implemented in a most optimal way (the realization of the objectives at minimum cost). As society evolved, so has the organization developed as well. With the development of society and with the raising of living standards, sprout new needs that ought to be met, and on the other hand, we are faced with restrictions in terms of availability of raw materials. If we add to this the constant and increasable fast changes in surrounding, one can clearly see the importance of organization and importance of the organization's response to all challenges, which are in front of it.

M. Novak gives a very detailed definition of the organization: "The organizational structure includes the entirety of connections and relationships between all factors of production, and the entirety of connections and relations within each individual factor of production or business operations." Taylor however gives a different definition, in which the organizational structure, "beforehand designed form of relation, where the leadership thinks, and workers only carry out orders."<sup>1</sup>

Babić, believes that it is "organically connected and mutually consistent group of people who through adequate material resources achieves placed goals."<sup>2</sup>

<sup>1</sup> Zečir H., Senad S., Dženan K., *Organisation, Faculty of Economics in Sarajevo, 2008.god.p.32*

<sup>2</sup> Ibid, p.34

Also, Šunje provides a comprehensive definition, by which the organization is "a managerial function of a strategic character through which organizational top management creates assumptions for the realization of designed business strategy."<sup>3</sup> The very notion of organizational structure means the composition, skeleton, the structure of the organization. It is a specific characteristic of the organization and therefore two organizations with the same organizational structure do not exist. If the structure presents the substance of the organization, in so much the organization is a set of components, whose activity and function in sum, allows for the realization of set goals, in the most optimal way. The organizational structure defines the task assignment to individuals in the company, how the responsibilities are shared for the accomplishment of the tasks, but also presents the way how the individuals are designated in the groups of company's business units. "The organization is a chart (network) of connections and relationships through which people, based on the managers' instructions, achieve common goals."<sup>4</sup> The advantage of business organization is in fact all that, which the reason of its foundation is. It leads to a synergy effect, reduces time and cost to implement the tasks, it has a clear system of information and communication, but has also led to the division of labour and specialization. There where the advantage is visible, based on some rules it have shortcomings, which in this case can be reflected in the fact that the organizational structure inhibits individual initiative, which comply with organizational procedures and may impose duties and values that are inconsistent with the objectives and values of individuals in company. Every business entity performs its mission in terms of business, affected by many factors. They all, do not have the same impact and the same intensity of impact on the company. On some of them, the company can have more or less impact, whilst in some of them not at all. The success of the company's business operation depends on the degree of success, the organization's response to the demands and influence. All the factors which affect the organization and the organizational structure can be divided into two main categories:

*Internal factors* are those, as the title itself says, which have an internal impact on the organization, inside the organization, and the organization can influence them mostly. This group of factors includes: goal, strategy, technology, size, human resources, product and location.

*External factors* of organizational structures come from outside, outside the organization and the company can not influence them. These include: institutional environment, integration processes, market and application of scientific achievements. The basic characteristics of listed factors are their variability and flexibility over time, and their intertwined, interdependent relationship and impact on organizational structure.

#### **Internal factors of organizational structure**

This group includes all those factors contained in the organization, as a commercial entity, within it, internally.

The organization can influence this group of factors. The changes in any of these factors will inevitably lead to changes in the organizational structure.

#### **Objectives and strategy**

Each company is founded with a precisely defined mission, which, by its existence wants to accomplish. Mission as such describes the reasons why the organization was founded, its common values and belief. Hence, the mission of the company is what the company does, while the vision may be defined as what the company could achieve if it successfully achieves its mission. The vision presents a picture of us- as a company- you would like to have in the future. From the mission and vision, the strategic **goals** are driven, as a desired state that a company wants to achieve in future. Good formulated strategic goals should be: clear, acceptable, flexible, and achievable and should encourage the activity.

Objectives must be clear to all members of the organization, in order to avoid confusion and inefficiency. The only measurable goals are clear goals, because without these characteristics we can never know at what stage and in which percentage are the achieved. The defined goals should have the exact time limit in which must be realized, otherwise we risk their achievement, and control. The degree for realization of the objectives will depend on the degree of their acceptance by those that determine their realisation. They must be accepted by all employees, who simultaneously feel also responsible for their implementation. Business of the organization is done in conditions that are not given once for ever, but these conditions are a flexible category, subject to constant changes. In that way, the internal and external environments influence the flexibility of defined objectives, since it is just that adaptability the condition for realizing padded goals in a dynamic internal and external environment.

Defined goals must be realistic, be achievable in concrete business conditions. Unrealistically high placed goals can demoralize those who are tasked to implement them and can give up from the same goals. On the other hand, unrealistically low placed goals can omit the motivation of managers and workers. The hierarchy is important for the realization of goals, starting from the vision of what the organization should be, through closer defined goals that describe what is the organization's mission, up to the concretely and detailed described goals. The strategic goals belong to the higher rank which provides tactical ones that are implemented by defining operational goals. The placed goals are realized by using corresponding strategy, which can be defined as *planning decisions to which the company's goals are determined and the way how they will be implemented*. By its nature, it has a formal character and the product is a strategic planning one. It is in deed the strategic plan of the enterprise. It is brought up for the period which must not be less than a year, and usually is brought up for the period of three to five years. The strategy may refer to corporation as a whole, the business unit and business function, therefore they also differ: developmental, competitive and functional strategies. There are two basic strategies which can be achievable in order to gain the

<sup>3</sup> Ibid, p.35

<sup>4</sup> Stoner Dž., Freman E., Gilbert D., *Management*, Želind, Belgrade, p.290

competitive advantage of enterprises: cost leadership and differentiation. *Cost leadership* as a strategy is based on the demand of the enterprise to produce its products at a lower cost and thus be in front of its competitors. Here, it is expected from the enterprise to realize high productivity and efficiency, thus having lower costs. *Differentiation strategy* implies that the enterprise with its offered products on the market is distinguished from its competitors. In this

case, the enterprise should be flexible, innovative (what is, after all, the essence of differentiation). These two strategies can be used on the entire market or only to a certain segment, when the two original strategies are known as focusing strategies. Based on the choice of strategy, the appropriate organisational structure will be set up, whose characteristics are given in the following table:

**Table1. Characteristics of structures in the two competing strategies**

Characteristics of structure	Strategy of leadership in costs	Differentiation strategy
Specialization	High	Medium to low
Decentralisation	Low	High
The number of hierarchical levels	High	Low
Span of control	Low	High
Grouping units	Functional	Market, team, Matrix
The use of lateral connections	Low	High
Interaction structure	Low	High
Formalization	High	Low
Coordination	Process standardisation	Interaction in the teams
Overall structure	Mechanical	Organic

Source: M.Petković, N.Janjićijević, B.Bogičević-Milikić, *Organizacija*, Faculty of Economics, Belgrade, 2005.p.144

### Technology as a factor of organisational structure

Defined goals and strategies we use to get them implemented, we can accomplish them by using appropriate technology. In one word, technology is knowledge to have something done. The transformation of raw materials (inputs) into products and services (outputs) is done with the help of technology. The Technology can be defined as *a combination of relevant knowledge, skills, and technical equipment and machinery necessary for people to transform raw materials into useful products and services*<sup>1</sup>.

Technology has experienced the most significant and greatest changes in recent years, which have influenced the way in which technology as a factor affects the organizational structure. Technology is increasingly replacing the workers, leading to changes in organizational structure. The expressiveness of working teams is apparent. Information technology has played a key role in the lower levels of middle management presence which was a link in the operational level of communication and top management. In this way, also the costs are greatly reduced, and a number of levels decreased. The differences between traditional and modern technology are presented in the following table.

**Table 2. Differences in the organizational structure of the traditional and modern technology**

	Traditional technology	Modern technology
Specialisation	High	Low
Decentralisation	Low	High
The number of hierarchical levels	Big	Small
Grouping units	Functional	Production teams
Coordination	Hierarchy control, standardisation of process	Interaction
Overall structure	Bureaucratic	Organic

Resource: M.Petković, N.Janjićijević, B.Bogičević-Milikić, *Organizacija*, Faculty of Economics, Belgrade, 2005, page.137.

### Size as a factor of organizational structure

The organizational structure is directly related to the size of organisation. It is quite clear that a young enterprise will not be organized as a large developed enterprise. Increase of the organization size leads to an increase in work processes, and therefore comes to the high specialization of labour as well as the standardization and formalization, and thus to increased number of hierarchical level. On the other hand, it leads to increased span of control, subject to specialization and standardisation. In this way, the organization becomes more bureaucratic, mechanic. The characteristics of small and large enterprises are given in the following table.

**Table 3. The relationship of organizational structure and the size of organization**

Characteristics	SMALL ORGANISATION	LARGE ORGANISATION
Production	Production in small quantities	Scope Economy
Trade orientation	Orientation on the local market (regional)	Orientation on the world market (globally)
Organisational structure	Organic Structure	Mechanical structure
Flexibility of the organisational	Flexible organisational structure	Inflexible organizational structure

<sup>1</sup> Jones G. *Organizational Theory, Design and Change*, NY: Addison Wesley, 2004.

structure		
Complexity of the organisational structure	Simple organisational structure	Complex organizational structure
Priorities in work	A major role of the organization owner	Teamwork, professional workers and managers
Formalisation level	Low level of the organization formalization	The high level of formalization of the organization
Centralisation level	Centralized organization	Decentralized organization

A priority for each organisation should be that along with the advantages offered by large organizations, retain the advantages of small organisation as well. This could be achieved by organising parts of the enterprise into divisions and strategic business unit.

### Human resources (personnel) as a factor of organizational structure

Each factor of organizational structure, in its way has the same influence, but nevertheless, the human potential has a crucial meaning, as the most important, crucial factor. It is the most important factor in building a formal organizational structure and whether the defined organizational structure will be implemented and how much it will show success depends from this factor. Broadness and the depth of the hierarchical pyramid does influence on the employee satisfaction in their work. The employees affect the organizational structure through its composition and its organizational culture, through their attitudes, values and beliefs. Also, managers influence the effectiveness of selected organizational culture, as they appear as the ones who run specific businesses, but these are the persons who mediate between one or more owners and workers and in the end, they control the implementation. It is of crucial importance that the creators of the organizational structure

take into account the knowledge and skills that the employees of the company have.

As much as the professional background of employee is favourable, the control is less needed, and thus the autonomy and decentralization is larger. On the other side, it leads to the complexity of the organizational structure, which may be based on teamwork, with a high degree of formalisation. From the employees' satisfaction, the awarding and rewarding system, motivation, much depends whether the chosen organizational structure will be efficient, because in the end, each structure is realized by the people, employees. All other factors could be well formulated, but still a key factor is the human one with its organizational culture. The human potential with its expertise, conditions the organizational structure.

### Production program and the location as factors of organizational structure

Each company can have one or more **types of production**, which again depends on its size, mission, and financial, material and technological possibilities. Characteristics, type of products greatly influence the mode of its production, and if the production will be organized as a single, serial, mass. The following table shows the relationship type of production and some characteristics of the organizational structure.

Table 4. Relationship between the type of production and organizational structure

Type of production	Formulation and standardisation	Technology complexity	Production costs	Flexibility	Type of organisational structure
Individual production	Low	Low	High	High	Organic
Mass Production	Medium	Medium	Medium	Medium	Bureaucratic(mechanic)
Processing production	High	High	Low	Low	Organic

In this way the product appears as a factor that largely determines how the enterprise will be arranged for its production, the way in which the organizational structure will be shaped. The product will affect the organizational structure through its diversity, quantity, method of its production, as well as the fact whether it is related to known or unknown buyer.

The greater range of products is, the enterprise will use the article/objective organizational structure, while in the production of one or more similar products that require the same technology, the functional organizational structure will be used (which is the case in small enterprises).

The product can be designed to precisely defined, a single buyer, but can be designed to an anonymous buyer, when it comes to mass and processing production.

A wider range of products requires decentralized, flexible organizational structure which would, as such, be able to be effective, in which the organizational units have a high degree of autonomy, since in that case it will have the opportunity to make independent decisions, because the reaction speed in modern business conditions is big. Only in this case, the taken decision would have effect (due to less reaction time). In this case the control is decentralised as well, and therefore it is more effective and expedite. For this kind of production the decentralized organizational structure is immanent.

In contrast to the wide range production, with companies that produce one or a group of similar products, there is a high degree of specialization, so the centralized organizational structure is present, characterized by

centralized decision making and centralized volition. Here, there is much less organizational levels, causing the simpler communicate, and thus more efficient.

**Location** as a factor of organizational structure appears immediately at the beginning of project documentation, which defines location, location of the enterprise. The success and the enterprise operation economy will depend just from the location selection, because the location has a direct impact on the cost of production, and consequently the selling price, living standard and level of citizens' employment. When it comes to location, above all, the micro and macro location must be taken into consideration. The choice of *macro-location* is very important for every enterprise, because once chosen, it can hardly be changed. As the word itself says, micro-location refers to the operation location or internal parts of the company.

The choice of *macro location* is largely influenced by the near transport links, proximity of the raw materials market and labour force, as well as the customer market. The importance of the good choice of macro location is reflected in the fact that, wrongly or badly chosen macro location, it will permanently, and throughout entire life of the company, have a negative impact on the business performance of the company. The importance of its definition lies in the fact that it permanently affects the organizational structure of the company (as much as the company's location is less favourable compared to the sources of the labour force and urban centres, as much as the supporting infrastructure is less favourable, the sensitivity of the company on weaknesses is larger). In such located companies, it is much more difficult to retain staff, who will seek companies with better location. This, on the other hand, leads to a certain degree of instability and uncertainty of company's business performance, which will affect also the changes in the organizational structure of the company (when the key people are leaving it, managers, who are mainly responsible for the successful operation of the company). When talking about the location impact on the personnel employment, proper professional structure, it can be said that as far as the company is far from the city centres and as much as the infrastructure is unfavourable, the respective company becomes less attractive. Contrariwise to such companies, companies that are located in urban centres have much favourable professional staff structure. In such companies, there is a large percentage of the labour force with different specialties, causing higher specialisation of the organisational units, so the organisational structure is differential.

Companies that need, based on the nature of the work they do, to dislocate, relocate or start building operations in several locations, will have a different organizational structure (i.e. they will have the territorial organizational structure), compared to the company which business is concentrated in one place/location, where it will be a greater

degree of centralization of decision making process, control, and much simpler communication. Modern multinational companies, whose business performance is conducted in several countries, can for example have a virtual organizational structure.

### Conclusion

The aim of this study was to point out which are those internal factors that influence the organizational structure of a company. The defined objectives of the company, influence the organizational structure by its reality, set time period, clarity. The motivation of workers and managers is very important for their achievement. The objectives are realised by implementing appropriate strategy. Leadership strategy in costs will evoke high number of levels, with high specialization and formalization, but under low decentralization and low span of control, and all of it conditions the use of the mechanical organizational structure. The differentiation strategy, on the other hand conditions the use of organic organizational structure, with a low degree of formalization and small number of hierarchical levels based on team grouping. The technology type also affects the organizational structures. The traditional technology conditions the bureaucratic organizational structure with high specialization and a large number of hierarchical levels, and modern organic organizational structure with a low degree of specialization, high decentralization and a small number of levels. By size, small organizations will in general have a flexible organic structure, with a low level of formalization and a high level of centralization, while the large company will have a mechanical, inflexible organizational structure with a high degree of decentralization. Human potential, through its professionalism, education and organizational culture, will influence the organizational structure. Highly professional managers will know to establish the most optimal structure on the right time. The lack of such personnel will greatly hamper the definition and implementation of the real structure, leading to greater decision-making centralisation and control, lower degree of specialization and flexibility. Production program will affect the organisational structure with its assortment. The wider program will lead to greater decentralization of decision-making process and control, as well as higher level of flexibility. Opposite effects will cause a narrower products' assortment, which requires a high degree of specialization, and centralized organizational structure. If a firm has its organizational units in multiple locations, a decentralized organizational structure will prevail, with same way of decision making and control, but the communication is more complex. It is in the interest of each company, by influencing the internal factors of organizational structure, influence the creation and definition of most optimal organizational structure, since in this way, it will realize the tasks and goals with minimum costs.

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