

## **A CONCEPT OF ORGANIZATIONAL TRANSFORMATION**

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**Abstract:** Unlike the concept of organizational development, which was related to smaller, evolutive and incremental changes, the concept of the transformations of organization or organizational transformation is related to greater, more comprehensive, more radical changes of all elements of one organizations. It is about the changes that affect the entire organization and that are most frequently carried out in a relatively short period, which leads up to the emergence of new structural relations within an organization.

**Key words:** organization, transformation

### **1. INTRODUCTION**

Organization was formed in distant past, i.e. in the moment when at least two men started to socialize with other and carry out joint activities. With development of means of work and technical and technological procedures, the organization becomes an imperative, so that competitive ability would be increased and the implementation of the increased products' production could be enabled. In that way, industrial revolution also created the science that deals with determining the laws of designing organizational systems, in order to achieve the highest level of efficiency and effectiveness, i.e. science of organization [10].

Science in an organization was changed in each new time dimension. It has long ceased to be empirical activity, but it has obtained theoretic and scientific basis with mechanization and robotization, it formulated its subject, content and methodology of research. As such, it is able to formulate scientific laws, in order to design, build and maintain the organization in the state of »eternal optimality«.

The term organization is used to describe the organization process, to describe social entity that was formed by a group of people. The people create organizations in order to achieve some goals that they are not able to achieve as individuals. In that sense, key elements of each organization are purpose or goals that we want to accomplish, people and structure, which suits the character of tasks that the organization intends to perform. Organization is a distinctive system of interconnected people necessary for achievement of specific goals in economy and society [6].

Organizing is the process of defining the job that should be done and the creation of structure necessary for accomplishing the tasks by which the goals of business activity of economic subjects are achieved. The problem of organizing is finding a balance between the necessary level of differentiation and integration of organization. It is not at all simple to fit the interconnectedness of the relations between individuals and group of people into the system, as well as the hierarchy of competencies and responsibilities. Organization creates a necessary framework for the management process – in order to achieve the efficiency and effectiveness in task performance [3].

Many large business systems have come under the attack of deregularization and opening of protected business sectors for competition. Directors of many protected monopolies (big business systems) have suddenly found themselves in roles of the leaders of companies that are undergoing a relentless battle with competition on the free market. In such environment, if they do not want to simply disappear of the market, the organizations are increasingly resorting to great and comprehensive transformation changes.

In contemporary conditions of economy, the research and studying of this field of managerial science today gets even more significance and increasingly attracts the attention of the public. Emphasizing the importance of „accelerated and chaotic changes, Tom Peters emphasizes that the „companies would have to burn themselves to the ground and rebuild in each couple of years. In the world where the unthinkable becomes normal – in the crazy world“, stable, reasonable companies do not have any sense".

Defining and application of new concepts of organization's transformation will largely contribute to successful functioning of big business systems and society in general. Scientific significance of the research is to describe and explain the content of identified factors of organization's transformation, to determine the mechanisms of their actions and define the direction and strength of their impact on transformation processes of organization – business systems.

From the aforementioned, we can conclude that the organization is a system with the following characteristics:

- The organization is an artificial (conscious) creation made by man. What was not created by the man, it does not represent an organization.
- The organization is a purposeful activity that has its own objective. The system that does not have a consciously set goal cannot be an organization.
- Organization consists of natural or artificial elements. System in which there is no man does not represent an organization.

Each definition can be accepted, depending on the purpose or standpoint from which the organization is observed. It appears that the most comprehensive is the definition that describes organization as purposeful human activity of connecting natural or artificial parts into a unified whole, in order to achieve the goals set [10].

## **2. CHARACTERISTICS OF ORGANIZATION'S TRANSFORMATION**

Concept of „transformation of organization“ or „organizational transformation“ becomes more significant in theory and practice of management during the 80's and 90's of XX century. Accelerated changes (technological, economic, political, social, demographic and other) affect the discontinuities in many activities. Faced with such challenges, the organizations cannot be successful if they use incremental changes. Organizations need big, radical – transformational changes.

J. P. Cotter points to the fact that in the world of accelerated and continuous changes and business in conditions of discontinuity, organizations are forced to increasingly seek for big, radical transformational changes „if they do not want to experience the fate of dinosaurs“.

Lately, it is increasingly being spoken about the „inventing and reinventing of organization“. Transformational leadership with revolutionary way of creating the strategy and application of strategic logic of innovation value and various ways of transformation provides a solid basis of new management paradigm of successful organizations.

Tom Peters emphasizes the significance of „accelerated and chaotic changes“ and stresses that „the companies would have to burn themselves to the ground and rebuild in each couple of years. In the world where the unthinkable becomes normal – in the crazy world“, stable, reasonable companies do not have any sense." [4].

Unlike the organizational development, which is related to smaller, evolutionary and incremental changes, the organizational transformation is related to bigger, more comprehensive, radical changes of all elements of one organization. It is about the changes that affect the entire organization and that are most frequently carried out in a

relatively short period, by the principle of „earthquake” that leads up to the generation of new structural relations in organization.

Transformational changes need to be supported by appropriate processes of change. If adequate processes aren't used, the strategy will not be realized. It is necessary to identify the processes that are included in various programs of changes and to relate the specific processes of changes with specific strategies. Strategic change should be observed as a continuous process that takes place in certain circumstances. Implementation of changes largely depends on the character of activities that need to be done, as well as expertise and skills of employees that should perform those activities. Significant concept that is related to the change in organizations is entropy. The organizations can lose energy or „wear out“ if they are not renewed through formal programmes of development and change.

Change management of big business systems implies radical and very intensive changes that involve all the components of organization (model "7-S") McKinsey "7-S" framework equals the so-called hard (hardware) variables of organization, such as organizational culture and strategy, with so-called soft (software) variables, which include: management style, systems, personnel (people), skills and common values [5].

*Structure* of the organization is a result of organizing. Studies have shown that modern organizations, particularly the successful ones, are not satisfied with formal organizational structure that is a result of planning design of organization. Such organizations are rigid and inelastic and for that reason they slowly respond to changes from the environment. For informal organization structures it is specific that they are created in a spontaneous way and that they are not the result of previous planning. Informal organization structures enable higher elasticity and adaptability and for that reason they are found in excellent – successful organizations. Structuring of successful and efficient organizations is based on autonomous decentralization with permanent integration and divisional – flexible organizational structure.

*Strategy* precedes the structure and in the model "7-S" the conclusion was reached that formulation of strategy in practice is smaller problem than its implementation. Business strategies in successful organizations are good because they know their advantages, they are aware of their weaknesses and they know very well which are their capacities. Such strategies are oriented on challenges, chances and threats from the environment, discovering distinctive advantages in relation to the competition etc.

*Systems*, according to the model "7-S", include all the procedures (formal and informal) that enable the organization to function. Under the systems, we imply the budgeting of capital, training systems, accounting and budgeting systems. Changes in systems significantly affect the increase of organizational performances. Due to the complexity of the relationship between strategy and the system, during the implementation of strategy, we should ensure that the systems do not overpower the strategy. Namely, it is necessary that the systems contribute to the efficient implementation of strategy through their flexibility and adaptability.

*Style* is the manner of overall behaviour and activities taken by „top managers“. Application of the winning style that is not aimed at people is the characteristic of efficient and successful organizations.

*Staff – personnel* are the only resource that is not limited. Human resources can be developed endlessly. Based on research conducted, model "7-S" describes that successful organizations see people as resources that require active management. For successful organizations it is characteristic that the personnel in them are permanently formed and that they are improved with the purpose of performing the given tasks in a professional way.

*Skills* refer to those knowledge and abilities that contribute for the organizations to perform some activities in the best way and based on which they acquire competitive, distinctive advantages.

*Common values – organizational culture* refer to the concepts, values and aspirations that unite the organization by some common goal. Successful implementation of the strategy depends, primarily, on whether the organizational structure and philosophy – organizational culture corresponds to the strategy.

### **3. CAUSES OF ORGANIZATIONAL TRANSFORMATIONS**

Organization is an open system and, as it was previously said, it is affected by the environment and it affects the environment. Changes from the inside can be caused by external factors, and internal changes and decisions can then change those external factors.

The cause of organizational changes is imbalance or the violation of balance between: a) organization and environment and b) between the very organization, i.e. its subsystems. External and internal imbalance leads up to the real or anticipated decline in performances and crisis of the enterprise. Organizational changes represent a way for the enterprise to avoid the anticipated and eliminate already created imbalance, i.e. crisis [7].

Organizational changes appear only when it comes to external or internal imbalance or disorder of balance. In other words, all causes of organizational changes can be divided into two groups: external and internal. External causes of changes include the changes in environment that lead or may lead up to the external imbalance of organization, i.e. its discrepancy with the requirements of the environment. That is a situation in which changes in environment set the requirements for the organization to change as well. Internal causes of organizational changes consist of the changes in the enterprise itself that lead up to internal imbalance of organization. That is the situation when due to the changes in one, and lack of changes in the other components of organization, there is internal inconsistency between them. The enterprise then experiences numerous disorders and loses that efficiency of functioning, which requires organizational changes in the direction of achieving internal balance between organizational components.

Main causes of organizational changes are changes in the environment and changes in the enterprise itself to which the organization has to adapt. There are at least two standpoints or ways in which an enterprise can be adapted to external and internal changes. The first perspective is the one advocated mostly by members of paradigm of continuous development and according to which top management of the company anticipates or at least rather quickly observes the changes both in external and internal environment of an organization and adapts the organization of enterprise before potential imbalance, which those changes could cause, actually appears. The second perspective is the one that is implied by paradigm of disrupted equilibrium and that starts with the assumption the enterprise's management will not be able to follow the changes in the environment and enterprise itself and that it will not be able to adjust the organization to those changes on continuous basis.

Environment of contemporary organizations is in the process of constant changes. However, not only that the environment is constantly changing, but the character of those changes is changed as well. In contemporary conditions, the most expressed changes in the environment and the most frequent source of organizational changes in enterprises are the following trends [2, 10]:

1. *Development of information technology.* General conclusion is that development of information technology has the character of new revolution that can be compared only to the revolution caused by the appearance of steam engine back in 19th century. Information technology creates discontinuous changes because what was unimaginable up to yesterday, that is now quite real with the help of computers. One of the fields in which the impact of information technology is the most expressed are the communications. Development of communications has led up to connecting the whole world into one „global village“. Information technology significantly accelerates business processes in organization and significantly increases the capacities of information processing. Simplifying and accelerating the performance of particular tasks, information technology creates the conditions to eliminate specific jobs and tasks, as well as workplaces, until the others are created and the third are modified.
2. *Globalization of the world economy.* In the last decades, there was a significant reduction in the protection of domestic economies in all developed countries of the world and erasing of boundaries that divide global market. In that way, global market transfers from the set of national markets into a unique system in which the enterprises from various countries compete with each other directly. In that way, the intensity of competition is significantly increased.
3. *Institutional changes in the economy.* From the end of 70's, in greatest number of countries of developed world, the neoliberal economic policy prevailed. Its main features were reprivatisation, denationalization and deregularization. All state enterprises that could be sold once again to private entrepreneurs were sold, while the state interference was significantly reduced in many industries. That has brought many companies, especially big business systems, the one who were monopolists until recently, into a difficult position. Suddenly, they have gotten the competition which they needed to compete with.
4. *Demographic changes.* Population in developed countries becomes increasingly educated. Qualification structure of employees is increased, which has consequences both for the design of workplaces and the structure of the needs of people as consumers. Women are increasingly working and they are becoming increasingly significant part not only of the labour, but the management of the enterprises as well. Birth rate is decreasing and the population becomes older.
5. *The increase of the intensity of competition.* The increase of the living standard and level of welfare in developed countries in the previous decade, technical progress, as well as the growth of education level has led up to significantly higher pressure to the enterprises from the aspect of demand. Consumers have become richer, but also more educated, so products' quality has become a condition of enterprise's survival in the market. On the other hand, deregularization and reduction of state's impact on economic movements had a positive impact on competitiveness in some branches. When we add it the already existing globalization of business, it is obvious that modern enterprises are exposed to increasingly severe competition.

All the described trends in the environment affect the increase of its turbulence and competitiveness. Empirical research have shown that dynamism and turbulence of environment, expressed through the frequency and predictability of changes in it, directly determine the probability of organizational changes. Higher level of dynamism of environment leads up to higher intensity of organizational changes of enterprise in it. Complexity of the environment is measured by the number of different elements in it and its mutual connectedness. Level of environment's complexity is in the correlation with the level of its turbulence and they together determine the level of frequency of organizational changes.

Internal causes of organizational changes represent those changes of internal components or characteristics of enterprise that require the adaptation of its organization. Analysis of internal causes of organizational changes should show which applications of enterprise's internal components create, i.e. produce internal imbalance. Experiences of numerous enterprises show that those changes include the following [9, 10]:

1. *Changes in age and size of organization.* The most important internal cause of organizational changes is development of enterprise in the aspect of increasing his size, complexity and maturity. Growth and maturity of enterprise cause significant changes in demographic characteristics of enterprise and require for the organization to be adapted to those characteristics. Growth of enterprise is manifested through the increase of its size and it leads to the increase of number and variety of operations, jobs and tasks in everyday operation of enterprise. In addition, with growth the number of employees increases, as well as the complexity of their relations and intensity of communications. In that way, the need for more intensive division of labour, i.e. specialization is created. Thus, the basis for standardization and formalization of process is created, because those are the only mechanisms that can provide efficient control and coordination in conditions of a great number of activities. At the same time, with the increase of size, a greater number of hierarchical stratum is necessary, so the structure should become „high“. Aging of the organization also has implications to its organization. By aging, the enterprise acquires experience in organizing, which provides him the opportunity to standardize and formalize it even more. Through aging, the organization learns more about itself and its environment, strengthens its structure, while processes and operations, since they have been repeated for a long time, become routinized and formalized.

2. *Change of the leader of organization.* Very frequent cause of organizational changes in the change of organization's leader. We come from the assumption that manager and leader are not the same, that changing only the leader represents the cause of organizational changes. Leadership implies the ability of articulation of reality and its imposing to the followers, while management implies the process of planning, organization and control. Leadership is based on reference power, while management is based on legitimate power. The leader has the ability to impose his own interpretation to the others in organization. For that reason, with the change of leader in organization, it comes to the change of the way in which the employees perceive the world around them and the way in which they behave in that world. New leader brings with himself new assumptions and beliefs and imposes them to the others in organization that are accepting it. By wide acceptance of the new views, attitudes and values, the need for organizational changes is created because the organization adapts itself to the new image of reality that was brought by new leader.

3. *Changes in ownership structure, merging and takeover of enterprises.* Every movement in enterprise's ownership structure has significant consequences for its organization and leads up to the comprehensive organizational changes. In addition to privatization and denationalization, this phenomenon was significantly influenced by the appearances of mergers and takeovers of enterprises. Having in mind the fact that mergers and takeovers are mostly implemented with organizations that are in crisis, the decision of the management of enterprise that takes over the other enterprises to adapt the organizational structure of those enterprises to its vision, strategy and conception seems completely logical.

4. *Change of developmental and business strategy.* It is well-known that each strategy implies appropriate organizational structure. Organizational changes can be caused both by the change of developmental and the change of competition strategy. Two basic ways that the organizations use in market game with competitors are defined. Those are the

leadership in costs and differentiation. These two strategies apply completely different principles in implementation of organizational changes.

5. *Changes of technology.* Changes of technology that the enterprise uses in its operation can be significant source of internal imbalance of organizational changes. Automation of production processes creates not only the possibilities, but also the necessity for the organizational structure to be adapted to changes. Information technology applied in the enterprise facilitates the coordination and communication, enables a higher degree of decentralization and creates the possibilities of reengineering of a great number of business processes.

#### **4. MAKING THE DECISION ABOUT CHANGES**

The awareness about the fact that organization needs changes still does not mean that the changes will also be realized. For many reasons, management can quit from the process of changing although it is aware that the changes are inevitable. There are two main reasons that determine such a behaviour of management. The first reason is that top management can abandon the process of changing if it assesses that the organization does not have sufficient knowledge and skills or resources to implement those changes. The second reason is manifested in the assessment of the management that possible changes could jeopardize their interests and positions in organization.

Having in mind that it analyzed the driving forces of changes, determine their reasons and defined the awareness of the necessity of changes, the management primarily needs to make a solid decision about changes and form an expert team for its implementation. This decision can be formal and informal. *Formal decision* is a decision articulated from the part of top management of the organization. *Informal decision* is contained in consensus of the top managers in organization, reached in informal discussions and conversations. Deficiencies of informal decisions are reflected in the fact that changes are implied instead of being clearly defined in all elements. That makes space for various interpretations of the original decisions about initiating the changes. Misunderstandings that occur on that basis can jeopardize the implementation of changes. As opposed to that, informal decisions can also have certain advantages. They are reflected in the fact that they introduce smaller risk to changes. Great number of employees will want the changes, despite the fact that they do not know exactly what will be changed.

Regardless of what kind of decision it is about, the decision on initiating the process of changes need to contain the following elements [1, 8, 10]:

1. *Causes of changes.* Decision on initiating the changes needs to involve the awareness about the reason for which the changes are initialized, i.e. the analysis of the cause of changes. It is quite certain that employees will not participate if it is not clear to them why are they necessary.

2. *Preliminary framework of changes.* Decision on changes needs to determine, at least in general, the field that is to be changed. At the very beginning of the process, it is necessary to know whether partial changes will be performed – changes of particular wholes or changes of the entire organization. That does not mean that it cannot be started with partial changes some time later, according to the needs, deepen the needs and extend the entire organization.

3. *Depth and breadth of changes.* Volume of changes can also be changed during the transformation process. Primary, it is necessary to define whether the management prefers radical or incremental restructuring of organization in the beginning of the process.

4. *Time of changes.* Decision on changes needs to define the time framework as well, in which the changes will be realized. That does not mean that time framework of changes is unchangeable, but that management in the very beginning still needs to know – have an idea of how long the process of changes will last.

5. *Agent of change.* The decision to initiate the process of changes should also define who will be the agent of changes. The agent of changes can be a person or a team that directly and operatively manages the process of changes. That can be someone from the very organization (internal agent) or outside the organization (external agent – consultant).

## **5. CONSULTATION**

Operation of the big business systems takes place in terms of various levels of turbulence and continuous efforts of management to adapt organization's operating to the environment and changes within it performs its activity through rational reactions.

Organizational transformation of big business systems is related to greater, more comprehensive and more radical changes of all elements of one organization. It is about the changes that affect the entire organization and that are most frequently implemented in relatively short period, which leads up to the emergence of new structural relations in organization.

In order to understand the essence of transformation of big business systems, it is necessary to understand the character of organization as a phenomenon of socio-economic development of society and identify major causes of changes. As a conscious human activity, the organization means looking for the solution to problems that occur in the process of accomplishing the goals set. In that process, the organizations are forced to perform comprehensive, radical transformational changes of all elements of organization.

The goal of organization is to establish such connections and relations in the system so that it could function in a more efficient and effective way, using the resources (material, human, information, financial, knowledge etc). Efficient and effective functioning should be encouraged at all levels, because it provides stability and progress of economic and social development. In the most general sense, organizing implies natural or conscious creation of structures that assume the character of the wholes. Somewhat more complete explanation stresses that organizing is a kind of movement in which there is mutual connection between the elements according to certain rules. In that way, mutually connected elements, in the structure that has characteristics of the whole, establish certain mutual relations and affect each other. Theory and practice of organization has not paid sufficient attention to the holistic-systematic approach. That is one of the reasons for which classical scientific method of research is retained in scientific and professional literature, as well as in practice.

Causes of organizational changes are the factors that force the enterprise to change its organization. By its nature, causes or factors of organizational changes most frequently represent the market, sociological, political changes, changes of organizations' leaders etc. Sources of organizational changes in the enterprise are the changes in its environment or, however, the changes of other dimensions or performances of enterprise: changes of resources, size, strategy, technology that is used. Without knowing the cause of changes, we cannot manage them. The reason is rather simple: course of the process of changes, strategy and resources that are used in changes, even the carriers of changes depend of the source, i.e. cause of changes.

Answer to the question what makes the content of organizational changes depends on the answer to the question what makes the organization itself. The content of organizational changes will depend on model of organization which we will choose. The

course of the process of changes depends on the content of organizational changes. Various elements of organization are changed in different ways, and thus depending on what is there to be changed, it is necessary to define the particular strategy of changes as well.

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