

ORGANIZATIONAL STRUCTURES CHANGES AS BUSINESS REACTION TO ECONOMIC REFORMS (THE CASE OF THE CZECH REPUBLIC)

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After communist regime collapse in 1989, economy of previous socialistic countries of Central and Eastern Europe was to be transformed. Economic system of Czechoslovakia was changing within 1990s as well, from centrally managed to market oriented system. The change of ownerships and needed restructuring is closely connected with the change of organizational structure of companies, which was changing very slowly within 1990s. The aim of this paper is to explain the changes of business organizational structure, which follow the economic companies restructuring provided within 1990s. Czech companies went through big change as for ownership structure within 1990s, which was connected with total restructuring. Original managerial structures were not suitable and were too tied with previous style of ineffective management. Now the role of manager moves to the role of businessman and performance monitoring moves to an architect being responsible for design and organizing.

Keywords: Centrally Planned Economy, Czech Republic, Organization Design, Organization Development, Organization Structure, Privatization, Restructuring, Transition of Post-socialist Countries



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Introduction

After communist regime collapsed in 1989, economy of previous socialistic countries of Central and Eastern Europe transformed. Economic system of Czechoslovakia (later the Czech Republic) was changing within 1990s as well, from centrally managed to market oriented system. Radical change of economy meant mainly the change of companies' ownership. Together with the transfer of properties from the state towards private owners, more or less successful restructuring was also provided representing though for companies not only the change of ownership but also the search for new selling markets home and abroad, the change of production structure and implementation of new management and organization methods as well.

Newly privatized companies entered the restructuring process, were used to function in the environment of monopolized economy where huge dominant state companies were common. The change of ownerships and needs of restructuring are closely connected with the transformations of companies' organizational structure which was slow within 1990s. In many companies, together with original management, an old fossilized managing style and old organizational structures persisted. Different situation was observed in companies that belonged to foreign owners, who were not burden by the habits of ineffective economy and centrally planned management.

The aim of this paper is to analyze the changes of business organizational structure, that economic restructuring within 1990s in the Czech Republic.

Benchmarking of Organizational Structures in Europe

Some researchers have already dealt with monitoring the organizational structures development in Europe. For example, such research was provided at University of West Bohemia in Plzen in 2007 and monitored the development of organizational structure of 57 European companies (production companies with custom-made or small series production and with 500 – 1000 employees) within the period of 1995 - 2007. The results of this research are summarized in Table 1.

Table 1 show that retreat of line and matrix structures is apparent and significant increase of procedural organizational structure is obvious.

Development of organizational structures was also monitored in Spain (Sanchez-Bueno, Gonzalez, 2010) within 1993 – 2003 (Table 2).

Slovakian authors also dealt with the research of organizational structures. It was provided at University of Economics in Bratislava in 2006. The results are compared with similar research realized in Germany (Table 3), where proportional representation of organizational structures in both countries is shown.

Table 1 - Development of organizational structures
(Source: Europe (BMP, 2008))

Organizational structure	1995	2000	2005	2007
	Number of enterprises			
Line-staff structure	43	27	23	20
Matrix structure	8	11	2	3
Process structure	1	5	26	28
Orbital structure	1	2	1	1
Hypertext structure		2		
Cluster structure		2		
Network structure		5	1	1
Holacracy		1	1	1
Hierarchy		1		
Other form	4	1	3	3

Table 2 - Development of organizational structures
(Source: Spain (Sanchez-Bueno and Gonzalez, 2010))

Organizational form	1993	2003
	Number of enterprises	
Functional structure	43	22
Functional holding	16	17
Holding	6	4
Cooperative multidivision	21	36
Competitive multidivision	9	11
Internal network	5	10

Transformation process in the Czech Republic

Czechoslovakian economy of the second half of 20th century initially was based on industrial tradition, sufficient amount of educated professionals and geographical location in the middle of Europe. Compared to other countries of socialistic camp, Czechoslovakia had much higher life standard and low number of inhabitants under poverty. Contrary to its neighbors - Poland and Hungary and southern countries Bulgaria and Romania, mainly Bohemian part of Czechoslovakia, was fundamentally more industrialized with relatively lower share of agriculture.

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Table 3 - Comparison of organizational structures: Germany and Slovakia
(Source: Vavrínčík, 2007)

Organizational structure	Germany	Slovakia
	%	
Line, line - staff structure	35	40
Divisional structure	20	44
Matrix structure	22	12
Process structure	23	4

As mentioned above, corporate sphere in the Czech Republic went through significant changes in the frame of transformation. After long period of central planning (companies in state's hands) and directive management with classic hierarchic structures, where communication was provided downwards, and such period came demanding different management and organization. In the period of privatization and transformation, state properties were transferred to private hands – Czech and foreign ones.

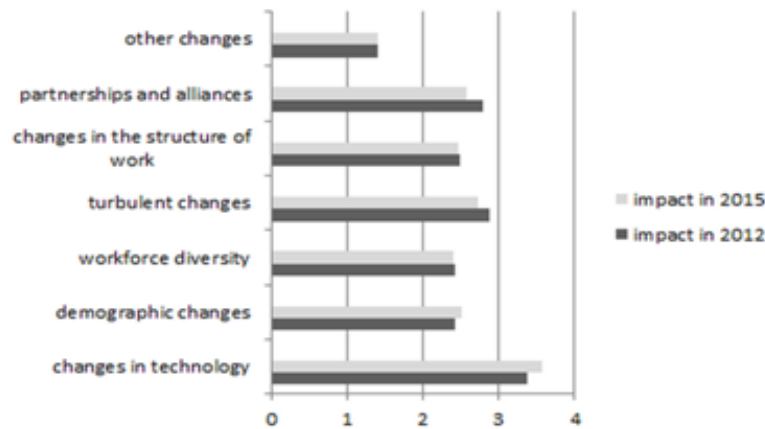


Figure 1 - The average impact of external factors
(Source: made by co-authors)

Ownership was changed but hierarchic centralized structures (connected with ongoing directive management style with low participation of employees in decision-making) remained. Relation manager – subordinate was not changed, managers remained the top of hierarchic pyramid with high incomes; and, as Truneček (2004) states, the managers were not willing to delegate their authority or give up their direct control. Only after renewing and rejuvenation of previous management in Czech companies, impact of foreign “habits” started to be seen.

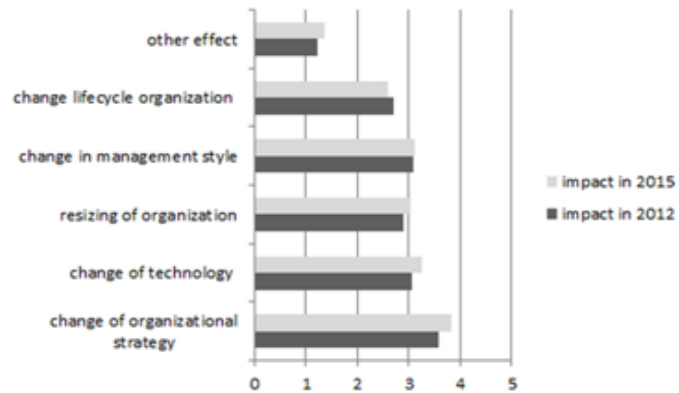


Figure 2 - The average impact of internal factors
(Source: made by co-authors)

This research was provided with 98 huge Czech companies. Considering the number of employees, those companies were represented as follows: with 250 – 499 employees – 57 companies (58,2 %), with 500 – 999 employees (26,5 %) and with more than 1000 employees (15,3 %) – company with 250 and more employees is considered huge.

The factors influencing the organizational structure were divided into internal and external. The respondents evaluated each factor on the scale from 1 (no effect) up to 5 (very strong effect). Figure 1 shows average impact of particular external factors at present time and in 3 years on organizational structure (its change) but also on organization as the whole because those impacts are the part of environment, in which organization operates.

The graph shows that organizational structure is mainly influenced by the changes in technology (3,39), by turbulent changes (2,94) and by partnership and alliance (2,89).

Figure 2 shows an average impact of internal factors by the same scale. Among internal factors, the respondents assign the biggest impact of company strategy (3,57), in both periods – currently and in 3 years. They suppose this impact to be even higher (3,82). They also consider management style (3,08) and its empowering in 3 years up to 3,11 (the third strongest factor). Within the period of 3 years, the strongest impact is given used technology, which would increase from 3,06 to 3,26.

As for external factors, the respondents perceive changes in technology as a strongest one. The reason for such opinion probably appeared because of higher investment accompanying those changes. However, other impacts should not be overseen; in case the company would not capture a creation of its competitor's alliance, its existence can be put in danger. The same situation can become with demographic impacts; the lack of qualified employees can occur. Turbulent impacts as accidental and non-systematic changes cannot be predicted; therefore, their impact is evaluated by the respondent as weak. Average impact of external factors is 2,54 (50,8 %).

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By the respondents, internal factors such as strategy are most influenced; it proves Chandler´s statement that the structure follows the strategy. Management style and technology have significant impact. Average impact of internal factors is 2,75 (55 %).

Besides the factors influencing the organizational structure change, the research focused on changes that were made. The questioning was directed to the type of previous and new organizational structure and its characteristics, i.e. whether the level of formalization or management style were changed etc. the differences between original and new organizational structure are presented in Figure 5. Movement from proportional representation of classic organizational structures in favor of flexible structures is seen. Original organizational structures were line-staff and functional (in almost 85 % of organizations). New organizational structures detected their significant decrease up to 38,9 % (thus decrease by almost 46 %).

As for the number of management levels, 73,5 % of respondent confirmed their decrease (32 respondents did not mentioned the number of levels). 28 % of organizations have 3 levels of management, 19 % have 4, 6 % says it has 5 levels and 6 % mention 2 levels, 7 % or organizations have 7 management levels.

Increase and decrease of the number of subordinates in new organizational structure is almost even; 30 respondents did not mention the number. Concrete number of subordinates is moving from 2 to 300. 12 % of respondents state that the number of subordinates is five and the same percentage state 10 subordinates.

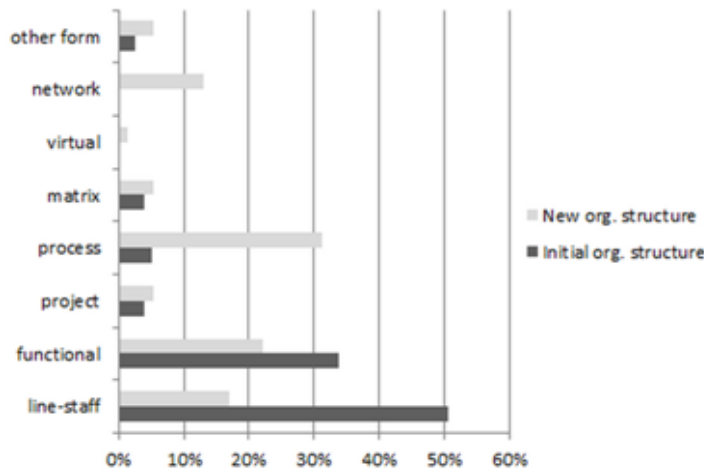


Figure 3 - Changes of organizational structure
(Source: made by co-authors)

The respondents further evaluated (1 – 8) the rate of delegating (1 = most of authority management has, 5 = managers delegate always when possible). The answers show that only in 9 % of organization the management keeps own authority. On the other hand, only 11 % of organizations delegate authority always when possible. 39 % of organizations delegate slightly and moderate (2nd and 3rd).

Even only 9 % of organizations keep authority, 19 % of organizations hold directive management style. Coaching is stated by 12 % of organizations, 31 % of organizations provide employees with independence in decision making and 33 % of organizations have cooperative style of management. Thus, directive style of management is not dominant any more.

The level of the teamwork use was also evaluated by the scale 1 – 5 (1 – teams are not created, 5 – teams create the basis for functioning). 7 % of organizations do not create team, 2nd and 3rd level of team work is used by 38 % of organizations; 4th level is used by 34 % of organizations and in 21 % of organizations; teams are the fundamental ones to make organization function. Such evaluation of teamwork basically reflects the management styles, which were mentioned by organizations (cooperative, coaching, decision-making). Evaluating a initiative and independence of employees (1 = employees should keep the relation subordinate – superior and do only given tasks, 5 = the aim fulfillment is given to only employees, their initiative and creativity), only 8 % of organizations allows their employees to do the task on their own; at opposite end - 9 % of organizations (strict following to superior).

However, 21 % of organizations state that teams are the fundamental elements in organization functioning; but only 8 % of organizations allow their employees full competence in task fulfillment i.e. teams do not function as theory demands thus do not support independence, initiative and employees creativity. In the frame of the change of organizational structure, only 23,5 % of organizations say that some activities were outsourced (mainly accounting, cleaning and catering).

Conclusion

Although the management theory discusses different types of flexible organizational structures and stresses their positive impact on the human potential use and company performance, current trend towards such structures is slow and we cannot talk about its real extension either in the Czech Republic or in Europe. Examples of those structures' functioning prove that the trend towards decentralized structures with prevailing horizontal communication and supporting independence and employees initiative are proper. The role of manager moves to the role of businessman and performance monitoring moves to an architect being responsible for design and organizing in order to achieve the best compromise between personal initiative and company performance.

Companies went through big change of ownership structure within 1990s, which was connected with total restructuring of economies. Original managerial structures were not suitable and were too tied with previous style of ineffective management. Therefore, companies, which were privatized by original management or employees associations, mostly did not gain demanded structural changes. Bigger success reported by companies owned by foreign owners, who were more opened to modern organizational structures and management methods. At last, almost two decades had to pass until new generation of

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managers started and began to apply different management style accompanied by the organizational structure changes.

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