

OPERATIONAL ADHOCRACY AS BASIC ORGANIZATIONAL CONFIGURATION – CASE “SUMAPROJEKT” SARAJEVO

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1. INTRODUCTION

The goal of this paper is to present research results in the field of organizational design applied on company “Sumaprojekt”. “Sumaprojekt” is a stock company for projecting and engineering in wood processing industry (focus on B&H wood processing industry) from Sarajevo, Bosnia and Herzegovina. As a former state owned company, it has passed through the process of privatization as well as many other companies in transition-process in Bosnia and Herzegovina and in the region.

Changed variables of organizational context caused problems in business operations. Radically changed environment required new approach to business. In this paper we have presented a way in which top-management of the company recognized changes in organizational context, and a way in which new organizational context influenced changes in company’s organizational configuration and organizational structure. All this changes are treated through Mintzerg’s approach to organizational design.

Mintzberg's way of functioning¹ of organization shows that the organizations designed for functioning in one organizational context, with certain organizational configuration, cannot be effective in completely different conditions of environment.

This method of organizing is based on guidelines of situational and configuration approach to study of organizational design. Situational approach includes implicitly difference of influence of the organizational context on selection of the basic organizational configuration in a way that certain organizational configurations are effective only in organizational situations that are typical for that type of organizational configuration².

Organizational functioning is determined by selection of the basic organizational configuration. Various organizational configurations address shaping of certain elements of the organizational design in a completely different way, which presents the base in configuration approach to organizing. Each organizational configuration promotes one basic coordination mechanism and one basic organizational force. Depending upon the type of the basic organizational configuration, we also have differently developed basic organizational parts.

There is a high degree of dependence among variables that form the organizational context. Resultants of action of greater number of independent variables create the organizational context, i.e. organizational situation. In order to approach organizational design properly, the variables of the organizational context that immanently determine selection and shaping of certain organizational configuration must be identified. Existence of different basic organizational configurations is conditioned by influence of the organizational context on organization.

Mintzberg distinguishes five basic organizational configurations. He also promotes five basic organizational parts of the organization, five basic coordination mechanisms and five basic organizational forces. For each of these configurations one of five basic coordination mechanisms is characteristic. The coordination mechanism is a way by which communication (and control) among and within the five basic organizational parts is realized. Each type of the organizational configuration promotes one organizational part as a dominant one. And for each organizational configuration there is one dominant organizational force that directs organizational action.

This paper is being focused on operational adhocracy, as a sub-type of innovative organization. The logic of Operational Adhocracy was applied on company "Sumaprojekt". Treating business problems in an innovative way helped company to cope its own business reality successfully. We had observed the company in the time frame of 12 months since the logic of new organizational configuration was applied. The results of our observation are presented in this paper.

2. INNOVATIVE ORGANIZATION

2.1 Basic features of innovative organizations

Innovative organization has the organizational configuration that breaks well-established rules and models of design of the organization. Intensive development of this organizational

¹ Mintzberg, H. (1979): *The structuring of organizations*, New York, Prentice Hall Inc.

² Sunje, A. (2002): *Top – menadžer: vizionar i strateg*, Sarajevo, Tirada

configuration appears with the first signs of the mankind's entrance into postindustrial era. It was followed by revolutionary achievements in informatics, explosion of knowledge and globalization. On the other side, ecological crisis, increased social differences and influence of global trends only contributed to complexity of environment in which organizations operate. The innovative organization presents a sophisticated organizational design as a reply to complex and dynamic conditions of environment.

The innovative organization presents very important modern organizational configuration. On the basis of Toffler's works³, in early seventies, Henry Mintzberg developed adhocracy as the innovative organizational design of the postindustrial era. It is extraordinary flexible organizational form specialized for ad hoc tasks. He saw this organizational configuration as the youngest one of the five basic organizational configurations that he promotes. It is characterized by the following elements:

- Organization operates in the environment that is both dynamic and complex at the same time and that requires completely sophisticated innovations.
- Production of complex, unique products requests from the organization engagement of highly trained experts, combining their skills in multifunctional teams.
- These experts are based in specialized units, services of administrative character, but are engaged in temporary teams in work on projects, which creates matrix organizational design.
- Due to complex and unpredictable nature of work, organizational coordination is based on mutual adjustment and is stimulated by informal structural parameters carried out through boards and similar forms. Coordination through direct control and standardization is undesirable, as well as formalized aspects of design that stimulate them, for example hierarchical levels, control of performances and different rules.
- The organization is selectively decentralized, power of decision-making is divided unequally, depending on availability of information and needs of experts in problems solving.⁴

Environment, business strategy and technical system are key organizational variables of the innovative organizations. Extraordinary dynamic and complex environment requires differentiation of products or services. The organizations are exposed to constant pressures for delivery of better services and they try to ensure their survival on the market through the high degree of innovativeness. Turbulent environment of the innovative organizations directs their action to only one sort of business, leaving no big space for diversification. Competitive advantage is based on differentiation with the high degree of innovation that is built into product or service of the organization. The innovation is the basic organizational force. Technical system is based on microprocessor as a technological base. Usage of all kinds of information and communication technologies is the base of work and coordination of the innovative organizations.

The innovative organization is a flexible organization with very low level of formalization in its behavior. Basic coordination mechanism is mutual adjustments. This is the only possible way of

³ Toffler, A. (1970): *Future Shock*, Bantam books

⁴ Mintzberg, H.; McHugh, A. (June 1985): *Strategy Formation in an Adhocracy*, Administrative science Quarterly; Vol. 30 Issue 2, p.161.

communication regarding internal organizational relationships. It is used in internal communication among members of the project team and among different project teams too. Number of members of the project team usually is not big and division of labor and coordination among members of the team is based on constant communication. Secret of flexibility of small teams is just constant informing on activities and intentions of all other members of the team.⁵ Coordination mechanism based on mutual adjustment requires intensive information exchange. Ideally, each member of the project team should communicate to all other members of the team and should be informed on further intentions and activities of all other members. This form of coordination mechanism demands high flexibility of employees of such a kind of organization.

Division of labor and design of workplace within the innovative organizational design require high horizontal and low vertical specialization. Experts, positioned in organizational part of the support staff and operating core, are stimulated to do closely specialized works in as innovative way as possible. Organization of workplaces is based on the functional principle, which makes static part of the organizational design. It includes clear division of workplaces and responsibilities. The organizational design is superficial, with the wide range of control in the functional units.

Set of lateral links is based on the project as a basic connective mechanism within the organization. It is based on temporarily established project teams with determined goal. Presence of great number of projects requires the need for constituting of the project organization, which, linked with the existing functional organization, creates the matrix organization as the subtlest connective mechanism.⁶ This makes the dynamic aspect of the organizational design. Already mentioned static, functional division of workplaces is revealed only after creation of the mother, project-oriented organization, based on the project teams directed towards solving of specific tasks. Planning is permanent having in mind that turbulent environment does not allow meaningful order of steps or actions of the organization.

2.2 Operational adhocracy

Adhocracy is creative, project-oriented organization characterized by the complex and dynamic environment. It is a form of the dynamic organization, with horizontal organizational design, faced with complex challenges that require higher functional developmental solutions. More and more organizations are led by this type of organizing that through temporary and only for that purpose created teams with necessary knowledge and resources achieve the desired goal, i.e. carry out the necessary task. Adhocracy looks like organizational configuration of industries of our era.⁷ The base of adhocracy, unlike, for example, mechanical organizations, is to try to control its environment instead of supporting of standardization in mass production. Adhocracy should function faster (than others), foreseeing influences of the environment on the organization. Adhocrative way of functioning means continuous organizational response to the conditions of the environment.

⁵ Groth, L. (1998): *Future Organizational Design*, British Library Cataloguing in Publication Data, p. 47.

⁶ Sunje, A. (2002): *Top – menadžer: vizionar i strateg*, Sarajevo, Tirada

⁷ Mintzberg, H. (1979): *The structuring of organizations*, New York, Prentice Hall Inc.

Mintzberg distinguishes two forms of adhocracy organization, depending on for which it produces service.⁸ Those are:

- (1) administrative adhocracy, that does jobs for its own needs, i.e. for the needs of the organization itself in which innovative actions are developed, and
- (2) operative adhocracy that does jobs for the needs of its clients.

Isolation of the operating core from the administrative component of the organization presents the most outstanding characteristic of the administrative organizational configuration. Observing the way of functioning of the administrative adhocracy, the operating core is less important part of the organization. The operating core remains separated from the administrative part of the organization.

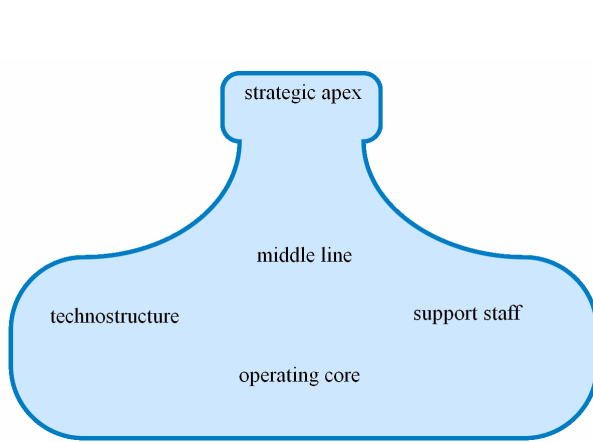


Figure 1. Operational adhocracy

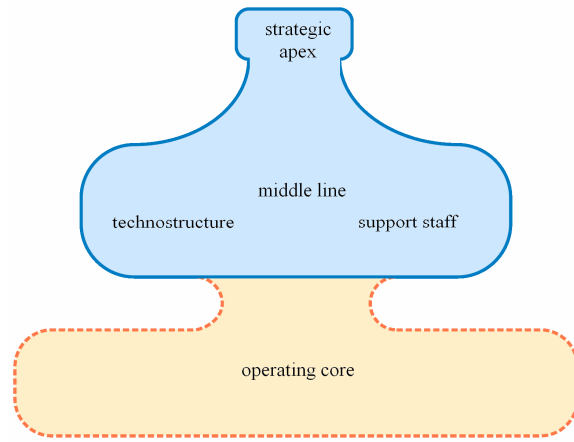


Figure 2. Administrative adhocracy

The operative adhocracy has all organizational parts developed and presents a very flexible organizational configuration without noticeable borders among certain organizational parts. The basic feature of the operative adhocracy is that administrative and operative works are joined in mutual effort to find the creative solution with aim to meet the needs of clients. Experts based in the operating core together with the support staff act innovatively in ad hoc project teams.

The operative adhocracy acts upon the client's request with aim to find solution according to client's needs. Faced with the client's request, the operative adhocracy engages experts gathered in multifunctional teams aiming to solve the problem in a new way. There is similarity between the professional organization and operative adhocracy in the way of organizing, but the problem, i.e. the client's request is solved in a different way. While the professional organization strives to classify the client's problem and solve it through standard solution with standardized knowledge, the operative adhocracy tries to find the unique and creative solution. This is achieved by

⁸ Mintzberg, H. (1979): *The structuring of organizations*, New York, Prentice Hall Inc., pp. 436-440

grouping experts in multifunctional teams whose coordination is based on mutual adjustments in order to find the unique innovative solution for the client.

In ad hoc project work it is hard to determine difference between planning and real doing of job. Activity planning of the operative adhocracy is permanent with respect that the operative adhocracy does jobs for others in the usually demanding market. The operative adhocracy may never be sure what its next project is.⁹ Unforeseen problems in doing the job do not allow design of work in the standard manner, so it is necessary to have adaptable members of the project team whom possess multidisciplinary knowledge and skills. Only by this way the operative adhocracy can survive in the business.

Substance of the organization's success designed on the basis of this model of organizing is adaptation to environment through finding of innovative solutions, which enables client's satisfaction and possibility of finding of new tasks and clients.

3. CASE STUDY

The case study is related to "Sumaprojekt" Sarajevo, a stock company for projecting and engineering in wood processing industry. Basic activity of "Sumaprojekt" is offering of consultancy services in wider sense of that word to business subjects from the wood processing industry in Bosnia and Herzegovina and wider region. Consultancy services include also selection and purchase of equipment for clients' needs, education of clients on new technologies and trends in the wood processing industry as well as all other aspects of business education.

3.1. Organizational context

The market of the company is the whole wood-processing industry in B&H, i.e. all the companies from this industry. The wood-processing industry is probably the most competitive industry, i.e. the industry in which B&H could create its own comparative advantage as a state. Based on data from Foreign Chamber of Commerce the wood-processing industry is the most export-oriented industry, which participate around 20% in the whole export of B&H economy. In Table 1 trend of export of this industry from 2001 to 2004 was given.

⁹ Mintzberg, H. (1979): *The structuring of organizations*, New York, Prentice Hall Inc., p. 456.

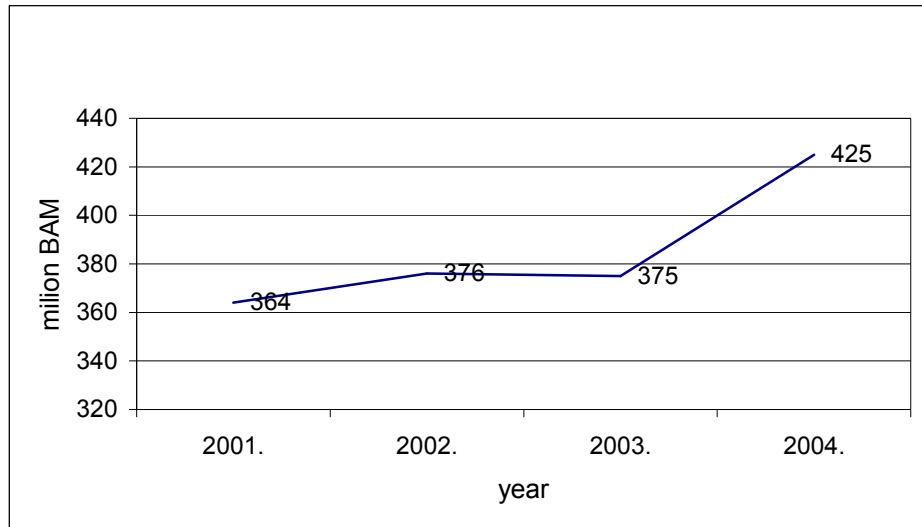


Table 1. B&H export of wood and wood products in last 4 years

“Sumaprojekt” presented a typical organization with privatization process just finished (2001) that did not get its organizing in line with situation in the environment. Functional organizational design was not able to find an answer to emerged changes in the environment. The way of conducted privatization produced stockholders with no clear vision of further activities of the company. All of this led to decrease of activities of the organization that was followed by decrease of performances and results of business. At the same time business environment was radically changed. The B&H wood processing industry became more sophisticated industry with more demanding companies – Sumaprojekt’s potential customers. Some big B&H wood processing companies, the most important Sumaprojekt’s customer before the war (Sipad, Sarajevo; Sana, Sanski Most; ...), were disappeared. On the other side a lot of new companies were born – mostly SMEs companies which were focused on more sophisticated customer, with higher degree of wood processing. Based on data collected from relevant sources (Statistical agencies relevant ministries, Sumaprojekt’s data base) there are about 800 companies in B&H in this industry. Unfortunately most of these companies (more than 50%, see Figure 3) are still in primary phases of processing wood. In fact, Sumaprojekt’s potential clients are more added-value companies – companies which are in the higher phases of processing wood (around 44% of 800 B&H companies as potential clients in B&H, see Figure 3). New born SMEs companies are mostly interested in exporting more added value products, which means that these companies as potential Sumaprojekt’s clients are more demanding clients. Their requirements addressed to “Sumaprojekt” as a consultant company in wood-processing industry are very demanding.

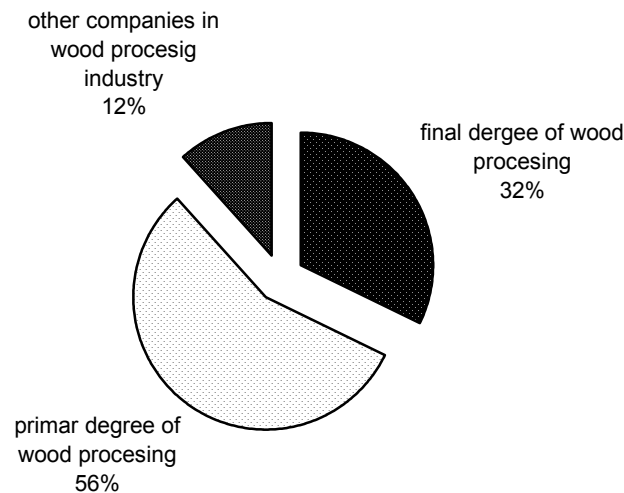


Figure 3. Degree of wood processing in B&H companies

In those circumstances, management started with adaptation of the organization to the new conditions of the environment. Organizational transformation of “Sumaprojekt” was a full-scale organizational intervention in which the traditional, functional organizational configuration of “Sumaprojekt” was abandoned and changeover to organizational design of the operative adhocracy was achieved. With the management, bearers of this process were employees of the organization who were aware of the situation they found themselves in.

The first step in research was analysis of the organizational environment of “Sumaprojekt” where variables of the organizational context that dominantly determine selection of basic organizational configuration of “Sumaprojekt” were defined.

Dynamic and complex environment is currently the most outstanding variable of the organizational context of “Sumaprojekt”. Completely changed picture of wood industry in Bosnia and Herzegovina and the region based on newly formed organizations and decreased degree of working of wood caused the need for completely new types of service that these organizations need. Irregularity of law regulations and extreme foreign competition in the segment of sale of machines and equipment give an additional dose of dynamism of the environment. Domestic competition in the project activities is based on small organizations closely specialized only for one segment of the consultancy service activities. Inconstancy in activities of these competitive organizations that occasionally and by fits and starts appear as competitors, make impossible continuity in forming of market price of the service and quality of service delivery. Market competitiveness could have been obtained only through both effective and efficient service matching specific client’s requirements. It required an innovative approach to client’s needs.

Sumaprojekt’s strategic core capability is capability of creating multidisciplinary teams capable of approaching to specific client’s need in an innovative way offering the complete service to client. It is reason why Sumaprojekt crafted the strategy based on differentiation of service as

competitive advantage. Variety of clients and their specific requests forced solving of set tasks in a way so that every project task was observed in order to find a unique and new solution. Sumaprojekt's readiness to be focused on specific client's needs in an innovative way promoted project organization as a part of its own organizational structure, in a way that each project is a unique one – focused only on one client. New technologies in wood processing industry enable possibilities to approach to the same client's requirement in different ways. Presence of a lot of teams inside of Sumaprojekt at the same time increased their innovativeness through mutual dialogue, which created unique Sumaprojekt's early mentioned core capability.

Complexity of the environment is closely linked to the use of technical system of the organization. In past ten years, "Sumaprojekt" carried out the full change of the technical system, from calculator and technical pencil to the automatized technical system based on software solutions that offers much faster going on of the project design process. Today Sumaprojekt's technical system is based on CAD system. Change of the technical system caused downsizing of the organization due to decreased number of employees.

Also, variables of the organizational context that in smaller degree determine organizational design of "Sumaprojekt" and present conditions of adhocratic organizing were defined. Before all, it relates to the variable of trend and marked diversity in organizational environment of "Sumaprojekt" that require a selective decentralization and division of labor in the organization with respect to different mutual relations of these jobs. Project teams are formed in a different way depending on the field that client's request was related to.

3.2. "Sumaprojekt" – operational adhocracy

Following demonstrated influence of the key variables of the organizational context on selection of the basic organizational configuration and implementing Mintzberg's typology of basic types of organization, "Sumaprojekt" presents an organization based on the organizational configuration of the operative adhocracy. Selection of the basic type of organization determines the basic organizational part, basic coordination mechanism and basic organizational force toward which the business process is directed.

Operational Adhocracy as a basic organizational configuration in a very different way approach to design of all aspects of organizational structure compared to the old Sumaprojekt's functional organizational structure. It is reason why the whole Sumaprojekt's organizational structure is totally re-configured.

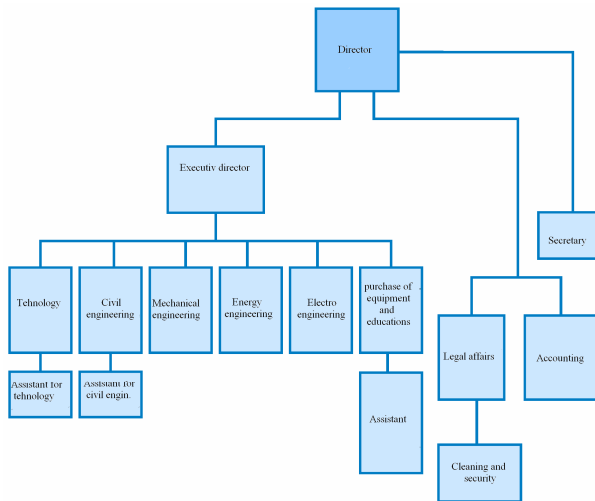


Figure 4. Functional organizational chart (old "Sumaprojekt" structure)

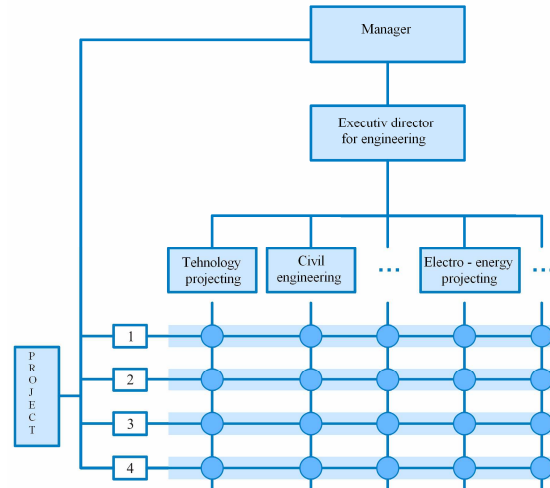


Figure 5. New project oriented structure (matrix structure)

Figure 4 and Figure 5 present old and new Sumaprojekt's organizational structure respectively. New organizational structure incorporates early mentioned project organization in the existing functional structure creating so-called matrix structure. In fact, all Sumaprojekt's business activities are being undertaken through ac-hoc projects. Project is a well-known specific type of so-called lateral linkage that collects different resources (human, financial, ...) on temporary basis around unique project aim(s). Project manager is a team leader, an integrating manager, who is responsible for all aspects of the project to the general manager. The concrete project aim(s), project scope with desirable project performances, determine(s) all aspects of the project in terms of needed resources (including budget), and time frame.

Project as a lateral linkage is based on mutual adjustment as a basic coordinative-control mechanism, which means that all team members are deeply involved in decision making process, being ignited to be as creative as possible. From managerial point of view each project is treated as a revenue-cost unit.

Obtaining project aims, i.e. being accepted by client project is finished and project team is being disbanded. Matrix organization is very demanding from managerial point of view because of dual, even multiple responsibility of employee – toward managers in their functional units, and towards their project managers, with possibility that one employee is team member in more than one project at the same time.

In the case of "Sumaprojekt" as an organizational configuration of the operative adhocracy, the basic organizational part is the operational core together with support personnel in which experts – bearers of the innovative activities are located and the basic organizational force is innovativeness (figure 1.).

The basic coordination mechanism is mutual adjustment. Within the multifunctional teams, experts base their work on intensive mutual communication thus forcing innovative solutions in

the process of solving of highly differentiated clients' requests. In the operative adhocracy the project has status of the central lateral link.

All the business activities of "Sumaprojekt" are carried out in the form of the project task for which Project Manager is appointed. Further on, Project Manager appoints members of the project team. Board for project is lateral link (meeting) that, due to parallel and simultaneous realization of numerous projects, manage those projects. At the same time, parallel existence of the functional organization (static aspect) and project organization (project managements) promotes the matrix organization as the basic organizational form. Multidisciplinary ad-hoc teams are basic element of Sumaprojekt's organizational structure.

4. CONCLUSION

The purpose of research is proving of dependence of the basic organizational configuration in relation to the variables of the organizational context. Results obtained from implementation of theoretical knowledge on concrete example in practice were promoted. Radically changed organizational context caused the change of the organizational configuration of "Sumaprojekt". The identified variables of the organizational context resulted in managerial estimate of selection and shaping of the new organizational configuration. This research focused on dependence of selection of the basic organizational configuration in regard to the variables of the organizational context and does not get into deeper discussion on ways and elements of the organizational transformation.

By analysis of the organizational context of "Sumaprojekt", elements of the environment characteristic for the basic form of the organizational configuration – the operative adhocracy, were recognized. It is about the operative form of the adhocratic organizational configuration, because jobs in "Sumaprojekt" are carried out exclusively for the client's needs. The way how the variables of the organizational context influenced on selection and shaping of the organizational configuration of "Sumaprojekt" was observed.

The basic organizational configuration of the operative adhocracy understands completely differently the logic of business process and in a different way approaches shaping of certain elements of the organizational design in relation to the old organizational design based on the functional organizational units. Structure of the static and dynamic part of the organization is completely changed. Dynamic and complex environment required flexible organizational configuration. Technical system is based on microprocessor and the business strategy is based on differentiation. Organizational parts were changed and they make an entirety without marked visible differences among the organizational parts. Project, as a lateral link, takes over the central organizational connective issue. Members of the project team may be all employees regardless of from which organizational part they come from. Basic organizational force is the force of innovativeness and mutual adjustment present the basic coordination mechanism.

4.1. Improvements in business with new organizational configuration

Implementation of model of the operative adhocracy in organizing of "Sumaprojekt" resulted in multiple improvements. Four segments that point to improvement of business achieved by implementation of the model of the operative adhocracy as the basic organizational configuration

were observed. They are related to increased number of clients, i.e. number of projects (Figure 6), financial result, modernization of information technology of business running and implementation of new system of salaries and rewards for employees.

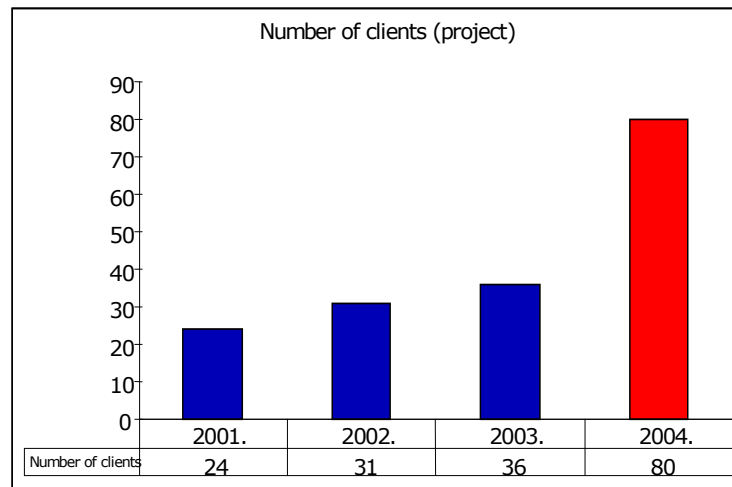


Figure 6. Comparative number of clients (projects) in last 4 year (in 2004. operational adhocracy structure have been used as basic organizational structure)

Increase of number of clients for 150% within 12 months of implementation of this organizational model and achievement of the positive financial result (profit) in the same period (for previous three years the organization was running at a loss) present effects achieved by implementation of the method of the operative adhocracy as the basic organizational configuration. At the same time informational technology was modernized and the new system of rewards was implemented, system of rewards that is directly related to success of project(s) as a basic element of organizational structure.

Character and sort of shown improvements of business running confirm the fact that selection and shaping of the proper organizational configuration is precondition for effective activities of the organization.

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