

UDC: 005.3

Review scientific paper

Received: September 21, 2018.

Accepted: October 10, 2018.

Corresponding author: Siniša Dostić  
sinisa.dostic@fppsp.edu.rs

# THEORETICAL DEVELOPMENT AND RESTRUCTURING OF THE ORGANIZATION

Sinisa Dostic<sup>1</sup>, Ljiljana Tesmanovic<sup>2</sup>, Kenan Ademovic<sup>3</sup>

<sup>1</sup>Faculty of Business Studies and Law "University Union Nikola Tesla"

<sup>2</sup>Institute for textbooks Belgrade

<sup>3</sup>International University of Sarajevo, ademovic.kenan@gmail.com

---

**Abstract:** *Organizational theories have been developin from the first written traces of organization. For many years, many authors have tried to give their contribution to theories of the organization, and classical theory has created the foundations of organizational theory and leadership, putting emphasis on internal organization, relationships and efficiency. The emergence of cybernetics, the development of new technologies and other contemporary processes contributed to the further development of system theory which resulted in the restructuring of existing ones and the development of new models of the organization, which will be further discised in this paper*

**Keywords:** *organization, classical theories of organizations, neoclassical theories of organization, modern organization theory*

---

## INTRODUCTION

Man is a social being, therefore his propensity for organization and organization can be defined as obviously innate. Considering the effects of the organization of people's work, it is understandable that man began to deal with the organization very quickly

Participation of people in some activities in order to achieve a specific goal requires the classification of tasks among individuals and their coordination; it refers

to the organization both in production and in other areas. Approaches such as scientific management, administrative management, bureaucratic model of organization, including economic theory and public administration, are classified as traditional or traditional in an organizational view. The whole approach to the organization can be characterized as the mechanical concept of the organization, which then reflected social values. The classic organizational theory appeared at the end of the 19th or the beginning of the 20th century and as such corresponds to the level of development and ideologies of that time. At that time, the level of technological development began to allow mass production, and the main problem was to increase productivity. The classic organizational approaches have undoubtedly contributed to the increase in productivity

The term classical theory refers to the work of three main thinkers (listed in the fourth chapter called *Theorists - "Classics"*) who were active in the first part of the last century, which are:

- Frederick W. Taylor – Scientific management
- Henri Fayol – Administrative theory of organization
- Max Weber – Bureaucratic theory of organization

Each of them developed his unique set of ideas and influenced the development of organizational thought. The term “classical” theoreticians of management means the work of the Frenchman Henry Fayol. His effort to identify and define general managerial principles applicable to all organizations certainly has its place in the history of managerial thought development of management thoughts. The next representative of classical theory is American Frederick Winslow Taylor, who is considered the founder of the so-called scientific management. He also began to work in a very important field of study of movement and ergonomics; both aspects of his work influenced his thinking on managerial principles. In the end, Max Weber was a very influential German social sociologist whose organizational theories arose from pioneering interdisciplinary work in history and sociology.

When defining a production area, it is very important to point out the diversity of organizations in their structure. The structure gives the organization its appearance, it predetermines a specific way of its functioning, and, therefore, the structure of the organization, to the extent that it is consciously formed, is the basic mechanism for managing the operation of organizations. The structure is the property of the organization, something that belongs to the organization.

The principles of the classical theory of organization, although developed over a hundred years ago and in a completely different business environment, are still present and applicable today. They have become part of our everyday lives.

## 1. HISTORICAL BASIS OF THE ORGANIZATION SCIENCE

People in the distant past spontaneously joined together for the realization of common goals, which would be difficult to achieve on their own, as well as in order to overcome some of the dangers or troubles. Looking at the historical distance, as well as in its widest sense, the organization represents a group of people united by common motives to achieve a particular goal. In accordance with this general definition, the primitive prehistoric family of cave people and the modern giant General Motors can be considered as organizations. In order to fully understand the principles and sense of organization, it is necessary to see the development of organizational knowledge and wisdom resulting from the centuries-old attempts to organize people and resources, to achieve various tasks that ended both with successes and failures.<sup>1</sup> The first written traces of the organization date from Babylon, 2285-2231 BC, Hamurabi's law: planning of work, personnel, keeping records.

The first papers on division of labor are found in the works of Greek philosophers Plato and Xenophon, about 400 BC, about the production of sandals for the Greek army. The founder of the Jewish religion, Moses, as the legislator and ruler of the Jewish tribes, transferred the authority to the chosen people to solve problems instead of him, and he considered only those that were unresolved. It is also an example of managing and organizing work.

The construction of numerous pyramids and the Chinese wall clearly speaks of the existence and application of the organization

There are three stages in the development of the organization, and those are:

1. **From the original community to the 17th century** - it is easy to conclude that the organization exists since there is a man, and that they are developing in parallel. In the first phase the organization developed spontaneously-

2. **17th - 19th century (Jacques Savari)** - Early period of trade and industrial production. The development was empirical (based on one's own or another's experience). The bearers of this stage of development are A.Smit, R.Oven, ...

3. **Phase of Scientific Development** - The scientific method, in addition to empirics, uses other methods to analyze the causes and consequences. This development phase of the organization continues to this day, and its bearers are: Taylor, Fejol, Veber.

The principles upon which organization developed a science:

1. The principle of records - indicates that only what can be proved is true.
2. Principle of analysis - each activity should be broken down into its constituent parts, and then those parts should be analyzed individually and in detail.
3. Principle of synthesis - analyze the elements within a single whole.

---

<sup>1</sup> Dr Dragutin SD Stanivuković, Logistika 'Organizacija i menadžment', Novi sad, 2003.

4. Principle of control - the conclusions should be made only after a detailed analysis and verification.

In the context of historical development, there are several key organizational phenomena: division of labor, distribution of authority, coordination, measurable and immeasurable factors, relationships.

The division of labor - represents the first “structural means” of small tribal families, with the total work that was to be done was shared. The work was supervised by the leader of the tribe, so that he could correct the bad way of performing a certain task, or even remove or punish tribal members.

## 2. CLASSICAL THEORY OF ORGANIZATION

In the early 20th century, because of the need to increase the economy, due to the rapid increase in the number of business enterprises, the *Classical theory of organization* emerged. The then industrialists, who met with increasing competitiveness and the desire for a monopoly and profit, encouraged organizational research in order to achieve the upgrade of the organization's system in their companies.

A few theorists, both in America (eg FW Taylor, F. and L. Gilbreth, H. Gantt, H. Ford, etc.) and in Europe (eg H. Fayol and M. Weber), were firmly focused on rationalization of business. American theorists had a microorganization approach, they applied the induction method and in this way dealt with the efficiency of employees and organization of jobs. European theorists have taken a macro-organizational approach and have worked on the *deduction method* to improve the form, procedures and rules that would be applied in all organizational parts. (Hernaus, 2006)

The first significant papers in the field of Classical Theory were given by the following authors: Frederick Taylor, Henri Fayol, Herring Emerson, James D. Mooney, Alan C. Reiley, Luther Gullick and Lyndall Urwick. They are also referred to representatives of the “classical school” of the theory of organization. Their contribution in the first decades of the 20th century was remarkable. It was evident through the development and systematization of the basic principles of organization and management. The mentioned theoreticians were interested in the idea of creating universal principles, that is, the principles on which to develop as much organizational efficiency as possible. The postmasteral organizations, their work and the effects achieved, the theoreticians clearly explained the guidelines that distinguished successful organizations from the unsuccessful. From these considerations, the following views emerged: (Stanivuković, 2003)

1. The success of any procedure or principle should be reciprocal with the productivity of its adequate application;
2. The fact is that industrial work is in contrast with human nature, and therefore most workers do not like to work. This majority also does not meet the appropriate level of intelligence, the level of motivation or the ability to reason. This all leads

to a fall in efficiency of work and additional losses. To make improvements in work, they need supervision that will advise and direct them;

3. Workers have their own business frameworks and should stay within these frameworks

4. Since workers have to work, and they do not like to rely on personal judgment, it is desirable to give them the ultimate task with precise instructions for its realization;

5. In order to achieve higher productivity, tasks and goals assigned to workers should be as simple as possible to make it as easy as possible to overcome.

6. Workers must be viewed objectively and impersonally, that is, without paying attention to their subjective problems or characteristics;

7. In order to motivate and stimulate workers to perform difficult and complicated tasks, adequate financial support should also be provided, as they work for money.

These assumptions were based on the classical theory of organization and the understanding of their creators and theorists, who were mostly engineers by vocation with the goal of increasing labor efficiency, were universal and should have been applied in all cases, since they express universal human characteristics. Therefore, they thought that one (the best) way of organization would be applicable to all organizations in various situations. That's why they called them *Universalists*. On the basis of all this, three directions have developed:

- a) scientific management;
- b) administrative theory of the organization;
- c) bureaucratic theory of the organization

In 1937 Lindal Arvik summed up these attitudes and concluded that: There are principles that are inductively developed based on the study of human experiences related to organizing and working in organizations and which can be used in shaping human associations of any kind. These principles can be studied as technical issues, irrespective of the purpose of the existence and objectives of the enterprise, the personality of the participant or any constitutional political or social theory that lies behind the background of their establishment. They are related to the following methods:

- a) to allocate and systematize all necessary activities, duties and responsibilities necessary to achieve the intended objectives,
- b) assigning activities, duties and responsibilities to all individual members of the organization,
- c) linking the deployment of all activities to a coherent functional entity and
- d) continuous control of the work of individuals so as to ensure the most economical and most effective realization of goals.

Despite the fact that the classical school of organization theory made a big contribution, there were also two failures:

- 1) neglecting human needs and individual characteristics; and
- 2) neglecting the characteristics and requirements in certain situations related to the environment, organization, technology ...

Defining and implementing optimal relationships between organizational resources is the essence of both Taylor's "scientific management" and Weber's "bureaucratic organization". For classical theorists, the organizational structure is a dominant, almost exclusive subject of interest. It is a basic organizational tool - a tool that achieves a stable order, and with this order, transparency and predictability are necessary for the optimal use of all organizational resources. In this period, the organizational structure is identified with a formal organizational hierarchy. A special emphasis is given to the optimal range of control, and in general to the horizontal and vertical dimensions of the organizational hierarchy. In line with the then prevailing belief that the social system what kind of enterprise can be satisfactorily described, prescribed and controlled (analogously to technical systems), for this approach to the organization were later often used attributes mechanically or technically. Even today, among many economists, and especially in the general public, such a "classical" understanding of organizational structures prevails.

Approaches such as scientific management, administrative management, bureaucratic model of organization, including economic theory and public administration, are classified as classical or traditional in an organizational view. The whole approach to the organization can be characterized as the mechanical concept of the organization, which then reflected social values. The classic organizational theory appeared at the end of the 19th or the beginning of the 20th century and as such corresponds to the level of development and ideologies of that time. At that time, the level of technological development began to allow mass production, the main problem was to increase productivity. The classic organizational approaches have undoubtedly contributed to the increase in productivity. Mechanized technology has had a significant impact on social relations as a whole, and a tendency has emerged for the transfer of its laws to the whole social life. Without a doubt, the main goal is to increase profit and efficiency. (Kavčić (1991) The strength of the classical theory of organization in today's application lies in its rationality, which is made with the intention of achieving maximum efficiency. The classic theory of the organization was the basis for both decentralization and delegation of responsibilities, showing the way to greater autonomy in the organization. An important difference between classical theory and modern concepts of the organization is that knowledge is now deployed in decentralized systems and that trust in authority has been reduced.

### 3. NEOCLASSICAL THEORY OF ORGANIZATION

*The neoclassical theory of the organization* emerged as a result of dissatisfaction and a decrease in the motivation of workers caused by the strict division of labor, narrow specialization as well as the then economic instability created during the period between the great world wars (the time of the *Great Depression*). It developed in two directions:

- the theory of interpersonal relations
- behavioral theory of the organization.

Although the main representatives of the first mentioned theory, ie, the **movement of interpersonal relations** are considered to be Australian *E. G. Mayo* and his colleagues at Harvard University, several predecessors laid the foundations of a more humane understanding of the role of man in the organization.

For example, *Chester Barnard* (1886-1961) examined the basic principles of the classical theory of organization, and British industrialist *Robert Owen* (1771-1858), within his company, through a series of activities, humanized work by increasing the minimum time required for children work and introduced compulsory school attendance, reduced number of working hours, offered food service, etc. (Breese, 2013)

*Mary Parker Follett* (1868 - 1933) was an American social worker, consultant, philosopher, and pioneer in the theory of organization and organizational behavior. With Lillian Gilbreth, Mari Parker Follett was one of the two great female gurus in the early days of classical management theory. Follett, also known as the 'Mother of Modern Management', shaped the idea of the importance of the group that developed the idea of the importance of group and group participation in formal organizations. She pointed out that the group contribution is higher than the collection of individual contributions, i.e. pointed to the existence of a synergistic effect.

Systematic studies of the behavior of employees in the organization began in 1924 with today's famous *Hawthorne research* (1924 - 1933) at the *Western Electric* plant near Chicago, and it was performed over thousands of employees for over a decade. Elton G. Mayo (1880 - 1949) and Fritz J. Roehlitzberger (1898-1974) dealt with these studies with their associates who were mostly sociologists and psychologists, often referred to as behaviorists for the study of interpersonal relations. The goal was to find the best ways to motivate employees. (Breese, 2013) According to their conclusion, the best factor that affects the work success of employees is the attitude of an employee to his task and to his colleagues in the group in which a particular job is carried out. Based on several experiments and on the basis of individual interviews with workers, they concluded that only a satisfied worker is in fact a productive worker. Relying on research methods, which were innovative at the time, they concluded: (Muldon, 2012)

1. A man is not only economic (*homo oeconomicus*), but also a social being (*homo societalis*)
2. The style of management is an important factor of productivity
3. Strict control negatively influences the behavior of employees
4. The salary level for most workers is not a dominant motivation factor (the importance of both monetary and non-monetary benefits)
5. Social needs and informal organizations influence the level of productivity (the existence of social norms)
6. the existence of the so-called. Hawthorne effect (people change their behavior if they know they are being monitored).

In addition, Mayo proposed employee counseling because in this way they could change their personal experience of performing tasks without changing the working conditions.

#### 4. MODERN THEORY OF ORGANIZATION

It was created in the middle of the last century, with the emergence of cybernetics and system theory, as a result of the development of new technologies and materials that caused the diversification of product assortments as well as the complexity of production, but also due to great advances in electrical engineering, nuclear technology, etc. Business systems, or companies, are seen as an integral part of the business environment, destroying the administrative and territorial divisions. The business productivity of business entities is affected by the growing growth of serious competitiveness, which emerged as a consequence of globalism, as well as material and technical-financial investments. Due to the deepening of old problems as well as the accumulation of new ones, favorable conditions are created for the formation of some new approaches, concepts and schools such as: mathematics, decision making theories, schools of systematic and contingent approach, innovation management school, etc. Modern theories tend to be based on the concept that an organization is a system that has to adapt to changes in its environment. In contemporary theory, the organization is defined as a designed and structured process in which individuals are interacting to achieve common goals. (Hicks, Gullet, 1975) The modern approach to the organization is multidisciplinary, many scientists from different fields have contributed to its development, emphasizing the dynamic nature of communication and the importance of integrating individual and organizational interests. Bernard (1938) gave the first modern and comprehensive management overview. After that, the conclusions about the control of the system followed, and he gave an insight into the application of cybernetics. Von Bertalanffy (1951) made a significant contribution, he pointed out to the component of the general theory of the system that was accepted as the basic premise of modern theory. The main features of modern organization theory are the emphasis on the scientific approach, the emphasis

on the complexity of many factors that have an impact, as well as the emphasis on the importance of the business environment. It puts emphasis on the organization's problem side, dynamic engagement and teamwork.

Some of the most significant features of modern organization approaches are

- System approach
- Dynamic interaction process,
- Multiple levels and multidimensionality
- Multimotivation
- Probability
- Multidisciplinarity
- Transparency and flexibility

Modern organization perceptions are classified by:

- Access to systems,
- Social-technical theories, and
- Unforeseen or situational approach.

The basic principles of modern organization theory are: system approach, management requirements, openness, adaptability, flexible organizational structures, situational approach, sustainable development, innovative production.

## CONCLUSION

Even though developed more than a century ago, in a completely different business context and environment, numerous insights of classical theoreticians of the organization are still relevant and applicable today. They have become part of our everyday life and we often do not even know it. The use of mobile assembly line, the existence of business rules, regulations and standard operating procedures, respecting the lines of command and responsibility, optimizing business processes as well as analyzing and designing the work are just some examples of the impact and legacy of the first theorists of the organization who looked at the workers as *homo oeconomicus* (economic man), a person who above all tends towards efficiency and rational behavior.

Analyzing from a historical point of view, the organization achieves some common goals, which controls its own performance, and which has some limits, which separate it from the environment. From the past, the human race has had the desire to establish common relationships for various reasons, such as: security, feeling of belonging, constructive action, mutual help, simpler way to a common goal, exchange of goods and trade, different business, etc. Given that a person is a social being and can only advance through association and organization, in time, the way of organizing has improved. The fact is that those who are better organized win, with

a clear goal, and in this regard, every society strives for a better and better organization. Even recent studies say that a good organization is a secret of longevity and that ambitious, organized and conscientious people live longer than impulsive people. This case tells us how much an organization is an important factor in human life and how much it can influence the development of society in general.

We should also expect that business organizations will increasingly improve, taking into account technological progress, which is one of the key factors in the development of civilization, and contribute to structural changes in the organization. Of course, there is also the impact of globalization on business where organizations, in order to survive, must be competitive in the global market.

## REFERENCES

- Bernard, C. (1938) *The Functions of the Executive*. Cambridge, MA: Harvard University Press.
- Breese, R. (2013) Conceptualising the nature of work: revisiting Luther Gulick's theories of organization. *Journal of Management History*, 19(2), str. 281.
- Fayol, F. (1984) *General and Industrial Management*, London: Pitman
- Fayol, F. "Practitioner and theoretician – revered and reviled". *Journal of Management History*, 16(4), str. 499
- Hernaus, T. (2006) *Teorije Organizacije*, Ekonomski fakultet Univerziteta u Zagrebu, Katedra za organizaciju i menadžment-
- Hicks, G.H., & Gullet, C.R. (1975) *Organizations: Theory and Behaviour*. New York, NY: McGraw-Hill.
- Kavčič, B. (1991) *Sodobna teorija organizacije*. Ljubljana: Državno izdavaštvo Slovenije.
- Muldoon, J. (2012) The Hawthorne legacy: A reassessment of the impact of the Hawthorne studies on management scholarship, 1930-1958. *Journal of Management History*, 18(1), str. 108-109.;
- Stanivuković, D. (2003) *Logistika 'Organizacija i menadžment'*, Novi Sad
- Von Bertalanffy, L. (1951) General systems theory: a new approach to the unit of science. *Human Biology*, December