

**AN EMPIRICAL INQUIRY INTO THE OBJECTIVE
ASSESSMENT AND THE TOP MANAGEMENT PERCEPTION
OF THE NEED FOR ORGANISATIONAL RESTRUCTURING IN
LARGE CROATIAN ENTERPRISES**

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Received: 15. 02. 1999.
Accepted: 10. 05. 2000.

Original scientific paper
UDC: 658.5 (497.5)

On the basis of the extensive empirical research, this paper examines the objective need for organisational restructuring in large Croatian enterprises versus the managerial perceptions of the same issue. Building upon the analysis of the economic performance of the Croatian large enterprise sector and the assessment of the organisational design quality in large Croatian enterprises, the urgency for further organisational restructuring is established. On the other hand, the major restructuring motives at the top management level are also examined, leading to the conclusion that both the perceived quality of the organisational design, as well as the perceived gap between the enterprise competitive ability and the threats from the business environment at the top management level do not support the further restructuring of the Croatian large enterprise sector.

**1. CROATIAN LARGE ENTERPRISE SECTOR: ECONOMIC
PERFORMANCE AND THE RESTRUCTURING IMPERATIVE**

The main objective of this paper is the assessment of the need for organisational restructuring in the Croatian large enterprise sector on the basis of objective indicators versus the perception of the organisational design quality, held by the top management of the very same enterprise. As theory suggests that leadership, instead of managing, proves to be a crucial success factor for implementation of organisational changes (e.g. see: Kotter, 1996, pp. 25-31), it can be concluded that the resulting gap between the reality and the top management perceptions regarding the quality of the organisational design is an

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effective indicator for describing the incentives and commitment of Croatian top managers to leading change.

1.1. Assessment of the significance and performance of the Croatian large enterprise sector

The research is based on the goal-oriented notion of what is an industrial organisation. Namely, *an organisation*, regardless whether it is viewed as an institutional entity, or as a way of managing (organising) such an institution¹, *should be viewed as an instrument for reaching the goals of its stakeholders*. In that sense, the *quality of the organisational design* utilised by an enterprise *should be linked to its economic performance*. Therefore, the economic performance of the large enterprises can be used to suggest the quality of their organisational design. However, before continuing the analysis at the enterprise level, it is important to define the extent to which the described issue influences the overall economic trends in Croatia. Therefore, it is important to look at the position and importance of the large enterprise sector in the Croatian economy from different points of view.

On one hand, the *industrial structure* of the Croatian national economy seems quite appropriate. Namely, during the socialist period, entrepreneurship and the private property of economic assets were tolerated only in small scale, while the official economic policy preferred the large, state-owned enterprises in primary and secondary industrial sectors over the smaller, privately-owned ones. This policy has effectively created the industrial structure with the prevailing large and middle-sized enterprises, which amounted for 65% of all the registered companies in 1989, while the small enterprises made up around 30% of the industrial structure (Pavić, 1997, p. 417.).

Such a disproportion, sometimes referred to as the "*socialist black hole syndrome*", has been resolved since the free market economy has been introduced in Croatia, along with the democratic changes of 1990. Namely, as early as 1996, a relative amount of small enterprises reached 96%, while the

¹ The term "organisation" can be explained in terms of an *institutional entity*, i.e. as a "coordinated unit consisting of at least two people who function to achieve a common set of goals" (Gibson, Ivancevich & Donnelly, 1994, p. 5). On the other hand, each institution requires a certain *formalisation of the organisational behaviour*, in order to achieve *predictability in performing recurring activities*. Therefore, to foster "purposeful and goal-oriented behaviour" (Gibson, Ivancevich & Donnelly, 1994, p. 473.) a formal *organisational structure* ("*organisation*") is designed, depicting both the individual jobs (including the larger organisational units, such as departments) and the formal chain of communication and authority.

middle-sized and the large ones accounted only for 3.5% (Pavić, 1997, p. 417.), which is comparable to the industrial structure of the advanced market economies.

This fact has motivated some policy advisers to publicly state that the small enterprise sector should be considered the major vehicle of further economic development. However, indicators such as the total number of employees, value of long-term assets and the value of net sales (presented in Table 1), lead to conclusion that the Croatian large enterprise sector is still significant in terms of the national economy.

Table 1. Indicators describing the Croatian industrial structure in 1998.

Indicator	Large enterprises		Middle-sized enterprises		Small enterprises	
	Amount	%	Amount	%	Amount	%
Number of registered enterprises	558	0.8	1 730	2.7	62 501	96.5
Number of employees	346 248	46.6	172 996	23.3	223 151	30.1
Total value of long-term assets (in millions HRK)	161 073	66.7	46 048	19.1	34 366	14.2
Total revenues (in millions HRK)	118 339	42.3	61 157	21.9	100 344	35.8

Adapted from: (Informacija o osnovnim finansijskim rezultatima poduzetnika Republike Hrvatske u 1997. godini, 1998, pp. 9; 12; 142.)

Namely, although the large enterprises account for *less than 1% of the Croatian industrial structure*, they still *employ almost half of the entire workforce*, own as much as *66.7% of the nation's long-term capital* and account for *approximately 40% of all the revenues* earned by the national economy. Therefore, it can be concluded that the large enterprise sector of the Croatian economy deserves special attention, contrary to the expectations of those suggesting that it should be left to cope with its own problems without any special regard, or assistance from the policy-makers.

In terms of economic performance, the Croatian large enterprise sector shows a bleak picture. Namely, the *effectiveness of the large and middle-sized enterprises* can be assessed as **very inappropriate**, when compared to the small enterprise sector (see Table 2). The amount of profits generated by the small enterprises is almost 36%, which is a noteworthy financial result, if one keeps in

mind the difficulties met by the small entrepreneurs in the Croatian economy², as well as that the large and middle-sized enterprises own most of the available production resources (see Table 1). Comparison of the net financial results of different industrial sectors reasserts previous conclusions: although *the large and the middle-sized enterprise sectors possess most of the economy's resources and employ most of the workforce, they are not able to conduct business in a profitable manner.*

Further discussion of the large enterprise sector's economic performance is out of scope of this paper, but it should be noted that such a conclusion is also supported by the findings of the previous research (e.g., see: Kovačević, 1998.; Kandžija, 1997.).

Table 2. Financial results of Croatian enterprises in 1997. (in millions HRK)

Indicator	Large enterprises		Middle-sized enterprises		Small enterprises	
	Amount	%	Amount	%	Amount	%
Total revenues	118 339	42.3	61 157	21.9	100 344	35.8
Total expenses	118 491	42.5	61 852	22.1	98 707	35.4
Pre-tax profits	4 727	44.6	2 150	20.3	3 727	35.1
Pre-tax losses	4 819	49.4	2 845	29.2	2 090	21.4
Net profits	3 992	48.2	1 753	21.1	2 545	30.7
Net losses	4 819	49.3	2 846	29.2	2 102	21.5
Financial result of the entire sector	- 827	/	- 1 093	/	443	/

Adapted from: (Informacija o osnovnim finansijskim rezultatima poduzetnika Republike Hrvatske u 1997. godini, 1998, pp. 9; 12; 142.)

Thus, it can be said that the existing situation *calls for a radical and swift restructuring of large Croatian enterprises* in order to restore their position as the "core" of the Croatian industrial structure and the Croatian strategic asset for competing in the age of global markets.

² Of those, probably the most important are the difficulties in accessing credit and unbearably high interest rates.

1.2. Significance of organisational restructuring in the context of the Croatian economy

The term "*restructuring*" is not entirely clear in the theoretical sense. It is often used as a "generic name" for all kinds of changes at the enterprise level (Družić and Čavrak, 1998, p. 51.)³ and, at least in the countries with a developed market economy, it usually refers to different approaches to "turn-around strategies" of large corporations which are either failing, or, at least, starting to lose its leadership in the marketplace.

However, Bowman et al. (Bowman, Singh, Useem & Badhury, 1999, pp. 34-35), differentiate three major forms of corporate restructuring:

1. **portfolio restructuring**, related to the changes in the "portfolios of businesses" held by diversified corporations, including divestitures, acquisitions, mergers, etc.;
2. **financial restructuring**, which includes significant changes in the asset and capital structure, and
3. **organisational restructuring**, related to the redesign of the corporate organisational structure.

Of the three, the research concentrates on the issues of **organisational restructuring** in large Croatian enterprises. This form of restructuring should be defined in terms of *significant changes of organisational structure, management and internal economy systems, in order to align the existing organisational design with the situation in the business environment and the strategic direction of the enterprise and, thus, restore the inadequate economic performance of the enterprise.*

Namely, the famous Chandler's finding, regarding the relation between structure and strategy⁴, implies that *the changing strategic context requires structural adjustments* in order to achieve the desired level of enterprise efficiency (Byars, Rue & Zahra, 1996, p. 198). The relation between corporate strategy and organisational restructuring is important in order to *differentiate minor organisational improvements from "restructuring"*, which implies

³ The same ambiguity exists in the Croatian literature, where the term "*restructuring*" usually denotes many different approaches to increase the efficiency of enterprise. Maybe one of the best definitions is provided by Crkvenac, who believes it is a "*comprehensive set of policies and activities aimed toward the higher efficiency (...) of the enterprise as a whole*" (Crkvenac, 1997).

⁴ Chandler has concluded that "*structure follows strategy*".

large, strategy-driven issues in organisational design that are essential for turning around a failing enterprise.

On the other hand, **portfolio and financial restructuring**, which can be referred to as different modes of “**corporate restructuring**” try to achieve the same objective as the organisational restructuring, but through different means. *Financial restructuring* tries to reach the overall restructuring objective by *changing the enterprise capital structure*, i.e. by finding a more favourable manner of financing through leveraged buy-outs, refinancing of accumulated debt, debt for equity swaps, etc. *Portfolio restructuring* is pursuing the economic performance through the *strengthening of a strategic focus*. In such a manner, contemporary corporations try to leverage their *core competences* by “*spinning off*”, *divesting*, or even *liquidating divisions that do not fit into their fundamental strategic orientation*, as well as by *contracting out* (“*outsourcing*”) *entire activities which are considered non-essential from the strategic point of view*.

Most of the scholars and practitioners alike, pay their attention to the portfolio and financial restructuring, especially in the transitional countries, where privatisation proves to be one of the most important political and economic issues. On the other hand, although the the goal-oriented notion of industrial organisation is widely accepted among the management professionals and scholars, *research often shows insignificant and unclear results regarding the economic effectiveness of organisational restructuring* (Bowman et al., op.cit., pp. 44-45).

Nevertheless, the main characteristic of the Croatian economy during the ‘90s is probably the privatisation process, which is considered questionable both from the ethical point of view and from the viewpoint of economic effectiveness because it has assisted creation of inefficient and strategically nonviable corporate groups (see: Alfirević, 1999). In such an environment, the management of large enterprises was bound to devote most of its time and attention to the issues of ownership and corporate governance at the expense of managing operations and planning for the long term. Therefore, the issues of organisational restructuring and adapting the enterprise to the requirements of the global market have been put aside, as if the long term strategic competitiveness does not count as a key success factor of each business. This situation justifies the further research of the organisational restructuring in Croatian enterprises, as well as the ruling perceptions regarding this issue among the top managers in the Croatian large enterprise sector.

1.3. Theoretical models of the organisational restructuring

There are two *fundamental models of organisational restructuring* (Buble, 1998, pp. 70-84.), focusing on:

- **disintegration of large enterprises into the networks of smaller autonomous companies**, viable to do business in the existing competitive situation, or on
- **preserving large enterprises as organisational entities**, with the objective of enabling them for successful operation.

All the large enterprises cannot be restructured through disintegration to a network of smaller companies. However, there is no need for such an action anyway because some of the remaining large enterprises will form the basic Croatian economic infrastructure, as in most other developed countries. Therefore, it is necessary to internally restructure some of these companies in order to improve their management.

Buble and Alfirević propose a five-stage restructuring framework, consisting of the following activities (Buble and Alfirević, 1999, p. 1434.):

- *Identification of the existing organisational form;*
- *Analysis of the factors influencing the organisational design;*
- *Selection of the appropriate organisational form;*
- *Definition of the organisational structure and*
- *Implementation of the new organisational design.*

In the first stage, an existing organisational design has to be precisely documented and identified both from the organisational and the legal point of view. This activity is followed by determining and analysing the *contingency factors which determine the quality of the existing organisational solution*. It is believed that the most important contingency factors are the type of *growth strategy, targeted market and characteristics of the product line* (see Figure 1). These factors further determine the most appropriate organisational form (Buble and Alfirević, 1999, pp. 1435-1437):

- **Unitary⁵ form and the functional organisational structure** are appropriate for enterprises *deploying the strategy aimed toward the*

⁵ The organisation of unitary enterprises features an organisational design based on business functions and high level of centralisation at the top management level.

maintenance of stability, producing a single product and targeting the local market;

- **Multidivisional form⁶ and the divisional organisational structure** are the preferable types of organisational design for enterprises *deploying the diversification strategy, producing an assortment which consists of multiple product lines and targeting the national market;*

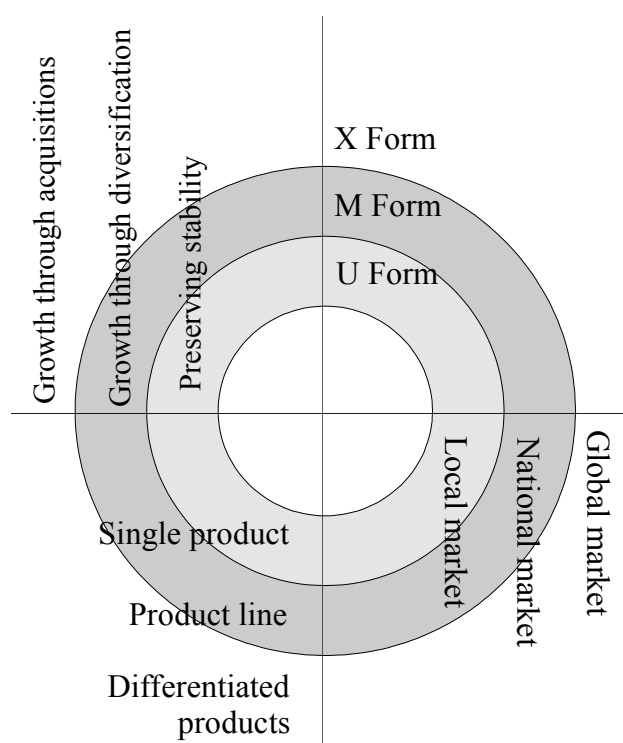


Figure 1. Relation between contingency variables and the preferred organisational design for their different values⁷ (Buble, 1998, p. 78.)

⁶ An enterprise with a multi-divisional organisational form is practically decomposed into several quasi-autonomous divisions (strategic business units), which is followed by the separation of strategic and operative decision-making and decentralisation of management (Buble and Alfrević, 1999, p. 1439.).

⁷ This figure illustrates how *product assortment, target market scope and the growth strategy* influence the organisational design (U-form stands for the unitary organisation, characterised by the functional organisational structure; M-form for the multidivisional organisation, which is departmentalised along the lines of semi-independent business units (divisions), while X-form denotes a "mixed" organisation).

- **Mixed organisational forms and forms of holdings companies⁸, with hybrid organisational structures**, correspond to deployment of *acquisition strategy*, assortment consisting of many *different unrelated products* and targeting the *global market*.

The methodological aspect of the whole process of organisational restructuring is showed by the following figure:

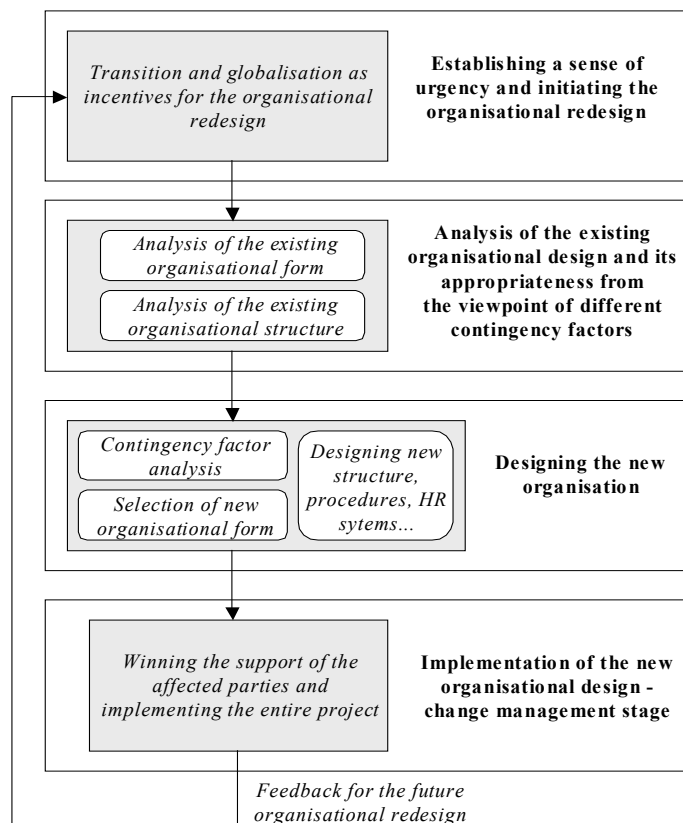


Figure 2. Activities required for the methodologically acceptable implementation of organisational restructuring

⁸ *Holding form* is the most decentralised form of organisation, featuring the organisations growing through unrelated diversification, in which business units are usually almost completely independent from the corporate management, which retains control only in terms of reviewing the return rate on the assets held by the business unit and maintaining the financial benefits of keeping many different business units under the same "corporate umbrella". For extended discussion of organisational forms, see: (Belak, 1994, pp. 54-56.).

2. EMPIRICAL RESEARCH OF ORGANISATIONAL RESTRUCTURING IN THE CROATIAN LARGE ENTERPRISE SECTOR: METHODOLOGICAL ISSUES

The issues of organisational restructuring in the Croatian large enterprise sector have been the subjects of a comprehensive empirical research, carried out throughout 1998 and 1999, as a part of the research project "Restructuring Large Croatian Enterprises". The research concentrated on the *entire population of large enterprises in the production, service (including companies providing public services), retail and whole trade sectors*⁹. As the planning stage of the research project took place in late 1998, the population encompassed by the research plan included all the registered large enterprises in 1997.

Criteria used to differentiate large enterprises from the middle-sized and small ones are often disparate in different countries. E.g., in 1996, the European Commission defined the following criteria for the identification of large enterprises¹⁰:

- Number of employees exceeding 250;
- Annual revenues exceeding 40 million ECU or the value of total assets exceeding 27 million ECU.

The Croatian Accounting Law (Grubišić, 1998, p. 8.) defines a "large enterprise" as a registered enterprise, which meets two of the following three criteria:

- Number of employees exceeding 250;
- Annual revenues (during the accounting period starting 12 months before the date stated on the current balance sheet) exceeding 16 million DEM or the value of total assets exceeding 8 million DEM.

Other countries have different criteria for differentiating large enterprises from the middle-sized and the small ones. However, *the simplest and the most commonly used criterion* is related to the **number of employees**. Therefore, it was decided to **utilise the number of employees as a single criterion** for

⁹ Financial institutions, such as banks and other credit institutions, insurance companies, financial intermediaries, other kinds of institutions retailing financial products and services to end customers, etc., have not been included into the population because it is believed that their organisation is specific enough to require a differentiated research approach.

¹⁰ European Commission Act dated 3 April 1996, cited in: "A3 Euro: Wirtschaftsinformationen zur Neuen Währung", No. 7a/1999, p. 44.

defining the "large enterprise" as an organisational entity. The business practice differs in drawing the line between the "small" or "middle-sized" and "large" organisations: e.g. before the afore mentioned EU act, dominant criteria for identifying large enterprises in Belgium and the Netherlands included the limit of *100 employees*; in Spain, this figure amounted to *200 employees*; in Germany, France, UK, Italy and Switzerland a "large enterprise" should have hired at least *500 employees*, while in Austria and the US, such an organisation was defined as employing at least *1000 employees* (Grubišić, 1998, p. 8.). Taking into account the relatively small size of the Croatian economy, the "large" organisational entity, for the purpose of this research, was defined in terms of an enterprise **employing at least 500 employees.**

Such a research design has simplified the further research procedure, because it has limited the population of 558 organisations, which are considered to be "large enterprises" according to the Croatian Accounting Law, to only **172 enterprises**, which both meet the requirements of the Accounting Law, as well as hire at least 500 employees. The basic unit of the research process was an individual enterprise, registered as a corporate entity, regardless whether it belongs to a larger holding company, or another kind of a corporate group.

Although it would be interesting to look at the characteristics of main corporate groups in the Croatian economy, such a course of research is very difficult to pursue because of the complete lack of interest of the managers of corporate groups invited to fill out the questionnaire, or share some of their proprietary data. On the other hand, the official statistics does not provide consolidated data on the corporate group level, which has effectively blocked any further research intentions in this specific direction.

The population of large enterprises, defined as afore mentioned, consists of only 172 units, which has led to the decision to include the entire population into the statistical analysis, instead of choosing a representative statistical sample. The research has been carried out by means of the traditional mail survey: a formal questionnaire, accompanied by the cover letter and the supporting documents had been mailed to the CEOs of registered large enterprises. Questionnaires were to be filled out either by the chief executive officers, or the vice-presidents responsible for strategic management of the enterprise (if such a person existed in the top management team).

The questionnaire consisted of 27 questions, related to the many different restructuring issues, of which the following are of special interest for the purpose of this paper:

1. *characteristics of the organisational design*, including the contingency variables, which should, at least from the theoretical point of view, influence the organisational characteristics of the corporation,
2. *identification of the staff professionally engaged in the projects related to the issues of organisational design and implementation of organisational changes*,
3. *subjective assessment of the quality of the organisational design by the enterprise top management*, including the survey of the methodology used for reaching such a conclusion and
4. *assessment of the manner in which top managers perceive the competitive position of their own enterprises*, as well as the *most important trends in the external environment*, which could affect the competitive position of the enterprise.

The response to the postal survey can be judged as satisfactory: 52 enterprise managers (CEOs or other managers at the top management level) returned questionnaires, filled out according to the accompanying instructions. The **response rate**, equalling **30.23%**, **may be considered representative enough for reaching reliable conclusions**, especially taking into account the fact that the sample does not suffer from significant structural disproportions.

3. RESULTS OF THE EMPIRICAL INVESTIGATION: ORGANISATIONAL TRENDS IN LARGE CROATIAN ENTERPRISES

The theory suggests that the diversified enterprise growth should be accompanied by the evolution of the organisational design, which include:

- At the level of structuring economic relations between business units, organisation naturally requires a *shift from the functional (unitary) design toward either conglomerate (holding) design (usually in case of unrelated diversification), or toward the multidivisional design (usually in case of related diversification)*¹¹. Such a change is motivated by two fundamental weaknesses of the functional organisation, emerging with the expanding organisational size, i.e. cumulative loss of control at the top management level and progressive congestion of communication channels (Buble, 1998, p. 79), both caused by the concentration of the decision-making power at the top of the organisation;

¹¹ For an extensive discussion of the characteristics of different organisational designs, see e.g. (Griffin, 1993, pp. 294-298), or (Belak, 1994, pp. 54-56).

- In terms of organisational structure, *functional organisational structure* is usually considered appropriate only for *small and middle-sized enterprises with limited task specialisation* (Buble, 1993, p. 141). Growth, either in terms of *expanding to new markets, introducing new products, or attracting new customer segments*, requires a shift toward the different kinds of departmentalisation (location-based, product-based or customer-based), due to the growing complexity of operations.

Theoretical interdependencies between the values of the selected contingency variables and the characteristics of the organisational design have been already explicated in detail in section 1.3. of this paper (see Figure 1). However, the research results reveal trends opposite to those outlined in the theoretical analysis:

Table 3. Organisational structure of large enterprises included into the research

Organisational structure	Frequency of findings	%	Organisational structure	Frequency of findings	%
<i>Functional</i>	31	59.6%	<i>Divisional – customer-based</i>	4	7.7%
<i>Divisional – location-based</i>	3	5.8%	<i>Project-based structure</i>	3	5.8%
<i>Divisional – product-based</i>	11	21.2%	<i>Total</i>	52	100.0%

Source: Research documentation

As evidenced by Table 3, most of the enterprises responding to the research (around 60%) are organised along the functional lines. Such a result collides with the theoretical prescriptions, but before reaching any final conclusions, it is necessary to cross-tabulate the values of the contingency variables with the organisational structures found in the large Croatian enterprises.

Most of the enterprises with the homogeneous assortment are organised along the functional lines (75%), which can be expected from the theoretical point of view. However, it is rather surprising that the *majority of companies (42.9%), manufacturing substantially different products (or providing substantially different services) is also functionally organised*. The situation is quite similar with the *companies manufacturing assortment composed of different product lines: the majority of such enterprises (81.3%) are also organised along business functions*.

Table 4. Organisational structure of large enterprises in relation to the assortment of goods (services) produced (provided)

Assortment produced by the enterprise	Organisational structure					Total
	Functional	Divisional-location-based	Divisional-product-based	Divisional-customer-based	Project-based	
Single product	75.0%	0%	25.0%	0%	0%	100.0%
Substantially different products	42.9%	7.1%	32.1%	7.1%	10.7%	100.0%
Product lines (produced by the similar technological process)	81.3%	6.3%	0%	12.5%	0%	100.0%

Source: Research documentation

These findings suggest that there is a **high level of incompatibility between the prevailing organisational structure and the assortment of products (services)** manufactured (provided) by these organisations. Namely, the wider and more diversified assortment of products (services) is theoretically linked to *the divisional, or some other flexible organisational form*, which enables an enterprise to manage the emerging complexity. However, there are also some companies, which manufacture a single product and are organised along the lines of business units (divisions). Such a result can be explained either by focusing toward the specific needs of certain markets or customers served, or by misinterpretation of the research instrument. Figure 3 illustrates the interdependence between the organisational structure and the product assortment, viewed as a contingency factor.

Taking into account that the *business strategy* should be also considered one of the *important contingency factors influencing the selection of the organisational design*, the research included the analysis of the organisational structure in relation to the modality of the growth strategy. In that sense, the following strategic options were suggested to the respondents:

- *growth through expansion to new businesses (diversified growth);*
- *growth through expansion within the existing business (non-diversified growth);*
- *growth through acquisitions and*
- *stable (defensive) strategy.*

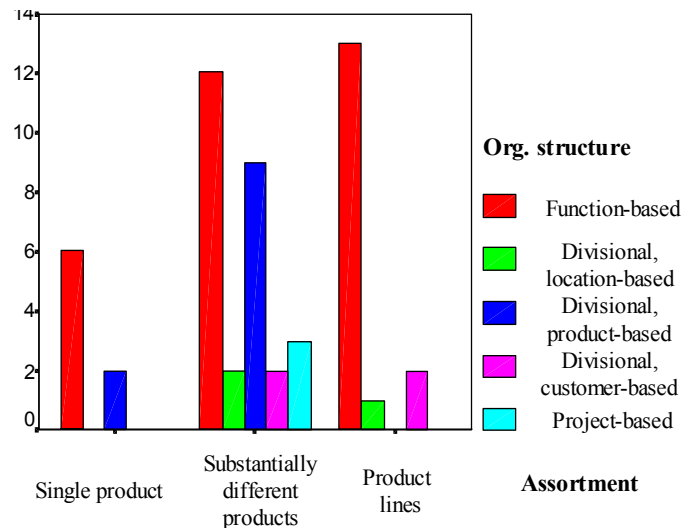


Figure 3. Distribution of different kinds of organisational structures in relation to the type of assortment carried by the enterprise

An open-form alternative answer was also provided, which motivated some respondents to choose among the strategic alternatives which do not fit into the predefined categories. E.g., one respondent has defined the strategy utilised by his enterprise as a "cost leadership" strategy. Being one of Michael Porter's generic strategies, aimed toward the implementation of sustainable competitive advantage, it has no relevance in the strategic taxonomy used for the purpose of this paper. It is also interesting to note that only one respondent stated that the company he manages does not have a formally defined corporate strategy, and none of the enterprises into the sample chooses the strategy of growth through acquisitions. The other results are presented in Table 5.

Analysis of the results indicates that, besides the incompatibility between the organisational structure and the product assortment, the **same conclusion applies to the relation between the organisational structure and the business strategy**. Namely, a classic piece of research, conducted by Alfred Chandler, has shown that the "structure follows strategy", i.e. that the organisational design should serve as a means of strategic implementation (see a detailed explanation, in e.g.: Thompson & Strickland, 1993, pp. 222-223). Hence, *strategy is considered to be one of the important contingency variables in the organisation design process*.

Table 5. Organisational structure of large enterprises in relation to corporate or business strategy

Business strategy	Organisational structure					Total
	Functional	Divisional-location-based	Divisional-product-based	Divisional-customer-based	Project-based	
<i>Growth through diversification</i>	55.2%	10.3%	17.2%	10.3%	6.9%	100.0%
<i>Non-diversified growth</i>	100.0%	0%	0%	0%	0%	100.0%
<i>Stable (defensive) strategy</i>	58.8%	0%	29.4%	5.9%	5.9%	100.0%
<i>Cost leadership</i>	100.0%	0%	0%	0%	0%	100.0%
<i>No formally defined strategy</i>	0%	0%	100.0%	0%	0%	100.0%

Source: Research documentation

As shown by Figure 1, *the strategy of diversified growth is almost exclusively implemented by designing a divisional organisational structure*, while the *defensive strategy* is usually prescribed to market leaders, who need to strictly control the production costs and enforce organisational rules and procedures and, hence, *utilise the functional organisation*. The situation in the large Croatian enterprises does not seem to adhere to any theoretical patterns: the functional organisational structure is dominant, regardless of the chosen strategic option.

The third contingency element, i.e. level of the enterprise globalisation, has not been considered in the research. From the one hand, it is quite difficult to assess such a complex indicator because its analysis should include not only the patterns of corporate trade, but also the patterns of corporate financing, transferability of the production sites, etc. On the other hand, the number of truly global Croatian companies is as low as one – the pharmaceutical company "Pliva", headquartered in Zagreb, Croatia, or (in the best possible case) – a handful of enterprises.

The general conclusion of this research segment is pretty obvious, especially having in mind the contemporary organisational trends, which include the strive toward the flatter, information-intensive, adaptive organisational forms, such as the T-form (technology-based organisation), virtual corporation, etc. (for an extended discussion, see: Sikavica, 1999, pp. 129-169). Namely, it is not difficult to state that the **dominant form of**

organisation in large Croatian enterprises (i.e. function-based organisational form) is inadequate either from the different contingency factors (organisational size, product assortment, business strategy) point of view, or regarding the new trends in organisational design, which emphasize the "lean approach" and the need to foster flexibility and information-intensive networks.

4. RESULTS OF THE EMPIRICAL INVESTIGATION: PERCEPTION OF ORGANISATIONAL DESIGN QUALITY AT THE TOP MANAGEMENT LEVEL

Although it has been shown that the dominant organisational trends in large Croatian enterprises are inadequate from the point of view of the most important contingency factors, it is very difficult to expect further restructuring without the top management acknowledging this fact and assuming the leadership for the restructuring implementation. Hence, this research also had to look into the **top management perception of "fit" between the organisational design and the requirements of the external business environment.**

By utilising sociological methods, the survey has shown that the majority of responding managers believe that *such a fit exists, but only partially (40.4%)*, while an another *quarter of respondents* subscribes to the belief that the organisational design of their enterprise has reached a *complete fit* with the requirements of the business environment. The complete survey results are presented in Table 6.

Table 6. Assessment of the fit between the organisational design and the requirements of the external business environment (at the top management level)

Level of satisfaction with the achieved fit	Frequency of findings	%	Level of satisfaction with the achieved fit	Frequency of findings	%
<i>Complete fit</i>	13	25.0%	<i>There is no fit</i>	0	0%
<i>Partial fit</i>	21	40.4%	<i>The question can not be answered because of the current restructuring</i>	18	34.6%
Total				52	100%

Source: Research documentation

At this point, it is not very difficult to ascertain the *discrepancy between the objective indicators*, pointing out the inappropriateness of the organisational

structure, and the *perception of the same issue at the top management level of the same enterprises*. However, before reaching any final conclusions, the methods used for the assessment of the organisational fit with the environmental requirements should be also taken into consideration. Table 7 presents the results of this research segment.

Table 7. Utilised assessment methods

The assessment method	Frequency of findings	%	The assessment method	Frequency of findings	%
<i>Formal analysis at the top management level</i>	15	28.8%	<i>Analysis performed by external consultants</i>	3	5.8%
<i>Informal analysis at the top management level</i>	16	30.8%	<i>Personal analysis of the respondent</i>	18	34.6%
Total				52	100%

Source: Research documentation

Data show that the majority (34.6%) of respondents use informal methods of assessment, without any support (or only with a marginal support) of professional staff. Another 30.8% of top level managers have formed their perception of the organisational design quality through informal interaction with their peers, which adds up to a *significant amount of Croatian top managers (65.4%) who utilise informal appraising methods*, which are usually held as *methodologically inappropriate for such a purpose*. On the other hand, only 33.8% of all the surveyed enterprises have established formal, methodology-based procedures for the assessment of the existing organisational design. Hence, it can be concluded with a high probability, that the large Croatian enterprises' **top managers are appraising the appropriateness of organisational design in a subjective manner.**

In order to evaluate the modalities of individual managers' attitudes regarding the achieved organisational fit in relation to the utilised method of assessment, values of these variables can be cross-tabulated as demonstrated by Table 8.

Although this research procedure does not provide any "revolutionary" insights, it reasserts the previously presented findings, because:

- Managers whose companies have, according to their own perception, achieved a *"complete organisational fit"*, have predominantly used the

formally-based methods of measuring (assessing) the quality of organisational design;

- Managers whose companies have achieved a "partial organisational fit", have mostly used *ad hoc (informal) methods of measuring (assessing) the quality of organisational design*, with almost the same amount of respondents using the informal peer assessment and respondents individually appraising the quality of organisational design.

Table 8. Assessment of the "fit" between the organisational design and the requirements of the environment in relation to the utilised assessment method

The assessment method	Complete fit	Partial fit	No fit at all	Enterprise is being restructured	Total
<i>Formal analysis at the top management level</i>	38.5%	23.8%	0%	27.8%	28.8%
<i>Informal analysis at the top management level</i>	15.4%	38.1%	0%	33.3%	30.8%
<i>Analysis performed by external consultants</i>	15.4%	0%	0%	5.6%	5.8%
<i>Personal analysis of the respondent</i>	30.8%	38.1%	0%	33.3%	34.6%
Total	100.0%	100.0%	0%	100.0%	100.0%

Source: Research documentation

When compared to the results presented in the previous chapter of this paper, the research results reveal the *existence of a gap between the reality and the perceptions of top managers in large Croatian enterprises*. The described situation is not beneficial for the further restructuring (which should not be limited to the organisational, but rather related to all restructuring modalities) of the Croatian large enterprise sector, although it has been demonstrated that such a course of action is a necessity for correcting its lagging economic performance.

5. RESULTS OF THE EMPIRICAL INVESTIGATION: PERCEPTION OF THREATS FROM THE BUSINESS ENVIRONMENT AT THE TOP MANAGEMENT LEVEL AND THE RESTRUCTURING LEADERSHIP

The objective of this research segment was determining the existence of the gap between the perception of threats from the business environment and the perception of one's own internal strength and competitive abilities. Namely, it

is highly improbable that the restructuring leadership will emerge within the enterprise, if such a perception gap does not exist at the top management level. Hence, this research segment consisted of the *threat perception* and the *internal strengths*¹² surveys.

The research of the threat perception was based upon Hammer and Champy's "3C" model, encompassing **customers, competition and changes** as the most influential drivers of turbulences and globalisation of the contemporary business world. They have been selected as the key contingency factors due to the following arguments (Hammer & Champy, 1993, pp. 17-24):

- **Customers of the contemporary age** are empowered by the wide assortment of reliable and inexpensive industrial products, easily available consumer information and the extensive protective legal framework, which *enables them to set new requirements and gives them an upper hand in the bargaining process*;
- **Competition** forms at the global level, with the new innovative players daily entering the competitive arena. In a global market, an enterprise competes with the world's top performers, appearing in its local market, which led to the decision to survey the large enterprises' managers about the *existing level of competitive rivalry*, as well as the *threat of new foreign entrants*, which could further intensify competition;
- **Changes themselves** are becoming ubiquitous, swift, more intensive and less predictable, which all contribute to the notion of the "turbulent environment". In that sense, the respondents' attitudes toward *intensity, velocity and predictability of changes in the business environment* were surveyed.

A standardised, discrete, ordinal scale measured the perception with five degrees denoting (dis)agreement (*Do not agree at all, Do not agree, Agree partially, Agree and Agree completely*) with the statements asserting the rising level of threats from the business environment. Therefore, the results showing a higher degree of agreement denote the higher degree of threat perception, and vice versa.

Taking into account that the collected data fit into the *ordinal data category*, the recommended descriptive statistics procedure is measuring its median and the quartiles, which can be easily depicted by box-plot graphs.

¹² Terms "*threats*" and "*strengths*" are used in the common strategic management context, as defined e.g. by the SWOT analysis.

Results of the threat perception research at the top management level in large Croatian enterprises are presented by Table 9.

Results obtained by the survey are quite indicative, even without any statistical analysis – namely, it is easy to determine that, *in each category, the majority of surveyed managers believes that the business environment represents a significant source of threats.*

Table 9. Perception of threats from the business environment (% of responses)

Degree of agreement	Customer requirements	Customer bargaining power	Level of competitive rivalry within industry	Entrance of foreign competitors	Intensity and velocity of changes	Predictability of changes
<i>Do not agree at all</i>	0%	3.8%	3.8%	5.8%	1.9%	1.9%
<i>Do not agree</i>	5.8%	0%	1.9%	21.2%	5.8%	17.3%
<i>Agree partially</i>	21.2%	11.5%	15.4%	21.2%	17.3%	17.3%
<i>Agree</i>	42.3%	34.6%	25.0%	23.1%	42.3%	42.3%
<i>Agree completely</i>	30.8%	50.0%	53.8%	28.8%	32.7%	21.2%
Total	100%	100%	100%	100%	100.0%	100.0%

Source: Research documentation

However, after calculating the median and quartile values, as well as plotting a box-plot graph¹³ (see Figure 4.), it can be concluded that:

- The **existing level of competitive rivalry was perceived as the most important source of all environmental threats**, with more than 75% of surveyed managers who either agreed, or agreed completely with the assertion that the competitive dynamics of their industries is becoming more unfavourable;
- However, the *entrance of foreign competitors* was considered *less severe than the existing competitive rivalry*, which is quite interesting, especially having in mind the globalisation issues and the recent shocks to the

¹³ Box-plot graphs are visual representations of a univariate data set, composed of the two lines ("outliers"), representing the extreme values of the data set, and two boxes. The first box is determined by the upper quartile (representing the upper limit of the box) and the median (representing the lower limit of the box). The second box is determined, respectively, by the median and the lower quartile. For an extensive discussion, see: (Siegel, 1994, pp. 90-95).

Croatian retailing industry, caused by the entrance of Austrian and Italian retailing chains, such as "Billa", "Mercatone", etc.;

- *Rising customer requirements and bargaining power* scored second on the list of strategic threats. Nevertheless, it is quite surprising that the respondents believed that the *customer requirements* were one of the least important threats, which could be explained by a relatively low purchasing power of domestic consumers;
- *Intensity and velocity of threats in the business environment* were considered as significant as the rising customer requirements, or the threat from foreign entrants, but definitely the most interesting finding is related to the *predictability of changes in the Croatian business environment*. On one hand, the global business press and the leading "gurus" (see: e.g. Davidow and Malone, 1993; Hammer and Champy, 1993; Drucker, 1995, etc.) have been reporting on the turbulent environment in which all the fundamental rules are broken, as well as providing advice to become lean and flexible, in order to adapt to the rapidly changing conditions. On the other hand, the surveyed Croatian managers *believed that the unpredictability of business environment changes was the least important of all the threats faced by their organisations.*

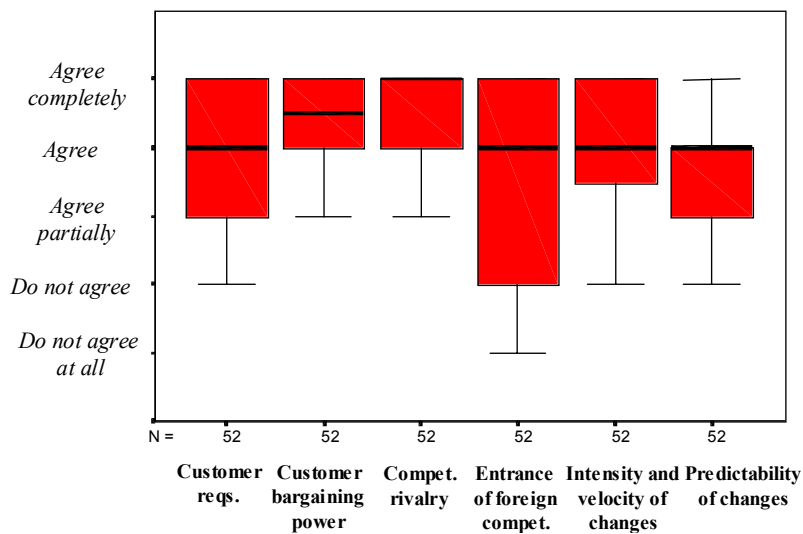


Figure 4. Box-plot graph depicting the top-management perception of external threats

The latter aspect of this research segment was related to the **perception of one's own internal strength and competitive abilities**. The research plan was

comparable to the one used for the former aspect of the research, i.e. it included the assessment of managers' attitudes on a discrete, ordinal scale with five degrees denoting (dis)agreement with the following statements (respectively):

- reinforcing the belief in the suitability of one's own competitiveness;
- asserting the preference toward the continuous improvement, in order to advance one's own competitive capabilities;
- asserting the preference toward the breakthrough improvement, in order to advance one's own competitive capabilities and
- asserting the importance of the speed of change implementation, if the enterprise wishes to remain competitive.

Results of this research segment are presented in the table below:

Table 10. Top-management perception of corporate strengths and the assessment of the need for organisational changes (% of responses)

Degree of agreement	Existing competitive ability	Strive toward continuous improvement	Strive toward breakthrough improvement	Significance of swift change implementation
<i>Do not agree at all</i>	15.4%	0%	3.8%	1.9%
<i>Do not agree</i>	26.9%	1.9%	9.6%	0%
<i>Agree partially</i>	30.8%	1.9%	15.4%	9.6%
<i>Agree</i>	21.2%	36.5%	32.7%	28.8%
<i>Agree completely</i>	5.8%	59.6%	38.5%	59.6%
Total	100%	100%	100%	100%

Source: Research documentation

A first look at the data distribution again reveals that, in a very general manner, *most of the surveyed managers are, to a limited degree, satisfied with the competitive ability of their enterprises*, while the majority of respondents *simultaneously expresses preferences toward the continuous and the breakthrough (radical) improvement strategy*.

After calculating the median and quartile values and plotting a box-plot graph (see Figure 5), more distinctive conclusions can be reached:

- *More than 50% of respondents* are, at least, partially satisfied with their own competitive ability, with only a small amount of managers (15.4%) expressing *conclusive dissatisfaction with the competitiveness of their company*;

- It seems that the *majority* (more than 75%) of respondents expresses the two highest ranks of preference for the strategy of continuously improving their operations, but *simultaneously* expresses almost the same preference for the swift implementation of organisational changes. Such a finding cannot be easily explained because the concept of continuous improvement (often referred to as "kaizen", as well as implied by the concept of "total quality management") is usually theoretically associated with the elaborate, people-centred change implementation process (Stoddard and Jarvenpaa, 1995, pp. 85-89.);
- At the same time, a significant amount of respondents (more than 50%) still expresses the two highest ranks of preference for the breakthrough (radical) improvement strategy. Taking into account that such a strategy requires a completely different approach to organisational change implementation than the one based on continuous improvement (see: Stoddard and Jarvenpaa, 1995, pp. 85-89.), it can be concluded that this research segment has also produced mixed results, which cannot be explained without difficulties.

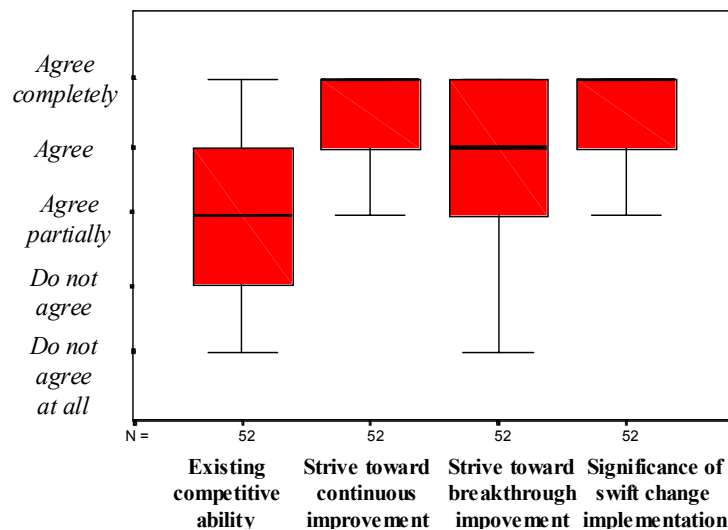


Figure 5. Box-plot graph depicting the top-management perception of corporate strengths and assessment of the need for organisational changes

The findings of both discussed aspects indicate that, although the managers of large Croatian enterprises find that their business environment is abundant with threats, their comprehension of their own competitive ability does not seem to match the threat perception because most of the surveyed enterprises seem to be at least partially satisfied with the existing competitive position.

Additionally, the latter aspect of the research has produced surprising results, which cannot be easily interpreted. In that sense, a *significant amount of respondents has simultaneously expressed preferences toward the mutually exclusive strategies of continuous and breakthrough improvement*. Such a finding can be explained either by the fact that many managers may not be familiar with the terms used in the questionnaire and their theoretical denotations, or by the opportunism of some managers taking part in the research.

6. CONCLUSIONS

The presented research results have shown that, in general terms, **the organisational structure of large Croatian enterprises may be assessed as inappropriate**, both in terms of the most important contingency factors, and from the point of view of the contemporary organisational trends in enterprises from countries with an advanced market economy. On the other hand, it can be concluded that, also generally speaking, **top managers of large Croatian enterprises do not perceive this situation as an immediate challenge for action**.

Namely, most of them are, **to a certain extent, satisfied with the organisational structure of their enterprises**. Such an assessment is, in most cases, **reached through the use of informal methods**, which does not guarantee its accuracy. From this aspect, it can be concluded that **the motive for further implementation is lacking, at least from the top management point of view**.

After establishing that the top managers of large Croatian enterprises do not perceive the issues of the quality of the existing organisational design in their enterprises, the remaining significant restructuring motive, i.e. **the perceived gap between the enterprise competitive ability and the threats emerging from the business environment**, was examined.

Results of the study provide enough evidence to conclude that the respondents **assess the business environment as an important source of threats**, which might seriously endanger the competitive position of the companies they run. However, it has been demonstrated that **the comprehension of one's own competitive ability does not seem to match the threat perception**, as well as that the surveyed managers do not show a clear preference toward one of the theoretical forms of change management, although they do emphasize the importance of the change implementation velocity.

Therefore, the final conclusion of this limited inquiry may be formulated as follows: the top managers of large Croatian companies **do not correctly assess the quality of the existing organisational design in their enterprises**. At the same time, there is a lack of **clear vision among the top managers regarding the existence of a gap between the environmental threats and the corporate strengths**. These findings confirm that the **fundamental prerequisites for the top management leadership in the restructuring issues are still missing**, as well as motives for embracing radical restructuring approaches.

Taking into account the inadequate economic performance of the Croatian large enterprise sector, and the necessity of its further restructuring, which was outlined in the first section of this paper, it seems that **the further efficient organisational restructuring**, as well as other forms of restructuring, **in large Croatian enterprises has very bleak prospects, unless the economic policy finally enacts appropriate measures to enforce the further restructuring of the state-owned enterprises, as well as to influence this process in privately-owned large enterprises**.

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**EMPIRIJSKO ISTRAŽIVANJE ODNOSA IZMEĐU OBJEKTIVNE PROCJENE
POTREBE ZA ORGANIZACIJSKIM RESTRUKTURIRANJEM VELIKIH
HRVATSKIH PODUZEĆA I PERCEPCIJA TOP MANAGEMENTA**

Sažetak

Na temelju rezultata empirijskog istraživanja, u ovom se radu razmatra objektivno procijenjena potreba za organizacijskim restrukturiranjem velikih hrvatskih poduzeća nasuprot shvaćanju istog problema od strane njihovog managementa. Nadograđujući se na analizu ekonomske učinkovitosti sektora velikih hrvatskih poduzeća i procjene primjerenosti organizacijskih rješenja, utvrđuje se potreba za daljnjim organizacijskim restrukturiranjem. Također se razmatraju ključni motivi za pokretanje restrukturiranje na razini top managementa, pri čemu se dolazi do zaključka kako taj proces ne podupiru ni percipirana primjerenost organizacijskih rješenja, niti način na koji top management percipira razliku između postojeće konkurentske sposobnosti i razine prijetnje iz poslovne okoline.