

## Context of Organization and its Scientific Approach

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**Abstract:** The topic of this paper is context of organization as a new element of international standard for quality management ISO 9001:2015. By applying a scientific approach, we presented some key elements of internal and external context of organization. From the point of view of internal context, we defined the following elements: organizational structure, leadership styles, and organizational culture. From the point of view of external context, we focused on stakeholder relationship.

**Key words:** leadership, organization, stakeholders, strategy

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### 1. Introduction

Organizational context is new element of international standard for quality management ISO 9001:2015. Before entering the market, every organization must specify its internal organization, in order to define in an easier way its relationship with business environment and its representatives – stakeholders. All stakeholders must be clearly defined regardless of whether they have a positive or negative impact on the organization. In this paper we will present the way the organization has to be established from the aspect of organizational structure, leadership and organizational culture. After that, we will focus on the analysis of key stakeholders which have direct impact on the company's business activities. In the end we will present potential strategic alternatives for communication with stakeholders.

### 2. Internal context of organization

Every organization must have its organization in order to perform business activities. Literature analysis has shown that the term *organization* is too wide and includes organizational structure, leadership in organization, motivation, learning, human resources management, organizational culture, and so on. For the purpose of this paper we will focus on three elements: organizational structure, leadership and organizational culture. In further text we will present these elements.

#### 2.1. Organizational structure

There are several forms of organizational structures. The two basic forms are **functional organizational structure and divisional organizational structure**.

**Functional organizational structure** assumes integrating jobs of any business function into an adequate business unit (Hadžiahmetović et al, 2008). For example, accounting, bookkeeping and cash flow jobs can be placed in one unit called "Finance sector".

**Divisional organizational structure** assumes creating business units from the aspect of working activities, production, or providing service where the object can be product, sales line, group of products, geographic areas, time, customers, equipment, and so on (Hadžiahmetović et al, 2008).

On the basis of these basic organizational structures it is possible to create **project and matrix organizational structures**. These structures are feature of modern business which is based on project management. Project organizational structure represents a project as an independent business unit, while matrix organizational structure is a combination of functional and divisional organizational structures. Matrix structure represents project teams created for realization of a concrete project and after its realization it ceases to exist. Project organizational structure is rare in practice, while matrix organizational structure is present in modern business.

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### 2.2. Organizational leadership

Leadership is a process of communication, influence and motivation of others for a successful realization of business tasks and achieving organization goals (Sajfert et al, 2006). There are several approaches to leadership styles but for the purpose of this paper we will focus on basic classification defined at Iowa University (Janićijević, 2008):

**Autocratic style.** Key characteristic of this style is that employees are excluded from making decisions. Leader makes decisions by on his/her own and has complete responsibility for its implementation. The leader decides in which way decisions will be implemented and directs employees in that direction.

**Democratic style.** Key characteristic of this style is that leader motivates employees to take part in discussions and allows them to present their opinion, but in the end the leader makes a final decision. During the implementation of decisions employees have significant degree of autonomy.

**Laissez faire.** Key characteristic of this style is that leader is not in the process of making decisions, leaving the place for employees to make decisions and implement them.

The practice has shown that these styles do not exclude each other. Autocratic leaders are sentenced to be unsuccessful, but also giving too much freedom to employees is not good either. Every leader must clearly define responsibilities and authorities. Otherwise, there will be conflict in the organization.

### 2.3. Culture

Culture is a set of common motives, values, convictions, identities and interpretations or opinions about important events which result from common experiences of members of the collective and which are passed through generations (House R.J. et al, 2004). There are two types of culture – **national culture and organizational culture**. **National culture** is mental programming: model of opinions, feelings and acting which every person acquires in childhood and then applies through whole life (Janićijević, 2014). **Organizational culture** is collective programming of mind which makes members of one organization different from each other, which results in the fact that organizational culture is a characteristic of organization not the individual, despite the fact that it is manifested and measured through verbal and nonverbal behaviours of individuals (Jeknić, 2011). Hofstede has defined five dimensions of national culture (Bahtijarević – Šiber et al, 2008):

**Uncertainty avoidance.** Business people of this dimension try to make the future predictable by strict sequence of rules and procedures. Organizations try to avoid uncertainty by making rules and regulations which give illusion of stability.

**Individualism vs. collectivism.** Business people of this dimension believe that group success is more important than individual success. Loyalty to the group is most important. Employees are loyal and emotionally dependent of their organization.

**Power distance.** Business people of this dimension believe in an uneven distribution of power and are always afraid to express disagreement with their superiors, while the superiors very seldom ask for their opinion.

**Long-term orientation vs. short-term orientation.** Business people of this dimension value perseverance, saving and respecting the tradition. It is expected from younger employees to follow elder employees and their order and to postpone satisfaction of their own material, social and emotional needs.

**Masculinity vs. femininity** Business people of this dimension value earning money and acquiring material goods. Successful business people are valued as aggressive and without sense for compromise. The most important notion is profit, while quality of life and cooperation are not highly valued.

On the other hand, there are four dimensions of organizational culture (Petković et al, 2008):

**Culture of power** is authority culture which assumes relatively low uncertainty avoidance. This culture is a characteristic of low enterprises which are not well established and where the leader has central role. The most important characteristic of this culture is authoritative management style as well as affinity to risks and changes.

**Culture of role** is bureaucratic culture where central place has formal procedures, hierarchy and formality. Uncertainty avoidance is high but power distance is low, which means that those organizations have affinity to risks and the style of management is more autocratic than democratic.

**Culture of task** is focused on tasks and goals which must be realized. Since the competences of employees are the key of the organization's success, it is very important to delegate more authority to employees in making decisions. Therefore, power distance is low as well as uncertainty avoidance.

**Culture of support** is focused on individual goals and their autonomy. Therefore, this culture is characterized by low power distance as well high uncertainty avoidance.

As it is visible from the text above, national and organizational culture are connected through two dimensions, **uncertainty avoidance** and **power distance**. Robbins emphasized that researches had shown that national culture has stronger influence on employees than organizational culture.

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### 3. External context of organization

Every organization acts on the market which includes interested parties, known as stakeholders in the literature. Stakeholders have some interest regarding organization, and organizational management must clearly define how to react with relation to those interests. Also, businesses of new age must be socially responsible, which means establishing the balance between profit and needs and interests of interested and influential parties, as shown in Figure 1 (Sikavica, 2011). This approach is basic for analysis of relations with stakeholders where scientific and empirical method will be applied.



Figure 1: Organization and stakeholders, adapted from Sikavica, 2011

### 3.2 Analysis of key stakeholders

In this part we will make short analysis of key stakeholders. The analysis includes stakeholders' expectations from organization as well as the measures which they can take to realize it (Santini, 2007):

**Employees** are the most important stakeholders. They expect stable position in organization, which means having work contract which is not restricted, fair and honest payment for work, healthy and secure work conditions as well as continuity of work without conflicts. In order to realize this, employees can initiate collective bargaining through trade union, but if they do not realize their goals, they can take the non-popular measures such as strikes which can make negative image in public.

**Management of organization** has a task to manage the organization and make profit. Management expects support from the investments by owners and shareholders in order to realize organization's goals as well as help in establishing new business contacts. Management expects the employees follow the organization's plans. In order to realize those expectations, management must have continuous communication with both sides. At the same time, when it comes to the employees, the management must establish discipline as well as prizes for those who work correct and on time. Management must not have favorites among the employees because it leads to conflict.

**Owners and shareholders** expect to get profit from the capital they invested, as well as to increment the value of their shares. In order to realize this, they use their voting rights as well as the right to see business books. They realize this through delegation of their representatives in supervisory boards. Also, owners and shareholders have obligation to take active role on market in order to help management to find customers.

**Customers** expect products and services with adequate technical performances and quality, otherwise they can buy products and services from competitors. Competitors are present on all markets; the difference is that on some markets competition is high (B2C markets), while on some markets it is low (B2B markets).

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**Suppliers** expect fair business relations and confidence in the beginning of business cooperation and later long-term cooperation. For all supplied goods they expect payment on time, otherwise they can find new business partner.

**Creditors** are very important factor in business environment and it is not possible to imagine business without them. The most important creditors are banks and insurance companies. Banks give credits for business contracts and expect repayment on time, while insurance companies give insurance policies for organization's property as well as for transport of goods. Banks expect payment of debts, while insurance companies expect payment of policies on time, otherwise they can make unpopular steps such as confiscation of property.

**Community** is part of environment which is dependent of business sector. Non-government organizations, sport associations, as well as other non-profit organizations prepare project for sponsorship by business organizations. Business of new age is a combination of making profit as well social responsibility, which is a special way of promotion. Therefore, it is expected from business organizations to make sponsorship, which is better promotion than any other kind of advertising.

**Trade unions** are non-government organizations that represent employees. Trade unions expect the same as employees, but trade unions have wider area for actions since they have continuous communication with government, employers' associations and international trade unions. Trade unions negotiate with government and employers' associations in order to make the best collective agreement to protect employees.

**Government** is an institution which proposes laws. It also owns public companies which are potential business partners. The government expects business organizations to follow laws as well as to pay all duties and taxes, while business organizations expect the government to establish and maintain fair competition as well as to provide support in getting international business contracts.

**Competitors** also want to make profit as well as to get greater part of market. In order to realize this, competitors try with low prices and with application of better technology on their products.

### 3.2. Stakeholder relationship strategy

In the end, we will define how business organization can establish relationship with stakeholders. There are four potential relationship strategies (Tomić, 2013):

**Strategy of reaction.** This strategy means direct confrontation with stakeholders neglecting all their requests and questions. This strategy is good for relations with competitors, but in relation with other stakeholders, it can have negative consequences. When applying this strategy, it is necessary to have good negotiation skills, because with a good negotiation strategy it is possible to get competitive advantage from potential customer. As mentioned above, potential competitors will try to get competitive advantage using lower price, but lower price does not mean better quality of goods and services.

**Strategy of defense.** This strategy means defending positions of organization while the relation with stakeholders is minimum. This strategy is also good for relations with competitors as well as with other parties that work against organization for their own interests. The practice has shown that this strategy must be applied with the above-mentioned strategy of reaction because constantly defending positions can lead to losing them.

**Strategy of accommodation.** This strategy is good for reducing gap between organization and stakeholders. It is useful in situation where it is necessary to make concession, especially with customers, suppliers, creditors, etc.

**Proactive strategy.** This strategy is focused on cooperation and assumes common work on all problems which are contestable between organization and stakeholders.

These strategies must be included in the general strategy of communication which every business organization must define through quality management system and also to nominate person responsible for public relations. The practice has shown that the best combination is strategy of reaction, strategy of accommodation and proactive strategy, while strategy of defense is very dangerous. Definitely, it is not possible to make any kind of agreement or cooperation without a proactive approach to the market.

## 4. Conclusion

The subject of this paper was context of organization. Main reason for choosing this topic is that context of organization is a new element in international standard ISO 9001:2015. Using a scientific approach we presented some basic elements of internal and external context of organization. As it is visible from the analysis, context of organization is not only the element of standard but also the basic of market economy. If we want to be present on market, first we must establish internal organization and then define potential market segments and interested parties on the market. The most important stakeholders are employees because only with good relations with employees it is possible to reach business goals of organization. After employees, it is important to have good relations with customers and creditors because without customers there is no profit and without

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creditors financing business projects is not possible. It is important to have fair market competition with competitors, and it is significant not to forget social community because by donating to some segments of social community, the organization becomes more popular on the market and within the society in general.

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