

THE IMPACT OF ORGANIZATIONAL STRUCTURE ON THE INTERNATIONALIZATION STRATEGY

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Abstract

The organization has certain characteristics that both man and other living beings have. These include the primary basic types of organization, or organizational configurations, as well as organizational context variables such as environment, power, age, size, business strategy, and technical system. The main research about organizational structures was started by Mintzberg in 1979. After that, many other authors made a research on this topic. Organizational management is first determined by the organization's configuration and then, by the type of strategy for entering the international market. The paper examines the extent to which the choice of organizational configuration has an impact on the choice of the internationalization strategy or the strategy for entering a foreign market. The research sample consists of 120 export-oriented companies from Bosnia and Herzegovina belonging to one of the four basic types: simple structure, professional bureaucracy, adhocracy, or machine bureaucracy. The basic methods used are the Multinomial Logit Model, the multiple regression model, and the Pearson correlation coefficient. The results of the research indicate that there is a significant correlation between organizational configuration (measured by organizational context variables) and internationalization strategy.

Keywords: configuration, structure, internationalization, strategy, organization.

JEL: L1, F

1. Introduction

In the age of a modern, turbulent and new economy, companies are not only competitors to the companies at the local level, but to those

around the world. New technologies and the development of computers and the Internet led to the emergence of globalization, which then led to a facilitated process of internationalization of enterprises. Information is more accessible today than before, many processes are completed faster, and people and businesses are more able to cope with change. The process of founding a company in many countries, especially in the most developed ones, is easier today, so it takes a very short time. During the process of founding a company, an entrepreneur decides on one of five organizational configurations: simple structure, professional bureaucracy, adhocracy, machine bureaucracy, and divisional organization. When a company grows, strengthens, and is already saturated with the domestic market, it decides to enter a foreign market and try to make a certain profit abroad. The company attempts to conquer a foreign market, and its success largely depends on the way or strategy for entering a foreign market, such as direct export, export through intermediaries, franchises, licenses, joint ventures, contracted production cooperation with foreign countries, contracted sales abroad, strategic alliance, etc.

All these forms or strategies for entering a foreign market are a potential choice of a company, but the question is which of these forms to choose.

The main research question in this paper is *Do the basic organization types influence the choice of strategy for entering a foreign market?* The research aims to determine, theoretically and empirically, the influence of the organizational configurations on the strategy for entering a foreign market. In this paper, the independent variable is the basic

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type of organization, while the dependent one is the strategy for entering a foreign market.

The aim is also to determine how and in what way different organizations, with different configurations, choose to enter a foreign and unknown market. The research was conducted on a sample of 120 export-oriented companies located in Bosnia and Herzegovina (BiH). All companies in the sample are divided into four basic categories: simple structure, professional bureaucracy, adhocracy, or machine bureaucracy. The data-driven analysis shows that there is a link between the independent and the dependent variable, or in other words, there is a link between configuration and internationalization.

2. Previous research

2.1 The notion of organizational configuration

Basic types of organization (organizational configurations) were first mentioned in Mintzberg's 1979 study *The Structuring of Organizations* (Mintzberg, 1979). In this book, Mintzberg states that basic types of organization are a special form of organizational structure, determined by specific determinants. Mintzberg identifies five organizational configurations: machine bureaucracy, simple structure, professional bureaucracy, adhocracy, and divisional organization, as well as the variables that affect the determination of organizational configuration, such as organizational environment, organization size, age, power, technical system/technology, and business strategy.

Although more than 40 years passed since the creation of this theory, it is still very relevant. The theory presented by Mintzberg in his 1979 book, and then in his original scientific paper (Mintzberg, 1980) on organizational design, has caused an ongoing debate, which never stops and makes this theory always relevant.

In 1997, Hendry studied Mintzberg's theory and made certain suggestions and additions to it. In his work *Mintzberg's theory of organizational structure: a critical assessment and extensions*, he speaks of the great importance of this theory in management, its

development. He also states that Mintzberg proposed different types of organizations, but did not give recommendations on a certain, ideal configuration of the organization (Hendry, 1997). In 1998, another, very interesting article was published on the topic of organizational configurations, by Lemieux. She describes the organizational design and the parameters that influence the determination of the organizational configuration, claiming that, in addition to the above, they should be: job specialization, training, planning, and decentralization. Based on the above, she describes the development of key configuration indicators: the configuration mechanism, a key part of the organization, the degree of decentralization, and design parameters (Lemieux, 1998).

In 2000, Unger et al. applied Mintzberg's theory of basic types of organization to health care institutions. In a paper published that year, they made it clear that through the process of identifying organizational configurations, it is possible to identify top-level managers, middle-level managers, and first line managers and their tasks (Unger, et al., 2000). However, if the organizational configurations are understood as a specific template for company analysis, a great danger arises if the wrong type of organization is applied in the analysis.

The development of technology meant that Mintzberg's theory had to be made up to date. In 2003, there was a discussion on the application of the theory of configurations, adhocracy, and bureaucracy in organizations where intelligent information systems are applied (Aart, et al., 2004). In parallel, in 2002 Šunje published a book entitled *Top Manager - Visionary and Strategist*, which at that time was the first, and to this day one of the best books that describe in detail the basic types of organizations, basic coordination - control mechanisms and basic organizational forces, as well as determinants that influence the choice of the organizational configurations (Šunje, 2003).

The new age, globalization, and the development of technology have led to the emergence of new theories and new views through Mintzberg glasses, as well as the

discovery of new ways of defining an organization and its performance. Schmidt analyzed the work of numerous authors who studied this topic (Schmidt, 2006). Discussion on this topic continued, with the paper of Fiss titled *A set-theoretical approach to organizational configurations*, in which he addressed previous research and gave suggestions for further research (Fiss, 2007).

The basic types of organization were first mentioned in the context of internationalization of a company in 2008, by Hill and Birkinshaw, discussing the impact of organizational configurations on the performance and survival of organizations in joint venture investment. In this paper, the authors provided a mathematical model which represents the development of ideal attributes of the organization (Hill & Birkinshaw, 2008).

In addition to the internationalization of companies, the basic types of organization were also placed in the context of employee development (Lunenburg, 2012), leadership and organizational structures (Varzaru & Varzaru, 2013), managerial knowledge (Steiger, et al., 2014), virtual organizations (D'Urso, et al., 2015), and matrix organizational structures in multinational organizations (Krzysztof, 2015).

In 2015, Gurianova and Mechtcheriakova mentioned the design of the organizational structure as a very important moment in the conception of organizational strategy, and their paper describes the importance of Mintzberg's theory in the initial moment of conceiving the strategy. Also, the paper contains research related to product and production strategies in domestic and foreign markets. (Gurianova & Mechtcheriakova, 2015).

Dimensions of organizational configuration can be:

- machine bureaucracy;
- simple structure organization;
- adhocracy;
- professional bureaucracy;
- divisional organization.

Manufacturing organizations are bureaucratic and highly centralized organizations. In these

organizations, there is a narrow specialization of work, and these are companies that mechanically produce certain products. In this kind of organization, all activities are prescribed by certain documents (Hector, 2016). A simple organization is an organization that has an informal and very flexible structure and a very small number of employees. Adhocratic organization, as its name suggests, is based on innovation, modern technologies, and great flexibility. This organization is similar to a particular project organization. In a professional organization, a differentiation strategy is a priority, and its employees are professionals, with vast knowledge and ease of problem-solving. This organizational configuration is characterized by comprehensive control of employees, over their work, while managers should be primarily supporting professional workers (Julie, et al., 2018).

A divisional organization is a large and old organization, which has certain divisions, and those divisions by their structure can be simple, machine bureaucracy, professional bureaucracy and adhocracy organizations.

Indicators for measuring organizational configurations are:

- environment;
- power;
- age and size;
- business strategy;
- technical system/technology.

The environment is an indicator that represents dynamism and complexity. Power is an indicator that represents power over stakeholders. Age and size are indicators of demographic characteristics, which can also be measured directly. Business strategy is the path a company wants to take to achieve its organizational goals. A technical system is an indicator that shows what kind of technology a particular company uses while converting inputs into outputs. Through the indicators listed above, it is possible to assess which organizational configurations are being used.

2.2 Strategy for internationalization

At the beginning of its work and activities, the company chooses a certain organizational

configuration, determining its future course. However, when a company reaches a higher level of development, it becomes strong enough to enter an international market, and become profitable in that market. The decision on internationalization is motivated by different factors (Karim & Karim, 2017).

In the context of internationalization, direction, speed, dynamics (Ødegård, 2016) and the sustainability of the internationalization process are also considered (Juan García-Álvarez, 2019), before the company starts conquering a new market. Strategies for entering a foreign market represent a company's decision to enter a foreign, international market.

There are several types of strategies for entering the foreign market, including but not limited to: direct export, indirect export, license, franchise, joint ventures, and direct investments abroad (Malenica & Sobrić, 2014). In his article, Myles stated that foreign market entry strategies are only the first step in the formation of a management strategy (Myles, 2013). However, success in a foreign market depends primarily on the strategy previously chosen by the manager.

In his article titled *Re-Entry: Managing Cross-Cultural Transitions* Adler described the nature of managerial work and connected a learning organization with all types of organizations that Mintzberg proposed (Adler, 1980). In 2002, Harzing's paper discussed control, which Mintzberg particularly pointed out as one of the most important components in each of five types of organizational configuration. This managerial control is of great importance for entering a foreign market, primarily for the choice of entry mode (Harzing, 2002). One of the most interesting papers on this topic was published in 2014 by Child et al. They described decision-making on the internationalization of small and medium enterprises based on organizational configuration. This paper also mentioned the motives of export and how much they contribute to the decision to internationalize the company (Child, 2014).

The dimensions of variable strategy of internationalization are:

- direct export;
- indirect exports:
- license;
- franchise;
- joint ventures;
- direct investments abroad.

Exports (direct and indirect) are certainly the first step in company internationalization. Direct export implies the engagement of the company itself to export its products to foreign markets, while indirect export refers to export done through intermediaries. The direct export approach is also the most difficult due to the exporter's direct involvement in every aspect of the export process - from marketing research and planning to deliver abroad and collecting receivables from foreign buyers. To achieve success through direct export, the management must invest time and resources in formulating its strategy, with the assistance of its stakeholders, such as state representations abroad, freight forwarders, banks, and others (Brkić, 2015).

License implies an agreement between the licensor and its user. Licensing is a very widespread strategy in the market. It is applied in almost all industries from software companies (Välämäki & Oksanen, 2002), to real estate companies, from manufacturing companies (Tece, 2010) to service companies (Handbook, 2005). The license model implies a contractual relationship by which the patent holder authorizes the other company to use his invention under certain conditions, especially financial. By classifying a license agreement as a type (named) agreement, it is implied that it has essential elements (*essentialia negotii*), which include the scope of the contract, the fee, and the form (Bubalo, 2009). Licensing allows the use of existing production, distribution, and marketing systems that other companies have built over the years (Popova, 2015).

In return, they receive a percentage of revenue from products or services sold under their license. When we talk about licensing from a strategic aspect, it is understood that it helps in achieving organizational goals. Franchising is a special form of license and mostly refers to the symbiosis of a small or medium enterprise

with a certain multinational company. Franchising is a concept by which independent entities engage in cooperation, within which the franchisor (as the system organizer) transfers to the franchisees, in exchange for the appropriate fee, a prescription for particular business activity. The relations between these entities are based on a contract, which enables them to create a franchising network. In this context, a joint venture is an investment by two or more companies from different countries, in a new company in a foreign market, where each participant in the investment participates both with financial investment and in the risk that the investment carries. Joint ventures are a form of joint strategy, where organizations form an alliance in which they combine their resources and capabilities.

The main goal of this strategy is to establish a stronger competitive position. Companies can mitigate the negative effects of competitors by building greater barriers to entry through pooling financial resources, research and development, production, and distribution channels (Chanon & Bonnici, 2017). Joint investment is a strategy in which two or more entities combine their work and resources to achieve a common goal, and share the profits (Grijić & Dimitrijević, 2015). Foreign direct investment involves the purchase of a company abroad or the establishment of a completely new company in a foreign market.

Research indicators can be:

- motives for entering a foreign market;
- length of staying (being) on the foreign market;
- making a decision on export;
- number of employees;
- revenue trends.

Motives for entering the foreign market can be profit, development, and growth of the company, better use of production capacity, the possibility of higher employment, marketing ability of the company, entrepreneurial motives in the company, product innovation, saturation of the domestic market, and foreign advantage over the domestic market (Malenica & Sobrić, 2014).

The length of stay on the foreign market implies the period since the company commences the process of internationalization, and this can be monitored in intervals (e.g., 2-4, 4-6 years, etc.). Export decisions can be made independently or collectively, or in consultation with experts. Naturally, one of the important indicators of the success of a company in a foreign market is the development of the company's income in the last three, five, or more years (growth, stagnation, decline).

3. Research methodology

3.1 Research description

The main object of the research is to identify the relationship between organizational configuration and internationalization strategy. The main research question is whether the configuration has an impact on internationalization? The primary research group or population represents all Bosnian-Herzegovina companies that have export activities. Based on the data available from the Foreign Trade Chamber of Bosnia and Herzegovina, at the time the research was conducted, there were 1,225 such companies in BiH. The main criteria for a company to be categorized in this manner are:

- the company must be export-oriented;
- the percent of the total revenue that comes from export activities must be examined.

The process of selecting companies in the sample consisted of three steps: identifying the type of configuration by the authors of the paper, by the manager of the company, and finally, identifying variables of organizational context by the manager. After selecting the companies in the sample, a survey questionnaire was created by the authors. The survey questionnaire consisted of three parts. The first part addressed some general issues (demographic information), the second part contained the questions about organizational structures according to Mintzberg, and the third part contained the questions regarding the organizational environment and internationalization of an organization.

Organizational structures according to Mintzberg were measured through five basic variables, namely environment (stable; simple; complex; dynamic), strategy (low cost; differentiation), power (high; low), age (year), size (micro; small; medium; large enterprise), and technology (conveyor belt; microprocessor). After the questionnaire was created, it was placed on the Google Forms platform and emailed to the companies in the research sample. The basic postulates of the research process or the process of data collection were:

- Approximately 25% of responses coming from machine organizations need to be collected;
- Approximately 25% of responses coming from simple organizations need to be collected;
- Approximately 25% of responses coming from adhocratic organizations need to be collected;
- Approximately 25% of responses coming from professional organizations need to be collected.

After the appropriate number of responses was collected, data processing started. After testing the normality of the distribution, the Multinomial Logit Model method, the multiple regression model, and the Pearson correlation coefficient was used. The collected data were processed in SPSS and MS Excel.

3.2. Research results

The normality of the distribution was tested first. For this purpose, the Shapiro-Wilk test was used.

Table 1. Test of normality – Shapiro-Wilk test

	Shapiro - Wilk test		
	Statistic	df	Sig.
Organizational configuration	.839	120	.000
Strategy for internationalization	.873	120	.000

Source: Authors' research

The results of this analysis (Table 1) showed that the data within the distribution are not normally distributed and that non-parametric techniques should be used in further steps of the analysis. The basic criteria that were important for the sample were met, as there were approximately 25% of companies from

each configuration (machine bureaucracy, adhocracy, simple structure, and professional bureaucracy) in the sample.

The research established that the growth of income in a foreign market in machine bureaucracy was 77%, 89% in adhocracy, 91% in simple structure, and 22% in professional bureaucracy. By comparing the obtained results on configurations and determinants (environment, size, age, power, strategies, technology), it was determined that there are no deviations and that the sample is relevant from the aspect of different configurations.

The research indicated which organizational configurations prefer specific forms of internationalization. The analysis will be presented in a tabular form below, and the data will be presented for each specific organizational configuration.

Table 2. Internationalization strategies in organizational configurations

Machine bureaucracy		N	Percent
Internationalization strategy	License	21	84.0%
	Brownfield investments	1	4.0%
	Direct export	2	8.0%
	Joint ventures	1	4.0%
Adhocracy		N	Percent
Internationalization strategy	Brownfield investments	17	66.7%
	Greenfield investments	8	33.3%
Simple structure		N	Percent
Internationalization strategy	Brownfield investments	1	4.3%
	Joint ventures	15	65.2%
	Greenfield investments	1	4.3%
	Franchizing	3	13%
	Indirect export	3	13%
Professional bureaucracy		N	Percent
Internationalization strategy	Online export	3	13.6%
	No export activity	22	86.4%

Source: Authors' research

Using the MLN method (the Multinomial Logit Model method), it is clear that machine bureaucracy most often prefers export-oriented licenses (84%), adhocratic organizations prefer brownfield investment (66.7%), simple structure prefers joint ventures (65.2%), while professional bureaucracy organizations prefer online export.

When it comes to the specific influence of the organizational configuration on the choice of the internationalization strategy, the multiple regression model and the Pearson correlation coefficient were used for the analysis.

Table 3. Regression model

Model		Non-standardized coefficients		Standardized coefficients	t	Sig.
		B	Standard error	Beta		
1	Constant	-.108	.605		-.178	.859
	Competition in foreign market	.343	.237	.133	1.448	.152
	Organizational configuration (structure)	1.196	.180	.610	6.647	.000

Source: Authors' research

The result of applying the method of multiple regression analysis is the following model:

$$\text{Internationalization strategy} = -0.108 + 0.343x_1 + 1.196x_2$$

where x_1 represents the control variable Foreign Market Competition and variable x_2 is the Organizational Configuration.

The amount -0.108 represents a constant in the model. In the analysis of partial regression coefficients, it was concluded that Beta = 0.610 for the variable Organizational Configuration. This means that when the organizational configuration changes for one standard deviation, the internationalization strategy changes by 61%.

In other words, the organizational configuration in the process of choosing an internationalization strategy matters 61% of all other factors.

Organizational configuration does not have an absolute influence on the choice of configuration strategy but it has an extremely significant influence on the decision-making process.

Table 4. Pearson correlation coefficient

		Internationalization strategies	Organizational configurations (structures)
Internationalization strategies	Pearson Correlation	1	.597
	Sig. (2-tailed)		.000
Organizational configurations (structures)	Pearson Correlation	.597	1
	Sig. (2-tailed)	.000	

Source: Authors' research

The application of the Pearson correlation coefficient yielded approximately the same value of the ratio of the analyzed variables as the previously presented regression model. It turns out that the value of $r = 0.597$, which means if the organizational configuration changes, the internationalization strategy will change 59.7% according to this indicator. This is a medium-strong correlation between these variables.

4. Discussion

The process of internationalization of the company is not easy and it requires a significant amount of effort, including research and analysis, in order to successfully implement this process.

Entering a foreign market carries great risks and these risks will have a negative impact if the beneficial decisions are not made. The organizational configurations tell us a lot about an organization.

They are classified into one of five types, and the classification, or the process of identifying the basic type of organization, depends on the research indicators. They can be viewed from several aspects. In a sample of 120 export-oriented companies, minimum research criteria were met in order for a particular company to be included in the sample, and for the research process itself to be completed.

The smallest company in the sample had only two employees, and the largest had 3,555 employees. The sample was dominated by small businesses, with a small number being

labeled as micro-enterprises. When it comes to the age of the company, the lowest number of companies has been on the market for 0-10 years while the most have been on the market for 11 to 50 years. The largest number of companies in the sample is exporters to the European Union market, and the lowest number of companies is exporters to other continents. Also, the lowest number of companies in the sample has the majority of employees who have completed the third cycle of studies and the majority has employees who have completed the first cycle of studies. The basic criteria that were important for the sample were met.

By comparing the obtained results on configurations and determinants (environment, size, age, power, strategies, technology), it was determined that there are no deviations and that the sample is relevant from the aspect of different configurations. The analysis of the results showed that the machine organization most often prefers the license as an export strategy (84%), and the configuration variables that have the greatest influence on this decision are the age of the organization and the power. This view is consistent with previous research (Lemieux, 1998) Furthermore, it was found that adhocratic organizations most often prefer direct investment, namely brownfield (66.7%) and greenfield (33.3%). The variables that are significant in the choice of internationalization strategy are technology, environment, age, size, generic strategy, and power, while competition in foreign markets is not significant.

Simple organizations prefer joint ventures (65.2%), and the variables that influence this choice are technology, age, environment, power, size, and generic strategy, while competition in the foreign market is not significant. The last analyzed, professional organizations exclusively prefer online exports. Although the attitude of previous authors (Mintzberg, 1980); (Schmidt, 2006) is that professional organizations are not export-oriented, the research results show the opposite.

For export activities in professional organizations to occur at all, the following

variables have an impact (listed in order of importance): bargaining power, generic strategy, technology, environment, age, size, but also competition in a foreign market. The above data confirm the so-called organic approach, (Hill & Birkinshaw, 2008), which states that each organization has its specifics when entering a foreign market, and those specifics are determined by configuration. The examination of the relationship between configuration and internationalization indicates that configuration has approximately 60% influence on the choice of the internationalization strategy, while other variables influence about 40%. This setting indicates that internationalization is largely determined by configurations and that they are the starting point that needs to be analyzed in the process of thinking about internationalization. When it comes to the relationship between configuration and internationalization according to the managers' views, the research has shown that managers generally equate the success of a company with the choice of configuration. However, democratic organizations believe that success in the domestic market is more related to the choice of configuration, while in the foreign market some other factors are crucial. Simple organizations, on the other hand, are the least accountable configurations for success, compared to all other types of organizations. Organizational configuration represents not only the organizational structure, but also the organizational configuration, which is very specific and contains the constituent parts of an organizational DNA, or its characteristics.

5. Conclusion

Organizational configurations are an indicator of where a company ought to go, and how it can function. Organizational configurations do not represent classic organizational structure of the company, but a specific organizational configuration that carries certain characteristics that organizations possess. Entry strategies represent the company's decision to enter a foreign market. They represent the first step in the process of internationalization of companies, and the success of companies in foreign markets largely depends on them. Through research on

organizational configurations and entry strategies, it is possible to understand how to determine organizational configurations, or the DNA of the organization itself. Then, by measuring the indicators previously presented in the paper, it is possible to conclude how companies choose to export; what are their strategies for entering foreign markets; how they measure their success in foreign markets, but also what are their motives for exporting to foreign markets. Based on the above, it will be possible to give a proposition for each organization on how to go through the least painful process of internationalization. Additionally, it is possible to give a suggestion on which strategy will lead to most success in an international market, and on which schedule to operate to go beyond the borders of companies' home country and try to sell their products in markets abroad. This will certainly greatly facilitate the path of internationalization of those companies that have yet to go through this process and give them clear guidelines on how to carry the activities related to their entry into foreign markets. Further research on the choice of entry strategy for the remaining organizational configurations would be helpful to explore this topic. In addition, it would be interesting to investigate the impact of the Covid-19 pandemic on the behavior of different configurations in foreign markets.

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