



OBSERVANCE OF BUSINESS FIRMS ON THE DIMENSIONS OF ORGANIZATIONAL STRUCTURE

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ABSTRACT

The purpose of this research is to determine the financial condition and results of business operation, the extent to which the dimensions of organizational structure are observed, and the significant relationship between the dimensions of the organizational structure and the financial condition and results of business operation. The finding shows that there is significant relationship that exists between the organization’s profitability, liquidity and stability and the extent to which centralized, formalized, and specialized organizational structures are observed. The less centralized firms were as profitable as the more centralized ones, the less formalized firms were as profitable as the more formal ones, and the less specialized firms were as profitable as the more specialized ones.

Keywords: Organizational Structure, Dimensions Of Organizational Structure, Centralization, Formalization, Specialization.

Introduction

Businesses are being affected by many factors that affect their performance which include the organizational structure of the business. Organizational structure describes how the employees in the organization are organized and how their responsibilities are coordinated and divided (Mintzberg, 2009), arranged and allocated to individuals with corresponding accountabilities (Greenberg, 2011) that affects the productivity and efficiency of an organization (Andersson & Zbirenko, 2014).

Proper observance on the dimensions of organization structure makes an organization effective in profit maximization. This is dependent the level of specialization, formalization and centralization in the organization (Daft, 2010). Centralization reflects the extent to which the decision-making power is concentrated at the top management level in which employees simply carry out orders (Pedersen et al, 2011). Formalization is the degree to which an organization relies on written rules and procedures to direct the behavior or predetermine the actions of employees for better performance (Gibson et al., 2012), while specialization is the process of identifying particular tasks and assigning the individuals or teams who have been trained to do them (Hellriegel et al., 2008). As a result, employees perform limited range of tasks if specialization is high and they complete a wider range of tasks if specialization is low.

In Mountain Province, most of the businesses are family-owned which has an effect in the proper structuring of the business. Thus, this study is conducted to determine the extent of observance of businesses on the dimensions of organizational structure as basis for recommendations in achieving organizational effectiveness. Specifically, it answers the following:

1. What is the financial condition and results of operation of the business firms in terms of:

a. Profitability

b. Liquidity

c. Stability

2. What is the extent to which the following dimensions of the organizational structure are observed in the business firms?

a. Centralized

b. Formalized

c. Specialized

3. Is there a significant relationship between the dimensions of the organizational structure and the profitability, liquidity and stability of the business firms?

Methodology

The descriptive method was also employed to determine the extent of observance on the dimensions of organizational structure in business firms. Moreover, the comparative-relationship was used in determining the relationship between the dimensions of organizational structure and the financial conditions and results of operations in terms of profitability, liquidity, and stability. Documentary analysis was used for analyzing the firms’ profile regarding their financial condition and results of operations.

This study was conducted in the ten (10) municipalities of Mountain Province, CAR, Philippines. The questionnaire was administered to 45 business firms and was answered by 290 managers and board of directors. The questionnaire scale on the dimensions of organizational structure was based from the instrument used by Arguelles (2000) in his study about the organizational structure of small enterprises in Baguio City. However, necessary revisions were made based on the intentions of the study.

The following four-point rating scale for the dimensions of organizational structure was used:

Rating	Frequency of Practice	Descriptions
4	Very High	Highly Observed
3	High	Observed
2	Low	Not Observed
1	Very Low	Not Observed

4	Always	Observed to a very great extent (OVGE)
3	Often	Observed to a great extent (OGE)
2	Seldom	Observed to a little extent (OLE)
1	Never	Not at all Observed (NO)

To establish the relationships between the financial condition and results of operation and the dimensions of organizational structure, Pearson product-moment coefficient of correlations were computed. Their levels of significance were determined and compared to the critical .05 alpha level.

Results and Discussion

This presents the financial condition and results of operation of firms and the extent to which the dimensions of organizational structure are observed in the business firms.

Table 1

Financial Conditions and Results of Operation of Business Firms

Profitability	
Profit margin	0.3069
Rate of return on owners	0.1834
Liquidity	
Current ratio	1.9527
Working capital to total assets	0.3135
Stability	
Equity ratio	0.4206
Debt ratio	0.5794

Table 1 shows the financial conditions and results of operation of business firms. It shows that the firm respondents are profitable with the profit margin of 30.69% based on sales or 18.42% based on owners' equity. Further, they are also liquid as shown in the current ratio of 1.9527 and working capital to total assets of .3135. This means that firms can pay their short-term obligations.

The table also shows that the firms are stable as evidenced with the equity ratio of 0.4206 or debt ratio of 0.5794. This means that firms can pay their long-term obligations as they mature.

Table 2

Business Firms' Observance on "Centralization" as a Dimension of Organizational Structure

<i>Characteristics of Centralization</i>	μ	<i>S</i> <i>D</i>	<i>Qualitative Descriptions</i>
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1. We retain decision making	3 . 6 7 4 6	Observed to a great extent
2. We have difficulty to adapt quickly to rapid environmental changes.	2 . 8 1 6 5	Observed to a great extent
3. We have uniform policies in our organization	3 . 7 4 3 3	Observed to a great extent
4. We have difficulty of gaining participation and acceptance of new activities	2 . 7 9 4 1	Observed to a little extent
5. We have distinct line of communication in our organization	2 . 8 9 9 5	Observed to a great extent
6. We restrict employees to have minimum input into their work	2 . 9 6 2 9	Observed to a little extent
7. We let employees choose actions to be consistent	3 . 7 8 2 4	Observed to a great extent
8. We make many decisions covering a wide scope of activities	3 . 8 3 0 4	Observed to a great extent
9. Employees must ask approval from us before they can act	2 . 8 0 9 1	Observed to a great extent
10. We make fast decisions	2 . 8 8 8 1	Observed to a great extent
11. We emphasize consistency	3 . 6 4 5 1	Observed to a very great extent
12. We consider norms, values and practices	3 . 6 7 3 8	Observed to a great extent
13. We maintain adequate supply of trained and competent managers & employees.	3 . 8 1 1 3	Observed to a great extent

14. We use control mechanisms	3.08	.80	Observed to a great extent
Overall	3.01	.43	Observed to a great extent

Table 2 shows that overall, the firms observed centralization to a great extent. From among the characteristics, only three were observed either to a little extent or very great extent. The emphasis of firms on consistency was observed to a very great extent while difficulty of gaining participation and acceptance of new activities as well as restricting employees to have minimum input into their work were observed to a little extent. It means that the managers coordinate the several activities of the whole organization considering the opinions of the employees to some extent. Management's decision to centralize is affected by several factors like costliness of decisions, uniformity of policy, organization culture, availability of trained and competent managers and employees, control mechanisms, and environmental influences (Hellriegel et al., 2008).

Table 3

Business Firms' Observance on "Formalization" as a Dimension of Organizational Structure

<i>Characteristics of Formalization</i>	μ	<i>SD</i>	<i>Qualitative Descriptions</i>
1. We provide written rules and procedures	3.33	.72	Observed to a great extent
2. We draw organizational chart	3.19	.91	Observed to a great extent
3. We all follow the line of reporting	3.33	.75	Observed to a great extent
4. We delegate important tasks to subordinates	2.68	.93	Observed to a great extent
5. Our organizational structure specifies who is to do what, where, and when	3.40	.74	Observed to a great extent
6. We set standards based on quantity and quality	3.05	.78	Observed to a great extent
7. We specify steps and prepare detailed job descriptions	3.25	.71	Observed to a great extent

8. Employees have a clear understanding of what they are expected to do	3.23	.81	Observed to a great extent
9. We expect employees to always handle the same input in exactly the same way	2.76	.92	Observed to a great extent
Overall	3.13	.51	Observed to a great extent

Table 3 reveals that formalization (3.13) is observed to a great extent. All the characteristics were rated by the firms as often observed. This means that the firms are formalized to an extent that it prescribes written rules and procedures to avoid non-programmed employees' behavior and to limit employees to have a great deal of freedom to exercise discretion in their work. Organizations observe more formalization because organizational effectiveness can be increased (Basol & Dogerlioglu, 2014).

Table 4

Business Firms' Observance on "Specialization" as a Dimension of Organizational Structure

<i>Characteristics of Specialization</i>	μ	<i>SD</i>	<i>Qualitative Descriptions</i>
1. We identify tasks and assign them to individuals or teams who have been trained	3.36	.74	Observed to a great extent
2. Employees perform the same tasks	3.21	.68	Observed to a great extent
3. Employees easily learn tasks	3.25	.75	Observed to a great extent
4. We use equipment and machinery efficiently	2.72	.98	Observed to a great extent
5. Special tools are being developed	2.59	1.05	Observed to a great extent
6. We can control or identify what each employee should be doing	3.27	.79	Observed to a great extent
7. Work is routine and repetitive	2.61	1.99	Observed to a great extent
8. We experience additional cost due to the hiring of some managers	1.66	.94	Observed to a little extent

9. Employees tend to depend heavily on each others' output	1.84	.85	Observed to a little extent
10. We have many layers of management	1.84	.96	Observed to a little extent
11. Operational employees have little input into management decisions	2.44	.91	Observed to a little extent
Overall Specialization	2.60	.48	Observed to a great extent

It appears on table 4 that specialization is observed to a great extent as evidenced by the overall mean of 2.60. This means that the respondents use appropriate level of specialization. No one person can perform all the tasks owing to physical limitations and some tasks require highly developed skills (Megginson et al., 1989). These firms try to limit wasted motions and movements through division of works to improve organizational productivity. Specialization creates greater proficiency among small enterprises (Arguelles, 2000).

It can also be gleaned from the table that operational employees have little input into management decisions (2.44), employees tend to depend heavily on each others' output (1.84), there are many layers of management (1.84), and additional cost is experienced due to the hiring of some managers (1.66) are seldom observed by the respondents. The reason could be the size of the businesses in which the managers in most cases retain decision-making for themselves and they do not hire consultants like in the case of medium-scale industries or large-scale industries to avoid excessive supervision cost.

Table 5

Relationship of the Dimensions of Organizational Structure of the Business Firms and their Financial Conditions and Results of Operations (N ≤ 290)

		Centralization	Formalization	Specialization
Profit margin	Pearson r	-.008	-.031	-.047
	Sig. (2-t)	.896	.596	.423
Rate of return	Pearson r	.088	-.045	-.018
	Sig. (2-t)	.134	.442	.763
Current Ratio	Pearson r	-.143*	-.058	-.071
	Sig. (2-t)	.017	.333	.237
Working capital	Pearson r	-.268**	-.201**	-.236**
	Sig. (2-t)	.000	.001	.000
Equity ratio	Pearson r	-.230**	-.246**	-.239**
	Sig. (2-t)	.000	.000	.000
Debt ratio	Pearson r	.230**	.246**	.239**
	Sig. (2-t)	.000	.000	.000

* r is significant at the 0.05 level (2-tailed).

** r is significant at the 0.01 level (2-tailed).

The correlational analyses involving the financial ratios and the dimensions of organizational structure are summarized in Table 5.

Profitability did not seem to be affected by the extent to which the dimensions of organizational structure characterized the business firms. The less centralized firms were as profitable as the more centralized ones. The less formalized firms were as profitable as the more formal firms. The less specialized business firms were as profitable as the more specialized ones.

Table 5 also indicates that significant negative correlations were found between extent of centralization with financial ratios such as current ratio, working capital ratio, and equity ratio. Significant positive correlations were noted for debt ratio. This meant that more centralized businesses had significantly lower current ratio, significantly lower working capital ratio and lower equity ratios but higher debt ratio.

Conclusion

The findings of the study revealed that the firms observed centralization, formalization and specialization to a great extent. Their organizational structure is reflective of a centralized, formalized, and specialized organization. Significant relationship exists between the organization's profitability, liquidity and stability and the extent to which centralized, formalized, and specialized organizational structures are observed. The less centralized firms were as profitable as the more centralized ones. The more centralized firms had significantly lower current ratios, lower working capital and equity ratios but higher debt ratios. The less formalized firms were as profitable as the more formal ones. The more formalized the firms, the lesser the working capital ratios and equity ratios but greater debt ratios. Lastly, the less specialized firms were as profitable as the more specialized ones. The more the firms are specialized, the lesser working capital ratios and the lesser equity ratios but greater debt ratios.

Based on these findings, it is recommended that firms consider the level of formalization, specialization, centralization in their organizational structure to promote higher employee morale and it may be considered as a motivating factor. The can operate with lesser degree of formalization and specialization and greater decentralization considering that most business firms are more of the cottage industry.

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