

Impact of Organisational Structure on Organisational Performance

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Abstract-This paper examined the impact of organisational structure on organisational performance. An organisation cannot exist without a definite structure. The purpose of organisational structure is the division of work among members of the organisation, and the co-ordination of their activities so they are directed towards the goals and objectives of the organisation. This study used mainly the secondary sources of data collection. The secondary data was sourced through journals, articles, internets and texts books. The findings revealed that organisational structure has an impact on organisational performance. Therefore, it was recommended that organisations should endeavor to have well defined structure in place in order to achieve the set objectives.

Keywords: Organisational Structure, Organisational Performance, Organisational Objectives, Literature Review.

I. INTRODUCTION

The existence of a business organisation is to achieve goals and objectives. The goals and objectives business organisations set to achieve determines how they managers allocate tasks to employees. The allocated jobs are usually grouped into departments. Nelson & Quick [1] opine that departments in organisations can be categorized into various units such as manufacturing, sales, marketing, advertising, and so on. They added that departments are connected to shape the organisational structure. Quangyen & Yezhuang [2] argued that structure of an organisation gives it the shape to carry out its purpose in the business environment.

Nelson & Quick [1] posit that the organisation's structure is meaningless unless supported by appropriate systems and a well-conceived culture. Martinelli [3] argued that the type of organisational structure adopted by a firm will depend on the nature of the particular organization in question. In addition, the form which the organisational structure takes may be represented periodically by an organisational chart. Based, on the significance of the organisation structure the study investigated more on the impact of organisational

structure on organisational performance. Furthermore, this study should draw more attention of future researchers towards this important field. This is an interesting field for research because it determines the success of business organisations.

The next section will start by defining organisation, performance and organisational structure. The concept and variables to measure organisational performance will be explored. It will also review the literature investigating the impact of organisational structure on organisational performance. Finally the section will conclude with the gap identified in the literature

II. LITERATURE REVIEW

A. Definition of Organisation and Performance

Snow & Hrebiniak [4] argued that organisation is a group of two or more people working co-operatively towards a common objective or set of objectives. In short, an organisation is a group of people working together to achieve a purpose that cannot be achieved by an individual working alone. According to Martinelli [3], organisation can be defined as a set of elements in interaction, structured level and decision making units. He added that performance is a measure of the state of an organisation, or the outcomes that result from management decisions and the execution of those decisions by employees of the organisation. Performance is a set of financial and non-financial indicators which offer information on the degree of achievement of objectives and results [5].

B. Defining Organisational Structure

Mintzberg [6] argued that organisational structure defines how people are organised or how their jobs are divided and coordinated. Greenberg [5] refer to organisational structure as the formal configuration between individuals and groups concerning the responsibilities, allocation of tasks, and authority in the organisation. Damanpour [7] posit that organisational structure includes the nature of formalisation, layers of

hierarchy, level of horizontal integration, centralisation of authority and patterns of communication. The author argued further that it is the manner in which power and responsibilities are allocated, and work procedures are done, among members of the organisation. Researchers assert that organisational structure “consists of job positions, their relationships to each other and accountabilities for the process and sub-process deliverables [8, 5, 9].

C. Organisational Performance

There is a general consensus that the concept of organisational performance is frequent in the empirical literature. The description of the concept is difficult because it has different connotations. There is no universally acceptable explanation of the concept. Daft [10] defines organisational performance as the organisation’s ability to accomplish its aims through the use of resources in a properly structured manner. Richardo [11] also sees organisational performance as the ability to achieve organisational goals and objectives. Hefferman & Flood [12] asserted that organisational performance has suffered from not only a definition problem, but also from a conceptual problem. The term performance was occasionally confused with productivity. Ricardo [11] confirmed that there was a difference between performance and productivity. He opined that productivity is a ratio indicating the volume of task performed in a given amount of time. While performance is a broader pointer that could include productivity as well as quality, consistency and other factors. However, productivity measures were often considered in a result oriented evaluation.

D. Measures of Organisational Performance

Different dimensions have been adopted by authors to determine organisational performance. Some of them are profitability, return on asset (ROA), gross profit, return on investment (ROI), return on sale (ROS), return on equity (ROE), sales growth, export growth, revenue growth, market share, stock price [13, 14, 15]. They emphasized that no single determinant of performance may fully clarify all areas of the concept. Some researchers also reported contradictory measurement of organisational performance, though most researchers measured organisational performance using quantitative data such as return on investments, return on sales and so forth [16, 17]. The importance of performance has integrated both effectiveness related measures that deal with issues like business employee satisfaction and growth and efficiency related measures that relate to the input/output relationship.

Hodge & Williams [18] suggested that performance has also been conceptualised using non-financial and financial measures from both perceptual and objective sources. Financial measures permit researchers to build benchmarking analyses and trend analyses. Venkatraman & Ramunujam [19] posit that perceptual sources comprise financial health or employee evaluations of organisational effectiveness and their overall level of

satisfaction. Objective measures comprise secondary source of financial measures like return on investment, return on assets and profit growth. These measures are frequently useful for single-industry studies and are non-biased due to the uniformity in measurement across all organisations in the sample. Majority of practitioners seemed to use the term performance to explain a variety of measurements as well as input efficiency, output efficiency and transactional efficiency [20]. The author argued that there was no particular measure or dominant measure of organisational performance. Hage [21] asserts that organisations adopts different measurements and objectives for organisational performance. Lebars & Euske [22] suggested that profitability was the best indicator in identifying whether an organisation was able to meet its goals or not. Moreover, researchers such as Galbraith & Schendel [23] enhanced the use of return on equity (ROE), return on assets (ROA), and profit margin as the most frequent measures of performance. On the other hand, researchers have argued that no single measure is essentially better than the other and that researchers should base its definition on the punitive framework adopted for the study [24, 25, 26].

E. Organisational Structure and Performance

Walton [31] recognized structure as the starting point for organising which include roles and positions, hierarchical levels and spans of accountability, and mechanism for problem solving and integration. Thompson [32] said that “structure is the internal differentiation and patterning of relationships”. Lawrence and Lorsch [33] describe structure as “the technique in which the organisation is differentiated and integrated”. Organisational structure can be defined as “the established pattern of relationships among the components parts of a company. The formally define framework of an organisation’s task and authority relationships”. Stroh et al. [34] emphasized that organisational structure represents the relationships among different roles played by units within an organisation. These diverse points of views of definitions specify that the term —organisational structure is not necessarily concentrated on any univocal characteristic, but rather, more likely to have various dimensions.

Ajagbe [35] assert that organisational structure “is the formal system of task and reporting relationships that controls, coordinates, and motivates employees so that they cooperate to achieve an organisation’s goals”. Ajagbe et al. [36] sees organisational structure as “how job tasks are formally divided, grouped, and coordinated”. Formalisation measures the extent to which an organisation can use rules and procedures to prescribe behaviour [37]. The nature of formalisation is the degree to which the workers are provided with rules and procedures that deprive versus encourage creative, autonomous work and learning [38]. In organisations with high formalisation, there are explicit rules which are likely to obstruct the impulsiveness and flexibility needed for internal innovation [39]. Centralisation also creates a non-participatory environment that reduces

communication, commitment, and involvement with tasks among participants.

Organisational control is a cycle that includes the three stages of target setting, measuring or monitoring and feedback. Control in organisational bureaucracy can consist of rules, standards, and internal procedures [40]. Centralisation refers to the hierarchical level that has authority to make decision. If decisions are delegated to lower levels, the organisation is decentralized, and if decision making power authority is set aside at the top level, it is centralised. Germain [41] considered the outcome of structure on the performance mediating supply chain management and found that formal structure has a positive effect on performance in stable environment and a negative effect is achieved in dynamic atmosphere. He also opine that developing and enforcing performance control and behavioural prescriptions improve decisions and increases predictability of performance.

Ajagbe [35] affirm that organisation can design its structure when it decides how it want its members to act, what attitudes it want to promote, and what it desires its members to attain, and support the development of cultural values and norms to get these desired behaviours, attitudes and goals. Ajagbe et al. [36] found “no relationship between employee performance and span of control, but higher levels of job satisfaction were evident in decentralised organisations because span of control portion of organisational structure defines the amount of employees an authority figure is responsible for”. The span of control is expressed in one of two ways: a wide span of control where managers supervise many employees as well as a narrow span of control where managers supervise few employees. Quangyen & Yezhuang (2013) says “organisational structure decreases employee ambiguity and helps explain and predict behaviour”.

Long et al. [42] explained that organisational effectiveness and its relation to structure can be determined by the fit between information processing requirements so that people can have neither too little nor too much inappropriate information. However, the flow of information is important to an organisation’s accomplishment. He also suggested that the organisation’s structure should be designed in a way to ensure that departments and individuals that need to coordinate their efforts have lines of communication that are built into the structure. Csaszar [43] agreed on the idea that organisational structure shapes performance in an organization. He further stated that in a poorly designed structure, good performers will acquire the shape of the structure. Walton [31] attached structure to effectiveness. The author concluded that the restructuring of management is designed to improve on both the efficiency and effectiveness of the management organisation.

Lysonski et al. [44] emphasised on the extent of formalisation of rules and procedures, centralisation of decision-making and structural differentiation in their analysis of environmental uncertainty and organisational structure from a product management point of view. One of the mainly outstanding scholars in the field of bureaucratic structure is the German sociologist Max Weber (1947). However, the well-defined hierarchical structure assumes that the lowest common superior is the one to turn to. The main traits illustrate Weber’s explanation of a bureaucratic structure in an organisation. Andersson & Zbirenko [45] discovered that structure, communication and leadership affect productivity and efficiency. Structure explains how productive the operational processes are in the organisation. Communication affects how things are done very fast and how willing and happy personnel are in the organisation. Leadership affects every personnel and how they strive for accomplishing their goals. Nahm et al. [38] analysed a framework for understanding relationships among key sub-dimensions that define the firm’s structure and reporting relationships, time-based manufacturing practices, and plant performance. They came up with a research framework that observe relationships among different structural dimensions (i.e. level of horizontal integration, number of layers in the hierarchy, nature of formalisation, locus of decision-making and level of communication), time-based manufacturing practices, and plant performance. Findings indicated that the number of layers in the hierarchy, the nature of formalisation and the level of horizontal integration have direct, significant and positive effects on the level of communication and locus of decision-making.

III. CONCLUSION OF THE STUDY

The objective of this article is to find out the impact of organisational structure on organisational performance. However, review from previous research has shown that effective organisational structure facilitates proper working relationships among various sub-units in the organization. This may definitely improve company efficiency within the organisational units. The findings reveal that organisational structure has an impact on organisational performance. It also indicated that there is a relationship between specialisation of work process and labor productivity which implies that organisational structure affect the behaviour of employees in the organisation. Based on this paper, it can further be concluded that performance of an organisation largely depends on the structure of the organisation. When a clear structure exists people perform better, tasks are divided and productivity is increased. Indeed, having a suitable organisational structure in place, one that recognize and address various human and business realities of the company in question is a prerequisite for long term success. It was therefore recommended that management should critically analyze the effectiveness and efficiency of the organisation by ensuring proper structures are put in place and

implemented with the aim of achieving set goals. Organisations should also endeavor to have well-structured mechanism in order to achieve laid down objectives.

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