



# A COMPARATIVE STUDY ON DIMENSIONS OF ORGANIZATION STRUCTURE AMONG SERVICE SECTOR IN INDIA

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## Abstract:

**Purpose:** To do a comparative study on dimensions of organization structure among service sector in India which will help Indian organizations build excellence in this competitive edge.

**Design/methodology/approach:** The study used a questionnaire to investigate the structural patterns of organization in 24 enterprises in India. The sample consisted of 600 participants across three industries. The data were analysed using SPSS v.21.0.

**Findings:** The analysis have revealed a relationship between the four dimensions of organization structure i.e., formalization, centralization, specialization and decentralization with banks/ insurance/ IT companies.

**Practical implications:** It suggest that organization structure should aligned with the four dimensions in determining and capturing the essence of the activities of an organization

**Originality/value:** There is a scarcity of research into this domain of dimension of organization structure in India and the paper provides additional insights across the Service sectors.

**Keywords:** Organizational structures, Service sector, Formalization, Specialization, Centralization, Decentralization

**Paper type:** Research paper

## I. INTRODUCTION

The organization structure act as a primary driver of changes, the skeletal structure of an organization influences its decision-making and internal processes for future growth and performance. (Wang and Ahmed, 2003). The proper flow of responsibility from the top of the organization down to the bottom is essential for the company to run in an efficient manner which is shown by the chain of command of the company organization structure. The structure of any organization consists of not only its hard components (people, level of management and departments) but also the softer relational aspects of the organization need structuring so that lines of authority along with individual duties and responsibilities can be understood by every company member and that leads to industrial excellence and achievements of their goal. (Bunge, 1985).

It is typically a hierarchical arrangement of lines of authority, communications, rights and duties of an organization. The organizational structure is the sum total of the ways in which labour is divided into distinct tasks is been allocated and how its coordination among these tasks is achieved for the development and growth of a company. (Mintzberg, 1983). Ideally, no two organization can have the same structure as have different social, economic and cultural environment. This line of thinking aligns with the views of scholars who note a paradigm shift in organizational analysis with new challenges and demands towards growth perspective. The organizations need to be more flexible, agile and adaptable to maximize opportunities existing in an environment. The traditional way of conceptualizing organizational structure was found lacking in finding new opportunities and growth. (Wang and Ahmed, 2003).

Little research concerning organization structure excellence in the Indian service sector context can be found in the literature at present. Therefore, this study seeks to provide managers and scholars with knowledge about the dimensions which is required to be understand when Indian managers design organizations for competitive advantage and facing new challenges. This study unravels the essential dimensions required for the structural architecture of organizations in several Indian service sectors for the benefit of established as well as new enterprises.

## II. LITERATURE REVIEW

### 2.1 Organization structure

Effective organization structures must be capable of responding to an emergent issue while retaining flexibility and adaptability to rapidly changing business environmental conditions (Keating Charles B, 2000). Organizational structure is defined as the set of all the ways in which the work is divided into different tasks in achieving coordination. The structure reflects the formal scheme of relationships,

communications, decision processes, procedures and systems, which allow organization to develop its functions to achieve its objectives and goals. It also reflects the way in which information and knowledge is distributed within an organization. (Martinez-Leon I. M. et al., 2011).

Organization Structure involves an internal pattern of relationships, authority and communication towards work procedures among organizational members (Thompson, 1967). The structure of an organization has two major components – formal lines of authority and communication for the flow of information among the department and group of people (Chandler, 1962). The structure of an enterprise is been influence by the flow of information and nature of human interactions among themselves for accomplishment of the task allocated (Miller, 1987). Organizational structures influence collaboration internally and externally with the stakeholders. In addition, the structure influences the methods of coordination, the allocation of power and responsibility and levels of formality and complexity (Bower, 1970). Stank et al. (1994) found that while centralized and decentralized dimension of organization structure exhibited similar capabilities in the domain of effectiveness (that is, reaching their goals) and appeared to be more efficient (that is, they used their resources efficiently). In either case, the organizational structure is believed to affect growth performance of a firm.

The structuring of the organization should be in such a way that facilitates employee productivity, growth and supports the organization in achieving their objectives and goals (Weinlaw R. A., 2008). The importance of organizational structure in various service sector depends on its effectiveness and efficient ways towards meeting individual and organizational goals. Every organization has different structure as it depends upon their internal and external environment in which they are dealing for coping up with change towards new opportunity (Chung-Jen Chen, 2010). Indeed, having a suitable organizational structure that recognizes and addresses the various business realities of the company for long-term success. In order, to design a structure that guides the behaviour of employees to achieve high levels of production, efficiency, quality, flexibility, development and satisfaction towards work. (Gibson J. L., et al. 1994).

## **2.2 Dimensions of organization structure**

The structural activities of an organization is been influenced by the dimension occurring within a firm such as formalization, centralization, specialization, and decentralization Formalization refers to the degree to which formal rules, procedure and standard policies are taken while making decisions in working relationships at organization (Tsai, 2002). Centralization, on the other hand, refers to the focus of major decision-making authority and control tied within a top management authority (Tsai, 2002). Specialization includes department of tasks and activities across positions within the organizational entity based on knowledge, skills and abilities (Tsai, 2002). Decentralization refers to the number of levels in the firm's hierarchy where power and authority of work is been divided among the different level of management. Moreover, in an organization, structuring of activities is highly loaded on formalization, specialization, and standardization relate to the size of the organization whereas concentration of authority is being loaded by centralization and lack of autonomy relates to decrease dependence (Hinings C. R. et al., 1971). Drucker's (1992) view about modern organizations having structures to pursue innovation, capture, and apply knowledge requires high degrees of decentralization for expedient decision-making in order to cope with the upcoming demands and challenge. Shavinina (2003) observed empowered multi-functional teams increases the chance that people will make more informed and effective business decisions. Moreover, formalization assists in creating discipline in work processes and the behaviours of employees, which is required for creative processes (Fairtlough, 1994) and the implementation of creative ideas for the growth of an organization in this competitive edge (Weick, 1998).

Furthermore, organizations have their own internal and external dependence where it is found that internal dependences to be more significant than external dependence on organizational structures. Internal dependence has a significant effect on both centralization and formalization. It also shows that influence of organizational size on formalization is mediated through functional specialization and the influence of technological automaticity on centralization is channelized through knowledge complexity. (Hsu Cheng-Kuang et al.,1983)

## **2.3 Factors influencing organization structure**

Structure can influence KM (knowledge management) processes through shaping patterns and frequencies of communication among organizational members, stipulating locations of decision-making and affecting efficiency and effectiveness in implementing innovative ideas. (Manhmoudselehi M. et al.,

2012). Moreover, organizational structure plays an important role by providing appropriate conditions for the development of organizational learning. The study of the different design variables (specialization, formalization, autonomy, centralization and indoctrination) allows us to deepen our understanding of different organizational learning implications. (Martinez-Leon I. M. et al., 2011). The new innovative forms of structure emphasis on how the tacit and explicit knowledge of organization can be acquired, disseminated, shared and interpreted at different levels in organizations through various mechanisms. Organizations should be structured so as to maximize the benefits of individual as well as organizational learning process (Hong J., 1999). The structuring based on higher dimension like trust – based, emotionally - inclusive and externally – oriented and informal relationship. These dimension help in energies organisation for competing on dynamic business environment. (Wang C. L. et al., 2003). Organizations are required to implement customer-oriented TQM for adopting a process network characterized by decentralization, self-management teams, reduced organizational layers and extended boundaries. It requires following a structural pattern having standardized operations to ensure reliability of the outcomes while being flexible and open to new ideas. (Naceur J., 2005). A large number of service organizations are taking strategic initiatives to implement TQM in all their activities. By initiating and implementing of TQM in a service system requires a thorough analysis of customer expectations, an analysis of the current system, process and functions; defining the quality parameters; developing systems of measurement and integrating with the business activities. With such commitment a suitable framework require for successfully implementation of TQM applied to service organizations. (Mohanty R.P. et al., 1996)

Organizational structure helps in developing the market and hierarchies' model of internal organisation in terms of medium and large firms by analysing its performance on resource allocation parameter. A major medium and large firm adopting M-form structure which is undergoing various structural reorganisation with the circumstances whereas U-form is best for small firm where the information flow is less and easily measured by divisional head in an organization (Weir C., 1995). As organizational structure also involves the alignment of resources in such a manner that help in developing and support specific logistics service innovation capabilities. It helps us to determine what dimensions of organizational structure can help a firm develop logistics service innovation capability. The impacts of three organizational dimensions – decentralization, formalization, and specialization are examined. Even it is found developing logistics service innovation capability help in improving performance (Daugherty P. J. et al., 2011). Furthermore, adoption of a JIT-selling strategy would impact the levels of integration, performance control, specialization and decentralization within an organization. It provides effective integration mechanisms between marketing and operation activities. The objective of this strategy is to deliver zero-defect products and services in the exact quantities at the precise time leads to increase performance. (Green K. W. et al., 2011).

However, the changing organizational structure required to understanding the employee reaction. It has compared two frameworks for explaining the relationship between the structural properties of organizations and employee reactions to the work and the work context.. The job-modification framework poses the characteristics of employees' jobs mediate this relationship. The attraction-selection framework suggests that the personal attributes of employees mediate the structure-reaction relationship. But the combination of both the frameworks leads to a proper analysis of set of structure, job characteristics and personal attribute of an employee (Oldham G. R. et al., 1981). The purpose of structure is to organise its employee into segment, task activities and coordinate the complex relationship into manageable state that helps in building the strong HR system and practice according to the behavioural outcome of the employee. The structural features of organization linked with its HR system and practices in order to maintain the individual and organizational outcome. Higher the involvement of organizational structure in HR system and practices leads to an excellent business performance (Ravichandran A., 2011).

### III. RESEARCH METHODOLOGY

It deals with comparative study of organization structure among service sector companies in India. The framework of the research has been the definition, factors and current issues in organization structure as per Tsai (2002) and Olson et al., (2005) has defined the dimensions (centralization, formalization, specialization and decentralization) which are being generalized for all types of service sector industry (as per the literature) and as per the requirement of present study the same categorization and dimensions is to be identified for banking, insurance and IT companies. Therefore, managerial perception is measured in a questionnaire consisting of questions on dimensions suggested by the organization

structure literature. This makes comparative study both exploratory as well as quantitative. The exploratory part is done through exhaustive literature survey to define the dimensions of organization structure. The perception of managers working in various service sectors is collected in the form of primary data hence unit of analysis is the individual manager in banking, insurance and IT companies. Non probability convenience sampling is used for the present study.

The proposed sample size for the study is 750 out of which 600 responses are found useful. The population universe is very large and spread across the country in various public and private service sector clusters. The sample is heterogeneous in the sense that the managerial positions of the respondents belong to various departments like Finance, Marketing, Human Resource, Operation and planning & development. The analyses of the responses collected are used to identify the organization structure within the defined dimension for public and private service sector in India. The four types of dimension are falling into 15 statements are been identified. For this purpose, hypotheses have been formulated and tested. The comparative study of organization structure for service sector companies in India will be done and testing of these hypotheses has been done using ANOVA techniques.

#### IV. DATA ANALYSIS

##### 4.1 Comparative study of Organization Structure among Banking, Insurance and IT companies

The ANOVA technique has been applied where mean and standard deviation has been derived from descriptive table used for comparison. Each statement is hypothesized and tested for their rejection or acceptance on the basis of p-value where p-value i.e., less than 0.05 level then null hypothesis is been rejected and if p-value i.e. more than 0.05 level then null hypothesis is been accepted.

**Table 4.1: Summary of the Hypothesis**

S.No.	Hypothesis	Service sector	Mean	Std. Deviation	F	Sig.(p-value)	Accepted/ Rejected
H1.d1	There is no significant difference between Banking, Insurance and IT Companies where all activities which are covered by well-defined procedures	public bank	4.35	0.560	2.231	0.064	Accepted
		private bank	4.11	1.035			
		public insurance	4.10	0.827			
		private insurance	4.03	0.782			
		IT companies	4.12	0.980			
H1.d2	There is no significant difference between Banking, Insurance and IT Companies where employees have power to make their own rules to achieve their goals	public bank	2.38	1.116	32.544	0.000	Rejected
		private bank	3.43	1.261			
		public insurance	2.88	1.102			
		private insurance	3.19	1.129			
		IT companies	3.84	1.037			
H1.d3	There is no significant difference between Banking, Insurance and IT Companies where employees cannot	public bank	3.98	0.679	1.189	0.314	Accepted
		private bank	4.01	0.930			
		public insurance	3.87	0.817			

	ignore the rules and reach informal agreements to handle some situations	private insurance	4.12	0.801			
		IT companies	3.96	0.861			
H1.d4	There is no significant difference between Banking, Insurance and IT Companies where rules and procedures are well written and adaptations are on periodic basis.	public bank	4.28	0.676	3.477	0.008	Rejected
		private bank	3.99	1.119			
		public insurance	4.10	0.839			
		private insurance	4.27	0.764			
		IT companies	3.97	0.900			
H1.d5	There is no significant difference between Banking, Insurance and IT Companies where they follow the hierarchy for management and communication purpose	public bank	4.26	0.494	6.132	0.000	Rejected
		private bank	4.01	0.874			
		public insurance	4.28	0.700			
		private insurance	4.35	0.651			
		IT companies	3.96	0.990			
H1.d6	There is no significant difference between Banking, Insurance and IT Companies where they follow decision-making process highly concentrated	public bank	4.11	0.591	4.0203	0.003	Rejected
		private bank	3.86	0.955			
		public insurance	4.15	0.837			
		private insurance	4.15	0.789			
		IT companies	3.86	0.928			
H1.d7	There is no significant difference between Banking, Insurance and IT Companies where employees follow responsibilities of each post are fixed	public bank	4.44	0.605	7.6655	0.000	Rejected
		private bank	3.94	1.147			
		public insurance	3.87	1.033			
		private insurance	3.95	0.795			
		IT companies	4.04	0.796			
H1.d8	There is no significant difference between Banking, Insurance and IT Companies where they have procedures	public bank	4.53	0.564	10.594	0.000	Rejected
		private bank	3.86	1.183			
		public insurance	4.02	0.756			

	for guiding, training and analysis about employees' behavior	private insurance	4.19	0.780			
		IT companies	4.00	0.925			
H1.d9	There is no significant difference between Banking, Insurance and IT Companies where company has a large number of "specialist" employees who perform well defined sets of activities	public bank	4.57	0.618	13.79	0.000	Rejected
		private bank	3.87	0.995			
		public insurance	3.85	0.903			
		private insurance	4.10	0.791			
		IT companies	3.99	0.918			
H1.d10	There is no significant difference between Banking, Insurance and IT Companies where employees are "generalists" who perform a wide variety of tasks	public bank	3.34	1.177	8.7596	0.000	Rejected
		private bank	3.81	1.040			
		public insurance	3.71	0.976			
		private insurance	3.86	0.875			
		IT companies	4.05	0.957			
H1.d11	There is no significant difference between Banking, Insurance and IT Companies where company expect that employees should be experts in the areas of responsibility only	public bank	2.67	1.286	21.079	0.000	Rejected
		private bank	3.58	1.179			
		public insurance	3.51	1.106			
		private insurance	3.79	1.116			
		IT companies	3.81	0.955			
H1.d12	There is no significant difference between Banking, Insurance and IT Companies where employees can make decisions without approval for achieving their goals	public bank	2.00	0.953	47.879	0.000	Rejected
		private bank	3.41	1.240			
		public insurance	2.80	1.341			
		private insurance	2.71	1.365			
		IT companies	3.86	1.069			
H1.d13	There is no significant difference	public bank	3.88	0.728	2.4205	0.047	Rejected



	between Banking, Insurance and IT Companies where front-line managers have flexibility in how work gets done	private bank	3.68	1.116			
		public insurance	3.76	0.750			
		private insurance	3.89	0.836			
		IT companies	3.98	0.879			
H1.d14	There is no significant difference between Banking, Insurance and IT Companies where lead managers have an authority to form rules/procedures/guidelines at their own for their department	public bank	4.21	0.934	8.0856	0.000	Rejected
		private bank	3.64	1.151			
		public insurance	3.46	1.140			
		private insurance	3.71	1.023			
		IT companies	3.83	1.017			
H1.d15	There is no significant difference between Banking, Insurance and IT Companies where the individual decision maker has wide options to accomplish goals	public bank	3.36	0.933	9.3952	0.000	Rejected
		private bank	3.75	1.245			
		public insurance	3.91	1.000			
		private insurance	4.01	1.073			
		IT companies	4.06	0.902			

## V. CONCLUSION OF THE STUDY

The analysis and discussion on findings have given the primary inputs that there exists a wide difference in structuring the activities of organization on banking/ insurance/ IT companies. The analysis has revealed a relationship between the four dimensions of organization structure i.e. formalization, centralization, specialization and decentralization with banks/ insurance/ IT companies. These relationships have shown the impact of organization structure on banks/ insurance/ IT companies. It found that insurance sector emphasis more on formalization and centralization as compared to the banks and IT sector companies. This means that formal procedures, process and rules is been implemented, this type of framework motivates relevant customers to actively participate in insurance sector as formalization affords a better communication platform. It also believes on following the hierarchy for management and communication purpose as it leads to have a defined procedure for guiding, training and analysis about employees' behavior towards making decision which is highly concentrated towards top management and reduces the chance of confusion and mistakes as compared to the banking and IT companies. IT companies believes that specialization involves employee towards doing additional searching-type inquiry for other areas before responding to change. It also encourages the participation of employees and retaining their specific abilities which favors learning, knowledge generation and efficient performance as compared to the banks and insurance sector. The relationships studied are helpful in understanding the dimensions of organization structure to be possessed and acquired by three service sector of India i.e. banks/ insurance/ IT companies.

## VI. LIMITATION OF THE STUDY

The study is done on Banking, Insurance and IT companies of service sector that has generated outcomes explaining and addressing the research questions posed in this study. The respondents for the study are people working in managerial capacities in service sector companies and they belong to various departments like marketing, finance, human resources, operations and so on thus the respondents are heterogeneous in their profiles and portfolios, this may get reflected in their responses.

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