

## **EXPLANATION OF THE RELATIONSHIPS BETWEEN DIFFERENT TYPES OF ORGANIZATIONAL STRUCTURE AND STRATEGIC CAPABILITIES OF EMPLOYEES: DESCRIPTIVE ANALYSIS**

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### **Abstract**

*This paper presents a descriptive analysis of explanation of the relationship between different types of organizational structure and strategic capabilities of employees. To this end dimensions of organizational structure are considered as: mechanical, semi-organic and organic. Also dimensions of strategic capabilities of employees are considered as: strategic value and exclusivity. Statistical population in this survey is made of all employees of manufacturing companies in industrial park of Kerman. There are 71 companies in this complex and by the use of Cochran sampling method the number of statistical sample is 342 individuals. Data gathering tools in this survey are two questionnaires, one about organizational structure and the other about strategic capabilities of employees. Validity and reliability of the organizational structure questionnaire are 0.93 and 0.914 respectively, and these two parameters for the strategic capabilities of employees questionnaire are 0.93 and 0.879 respectively. To characterization and analysis of data gathered by these two questionnaires, frequency distribution, middle and mean tables were used and all statistical analysis were performed by computer and SPSS. Data analysis showed that: by moving from mechanical organizational structure toward organic structure, strategic capabilities increase that implies a direct and positive relationship between these two parameters. As the results of survey show, in manufacturing companies in industrial park of Kerman, there is a meaningful relationship between different types of organizational structure and its two dimensions which are strategic value and exclusivity.*

**Keywords:** organizational structure, mechanical, organic, strategic capabilities of employees, strategic value, exclusivity.

### **1 Introduction**

Nowadays organizations have to be managed in a completely competitive environment which is continuously changing. In such an environment those organizations which take risk and assign decision making to the lowest possible organizational level are more successful. Therefore organizations have to be programmed in a way so that the abilities of employees can be used for achieving to their goals [1]. In recent decades so many

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organizational plans have been presented. In this period alteration and evolution of organizational structure have been the center of organizational changes [2]. To have access to competitive advantage and better performance, organizations should pay attention to unique characteristics and capabilities of employees which are among main capabilities of organizations, and on the other hand organizations have different structures and these structures affect attitudes and behaviors of employees and total organization performance [3]. Competitive advantages and unique capabilities that companies look for are skills, resources and capabilities pertain to functional level [4]. In fact, capabilities of each organization are consisted of one or a combination of organization resources and are basis of competitive advantage [5]. As the structure is determinant in resource allocation alteration in organizational structure has to be always under attention [6]. One of the factors affect the strategic capabilities of employees is the type of organizational structure. Nowadays to enter the competition world, there should be a proper organizational structure so that the competitive advantage could be created. According to the effects of proper organizational structure on individual and organizational success, this paper attempts to present a descriptive analysis of explanation of the relationship between different types of organizational structure and strategic capabilities of employees.

## **2 Problem declaration**

resources are the basis of analysis and include all inputs in the given business. financial, human, organizational and other resources provide proper conditions for creating capabilities. In fact, capabilities of each organization are consisted of one or a combination of organization resources and are the basis of competitive advantage [7]. Resources development deals with the development of human capabilities and potentials in organization and intend to provide a cultural environment in organization in which employees can bring up their potentials and capabilities so that provide future goals of organization. But, lack of appropriate planning and managing and also authorizing the mandates would cause loss of resources and organizational capabilities [8]. Organizational structure is in fact an organizational plan which elucidate the function structure and necessary information for organization and also necessary technologies to support those information and define the transition process to implement these technologies. Organizational structure means a process in which organizational activities are divided, organized and coordinated. Organizing process includes steps by which the necessary activities to achieve the organization goal are explained in detail [9].

Inaccurate organizational structure affects organization performance negatively. An efficient organizational structure would facilitate the work relationships between sections, and enable the organization to keep the order while developing flexibility and creativity. Organizational structure is one of the main concepts in formation of an organization. Organizational structure is the sample and plan of communications and cooperations between different sections in an organization [10]. Formal communication of individuals, employment status and organizational post availability of information framework, duties declaration (how to do the job), jobs declaration, developing coordination between activities are some results of designing and creating organizational structure [11]. Therefore according to above statements, this survey tends to answer to this essential question: Whether there is a relationship between different types of organizational structure and strategic capabilities or not?

## **3 Survey goals**

### **1- main goal**

Recognition and characterization of the relationship between different types of organizational structures (mechanical, semi-organic, organic) and strategic capabilities of employees.

### **2-Secondary goals**

2-1- Recognition and characterization of different types of organizational structures (mechanical, semi-organic, organic) and studying their relationship with strategic value.

2-2- Recognition and characterization of different types of organizational structures (mechanical, semi-organic, organic) and studying their relationship with exclusivity.

#### **4 Literatures review**

**A glance to the history of organizational structure:** In 1943, Robbinz in his book organization theory stated that “one of the new management considerations is about organizations with long structure and wide structure and their characteristics. Robbinz has shown that in two organizations one with long structure and small and limited control domain and the other with wide structure and broad control domain but with the same number of employees, different number of managers are needed.

**Organization:** organization is a set of elements in coordination, ordered levels and decision making units. Identification and study of these elements has been always one of the challenges organization researchers deal with [12].

**Organizational structure:** organizational structure determines individuals who work in groups in circles, and consists of systems by which all circles activities integrate [13].

**Different dimensions of organization:** different structures are formed as a result of combination of organization characteristics. Structures from the theoretical and practical point of view can be divided to:

##### **1- Theoretical structures**

**1-1-Mechanical structure:** this type of organizational structure which is usually used in industries with high rate of alteration, is in fact developing a kind of dynamic and flexible communications which regarding to industry growth and constant changes in technology and environmental turbulence can be floating and adapt to these changes. Also in this structure decision making is authorized among employees.

**1-2-Organic structure:** this is a kind of structure which is formed as a result of coordinating with environment (like a creature), but due to the nature of conditions in which this structure is used, constant evaluation and control have to be performed. Although these type of organizations have good communications with environment, but they have a relative congruent structure [3]. Mechanical structure is used for stable and predictable environments, while organic structure is used for turbulent and unsteady environments [14]. According to presented definitions about structural dimensions, it's difficult to distinguish a set of organizational structures without having a determined framework and goal [15].

##### **2-Practical structures**

Practical structures are divided to five parts by Mitenzberg.

**2-1-Simple structure:** It's stated that this structure is known by its characteristics. Simple structure is not designed precisely, it has little complexity, monitoring is performed directly and mandates are centralized.

**2-2-Machine bureaucracy:** This structure contains highest level of formality and centering. Coordination is determined by formal regulations. In this structure practical functions are constantly repeating and regulations and provisions are so formal, organizational functions are categorized in functional sections and mandates are centralized. Decision making is according

to a hierarchical base [16]. Technical section is so powerful. High level of formality is dominated through policies, procedures, regulations and provisions. Coordinating is performed through standardizing work processes [17].

**2-3-Professional bureaucracy:** This structure has an operational core consists of skillful and independent individuals. Coordinating is performed by standardizing skills, and decision making is devolved in a high extent. In this structure power is centered in operational core and the only part of professional bureaucracy which has formal regulations and provisions is supporting section.

**2-4-Sectional or branch structure:** In sectional structure power is given to senior management, because this structure is in fact a set of independent units which have machine bureaucracy structure, and altogether organizational structure reflects in each unit [16].

**2-5-Adhocracy :** This is a form of organic organization with characteristics like high compatibility, informality and decentralization. Coordinating is performed through reciprocal agreement and needs a high level of intrapersonal communications and coordinations. This structure has characteristics such as: high level of horizontal dismantling, low level of vertical dismantling. decentralization, sensitivity and flexibility. There are limited regulations and provisions in such a structure which are so flexible and inharmonious [18].

**Strategy:** the word of strategy is derived from the Greek word strategos which means army. Strategos also was used for army command [19].

**Strategic management of human resources:** In general strategic management of human resources deals with the relationships between human resources management and strategic management [20].

**Capability:** capability is an individual characteristic which can be measured and distinguishes superior employees from ordinary ones. Also capability can be characterized as a set of behavioral patterns which creates an environment in which functions can be performed efficiently [21].

**Capability dimensions:** In general it can be stated that capability has three dimensions: behaviors, skills and knowledge [22]. Beatris (1998) compares capabilities with an iceberg and believes that most of the organizations focus on technical capabilities i.e. capabilities which are tangible and can be evaluated easily. But experience has shown that under water capabilities(intangible) distinguish superior employees from ordinary ones. It means that technical capabilities (skills and knowledge) can be taught, while teaching and optimizing behavioral capabilities is so difficult [23].

**Strategic capabilities:** this concept refers to an organization ability in designing and implementing strategies which bring steady competitive advantage to company. So strategic capability is in fact the ability and capacity of choosing the best outlook to define realistic goals in order to cooperate resources and perform strategic plans.

**Strategic capabilities of employees:** This concept refers to the ability of employees in designing and performing strategies which bring steady competitive advantage to company [24].

**1-Strategic value:** strategic value is the ratio of strategic advantage obtained by the employees' expertise to all costs that organization pays off for him/her. Strategic value of

employees depends on their potential ability in providing competitive advantages or main capabilities to company [25].

**1-2-Value creation:** This is the approach that organization chooses towards all its beneficiaries particularly its customers, in which considers the customer as the center of all its activities and processes, and handle the functions in a way so that the products and services could satisfy customer needs [26]. So, final goal of any human resources manager is value creating through human resources function [27].

**2-Exclusivity:** strategic importance of employees depends on the creation of competitive differentiation, and employees' exclusivity directly affects their capability that is considered as the criterion of being a resource of competitive advantage. Exclusivity of employees is defined as the extent of their expertise that can't be alternated or imitated by the possible and indeed competitors [28]. It's stated that to obtain long term competitive advantages, outstanding resources and capabilities have to be developed. Barney proposed four characteristics in order to recognize outstanding resources and capabilities: value creating for customers, rarity among competitors, inimitability and non-substitutability [7].

**2-1-Inimitability:** Although valuable and unique characteristics of human resources generate more profit to organization in short-time, but if other organizations intimate these characteristics, as time passes, it leads to equality in competition. Human resources managers should try to develop those characteristics which can't be intimated easily [27].

**2-2-Rarity:** The value created by human resources of organization is an essential but not sufficient factor for bringing advantage. Those characteristics which are valuable but common, just lead to equality in competition. But if an organization doesn't own that special characteristic it would have a critical weak in competition.

**2-3-Non-substitutability:** Nowadays in new accounting theories human capital possesses structural resources and unique portion. Human force is considered as a great and non-substitutable capital for financial developing and political power. Societies that have used their specialities, skills and human forces have been successful in progressing and preparing relative welfare for citizens [29]. Considering strategic value and exclusivity of employees as the main strategic capabilities, these two factors define four groups of employees, among them firm specific core employees are the ones who possess both characteristics of value creating for customers and helping the organization to be distinguishable from its competitors. For example researchers in research and development sector who are the origin of innovation, value creation and competitive differentiation can be place in this group. The strategic advantages of these employees are far more than costs related to them and their knowledge and expertise is in a direct relationship with company strategies [28]. Core employees are in fact knowledge workers, and companies tend to train these kind of workers and make them achieve a high level and long term of organizational commitment so that they could have a better performance.

**2-4-Survey suggestions:** According to the main theory, survey results show that there is a relationship between different kinds of organizational structure and strategic capabilities of employees. So, it's better that companies classify their employees based on strategic capabilities and review this classification constantly and periodically and in accordance with the company strategies so that they could upgrade strategic capabilities of employees in a better way. In this regard, choosing a proper organizational structure has a large effect on retaining and upgrading the strategic capabilities of employees.

## 5 Data characterization

### 1-Quantitative characterization of survey variables

The amounts of descriptive indicators for organizational structures (mechanical & organic) and strategic capabilities (strategic value and exclusivity) variables are presented in table 1. To have a better understanding about calculated means in table 1, the scoring criteria presented below are used:

1-2.33	2.34-3.66	3.67-5
Low	Medium	High

Table 1- The amount of descriptive indicators for model variables(n=342)

Variable	dimension s	Mode	middl e	Mean	Standard deviation	skewness	elongatio n	Minimu m	maximu m
Organization al structure	mechanica l	3.5	3.2	3.2	0.7	-0.619	0.311	1.3	4.8
	organic	3.5	3.4	3.2	0.7	-0.651	-0.155	1.4	4.6
Strategic capabilities	Strategic value	3.4	3.4	3.4	0.5	-0.413	0.306	1.7	5
	exclusivity	3	3.2	3.2	0.5	-0.377	0.394	1.6	4.4
	total	3.2	3.3	3.3	0.5	0.497	0.485	1.9	4.6

### 1-1-Qualitative characterization of organizational structure variable dimensions.

Among 342 individuals in this survey, 77(22.5%) believed that organizational structure in companies belong to industrial park (Khazra 2) of Kerman is mechanical, 198(57.9%) said that it's semi-organic and 67(19.6%) evaluated it as organic. Frequency distribution is given in table 2.

Table 2- Frequency distribution of organizational structure variable

Variable	Items	Frequency	Percentage
Organizational structure	Mechanical	77	22.5
	Semi-organic	198	57.9
	Organic	67	19.6
	Total	342	100

### **1-2-Characterization of strategic capabilities variable**

Among 342 individuals, 49(14.3%) believed that strategic capabilities in companies belong to industrial park (Khazra 2) of Kerman are in a low level, 161(47.1%) said that it's in a medium level and 132(38.6%) evaluated it in a high level. Frequency distributions are given in table.

Table 3- Frequency distributions for strategic capabilities variable

Variable	Items	Frequency	percentage
Strategic capabilities	Low	49	14.3
	Medium	161	47.1
	High	132	38.6
	Total	342	100

### **2-Qualitative characterization of strategic capabilities variable dimensions**

In addition to descriptive indicators for strategic capabilities variable dimensions, scores obtained from the average of the questions about variable dimensions were classified in three low (1-2.33), medium (2.34-3.66) and high (3.67-5) levels so that a quantitative characterization of these variables could be provided. Results are shown in tables 4 and 5.

#### **2-1-Characterization of strategic value dimension**

Among 342 individuals, 58(17%) believed that exclusivity in companies belong to industrial park (Khazra 2) of Kerman is in a low level, 142 (41.5%) stated that it's in a medium level and 107 (41.5%) evaluated it in a high level. Frequency distribution is given in table 4.

Table 4 Frequency distribution of strategic value dimension

variable	Items	frequency	Percentage
exclusivity	Low	58	17.0
	Medium	142	41.5
	High	142	41.5
	Total	342	100.0

#### **2-2-Characterization of exclusivity dimension**

Among 342 individuals, 45(13.1%) believed that exclusivity in companies belong to industrial park (Khazra 2) of Kerman is in a low level, 190 (55.6%) stated that it's in a medium level and 107 (31.3%) evaluated it in a high level. Frequency distribution is given in table 5.

**Table 5 Frequency distribution of exclusivity dimension**

variable	Items	frequency	Percentage
exclusivity	Low	45	13.1
	Medium	190	55.6
	High	107	31.3
	Total	342	100

## 6 Conclusions

Today, organizations have changed their structures so that they could adapt to environmental conditions and remain in present intense competition scene .According to the main theory of this survey, results show that there is a meaningful and direct relationship between different kinds of organizational structures and strategic capabilities of employees. Organizational structure and human force are two of the bases of an organization [30]. Organizational structure doesn't create competitive advantage by itself and it is needed that structure be in balance with organization strategy. Human resources are the main strategic resource of organizations. Therefore, from the strategic capability point of view, employees' capabilities play an important role in achieving to strategic goals of organization [14]. In this regard, developing a proper organizational structure in order to manage key(core) employees of organization and enhancing their competitive ability is one of the effective factors in developing employees' capabilities. As mentioned in chapter 2, key forces are in fact core workers who have high strategic capabilities and create constant competitive advantage, because they have both strategic value and exclusivity simultaneously. Lawler mentioned in his surveys that organizations which focus on human capitals are less oriented to hierarchical and control structures and more to flat and self-control structures [31]. Peter sange states in his book (Fifth command): "structure, often affects human behavior in an extent beyond our expectation" .According to the first theory, results show that there is a meaningful and direct relationship between different kinds of organizational structures and strategic value. Also results show that in the organizations studied in this survey, by moving from mechanical organizational structure towards organic structure, strategic value increases. As the employees' strategic value refers to their potential capability in obtaining competitive advantages for the organization, so organizational structure can be an important factor in increasing employee's capabilities [7]. Human force in an organization can bring two achievements: added value and competitive advantage. Today, the present difference in human resources that leads to creation of competitive advantage is that individuals' inputs like education, knowledge, experience, intelligence and etc. have been changed to outputs. In this regard if you consider the output of human resources (capability and competency) you would see that how an individual can create value for the organization [34]. According to the second theory there is a meaningful linear relationship between different kinds of organizational structure and exclusivity, and according to this fact that the coefficients are positive, so there is a direct relationship between two variables. Again by moving from mechanical organizational structure toward organic structure, exclusivity increases. The only unique advantage of an organization that is inimitable is human force. Human resources possess a great portion of organization competencies. Strategic importance of employees mostly depends on creation of competitive differentiation and employees' exclusivity directly affects



their capability according to which they could be considered as a resource of competitive advantage [28]. Employees' exclusivity is defined as the extent of their expertise that is non-substitutable and can't be imitated by competitors [7]. Intense controlling by the senior manager has a negative effect on the knowledge workers (core workers) and expert workers and leads to loss of these individuals. Therefore Iranian organizations and companies have to think about changing their structure. Organic structure is a structure in which organization is considered as a creature. Basic members in organization are workers and after passing growth steps started from mechanical step decision making affairs are performed by workers as groups and committees of problem solving (but final decision is made by senior management). In this structure, as the organization has defined its position among others and firmed it, and because it has no trouble with competitors, so pays a great deal of attention to employees [32]. human force due to contemplation and innovation power is one of the most important factors in any organization. Utilization of intellectual ability and other capabilities of employees which are named latent capital, needs the creation of a structure which can organize the capabilities, talents, special skills, innovation and specialities of employees in order to bring about current and future goals of the organization [33]. So, in order to increase employees' capabilities, organization should consider its internal structure carefully. Because a flexible competitive structure can enhance individual and organizational capabilities in coping with potential environmental issues, because traditional organizational structures can't adapt to new changes any more [11].

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