MANAGEMENT & MARKETING

Volume XIII, issue 1/2015

The views expressed in these articles are the sole responsibility of the authors

Members of the Reviewers Body

INTERDEPENDENCIES OF THE INTERNAL / MANAGERIAL CONTROL STANDARD NO. 6 - ORGANIZATIONAL STRUCTURE

Lecturer PhD Ionut-Cosmin BĂLOI
University of Craiova, Romania
Email: michellebrave@gmail.com
Professor PhD Sorinel DOMNIŞORU
University of Craiova, Romania
Email: domnisorusorin@yahoo.com

Abstract:
Our initiative of analyzing the internal control standard which deals with the organizational structure comes from the observations on the significance of these essential aspects of modern management and on the sensitivity with which this standard is treated in most of the public institutions considered representative for the Oltenia region. Although the administrators of public institutions strive to optimize the systems of internal/managerial control, they frequently face many issues concerning the misunderstanding of these standards, vaguely explained, for example throughout some guidelines or other documents. The hypothesis of our study is that most of public institutions face gaps in understanding, interpreting, adapting and implementing an effective model of organizational structure, and the causes are due to the lack of an interdependent, correlated approach of the pillars that support the internal/managerial control system: the 25 standards required by the Romanian legislation. Our study critically describes the superficial approach founded in the self-evaluation reports of the public institutions, if we refer only to the conformity of the organizational structure and the four standards that we consider inextricably related with this internal/managerial control standard. From the methodological point of view, our study tests the correlation between the level of compliance of these standards and the functionality of the system composed by them in the public organizations that we have investigated.

Keywords: internal and / or managerial control, organizational structure, attributions-functions-tasks, coordination, communication, attributions separation

1. Introduction

The Romanian public institutions are often criticized by citizens, media and international organizations for their bad organization and inefficiency. Consequently, the solution of improving the internal / managerial control system comes as a fair, imperative and crucial option. Henry Mintzberg himself, the management science guru, preaches this solution in a recent article (published in 2011 in the Harvard Business Review, referring to the public health system of the United States of America) recommending the strengthening of the social networks and systems inside the organizations.

Whereas our study deals throughout its all pages with the issues of organizational structure, it is

necessary to delimit this management phenomenon and conceptual framework of the whole construction of the profitability. The management literature gives to organizational configuration a privileged position in the hierarchy of managers' priorities, considering it one of the most important parts of the intangible capital, or the core element of any business model.

The basic concepts of the organizational design - defined by Robbins and DeCenzo (2008, p. 132) as a process in which managers develop or modify the structure of the organization - were made in the early 1900s by the representatives of the classical school of management, who set out the general principles of the scientific organizing. In *New era of management* (2010, p.244), R. Daft captures the broadly essence, the holistic aspect of the organizational structure functionality: "the framework in which the organization defines how tasks are divided, resources are deployed and departments are coordinated".

Encyclopedia of Management describes the role of organizational structure similar to the definition given in Romania's law for the internal control system: "organizational structure refers to the way that an organization arranges people and jobs so that its work can be performed and its goals can be met. In any organization, the different people and functions do not operate completely independently. To a greater or lesser degree, all parts of the organization need each other. Important developments in organizational design in the last few decades of the twentieth century and the early part of the twenty-first century have been attempts to understand the nature of interdependence and improve the functioning of organizations in respect to this factor. One approach is to flatten the organization, to develop the horizontal connections and de-emphasize vertical reporting relationships. At times, this involves simply eliminating layers of middle management" (Encyclopedia of Management, 5th ed., 2006, Thomson Gale, Detroit, pp. 629-634).

Both in public management and private management, today the focus is on people and relationships (processes and projects), starting of course from the organizational structure elements. The good practices proved successful in the private management in the recent decades and are transferred today to public institutions; and the Romanian public organizations tend to adapt, also in terms of their structural organization.

In the main part of our research - the statistical analysis - we will test the following hypothesis: the achieving of full compliance of the organizational structure standard depends of the relevance and the functionality of coordination and communication within organizations, the quality of the attributions-functions-tasks system, respectively of the relevance of the attributions separation.

The assumption that we presume from the start of the study and that we intend to test is that the employees of public organizations and, in particular, the managers do not understand and do not pay enough attention to the process of developing organizational structure, respectively they not support the optimal dimensioning and the dynamic adaptation of the elements making up the organizational structure.

2. Methodology

This research is incumbent upon a larger project which examines the internal/managerial control systems developed within the public organizations of Oltenia. From all the public institutions, we have selected in the first semester of 2014 a total of 58 organizations which have received a questionnaire on the issue of internal/managerial control.

The sample that we've studied was heterogeneous, including local and

county government institutions (a prefecture and several municipalities), three clinical hospitals, safety units (a Gendarmerie headquarters, three police stations and one fire station), educational institutions (two universities and ten secondary or high schools) and cultural institutions (a Museum, one Theater and a municipal Library), General Departments (of which they responded to the questionnaire the General Directorate of Public Finance, the County Direction of Pensions, the Health Insurance House etc.). We sampled six offices and county bureaus (Office for Consumer Protection, Bureau of Cadaster and Cartography), legislative institutions (some courts and the Court of Appeal) two transport units (Public Transport Company and the Airport) and other departmental bodies (The Youth and Sports County Office, Public Health Department, Forestry Department, Customs Directorate, Directorate for Statistics etc.).

Of the 58 questionnaires that we sent, we received 42 completed with the answers given by the representatives of the organizations which we addressed. The responses came from a range of heterogeneous institutions. The response rate is reasonable (72%), although not extremely high: we can interpret this value like a certain reluctance from the part of the recipients to whom we addressed during the investigation that we initiated.

3. The statistical analysis

Given the systemic nature of the internal control, we consider justified our initiative to test the validity of the hypothesis concerning the dependence between the organizational structure and the conformity level of other standards of internal / managerial control. Given this purpose, we selected four internal control standards whose correlation with the elements of the organizational structure, at least in theory, should be extreme: standard number 2 - Attributions, functions, tasks;

9th standard - Coordination; 13th standard - Communication and 18th standard - Attributions separation.

The next step of our research was to verify the correlation between the standards of internal / managerial control. The method by which we wanted to investigate the extent to which public organizations develop their structural organization in interdependence with other standards was an interrogative one by using some key questions of a more detailed questionnaire. We quantified the relationship of dependence between responses given for the next five of the key questions of the questionnaire applied to public institutions in the sample:

- The no 6 standard – Organizational structure was studied by using the question: *To what extent the actual configuration of the organizational structure ensures the smooth functioning of all subdivisions, contribute to achieving the organization's mission and is a strength of your unit?*

- We investigated the quality of the Attributions, functions, tasks system asking the next question: *Do you think that the distribution of attributions, functions and duties satisfies the quality and the compliance with the expertise and the completeness criteria within the organization?*

- Standard no. 9 - Coordination was revealed by using the question: *Is there convergence and consistency in the decisions and actions of the institution, everything being based on internal consultations among all organizational elements?*

- The quantification of 13th standard - Communication was performed by using the question: *Are they initiated, maintained and developed appropriate communication channels through which organization's managers and staff fulfill their duties and responsibilities?*

• We also test the compliance of no 18 standard based on the question: *The Separation of attributions and responsibilities between several positions and departments create the prerequisites for an effective balance of the power in your institution?*

Naturally, our model examines the dependent variable - Organizational structure and those cause-variables represented by the last four of these questions. The response options were the same for all the five questions: 1-strongly disagree; 2-small extent; 3-neutral response; 4-agree; 5-strongly agree.

The following research's step that followed the recording and the processing the questionnaires (of the 42 valid ones) was to determine the correlation coefficients between the four relevant variables and the dependent variable. More specifically, we tested the R-Pearson bivariate correlation and the ranks correlation ρ – Spearman. The rank-correlation coefficient is not truly recommended for those ordinal scales with few categories (having five intervals, in our questionnaire) - generally offering too many cases of

equivalence between answers. Therefore, we considered appropriate to use the γ (gamma) coefficient. Gamma is a coefficient of association (also called the Goodman-Kruskal coefficient) which measures the frequency of the concordant and discordant pairs between the answers given by the sample respondents.

Table no. 1 summarizes the results of the statistical analysis and presents the results obtained by processing the three coefficients. Following the arithmetic values, we find similarities between the correlation indicators, even if the most pertinent and relevant of them is, for our situation, the Gamma coefficient.

The information in the table, namely the values of the three coefficients indicate the direction and the strength of the correlation between the analyzed variables. Conventionally, the coefficients can take values in the interval [-1, 1]; if the values are closer to the ends of this range, the correlation is stronger: direct correlation when the values are close to 1, reverse correlation when approaching to -1.

Table n° 1

The results of the statistical analysis

				Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Symmetric Measures							
Organizat_Str* Atrib_funct_ tasks	Ordinal by Ordinal	Gamma		,879	,069	5,202	,000
		Spearman Correlation		,627	,088	5,369	,000[c]
	Interval by Interval	Pearson's R		,659	,083	5,853	,000[c]
	N of Valid Cases			42			
Symmetric Measures							
Organizat_Str* Communicat	Ordinal by Ordinal	Gamma		,616	,120	4,244	,000
		Spearman Correlation		,485	,104	3,506	,001[c]
	Interval by Interval	Pearson's R		,473	,099	3,392	,002[c]

	N of Valid Cases		42			
	Symmetric Measures					
			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Organizat_Str* Coordination	Ordinal by Ordinal	Gamma	,972	,022	8,579	,000
		Spearman Correlation	,771	,066	7,645	,000[c]
	Interval by Interval	Pearson's R	,759	,059	7,368	,000[c]
	N of Valid Cases		42			
	Symmetric Measures					
			Value	Asymp. Std. Error[a]	Approx. T[b]	Approx. Sig.
Organizat_Str* Attrib_separat	Ordinal by Ordinal	Gamma	-,067	,244	-,273	,785
		Spearman Correlation	-,042	,154	-,266	,791[c]
	Interval by Interval	Pearson's R	-,020	,153	-,128	,899[c]
	N of Valid Cases		42			
	a. Not assuming the null hypothesis. **b. Using the asymptotic standard error assuming the null hypothesis.** **c. Based on normal approximation.**					

Source: authors' analysis by using the SPSS statistical software, 22nd version.

In the statistical analysis, the assessment of the correlation between variables should consider the significance threshold (Sig.). In practice, it is used a maximum significance level of .05, the lower values being interpreted as statistically significant coefficients. Predictably, between the organizational structure and most of the standards that we have analyzed in correlation it is a solid level of the significance threshold. But we can clearly see in table no. 1 a flagrant lack of significance in the symmetry case between the attributions separation (causal variable) and organizational structure (resulting variable). Moreover, regarding this combination we can also see the total lack of correlation (confirmed by the close to zero values for each of the three coefficients). The Sig. values calculated for each of the other three combinations of variables (<0.01 in our study) indicates that there is a strong correlation between the relevance and sustainability of the structural organization in the public institutions and the quality of the other three variables of the internal / managerial control system.

Table no. 1 shows appreciable values of Goodman-Kruskal test in the case of three associations between the variables. There is a strong correlation between the organizational system stability of public entities and the management of attributions, functions and tasks ($\gamma = .879$), also between the organizational structure and the organizational coordination between the stations and departments ($\gamma = .972$). The symmetry of the organizational structure with the other two determinant-variables is partly confirmed by the values of Spearman and Pearson correlation coefficients (more close to the positive end of the range [-1, 1]).

The symmetry coefficient close to the ideal value for the parameters organizational structure and, respectively, coordination could be explained by the fact that the investigated institutions have a considerable age; they have a well crystallized organizational culture; they are carefully controlled being credit release authority and their subdivision's activity must be harmoniously organized in time and space (it couldn't be otherwise if we take, for example, the clinical hospitals with their emergency departments, the police and gendarmerie, the Department of Statistics or the General Directorate of Public Finance). Regarding the importance of coordination, Richard Daft points out that "Ensuring coordination across departments is just as critical as defining the departments to begin with. Without the effective coordination systems, no structure is complete" (2010, p.244).

A reasonable level of bivariate correlation is found when we analyze the combination Organizational structure ÷ Communication ($γ = .616$). The respondents are aware of the inconstancy of the work efficiency inside their organizations and, directly of the quality of services provided to society. The most of the discrepancies are caused by bureaucratic reasons. These cases include communication problems, real into the old institutions, with their old staff, centralized management, large number of employees and departments, wide procedures and a very high level of formalism throughout the organization, the functioning, authorization and decisions' transmission. Even if in the normal conditions the achievement of organizational communication should not be a stumbling block (in private enterprises it is not), the public institutions can highlight some delays, bottlenecks, failures, confirmed by the estimated correlation between the communication and the organizational systems, investigated through our work.

4. Deficiencies in the structural organization of the public institutions

To make relevant comments, we have carefully observed the public institutions that were the subject of our study. Many of the new managers of public organizations come up with a fair and realistic vision of how to arrange the structural organization of their new subordinated institution, but they really take rarely a personal commitment to implement this vision, given the huge effort needed for the structural changes and the strong change resistance manifested in almost every public institution.

A positive aspect that we have noticed in all the investigated organizations is the development and approval of the job descriptions in accordance with legal regulations (drafting and signing it yearly by each employee).

Into the small public institutions (especially cultural and educational entities) we have found the existence of outdated organizational charts, the number of organizations which do not publish this document being higher. The lack of organizational charts on the Internet portal of institutions is explained, in our opinion, with the fears of the responsible: the publication may generate complaints from third parties that may contest the entirely management system of the organizations. A more serious aspect of this situation is that the organizational charts aren't promptly communicated to the staff of the institutions, which may cause disruptions in the transmission of decisions, the reluctance to control and can generate the feeling of lack of transparency and confidence among employees.

Another document that supports the structural organization of the public bodies is the 'Rules and regulations' (in