

## **Functional Structure and Effectiveness of Oil Servicing Companies in Port Harcourt, Nigeria**

**Egbuonu, Hilda Ayeowueke**  
Department of Management,  
Faculty of Management Sciences,  
Rivers State University,  
Nkpolu-Oroworukwo, PMB 5080,  
Port Harcourt, Nigeria.

**Oparanma, A. O. (PhD)**  
Lecturer, Department of Management,  
Faculty of Management Sciences,  
Rivers State University,  
Nkpolu-Oroworukwo, PMB 5080,  
Port Harcourt, Nigeria

---

### **Abstract**

*This study focused on the relationship between functional structure and effectiveness of oil servicing firms in Port Harcourt. The study adopted a cross sectional survey method. The sampling frame consists of 190 management staff of 4 oil servicing companies. Primary data was obtained using questionnaire as the research instrument. The inferential and descriptive statistical tools were used in the analysis of data for the study. The Spearman Rank Order Correlation coefficient ( $r$ ) was utilized to test the hypotheses. The study confirmed that there is a significant positive relationship between divisional structure and effectiveness of oil servicing companies in Port Harcourt. The study concludes that divisional structure has a high level of impact on organizational effectiveness in selected oil servicing companies in Port Harcourt. The study recommended that oil servicing companies should carry out proper organizational structure forecasts and use these forecasts as strategic premise taking into consideration the internal and external environments, feasibility and implementation of the forecast.*

---

**Key Words:** *Functional Structure, Organizational Effectiveness, Sales Volume, Growth*

---

### **Introduction**

As competition continues to increase, organizations are being continuously forced to find ways to improve organizational effectiveness and to obtain competitive advantage in order to achieve the predetermined goals. The study of organizational effectiveness has long been the province of those in management sciences. In the recent years, however, work place consultants and strategist have become increasingly interested in designing physical environment that promote organizational success. Therefore, organizations are looking beyond the traditional boundaries of a firm to obtain performance improvement. Organizational effectiveness refers as the efficiency with which an association is able to meet its objectives, and its measure is generally expressed in terms of how well its net profitability company with its target profitability.

According to Jones and George, (2004), effectiveness is a leader's ability to achieve desired results. How well he applies his skills and abilities in guiding and directing others and

determines, whether he can meet those results effectively. An effective organization can be defined broadly as one that achieves the purpose by meeting wants and needs of the stakeholders, matching its resources to opportunity, adapting flexibly to environmental change and creating a culture that promotes commitment, creativity, shared value and mutual trust. Organizational effectiveness captures organizational performance, plus the myriad internal performance outcome normally associated with more efficient or effective operations, and other external measure that relate to consideration that are broader than those simply associated with economic valuation (either by shareholders, managers, customers etc). Richard, (2009), in order words, defined organizational effectiveness the degree to which, organization attain its goals.

Organizational structure refers basically to how job tasks are formally divided, grouped and coordinated. Organizational structure is often reflected in the organizational chart, which is the visible representation of all the activities and process taking place in the organization, just as John Child (1984), splited organizational structure into three elements, which include: hierarchies and span of control, grouping into different department and interactions among organizational members.

Every organization of a given type must perform certain jobs in order to do its work. For example, key functions of a manufacturing company include production, purchasing, marketing, accounting, and personnel. Using such functions as the basis for structuring the organization may, in some instances, have the advantage of efficiency Reference for Business (2012). Grouping jobs that require the same knowledge, skills, and resources allows them to be done efficiently and promotes the development of greater expertise. A disadvantage of functional groupings is that people with the same skills and knowledge may develop a narrow departmental focus and have difficulty appreciating any other view of what is important to the organization; in this case, organizational goals may be sacrificed in favour of departmental goals. In addition, coordination of work across functional boundaries can become a difficult management challenge, especially as the organization grows in size and spreads to multiple geographical locations.

This study therefore seeks to examine the relationship between functional structure and organizational effectiveness of oil servicing companies in Port Harcourt. It also seeks to provide answers to the following research questions:

- i. What is the relationship between functional structure and sales of oil servicing companies in Port Harcourt?
- ii. What is the relationship between functional structure and growth of oil servicing companies in Port Harcourt?

## **Literature Review**

### **Theoretical Foundation**

The review of related literature presents a detailed assessment of the contributions of previous research in the investigation of the relationship between the study variables (organizational structure and organizational effectiveness). The attribution theory (Martinko, 2002) is considered adequate in explaining and predicting the relationship between the variables. The attribution theory is concerned with the study of the procedure whereby individuals draw up conclusions of causes and effects in response to the results of their observation. The theory is based on Heider's notion (cited in Martinko, 2002) that people have a natural tendency to be naïve psychologists and as a result effort to define the causes of events that are essential to them. A broad array of fundamental attributions can be made, but

attributions that concerns ability, effort, safety and luck as well as task complexity are among the most common. However, one notable feature of this theory is that attributions do not certainly show one's objective reality as with all other perceptions. Different individuals have expressed their tendencies systematically, that is attribution styles, to make certain for results or consequences across both time and circumstances (Martinko, 2002, Gundlach, et al, 2002). These tendencies are most probably to influence attributions in circumstances surrounded by high levels of ambiguity, where the causes of outcomes are unclear.

According to Weiner (1985) attributions are connected to effective outcomes (e.g. love, attachment, safety). To be specific, emotions are seen as reactions to the causal evaluations made by individuals in reaction to manifestations or experiences (Weiner, Graham, & Chandler, 1982). Concerning the locus of causality dimension, individuals that create an internal attribution for a non-positive manifestation, such as "failing because they are unintelligent", have a higher tendency for experiencing shame. On the other hand, if a non-positive result is attributed externally to an additional person, element or factor, the resultant emotion is most probable to be anger or frustration toward that individual, element or factor (Weiner, 1985). He further opined that research has revealed that the perceived consistency of causes can have an effect on emotional responses, assuming that their impact on individuals' expectations for the outcome in the future. In case of non-positive outcomes, stable attributions can aggravate the non-positive effect of internal attributions on emotion. This result from the fact that the cause of non-positive outcome is not by thought only to be the self, but also very rigid and difficult to amend or change, implying that the same non-positive outcome may likely occur again in the future. Contrariwise, unstable attributions for non-positive outcomes are probable to weaken the non-positive effect of internal or external attributions on emotions as a result of the perceived cause (such as level of effort, behavior or actions of another) may possibly not be present in future efforts at the relationship or in the task completion (Martinko, 2002).

### **Functional Structure**

A functional structure is one of the most common organizational structures. Under this structure, the organization groups employees according to a specialized or similar set of roles or tasks. While functional structures operate well in stable environments where business strategies are less inclined to changes or dynamism, the level of bureaucracy makes it difficult for organizations to respond to changes in the market quickly specialization. When companies used a functional organizational structure, people with similar knowledge and skills are grouped together. This makes it possible for employees to become specialists in their field. It requires a performance management system that allows for the promotion, development and visibility of individual skills within their functional area. The specialization that functional structures help to bring about in-depth knowledge and skill development among the employees, and this can help you achieve your company's functional goals.

### **Strength: Productivity**

Specialization leads to operational efficiencies and enhances productivity levels. Because of their expertise, workers with specialized skills can perform tasks quickly, efficiently and with more confidence, thus reducing the occurrence of work-related mistakes. In addition, the clear nature of the career path within the functional unit makes it possible for employees to be highly motivated to advance their careers as they move up within the hierarchy.

The main goal of functional structures in organizations is to bring the entire human and informational resources together to meet the organization's goals. This can be an ideal structure for small businesses that focus on one product or service because you can maximize

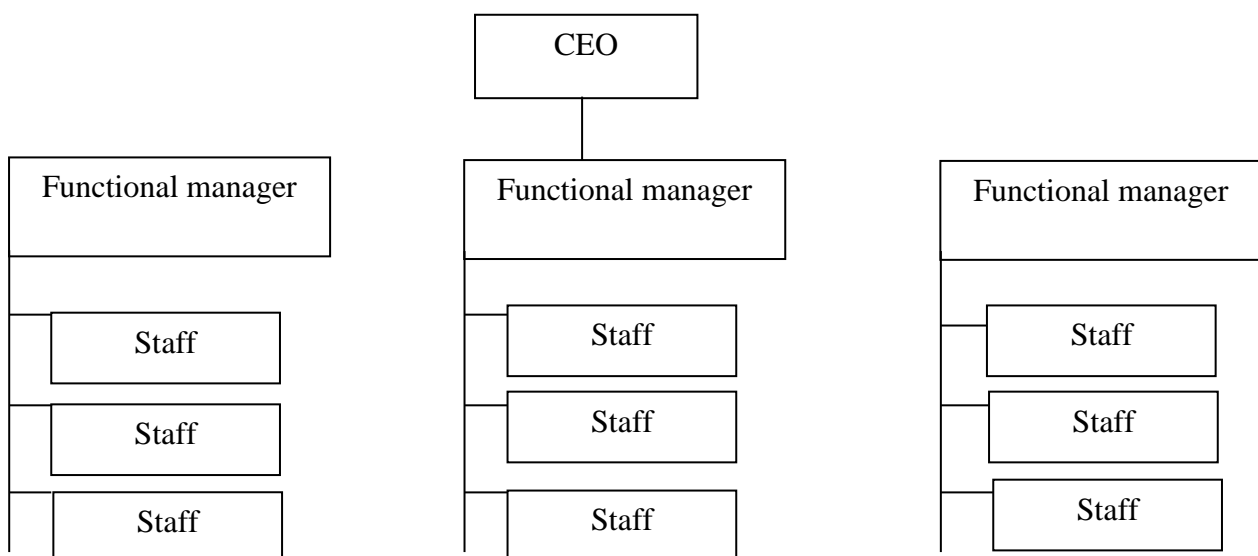
performance by encouraging peer cooperation among different units at various levels of management through supervision and coordination.

### **Weakness: management Issues**

Communication in organizations with functional structures can be rigid because of the standardized ways of operation and the high degree of formalization. This can further make the decision-making process slow and inflexible. Since it is more bureaucratic, functional units are often not accountable to each other, and poor horizontal coordination within the departments can occur. Lack of innovation and restricted views of organizational goals, along with too much focus, can affect employees' motivation. As your company grows and you create more functional units, the level of autonomy within units might increase, making it difficult for you to coordinate all the units efficiently.

As a whole, a functional organization is best suited as a producer of standardized goods and services at large volume and low cost. Coordination and specialization of tasks are centralized in a functional structure, which makes producing a limited amount of products or services efficient and predictable. Moreover, efficiencies can further be realized as functional organizations integrate their activities vertically so that products are sold and distributed quickly and at low cost. Raymond E. Miles, Charles C. Snow, *Causes of Failure in Network Organizations*, California Management Institute, a small business could make components used in production of its products instead of buying them.

The organization is divided into segments based on the functions when managing. This allows the organization to enhance the efficiencies of these functional groups. As an example, take a software company. Software engineers will only staff the entire software development department. This way, management of this functional group becomes easy and effective. Functional structures appear to be successful in large organizations that produce high volumes of products at low costs. The low cost can be achieved by such companies due to the efficiencies within functional groups. In addition to such advantages, there can be a disadvantage from an organizational perspective if the communication between the functional groups is not effective. In this case, the organization may find it difficult to achieve some organizational objectives at the end.



## **Organizational Effectiveness**

The study of organizational effectiveness has long been the province of those in management sciences. In the recent years, however, work place consultants and strategists have become increasingly interested in designing physical environment that promote organizational success. Therefore, organizations are looking beyond the traditional boundaries of a firm to obtain performance improvement. Organizational effectiveness refers as the efficiency with which an association is able to meet its objectives, and its measure is generally expressed in terms of how well its net profitability compares with its target profitability.

According to Jones & George, (2004), effectiveness is a leader's ability to achieve desired results. How well he applies his skills and abilities in guiding and directing others and determines, whether he can meet those results effectively. An effective organization can be defined broadly as one that achieves the purpose by meeting wants and needs of the stakeholders, matching its resources to opportunity, adapting flexibly to environmental change and creating a culture that promotes commitment, creativity, shared value and mutual trust.

Organizational effectiveness captures organizational performance, plus the myriad internal performance outcomes normally associated with more efficient or effective operations, and other external measures that relate to considerations that are broader than those simply associated with economic valuation (either by shareholders, managers, customers etc). Richard, J.P. (2009), in other words, defined organizational effectiveness as the degree to which an organization attains its goals.

Drucker, (1977), added that effectiveness involves doing the right thing to move the organization closer to its predetermined or announced objective. Effectiveness is a measure of the appropriateness of the goals that managers have selected for the organization to pursue. Organizations are effective when managers choose appropriate goals and then achieve them.

## **Measures of organizational effectiveness**

### **Sales Volume**

This refers to the extent to which sales increase over time as a result of customer satisfaction and loyalty, the quality of customer relationship building and proper harnessing of other customer service practices. Sales volume plays a key role in the profit level of any organization. Sales volume is one of the financial measures of business performance/patronage. Sales volume is either measured in total naira or number of units sold. Higher sales volume always reflects in higher profit margin or increasing demand and the number of units sold. Sales volume could be seen as the quantity or number of goods sold or services offered in the normal operations of a company in a specified period.

However, sales effectiveness covers amongst other short and long term sales profits, customer loyalty and satisfaction. Sales volume can be used to ascertain the level of sales force effectiveness and competence. The two basic things businesses do in any economy are the production of goods and services and the marketing of those goods and services (Futrell 1991). The success of a society's marketing system depends on the ability of individuals in organizations to identify and respond promptly to customer needs effectively and efficiently (Bearden *et al*, 1995). The role of marketing in an organization is basically to generate sales for the organization (Futrell, 1991). And these sales are generated whether the company is product or service oriented. However, the efficient performance of these marketing activities cannot be performed without the use of salesperson, who may be assigned specified quotas.

or targets to achieve. These targets are further translated into sales volumes and increased profit margin. Marketing activities are therefore very important to the organization because sales must be generated for the organization to avoid entropy.

### **Growth**

Firm Demography concerns the different stages in a firm's life cycle. Firms appear in the market, survive, grow and eventually die, transferring their knowledge and information to surviving firms. In this sense, firm size reflects how the firm evolves and adapts to its environment. Changes in size are therefore extremely important events in Firm Demography (Wissen, 2002). Firm growth has been one of most widely studied topics in economic literature. Several arguments highlight the crucial importance of this field. First, firm growth is related very closely to firm survival. Specifically, firm growth is positively correlated with the likelihood of survival. Hence firms that experience continuous growth will have a higher probability of surviving in the market. Second, firm growth has consequences for employment. A positive rate of growth implies a net creation of new jobs, while a negative rate implies the net destruction of jobs. Job creation and job destruction are closely related to the ability of incumbents and new entrants to grow. And, obviously, the evolution of employment therefore has obvious impacts on government budgets.

### **Functional Structure and Organizational Effectiveness**

Functional structure is very significance as far as the growth of the firm is concerned. First functional Structure, according to Jones (2007) it groups people together on basis of their common expertise and experience or because they use same resources thus expertise and use of same resources can result in high quality products at competitive prices. Plus it offers employees a chance to learn from each other and become more specialised and productive thus helping organisation spend less on training and endorse development of norms, values, and group cohesiveness that promote high performance which helps in building loyalty and commitment thus contributing to organizational efficiency.

Baxter (2007) pointed to practical contribution functional structure can make in successfully diminishing risk, through looking at fundamental issues about how business runs profitably, Structure assessing who does what and ensuring they are skilled or experienced for the job. Doing this, business will get most appropriate people who undertake activities for which they have skills, improving skills where needed, and empowering staff to understand responsibilities attached to each role.

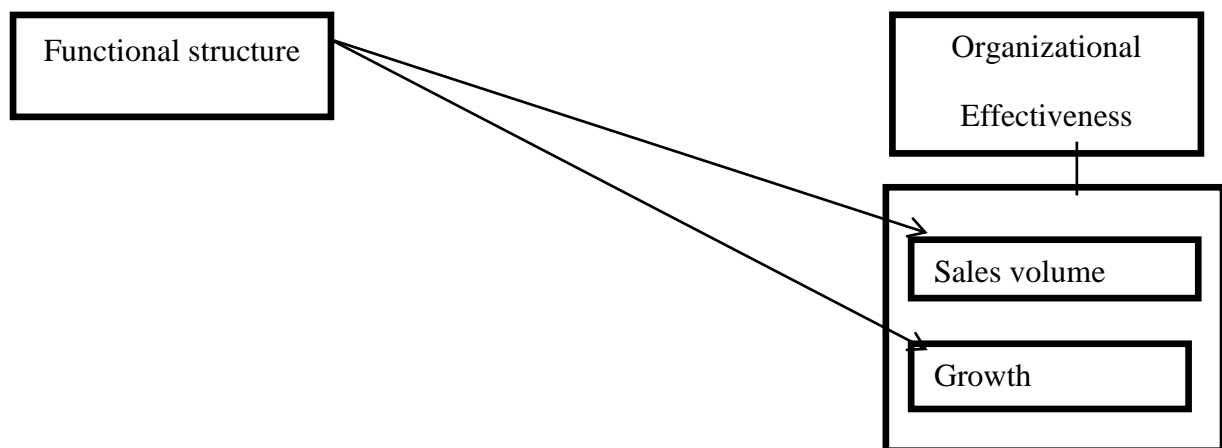
According to Campbell *et al.*, (2005) Functional structures are employed by organizations based on single site, disadvantages arise when organization grows in size and complexity resulting in coordinating and control problems between different functions meaning that different functions might develop their own targets and fail to integrate individual and corporate goals. An obstacle to organizational effectiveness identified by Jones (2007) is measurement problems associated with functional structures, since it's difficult to associate Functional costs with individual products, or contribution of each function to overall product profitability making it difficult to reward on positive recognition. Employee within the functional divisional of an organization tend to perform a specialized set of tasks, for instance, the engineering department would be staffed only with software engineers. This leads to operational efficiencies and growth within that group. However, functional organization is best suited as a producer of standardized goods and services at large volume. Coordination and specialization of tasks are centralized in a functional structure, which makes it producing a limited amount of products or servicing efficient and grow. Moreover,

efficiencies can further be realized as functional organizational integrate their activities vertically, so that product are sold and distributed quickly at a low cost.

The foregoing understanding this study hypothesised thus:

**H<sub>01</sub>:** There is no significant relationship between functional division and sales volume of oil servicing companies in Port Harcourt.

**H<sub>02</sub>:** There is no significant relationship between functional division and growth of oil servicing companies in Port Harcourt.



**Fig.1 Operational Framework for the hypothesized relationship between functional structure and organizational effectiveness**

*Source: Author's Desk Research, 2017*

### Methodology

The study used a cross sectional survey research. The sampling frame consists of 190 management staff of 4 oil servicing companies. Primary data was obtained using questionnaire as the research instrument. The inferential and descriptive statistical tools were used in the analysis of data for the study. The Spearman Rank Order Correlation coefficient (r) was utilized to test the hypotheses. Primary data was obtained using questionnaire as the research instrument.

**Table 3.2: Cronbach's Alphas of the Study Variables**

No. of Items	Variables	Alpha ( $\alpha$ )
5	Intellectual Stimulation	0.64
4	Vigor	0.65
3	Dedication	0.67
4	Absorption	0.60

*Source: SPSS Output based on 2017 field survey data*

### Results and Discussions

#### Bivariate Analysis

The secondary data analysis was carried out using the Spearman rank order correlation tool at a 95% confidence interval. Specifically, the tests cover hypotheses Ho<sub>1</sub> to Ho<sub>3</sub> which were bivariate and all stated in the null form. We have relied on the Pearson Product Moment Correlation Coefficient to undertake the analysis. The 0.05 significance level is adopted as

criterion for the probability of either accepting the null hypotheses at ( $p>0.05$ ) or rejecting the null hypotheses at ( $p<0.05$ ).

**Table 1: Correlation for matrix for functional structure and measures of organizational effectiveness**

			Functional Structure	Sales Volume	Growth
Spearman's rho	Functional Structure	Correlation Coefficient	1.000	.799**	.636**
		Sig. (2-tailed)	.	.000	.000
		N	144	144	144
	Sales Volume	Correlation Coefficient	.799**	1.000	.637**
		Sig. (2-tailed)	.000	.	.000
		N	144	144	144
	Growth	Correlation Coefficient	.636**	.637**	1.000
		Sig. (2-tailed)	.000	.000	.
		N	144	144	144

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

*Source: Research Data 2017, (SPSS output version 21.0)*

Table 1 illustrates the test for the two previously postulated bivariate hypothetical statements. The results show that for:

**Ho<sub>1</sub>: There is no significant relationship between functional structure and sales volume**

From the result in the table above, the correlation coefficient (rho) shows that there is a significant and positive relationship between functional structure and growth of oil servicing companies in Port Harcourt. The rho value 0.799 confirms the magnitude and strength of this relationship and it is significant at  $p\ 0.000<0.01$ . The correlation coefficient represents a high correlation indicating also a strong relationship. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between functional structure and growth of oil servicing companies in Port Harcourt.

**Ho<sub>2</sub>: There is no significant relationship between functional structure and growth**

From the result in the table above, the correlation coefficient (rho) shows that there is a significant and positive relationship between functional structure and growth of oil servicing companies in Port Harcourt. The rho value 0.636 confirms the magnitude and strength of this relationship and it is significant at  $p\ 0.000<0.01$ . The correlation coefficient represents a high correlation indicating also a strong relationship. Therefore, based on empirical findings the null hypothesis earlier stated is hereby rejected and the alternate upheld. Thus, there is a significant relationship between functional structure and growth of oil servicing companies in Port Harcourt.

**Discussion of Findings**

The test of hypotheses shows that there is a positive relationship between functional structure and each of the measures of organizational effectiveness. The positive values of (0.799 and



0.636) show the strength of the relationships between the variables. The P-value (0.00) is less than the level of significance at (0.05). Therefore, this suggests that a positive relationship exists between functional structure, sales volume and growth. Hence, the null hypotheses are hereby rejected. Relationship between functional structure and growth, under the functional structure, it operates well in stable environments, where business strategies are less inclined to changes or dynamism, in related with growth therefore, in support of this, there was significant relationship between functional structure and growth. Efficiencies can further be released as functional organizations integrate their activities vertically so that products are sold and distributed quickly at low cost. This implies that when companies used a functional organizational structure, people with similar knowledge and skills are grouped together. This makes it possible for employees to become specialists in their field. It requires a performance management system that allows for the promotion, development and visibility of individual skills within their functional area. The specialization that functional structures help to bring about in-depth knowledge and skill development among the employees, and this can help you achieve your company's functional goals.

### **Conclusion and Recommendations**

Organizations do have goals and objectives to achieve and could be better coordinated through a formalized procedure. For organization to achieve its goals and objectives, the work of such organization has to be divided among its members. Some structure is necessary to make possible the effective performance of key activities and to support the effort of staff, structure provide the framework of an organization and its pattern of management. It represents a formalized framework within which management operates. It is by means of organization structure that the purpose and work of the organization can be carried out. There this study concludes that the functional organizational structure significantly influences on organizational effectiveness in oil servicing firms in Port Harcourt.

The study recommended that oil and gas companies should put in place better organizational structure strategies as it leads to better performance. The companies should ensure they have a specialized organization structure, high nature of the span of control, centralized structure and have departmentalization in the company.

### **References**

- Baxter, M. (2007). Managing Risk and Responsibility. Personnel Today. [online] Available from:[http://www.personneltoday.conf/articles/2007/05/01/40358/managing\\_risk-and-responsibilitv.html](http://www.personneltoday.conf/articles/2007/05/01/40358/managing_risk-and-responsibilitv.html)> (Accessed 7th December 2012).
- Campbell, D., & Craig, T. (2005). *Organisations and the business environment* (2nd ed.). London: Elsevier.
- Child, J. (1984). *Organization: A Guide to problems and practice*. New York :Harper and Row.
- Drucker, P. (1977). *People and performance, the best of Peter Drucker in management*, Harper and Row, New York.
- Futrell, Charles (1991). Sales Management. Third Edition. Chicago: Dryden Press.
- Jones, G.R. & George J.M. (2004). Essentials of contemporary management. McGraw-Hill, Irwin, Boston.
- Jones, R. (2007). Organisational theory, design, and change (5<sup>th</sup> ed.). New Jersey: Pearson Prentice Hall.
- Richard J.P (2009). Methodology best practice. *Journal of Management Measuring Organization performance*, 2(1), 26-36.