



Faculty of Cognitive Sciences and Human Development

**EXPLORING THE IMPLEMENTATION OF HIERARCHICAL AND
HYBRID STRUCTURE : A CASE STUDY IN AN INSURANCE
AGENCY IN KUCHING**

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**Bachelor of Science with Honours
(Human Resource Development)
2019**

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**EXPLORING THE IMPLEMENTATION OF HIERARCHICAL AND HYBRID
STRUCTURE : A CASE STUDY IN AN INSURANCE AGENCY IN KUCHING**

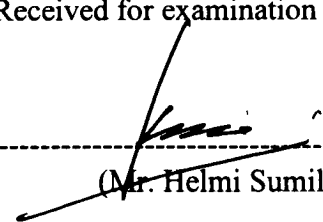
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This project entitled “Exploring The Implementation of Hierarchical and Hybrid Structure : A case Study in An Insurance Agency in Kuching” was prepared by Tay Liang Howe and submitted to the Faculty of Cognitive Sciences and Human Development in partial fulfilment of the requirement for a Bachelor of Science with Honours (Human Resource Development)

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ABSTRACT

EXPLORING THE IMPLEMENTATION OF HIERARCHICAL AND HYBRID STRUCTURE : A CASE STUDY IN AN INSURANCE AGENCY IN KUCHING

TAY LIANG HOWE

The purpose of this study is to explore whether hierarchical or hybrid structure is more suitable to be implemented in Insurance Agency, Kuching. This study was conducted in qualitative approach. A case study was used by collecting data through semi-structure interview among the five insurance agent in Insurance Agency that located in Kuching, Sarawak. The results obtained through the research, it indicated that the advantages of hierarchical structure included: collective decision-making, fast information flowing speed, and guidance from top management. Next, the results also showed that hierarchical structure consists the disadvantages of having high power distance, adhered rules of control, extended the waiting time for requesting permission and easily generating the issue of bias. Apart from that, this research also discovered the advantages of hybrid structure which is improving the workforce performance, developing the workforce potential, decentralizing the decision making and providing more freedom to insurance agents. Even though, the research found out that hybrid structure consisted the disadvantages of having loose and organized team, easily generating conflict and ambiguity, and lack of standardization, implementing hybrid structure in insurance agency was still beneficial more to the overall operation in insurance agency. Lastly, this study discussed about the implication and contributions to body of knowledge, insurance agency and HR practitioners and giving recommendation for management system and future researchers. Based on the result obtained, this research can be concluded that hybrid structure was more suitable to be implemented in insurance agency compared to hierarchical structure.

Key Words : Hierarchical Structure, Hybrid Structure, Insurance Agency

ABSTRAK

MENGALAMI PELAKSANAAN STRUKTUR HIERARKI DAN HIBRID: STUDI KASUS DALAM AGENSI INSURANS DI KUCHING

TAY LIANG HOWE

Tujuan kajian ini adalah untuk mengetahui sama ada struktur hierarki atau hibrid lebih sesuai untuk dilaksanakan di Agensi Insurans, Kuching. Kajian ini dijalankan dengan menggunakan pendekatan kualitatif dan satu kajian kes telah digunakan dengan mengumpul data melalui wawancara semi-struktur antara lima agen insurans di Agensi Insurans yang terletak di Kuching, Sarawak. Keputusan yang diperolehi, menunjukkan bahawa kelebihan struktur hierarki termasuk: pengambilan keputusan secara kolektif, pengeluran maklumat yang cepat, dan bimbingan dari pengurusan atasan. Seterusnya, keputusan juga menunjukkan bahawa struktur hierarki juga menunjukkan kelemahan seperti mempunyai jarak kuasa yang tinggi, mematuhi peraturan kawalan, meningkat masa menunggu untuk meminta kebenaran dan dengan mudah menghasilkan isu berat sebelah. Selain itu, penyelidikan ini juga menemui kelebihan struktur hibrid yang meningkatkan prestasi tenaga kerja, membangunkan potensi tenaga kerja, desentralisasi pengambilan keputusan dan memberikan lebih banyak kebebasan kepada ejen insurans. Walaupun kajian ini mendapati bahawa struktur hibrid mempunyai kelemahan seperti pasukan yang longgar, dengan mudah menghasilkan konflik dan kekaburan, dan kekurangan standardisasi, pelaksanaan struktur hibrid dalam agensi insurans masih lagi memberi manfaat kepada operasi keseluruhan di agensi insurans. Akhirnya, kajian ini membincangkan implikasi dan sumbangan kepada badan pengetahuan, agensi insurans dan pengamal HR dan memberikan cadangan untuk sistem pengurusan dan penyelidikan masa depan. Berdasarkan hasil yang diperolehi, kajian ini dapat disimpulkan bahawa struktur hibrid lebih sesuai untuk dilaksanakan di agensi insurans dibandingkan dengan struktur hierarki.

Kata Kunci : Struktur Hierarki, Struktur Hybrida, Agensi Insurans

CHAPTER 1

INTRODUCTION

1.0 Introduction

This research is basically exploring about the implementation of hierarchical and hybrid structure. In this chapter, a few aspects discussed. First and foremost, the first aspect discussed was the background of study. After that, the next aspect discussed was the problem statement and followed by research question and research objective. Subsequently, definition of term, significance of study, limitation of study will be discussed. Last but not least, the chapter was ended up with a summary of this chapter.

1.1 Background of Study

Due to the rapid changes in economics, diverse workforce and globalization, the implementation of right organizational structure in any financial institutions have become essential and cannot be ignored. Moreover, some researchers in previous studies found out that the designation of the organizational structure is also interrelated with the sense of empowerment of employees (Shahzad, Farrukh, Ahmed & Kanwal, 2018), and the trustworthiness of employees towards the organization (Setiawan, Murni, Putrawan & Ghozali, 2016). Hence, organizational structure seen to become the main and unique mechanisms that affect the employees performance, attitudes and behaviors such as job satisfaction, organizational commitment, and turnover intention. (Kanten, Kanten & Gurlek, 2014).

In common, hierarchical structure is one of the famous organizational structure that has been diffused into large of small organizations for decades. Hierarchical structure is introduced as one of the first and most fundamental structure to improve organization management and optimise the control of employees. However, Lentz (1996) mentioned in his working paper,

hierarchical organization concentrated more on the rules of control and organization management. This problem had led to a lack of attention toward customer's changing needs. Not only that, Milgram (1974) had described that hierarchical structure connotes a system of obedience to authority whereas employee do not have much right to make decision and must follow the order from high level management.

The importance of having a good and right organizational structure also applies on financial institution including insurance agency. In the content of this study, the focus was being given on an insurance agency that having hierarchical and hybrid structure. An insurance industry is a financial institution and insurance agency is known to be the part of insurance industry. Insurance agency can be defined as a sales organization or insurance brokerage that may contain small or large population of insurance intermediates or agents. The main purpose of insurance agency is to sell insurance products that offer from the insurance industry and decide best policy to clients. Hence, the importance of organizational structure has become unnoticed and omitted by the insurance agency.

In insurance agency, most of the employees are known to be insurance agents and minority of employees will be the operating units, such as human resource executive and admin clerks. The main duties for insurance agents are to sell insurance products and propose right insurance plan to suit the customer needs. Implementing hierarchical structure in insurance agency might slow down the decision making process of insurance agents which the insurance agents need to propose the insurance plan to high level management first and wait for the approval before delivering the plan to the client. This process will be time consuming and it will affect the customer's satisfaction. Hence, it can indirectly affect the job performance and sense of empowerment of insurance agents. At the end, turnover might occur due to low job satisfaction.

In order to overcome the weakness of hierarchical structure, the heterarchical structure which known to be decentralized structure is presented. Heterarchical structure has been arguably advocated as one of the alternative structure in small organization to minimize the weaknesses of hierarchy structure. (Nguyen, Ng, Pui, 2017; Dawson, 2009). By using heterarchical structure, all the function and department in the organization will be decentralized and every employees are allow to make quite decision and focusing more on customer. But heterarchical structure do have weaknesses which staff function duplicated within each unit and hard to control due to low level of authority. Therefore, heterarchy, the structure of decentralized and hierarchy; the structure of centralized, is combined and formed a more reliable organization structure which called as hybrid structure.

Hybrid structure was once introduced by Lentz (1996), he mentioned that hybrid structure allow operating units such as insurance agents to make decision-making on their own. On the other hand, it provides centralizes administrative functions to the corporate staffs such as human resource executive. Hybrid structure can be the best structure to be implemented in insurance agency due to recruitment, training & development and production needs. However, some researcher had mentioned that hybrid structure can lead to high degree of confusion. From the perspective of a organization selected for this study, both structure were seen being implemented inside the organization for different divisions and units. There are minor criticism received with regard to the implementation on the structure. Hence, this study aims to investigate whether hierarchical or hybrid structure is more suitable to implement in insurance agency.

1.2 Problem statement

Theoretically, hierarchical structure has long been discussed by different researchers, and it has been studied in a broad range of disciplines for long, such as management, financial, economic and sociology. (Wang, 2010). Hierarchical structure is unavoidable and highly

essential in any large organization. (Nyugen et al., 2017) Unfortunately, based on the research of Goleman (2007), he argued that subordinates in heavily hierarchical organization appear to feel insecure and vulnerable. It is because heavily hierarchical organization applied a lot stress toward their employees which the top management takes control in all the function of the organization and the employee do not have chance to voice out their ideas. In the context of financial institution, some researchers found out that large hierarchies structure can help to manage organization's risk by reducing the managerial moral hazard. (Massa & Zhang, 2010). However, other's researchers had argued that large hierarchies structure can greatly slow down the speed of information production in financial institution, and restrict low level employee from making decision. (Skrastins & Vig, 2018). Hence, the consequence of practice hierarchical structure need to be further explored especially in the context of insurance agency. Therefore, this researcher aimed to identify whether the hierarchical structure can bring more advantage or disadvantages toward the context of insurance agency.

Even though, hierarchical structure has long been discussed, there are some weakness that already being discovered and remained unsolved. Hence, a combination of centralized and decentralized structure had formed a new structure, which named as hybrid structure to overcome the weakness of hierarchical structure. Hybrid structure was once introduced by Lentz (1996), he mentioned that hybrid structure allow operating units such as insurance agents to make decision-making on their own. On the other hand, it provides centralizes administrative functions to the corporate staffs such as human resource executive. Hybrid structure might be one of the best structure to be implemented in insurance agency due to recruitment, training & development and production needs of the insurance agency. However, some researcher had mentioned that hybrid structure can lead to high degree of confusion and time consuming due to low level of control and have two manager needed to report.. Hence, the consequence of practice hybrid structure need to be further explored especially in the context of insurance

agency. This research was trying to see if hybrid structure brings advantages or disadvantages to the organization and especially in the context of insurance agency.

Empirically, many research found support that hybrid structure can contribute benefit for all level of employees (Pertusa-Ortega, Molina-Azorin & Charles, 2011; Lentz, 1996). Hybrid structure allow all level of employees to make decision and create shared vision whereas making decision and creating shared vision can positively increase the job satisfaction of employee (Saha & Kumar, 2017), and enhance their job performance. (Roseline & Ademola, 2014). Not only that, based on Charles (2011), he mentioned that hybrid structure can establish the development of cross-functional skills. Hybrid structure are focusing on sharing ideas with each other through building up a team. A team is formed where everyone sharing their ideas and making decision to strive for a same goal. The team is formed based on the specializations of individuals. Hence, each employee can learn from each other.

Finally, from the practical perspective, insurance industry recruited a lot of qualify insurance agent in every year. According to the annual report 2017 of Life Insurance Association of Malaysia (LIAM), the number of insurance agents in year 2016 were 85,494 persons and it dropped dramatically to 78716 persons in year 2017. The result showed that insurance industry is still suffering with the issue of high turnover rate until now. According to an article from Fast Company (2015), an author, Dishman had mentioned that most of the financial and insurance employees are unhappy with their work due to dissatisfaction with organization management (organizational structure). These article shows that organizational structure can greatly affect the performance of employees, and indirect become the starting mechanism of turnover intention.

Therefore, this study was conducted to explore whether hierarchical or hybrid structures would be the best to be implementing in insurance agency and to obtain recommendations for the future improvement of hierarchical and hybrid structure

1.3 Research Objectives

1.3.1 General Objective

To explore whether hierarchical or hybrid structure is more suitable to be implemented in insurance agency

1.3.2 Specific Objectives

1. To find out the understanding of hierarchical structure perceived by the insurance agents.
2. To find out the understanding of hybrid structure perceived by the insurance agents.
3. To identify the advantages of implementing hierarchical or hybrid structure in insurance agency.
4. To identify the disadvantages of implementing hierarchical or hybrid structure in insurance agency.
5. To investigate on the organization structure that is more suitable to be implement in insurance agency.
6. To obtain recommendations for the future improvement of hierarchical and hybrid structure.

1.4 Research Questions

The purpose of this study was to explore which organizational structure was more suitable for implementation in insurance agency. Furthermore, the researcher wanted to indicate the understanding of insurance agents regarding to hierarchical and hybrid structure. Apart from that, researchers were interested in determining whether the implementation of the hierarchical structure and hybrid structure bring more advantages or disadvantages to the insurance agency. Last but not least, the researcher also wanted to discover new recommendations that can be applied to improve hierarchical and hybrid structure in future. Hence, 5 research questions were made as follows :

1. What are the understanding of hierarchical structure perceived by insurance agents?
2. What are the understanding of hybrid structure perceived by insurance agents?
3. What is the advantages of implementing hierarchical or hybrid structure in an insurance agency?
4. What is the disadvantage of implementing hierarchical or hybrid structure in an insurance agency?
5. Which organization structure is more suitable to be implemented in insurance agency?
6. What is the recommendations given for the future improvement of hierarchical and hybrid structure ?

1.5 Definition of terms

In this section, the researcher would explain the conceptual and operational definition of the terms that being used inside this research. The definitions of terms of :

1. Hierarchical structure

Hierarchical structure can be defined as a rank ordering of individuals along one or more socially important dimensions or a way to structure an organization using different levels of authority and vertical link whereas higher levels control lower levels of the hierarchy. (Anderson & Brown, 2010; Wang, 2010)

In this research, the term hierarchical structure can be defined as a traditional structure of an organization which can be think as a pyramid whereby the top level management do have the authority to control the low level management.

2. Hybrid Structure

Hybrid structure can be defined as a matrix structure, is a type of organizational structure within a company and organization that is a combination of functional and divisional structures, or two traditional organizational design format. (Charles, 2011, Lentz, 1996) It can provides a company with more flexibility in distributing work and assigning job roles.

In this study, hybrid structure is defined as the combination of two traditional structures, division and functional structure. In some studies, it is called as matrix structure. Hybrid structure is an organization structure which centralized administrative function and decentralized decision making to operating units.

3. Insurance agency

Insurance agency is can be called as insurance brokerage or independent agency, where they are focusing on selling insurance products that offer from the insurance carrier and deciding the best policy and price offered to the client.

In this research, insurance agency is being known as insurance broker that binds with insurance carrier. Insurance agency is like a retail shop that selling insurance services and products that offered by insurance carrier.

4. Insurance agent

Insurance agent is known to be the person that work for an insurance agency and sells the insurance products on behalf of a particular insurer needs.

In this research, the term insurance agent is defined as an individual that promoting and selling insurance products that offered by the insurance agency. Typically, an insurance agent receives a salary paid (known as commission or bonus) by an insurance carrier.

1.6 Significance of Study

1.6.1 Knowledge and Understanding

This research aimed to provide a clearer understanding of hierarchical and hybrid structure that perceived by the employees in insurance agency. This research also contributed to give clearer insight towards how organizational structure can affect the job performance, job satisfaction and turnover intention of insurance agents. Last but not least, this research was provided a much better insight regarding to the advantages and disadvantages arises on hierarchical and hybrid structure. According to this, the future researcher can have extra guidelines and information about the difference between hierarchical and hybrid structure.

1.6.2 Contribution towards Insurance Agency

This research contributed to give suggestion towards insurance agency in terms of selecting the right organizational structure. This research also helped to have clearer understanding towards how hierarchical or hybrid structure can be implemented in insurance agency. After implementing the right organizational structure, the insurance agency can operate more efficiently and have a more convenient working environment for the employers and employees.

1.6.3 Contribution towards Human Resource Practitioners

This research contributed to give the improvement of hierarchical and hybrid structures and help the human resource practitioners to have better understanding on hierarchical and hybrid structure. Other than that, this research also contributed to give the improvement of hierarchical and hybrid structures that can be implemented by human resource practitioners. Last but not least, it can also help human resource practitioners to provide their organizations with a better development process in order to adapt to environmental changes.

1.6.4 Contribution toward Management System

Moreover, this study was expected to be beneficial toward insurance agents and provide improvement toward the organization structure of the insurance agency. It helped to improve the management system of insurance agency and provide a better work environment for insurance agents.

1.7 Limitation of the study

There are 3 limitations of this study that could give effect the validity of the findings as follows :

The first limitation of this study was insufficient time in conducting the interview with informant. During the data analysis, the researcher found out that some important data that

required the verification of informants and the researcher was required to meet the informants again to verify the data. Unfortunately, some of the informants were known to be insurance agent and due to their busy schedule, they were not be able to spare out their time to conduct the interview again. Hence, some data collected were being verified in detail.

The second limitation of this study was insufficient information on the other organizational structure. In this research, the researcher only explained in depth on the organizational structure that is suitable for insurance agency which were hybrid and hierarchical structure. There were a lot more organizational structure can be discussed such product structure, heterarchical structure and others. Hence, the researcher did not have in depth understanding on the other organizational structure.

Last but not least, the other limitation was that, there was insufficient research found regarding to the hybrid structure in the studied of Malaysian. Therefore, the research was new to carry out in Malaysia, lack of information could be referred and limited literature reviewed can be done.

1.8 Summary

The overall of this chapter was generally discussed about the introduction of study, background of study, problem statement, the research question, the objective, the significance of study, limitation of study and the definition of terms. For the next chapter, it was discussed about the previous study and provide a literature review to support the study.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

In this chapter, it discussed on the past researcher's literature review regarding to the understanding of hierarchical and hybrid structures. The topics discussed in this chapter includes of the theory related to organization structure and past similar findings. This chapter is divided into six (6) parts which are centralization versus decentralization, hierarchical structure, argument associated with hierarchical structure, hybrid structure, argument associated with hybrid structure, theory related to organizational structure. Lastly, there was a summary which summarizes the whole chapter.

2.1 Centralization versus Decentralization

Centralization, decentralization, an organizational structure dimensions introduced by Severinov in 1999 relatively shows how the design of organizational structure can affect the organization's production. Centralized organization concentrated more on the level of authority, and most decision taken centrally, like a vertical organization. A decentralized organization is the opposite of centralized organization, it provides high degree of participation in decision making and lower hierarchical authority, like a flat organization. (Andrew, Boyne, Law & Walker, 2009). In a case study reported by Linde & Wallgren, (2012), it showed that financial institution do prefer more on decentralized structure in compared to centralized structure. However, there are a function and policies required centralized control. This issue provides the insight on why hybrid structure is formed in order to overcome the weaknesses of both structure.

2.2 Hierarchical Structure

Hierarchical structure is known to be the oldest and traditional structure that has been diffuse in large, medium and small organizations for past decades. (Sims, Sintsyn, & Eidenbenz,