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ADAPTING YOUR ORGANIZATIONAL STRUCTURE FOR MODERN BUSINESS CHALLENGES



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 Leadership, Leading Change and Organizational Renewal, Management

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Structuring your business can improve operations—but also cause growing pains. Organizational structures that thrive with a small, cohesive team often fail to function under increased headcount and operational complexity. That's why it's important to ensure you fully grasp organizational structure's core elements when shaping and [scaling your business](#).

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WHAT IS ORGANIZATIONAL STRUCTURE?

Organizational structure is your company's administrative framework, comprising everything from individual roles and team layouts to business-wide hierarchies and interdepartmental communications systems.

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A well-defined organizational structure can benefit your business, including improved efficiency and clarity regarding personal responsibilities, departmental objectives, and company goals. Most importantly, it provides a strong foundation for building your business amidst the challenges and opportunities of day-to-day operations.

4 KEY ELEMENTS OF EFFICIENT ORGANIZATIONAL STRUCTURE

A company's organizational structure can take many shapes, depending on its needs and priorities. However, core elements are universal to all efficient organizational structures, regardless of the [company's configuration](#). By recognizing the components that make up a well-structured organization, you can identify ways to improve and strengthen your business.

The following are four elements of organizational structure introduced in the online course [Leading Change and Organizational Renewal](#), co-taught by Harvard Business School Professor Michael Tushman and Stanford Graduate School of Business Professor Charles O'Reilly.

1. Component Task Identification

The reality all businesses face is that, when attempting to accomplish a complex goal, you must first break it down to its simplest steps. This is the purpose of component task identification.

- **Component tasks** are the work processes that support a company's short- and long-term goals. They're all the little steps that must get done for your business to run smoothly.

"[Component tasks] can vary in terms of uncertainty or complexity," Tushman says in [Leading Change and Organizational Renewal](#). "For example, R&D [research and development] tasks may be more uncertain and complex compared to technical service or manufacturing tasks."

While identifying component tasks is essential, it's only half the picture. You must also identify your interdependencies. **Interdependencies** are how different work processes affect one another.

Tushman identifies three different types of interdependencies in [Leading Change and Organizational Renewal](#), which can often occur simultaneously across the cross-functional portions of your business:

- **Pooled interdependencies** occur when component tasks are siloed, and smaller subunits within your business can operate independently of one another toward a larger goal. A common example is the independent operation of store branches within a larger company.
- **Sequential interdependencies** refer to a linear workflow, where one component task requires the completion of an earlier one, and so on, like an assembly line.
- **Reciprocal interdependencies** occur when component tasks require collaboration across individuals, teams, or departments to be accomplished. This type of interdependence is common in research and development activities, such as product development and implementation.

"It's important to put these interdependencies in a process map," Tushman says in [Leading Change and Organizational Renewal](#) while discussing a [real-world example](#) from athletic apparel brand Lululemon. "A process map visualizes how different component tasks are connected and rely on each other. In the case of Lululemon, a process map would show how the stores, headquarters team, central product team, and customers interact and depend on each other."

After identifying your company's component tasks and interdependencies, you're better suited to identify roles, teams, and hierarchies within your organizational structure.



2. Departmentalization and Chain of Command

Once you've mapped your business's component tasks and interdependencies, you can strengthen its organizational structure by implementing defined departments and an efficient chain of command.

- **Departmentalization** is the targeting of specific component tasks through the establishment of specialized teams.
- A **chain of command** defines the direct leadership of teams and individuals from the top of your organization to the bottom.

One of the most important aspects of an efficient chain of command is ensuring you have the right people in the right place at the right time. In the case of former Lululemon CEO Christine Day, who's featured in [Leading Change and Organizational Renewal](#), when it came her stores' needs, the chain of command centered around the store manager.

"In looking at the stores, what I recognized was that [leadership was] moving very highly successful store managers out of high-volume stores and moving them to remote markets that they'd never lived in before, with no sense of community," Day says in [Leading Change and Organizational Renewal](#). "They knew the company, but they didn't know the local [landscape]. The store became less profitable when they left that highly successful original store. Turnover increased because the stable manager had left."

To address this challenge, Day prioritized her chain of command. She invested in more training for assistant managers and established guidelines that a store couldn't be opened by anyone who hadn't managed one or been an assistant manager for six months.

3. Span of Control

While a chain of command can help you define your company's direct hierarchy, it doesn't always show you a complete picture of managerial responsibility. For that, you need to determine managers' **span of control (SOC)**—the number of employees who report to a manager. The larger the number, the greater the span of control.

Identifying your leadership's span of control is a necessary metric to help ensure that your managers aren't too overwhelmed to effect change and that employees aren't understaffed to the point of being unable to complete their component tasks. It's important to remember there is no standard SOC number, as every manager and team is unique.

4. Centralization and Decentralization

All organizational structuring aims to answer the question: *Where does power reside within your business?* The concepts of centralization and decentralization allow you to map the shape that power takes across your company.

- **Centralization** occurs when power is at the top of an organization.
- **Decentralization** occurs when power is distributed across individuals or teams.

While most companies usually embody one or the other, there are occasions when both elements are present, as was the case with Day and Lululemon. Lululemon's stores represented a pooled interdependence, meaning each could operate as its subunit. Because of this, the hierarchy of power within the individual stores was centralized: the power was at the top, with the store manager.

"[I recognized] in the culture of the company that we really wanted the store manager to be the center of the universe," Day says in [Leading Change and Organizational Renewal](#). "So that meant that we weren't going to put in a lot of layers."

While each store had a centralized power structure, Lululemon itself was far more decentralized.

"It was a flatter hierarchy than most other organizations," Day says in [Leading Change and Organizational Renewal](#). "It meant more resources at the store, more dollars at the store. But that fed the values and set the stores up to be highly engaging and energetic and motivated to drive success at the local level."

By giving power to the individuals and teams at the store level, Day allowed employees to tap into an entrepreneurial spirit and take accountability for driving numbers—ultimately putting their success in their hands. This decentralization was reflected in Lululemon’s corporate language. Rather than using the term “corporate,” they favored “support center” to emphasize the stores’ importance in executing strategic plans.

OPTIMIZE YOUR BUSINESS THROUGH EFFICIENT ORGANIZATIONAL STRUCTURE

Each business is unique; however, all rely on the fundamental pillars of efficient organizational structure. By better understanding these elements, you become more equipped to determine your business’s optimal structure.

If you’re interested in optimizing your organization’s structure and elevating your leadership skills to drive change, you can learn more about these concepts by taking an online course, such as Leading Change and Organizational Renewal. Through interactive learning exercises, connecting with a network of international learners, and in-depth case studies featuring experienced leaders from companies worldwide, you can gain the practical knowledge to take your career to the next level.

Do you want to enhance your leadership skills and drive organizational change? Explore Leading Change and Organizational Renewal—one of our online leadership and management courses—and download our e-book on becoming a more effective leader.

About the Author

Brad Einstein is a contributing writer to Harvard Business School Online.