Organizational structure

THE
PREDICTIVE
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Organizational structure

Why?

When considering what will make a business strategy successful, it's easy to think of the people and resources needed to move forward. However, the concept of adjusting your organizational structure to best suit your strategic vision is often neglected—despite the fact that structure is a means by which you can successfully implement your strategy.

Organizational structure is the system that defines how things get done on your team or in your organization, including task assignment, managerial relationships, and communication. Structures are developed during the process known as organizational design, when you create a structure that allows you to best carry out your strategic goals. Using the practice of organizational design, you can maximize your organizational structure by identifying blockers, creating new efficiencies, improving communication, and eliminating or adding process steps where necessary.

While the process of redesigning an organization's structure is not a light undertaking, the consequences of the wrong organizational structure are considerable: lack of role clarity, diffusion of decision-making responsibility, siloed employees, and more. In this document, you'll review a few crucial components of organizational structure, as well as several more popular structures and their benefits.

Structural components

Spans and layers

Managers' average span of control and the number of layers in the chain of command are often referred to by analysts as "spans and layers." There are two considerations to make here: firstly, how wide should span of control be? And secondly, how many layers are there between a CEO and an entry-level employee?

Spans vs. Layers
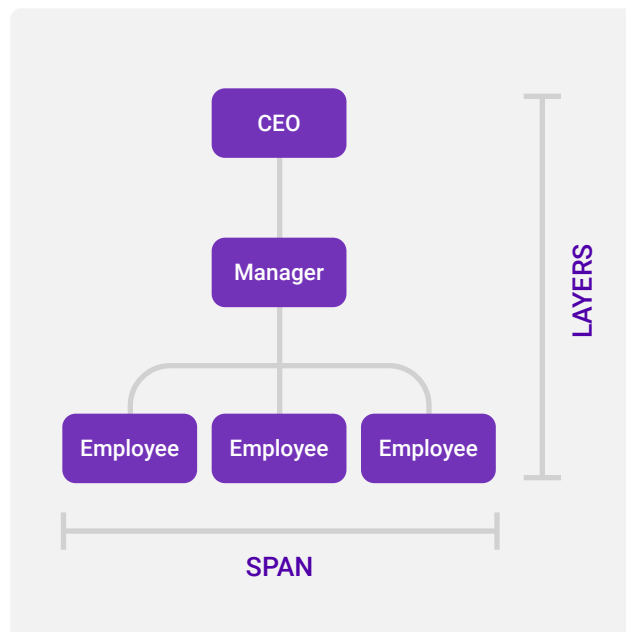
Span of control

Span of control refers to the number of subordinates reporting into any manager. Wide span of control is appropriate when efficiency is of crucial importance, or when many employees in a division have similar goals and can therefore be managed by the same person. A narrow span of control is more appropriate when there's a desire for individualized employee attention, more opportunity for employees to serve in managerial roles, or a more informal management structure.

Layers

Layers refer to the chain of command: How many layers are there between a CEO and an entry-level employee? With fewer layers, individuals at all levels have more decision-making power and issues move through the organization quickly. With more layers, the structure is more formalized and decisions tend to be made at the higher levels of the structure.

Specialization and formalization

Specialization

Specialization has to do with how the organization's collective activities are divided into work to be performed by units and, subsequently, individual people. In a highly specialized organization, employees perform very specific activities and are able to become experts over a certain domain. In a less specialized organization, employees conduct a variety of activities and get more cross-functional experience.

Formalization

Similar to specialization, formalization refers to the processes and procedures in place that define a role. In a more formalized organization, rules dictate what a given role accomplishes, including how to communicate and make decisions— regardless of the person in that role. In a less formal organization, the focus is on the individual in the role, who has more freedom to decide how they work and who they work with. This is helpful for strategies that try to de-emphasize procedure and encourage employees to best utilize their existing and future skill sets.

Departmentalization

Departmentalization is another means of linking tasks —and employees—specifically how people are grouped, such as by business function, region served, target customer, or product/service area. In a rigid departmentalization, tasks are accomplished fairly autonomously within functions and there's little cross-departmental collaboration. In a looser departmentalization, there are more flexible boundaries between groups and employees are more free to collaborate with whomever they deem appropriate.

Less specialized

Skill A   Skill B   Skill C

More specialized

Skill A   Skill B   Skill C
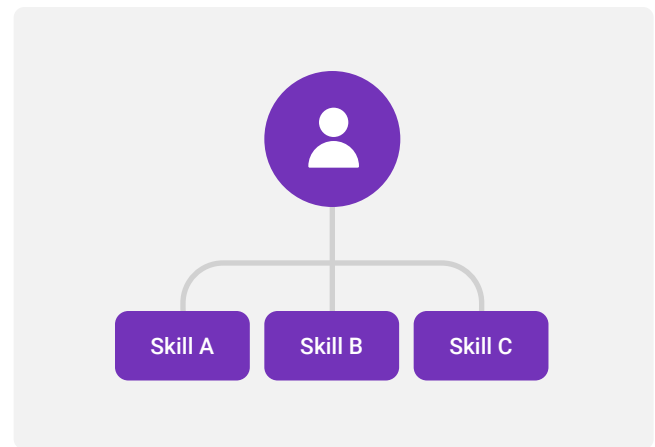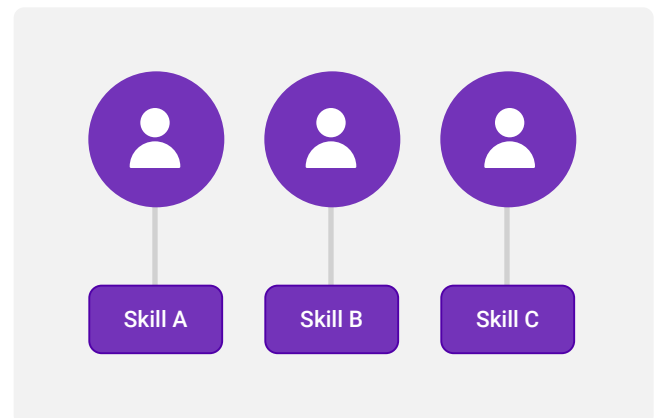
Example structures

There are many types of organizational structures. Here are examples of three popular structures and an explanation of how each utilizes the structural components to their advantage.

Functional

A functional structure is highly specialized, often formalized, and relies on rigid departmentalization. There are usually many layers, and span of control is wide. This is often what people think of when considering a typical organizational structure.

A functional structure is useful when employees need to be specialized in their skills, cross-functional collaboration is limited, and procedure is an important prerequisite to getting work done.

Functional structure
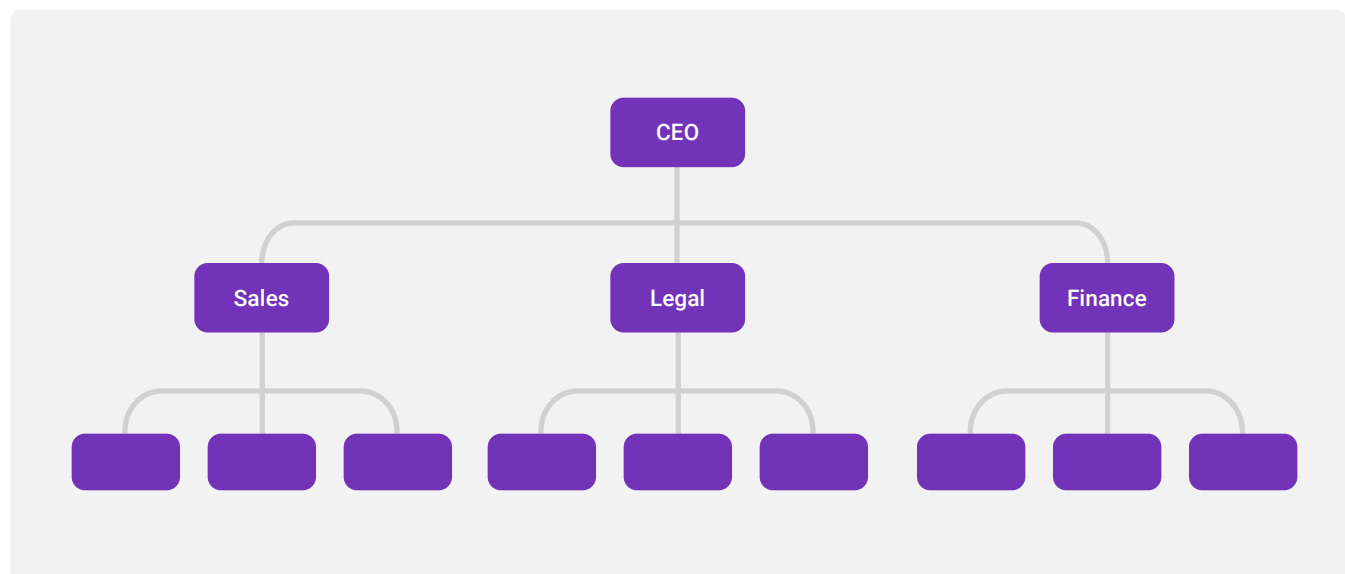
Matrix

Unlike a functional organization, a matrix organization has a more flexible, informal structure. Employees typically report to a manager in the same specialty area, but they also report into a cross-functional project team. These teams often form and disband as the need arises.

A matrix structure can be useful in organizations that thrive on innovation, cross-functional collaboration, and flexibility in decision making. In matrix organizations, employees also have many opportunities to develop far-reaching skill sets that they wouldn't have access to in more specialized structures.
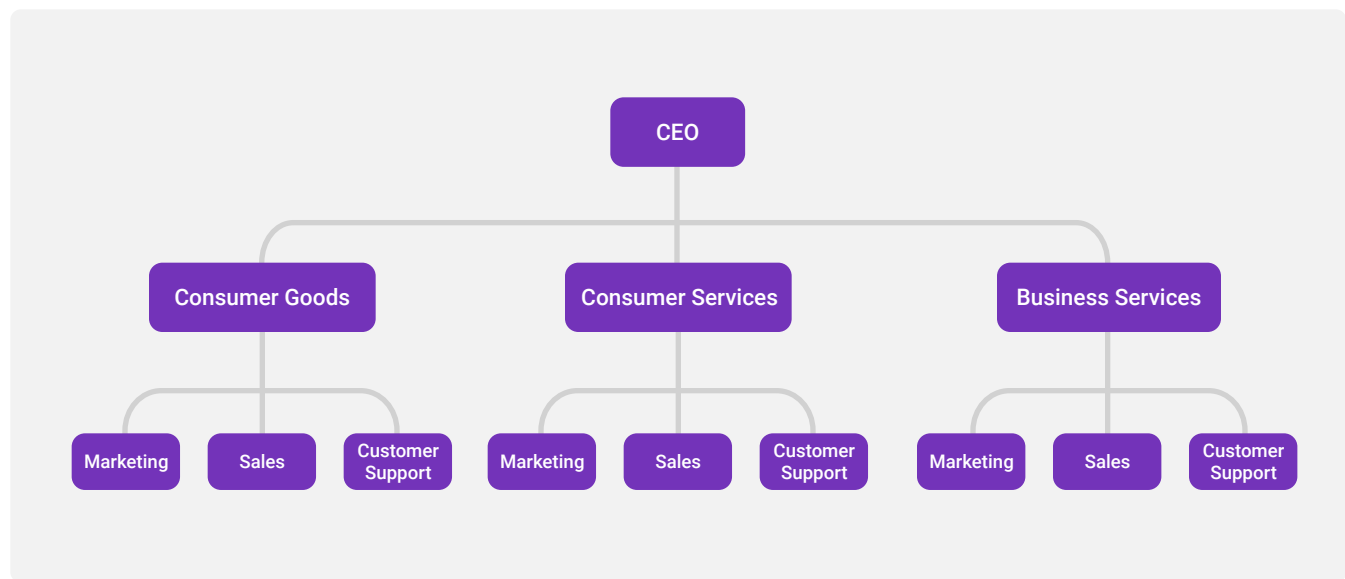
Matrix structure
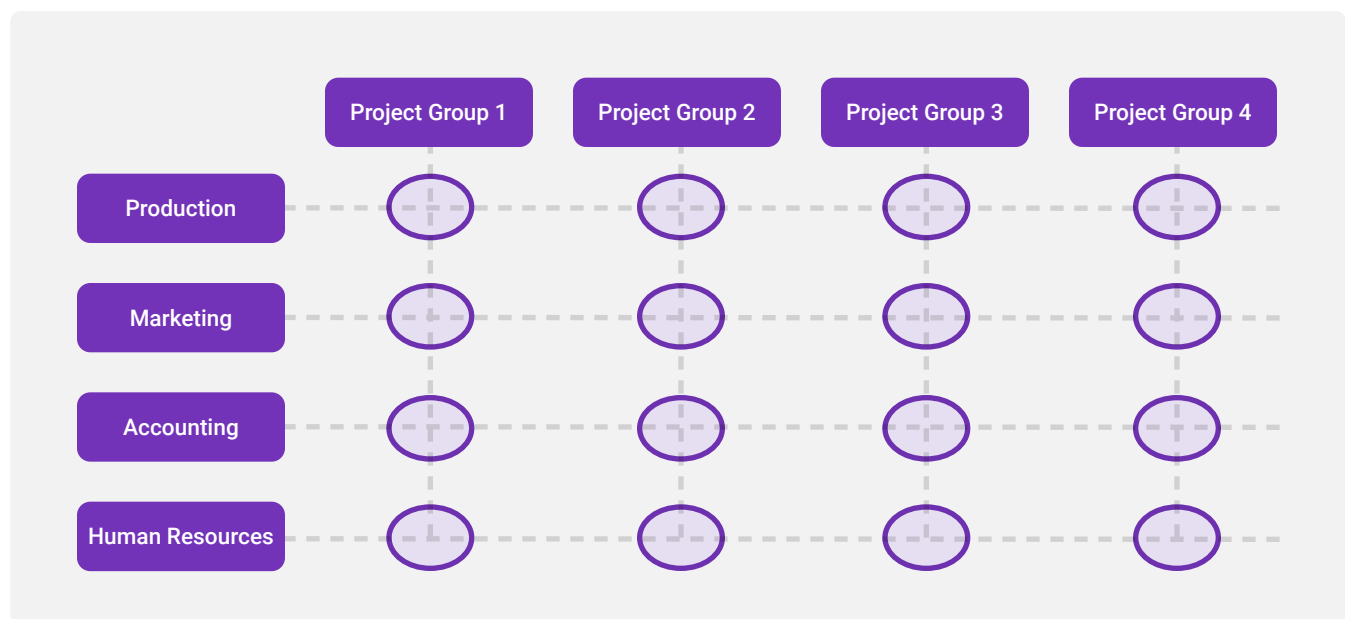
Divisional

Divisional organizations can take numerous forms. Functions can be arranged around product type, regions, or markets served. The goal of a divisional organization is to group like-work to get things done efficiently.

Depending on the type of divisional structure, the degree of employee specialization can vary. These structures are generally fairly formal, with clear processes and decision-making mechanisms in place.

Divisional structure

CEO

Consumer Goods

Consumer Services

Business Services

Marketing

Sales

Customer Support

Marketing

Sales

Customer Support

Marketing

Sales

Customer Support

Determining your org structure

The type of organizational structure you should choose depends on your business strategy and needs.

Consider the following questions to help you determine the layers, span of control, and structure that works for you:

- What rules your company? (e.g., geography, type of work, product)

- Is work completed in siloes or across functions?

- How much autonomy do individual business units have?

- How many different roles does your organization have?

Need support determining which organizational structure will work for your business?

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