The effect of distributed leadership in the relationship between flat organization structure and company performance

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Abstract

The paper examines the moderating effect of 'Distributed Leadership' in the relationship between flat organization structure and company performance. Testing this relationship is important for the successful management of global and 'glocal' companies, due to the fact that leadership is, indeed, distributed spatially. This paper argues that Distributed Leadership as a management contemporary approach positively affects the relationship between hard and soft features of structure, strategy and management style. The paper argues that the flatter the organization structure, the faster the decision-making process. For the purpose of the underlying research study, a data set of around fifty companies, identified as having a flat organization structure, were selected from the Fortune 500 for the period 2010 to 2017. Analysis of the dataset was operationalized applying OLS regression and correlation to examine the relationship between the independent variable 'organization structure' and the dependent variable 'company performance'. The moderating variable was 'Distributed Leadership', a leading phenomenon in leadership theory and practice in the twenty first century. The research shows the positive affect of Distributed Leadership in the relationship between flat organization structure and company performance. The paper's findings suggest that the implementation of flat organization structure revolves around the prerequisite of qualified and competent staff. Engaged and skilled work forces lead to increased employee satisfaction and lower employee turnover. When employees are more responsible for operations, they take more pride and ownership in the company's success. Fewer senior management employees mean fewer high managerial salaries, too. This leads to a decrease in employee costs and expense and an increase in profits and performance. The paper concludes that Distributed Leadership stimulates flatter organization structures and higher responsibility and accountability of the company's management and employees.

Key words: flat organizations, organization structure, distributed leadership, company performance

JEL Codes: M12, M14

1. Introduction

In the decade 2010-19 there have been an increasing number of studies exploring and investigating different management models and practices in global companies across a variety of industries and business domains. At the same time, many studies have shifted their attention to contemporary management tools and approaches based on soft organizational features such as employee engagement, mental models, channels of communications between senior management teams and lower levels, etc. Moreover, an incremental number of studies have researched contemporary management models as the McKinsey 7S model, Value-based Management Model, Sociocracy and Distributed Leadership, and many other modern approaches to reinventing organizations. However, very little attention has been paid to the relationship between management models and company performance regardless the universality of management tools as CRM, BCG matrix, Brainstorming, 360-degree feedback, etc.

A flat organizational structure is defined as an organization with few levels (bands) or even just one level of management (Rishipal, 2012). This means the range of command is small, but the span of control is wide. The span of control is defined as the number of employees reporting to any of the managers. If the number of employees reporting to one manager is large, then the span of control is wide. Thus, if one manager has four employees reporting to them and another manager has eight, the second manager has a 'wider' span of control than the first manager. Rishipal (2012) therefore defines a flat structure as having a short chain of command, and a wide scope of control.

The main reason for this current research was our desire to investigate how modern types of organizational structures, especially those under Distributed Leadership, could have a positive effect on the company performance in contemporary management and business conditions. There are many challenges nowadays facing global organizations such as the turbulent environment, short product life cycles, high employees' fluctuations, generation Z employees, employees' satisfaction within the organization, and many other factors. These challenges represent significant barriers for companies in managing their businesses and sustain performance (McInnis-Day, 2016). Concurrent with the aforementioned challenges, global

companies exercise considerable effort in adapting their organizational structures to strategic and customer needs, which requires completely new and non-traditional approaches to implementing management practices and models. Organizations have realized that their management models need to be more agile, flexible, feasible, adequate, fast-adapting and sustainable. It means that organizations should possess and deploy a suitable mix and matrix of soft and hard features, enabling them to sustain their continued good performance in their business domains. We observe a general trend across the world flattening organizational structures, reduction in hierarchical levels, merging roles and delegations among managers, decreasing links between management levels but increasing interlocking among tier level management. The phenomenon of 'flat' organizations is emerging in many business sectors given the increasing trend of tall and flat organizational structures aiming at reducing hierarchy, whilst simultaneously retaining stable control over the company. Distributed Leadership is a modern management approach to organizational design and is linked to the reinvention of organizations (Laloux and Wilber, 2014). Contemporary models of organizational structures are applied to produce flat and tall organizations regardless their size and industry segmentation.

2. Literature Review

The severe competitive environment requires from decision-makers to exploit strengths of diverse leadership models preparing organizations for future challenges and ensuring sustainable economic success. Distributed Leadership has become a popular 'post-heroic' (Badaracco 2001) form of leadership. The concept was identified around the turn of the century, but the seminal work of Spillane (2012) relating to management in educational institutions is widely regarded as cementing the term in the conscientious of organizational behaviorists. Distributed Leadership has encouraged a change in focus from the features and behaviors of individual 'leaders' (as promoted within traditional trait, situational, style and transformational theories of leadership – see Northouse 2007 for a review) to a more systemic perspective, whereby 'leadership' is conceived of as a collective social process emerging through the interactions of multiple actors (Uhl-Bien 2006). A more recent paper by Tian et al (2016) provides possibly the most comprehensive review and reflection on the notion of Distributed Leadership.

There are several indications emphasizing the relevance of distributed leadership. Thorpe et al (2011) explored a variety of themes in the context of distributed leadership and underlined that distributed leadership is meaningful in various fields such as is education, public service or in a commercial environment. Cope et al (2011) studied for example the meaning of distributed leadership for small entrepreneurial businesses especially with regard to their transformation into more mature organizations. Jing and Faerman (2007) explored the relevance of distributed leadership in the context of developing a knowledge sharing system. Further research activities such as from Nonaka et al (2016) investigated creative dynamic capabilities in the middle management and concluded that distributed leadership is a favorable leadership approach in this context. Other activities come from Karriker et al (2017) who focused on characteristics such as team size and sex diversity. The authors found that influential leadership across teams increased team effectiveness and performance. Hill and Bartol (2016) explored favorable effects of distributed leadership on the performance of geographically dispersed teams and virtual collaboration. Current research also indicates that distributed leadership is a catalyst enabling organizations to manage business model innovation and driving their strategic flexibility (Liao et al. 2019).

Distributed leadership, however, is not the only theory addressing the reshaping of how we perceive leadership. The notion of 'shared leadership' has also been in use for some time (see Pearce and Conger 2003a for a review), as have 'collective leadership' (e.g. Denis *et al*. 2001), 'collaborative leadership' (e.g. Rosenthal 1998), 'co-leadership' (e.g. Heenan and Bennis 1999) and 'emergent leadership' (e.g. Beck 1981). Common across all these theories is the idea that leadership is not the hegemony or responsibility of just one person, with each suggesting the similar need for a more collective and systemic understanding of leadership as a social process (Barker 2001; Hosking 1988). Large, publicly owned corporations are thus far not applying circular management – except for Zappos (shoe producer and a division of Amazon) in which there is an ongoing effort to implement Distributed Leadership. Only the sociocratic approach to circular management has been around long enough to assess its long-term impact. Organizations with Distributed Leadership are generally leaders in their (local or regional) industries and, moreover, have demonstrated how principles of circularity of power and authority enhance organizational resilience and performance, as well as sustaining empowerment at all levels of the organization (Romme, 2016; Romme and Endenburg, 2006). Furthermore, the Distributed Leadership model is based on the principles of self-managing

organizations where there is considerable freedom of approach in decision-making and all other management functions, so long as this brings positive results for the company.

Distributed Leadership implements or requests replacing hierarchies with a network of self-managed teams (Van de Kamp, 2014). While this is working for some companies (with Gore-Tex as probably the most prominent example), the reality is most corporations (including GE, Exxon Mobil, WalMart, et al.) today have some form of hierarchy, and giving up on this is not included in their strategy plans (Grant, 2008; Jones, 2014). However, these corporations are steering their organizational structures toward a more agile structure, too. Thus, flat organizations and Distributed Leadership might be aspirational goals, yet they are not within easy reach for many enterprises (Lumby, 2016).

3. Research Methodology

3.1 Data Sample

For the purpose of the paper we identified a list of eighty-eight companies using either one or more features of Distributed Leadership in their management models(see Table 2 in the appendix). The data was been extracted from the website 'Structure and Process-Organizational Development' based on the company Glass Frog, which has expertise in the collection of data on Distributed Leadership. The data was accurate as of 14th February 2017.It is in fact very difficult to understand which companies are using holarctic management models as most do not disclose this information on their websites or in their annual reports. Therefore, the dataset for this research consists of only 88 companies from the total population of 526 companies from around the world. These 88 companies are the ones that explicitly and formally state they use Distributed Leadership according to their websites or annual reports.

For the purpose of the study, a data set of approximately fifty companies from Fortune 500 list with a flat organization structure were selected for the period 2010-2015. Furthermore, analysis of the dataset was operationalized by applying ordinary least square (OLS) regression and correlation to examine the relationship between the the independent variable 'organization structure' - and the dependent variable 'company performance'. The moderating variable in the empirical operationalization is Distributed Leadership.

3.2 Statistical Operationalization and Hypotheses

Two hypotheses were stated as the basis for this research:

According to Kotter (2014), organizations should apply Distributed Leadership in order to increase their success and efficiency. Thus, employee performance and satisfaction are key factors for success, which could be achieved by implementing flatter organizational structure using Distributed Leadership. In this research, the first hypothesis is based on Kotter's study and we state that, in general, having Distributed Leadership as an organizational structure is positively linked to higher company performance.

H1: Distributed Leadership is positively related to company performance.

According to Romme and Endenburg (2006) small and medium-sized companies tend to be more suitable for implementing Distributed Leadership in their organizational structure due to the fact that there is less hierarchy, thus less coordination is required, and faster decision-making is done. Therefore, in the study, we stated that the smaller the company, the better will be holacratic management model for the firm.

H2: The smaller the firm, the higher the likelihood for Distributed Leadership.

Table 1 below presents the descriptive statistics of the independent and dependent variables

Table 1: Descriptive Statistics

Variable	Means	Std.Dev.	Min	Max
Company age	12	8,13	4	18
Company size	77	34,41	5	150
Company Performance	20	5,53	1	40
Company Internationalization	23	14,10	1	45
Organizational structure	16	5,92	11	22
Managerial Hierarchy	12	0,41	7	17

N=88, Cronbach α=0.61

4. Results and Discussion

Hypothesis 1 was not supported by our analysis, but Hypothesis 2 was supported. The descriptive statistics illustrated that the statistical data were reliable as Cronbach $\alpha=0{,}61$. We did not find any correlation between level of internationalization of the companies and their holacratic management models. Nevertheless, statistical data showed that companies with higher employee engagement and satisfaction entirely implemented Distributed Leadership. Similarly, earlier studies showed that the Distributed Leadership is correlated with the self-motivation of the employees (Gronn, 2002).

Interestingly, after statistical operationalization was employed, we did not find any correlation between managerial practice/Distributed Leadership model and company performance. This reflects evidence in the literature, which confirms this particular link (Tian et al., 2016).

The findings show that there is a positive effect of Distributed Leadership in the relationship between a flat organization structure and its performance. The research also found that a flat organization structure revolves around qualified and competent staff. Completely engaged, skilled work forces lead to higher levels of employee satisfaction and lower employee turnover. When employees are more responsible for operations, they take more pride in the company's success. Fewer senior management employees results in higher aggregated managerial salaries. This leads to a decrease in employee expense, a corresponding increase in profits and performance, and therefore greater efficiency and productivity.

6. Conclusion

We concludesthat Distributed Leadership stimulates flatter organization structures and creates higher responsibility and accountability in the company's management. A further conclusion is that Distributed Leadership is more likely to be expressed in organizations that encompass non-traditional and alternative managerial practices such as collective wisdom, holacracy and self-managing teams. A practical implication of the research is that Distributed Leadership could be applied in a wide variety of firms from different industries, regardless of the firm's size and location (this is also supported by Chatwani and Barlow, 2018).

The majority of the companies in the dataset are small companies, but these tend get larger with growth and, when scaling up, they implement management models comprising self-organizing principles. This paper argued that the empirical evidence points to the principles of Distributed

Leadership providing a means for implementing self-organization at a larger scale – both within a single large project or product development exercise, and also more generally within an organization. The software companies from the data sample were engaged in debates on new organization models such as teal organizations (Laloux and Wilber, 2014), flat organizations, flat archives, etc. (Spillane, 2012). Doubtlessly, some of these models are promising, but they require complete restructuring of the company organizational structure. Management models possessing distributed leadership are correlated to company success and performance through breakthrough innovative approaches in terms of employee communication and employee satisfaction, as a step-by-step approach that allows organizations to change gradually. Distributed Leadership as a term emerged some years ago before 2010, with the growing acceptance of software development and the accent on employee satisfaction, Distributed leadership is now being increasingly discussed as an alternative management practice and possible organizational model (Harris and De Flaminis, 2016). This means of course, that considerably more research and empirical evidence is needed in order to explore the relationship between Distributed Leadership and company performance.

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Appendix

Table 2. List of companies with flat organizational structure and features of Distributed Leadership

Name of the company	Name of the company
Distributed leadershipOne	Three Coins
iGi Partners	Trillium Awakening Operations Circle
Valve	Washington's Strengthening Families Collective
Otikon	Becoming Parents Program
Gore Tex	BC3—Boulder Community
Morning Star	Precision Nutrition
David Allen Company	Beratergruppe Neuwaldegg
Undercurrent	Moveline
Future Logic	ITX Wireless
AdScale Laboratories	liv.it
Wonderworks Consulting	Concept7 (case report)
Springest	talkSpirit (case report)
BoP Innovation Center	ARCA (blog post)
Impact Hub Amsterdam	Netcentric (blog post)
Impact Hub Vienna	Buddhist Geeks (note)
Impact Hub Company	Washington Technology Solutions
Waterschap de Dommel (in parts of the organisation)	OZ
Streamit (in parts of the organisation)	Voys (links)
Center for Human Emergence	cidpartners GmbH
CHE Synnervate	Colman Knight Advisory (link)
Kolibri	Scarabee Biocoop (report)
The Integral Center	Energized.org
Conscious Brands	soulbottles
Outformations Agile Collaboratory	CourageLabs LLC
Connectis	MankindProject USA

Butterfly Works	Xpreneurs GmbH
Rockstart	ACNV-BF
Smart Hotel	Die Wertschätzer
PRO6 Managers	Doctusoft
Durabilis	FinanceFox
VillageOffice	EMPAUA
Paramount Software Solutions	SocialSquare (blogpost)
LIIP – Agile Web Development	Findasense (video)
Ticketfrog	AFCA
MySign	CINTEO
Distributed leadershipOne (public governance records)	VSE
iGi Partners	People's Playground
Connectis	Lab.Coop (blogpost)
Butterfly Works	bol.com (in some teams)
Green-Acres	Spindle

Source: Structureprocess.com (2017)