Video Transcript

What is Apply Best Known For? by Harvard Business Review

[MUSIC PLAYING]
What is Apple best known for? Easy answer, for its innovation in hardware, software, and services, for a wide range of products, such as computers, iPhones, and iPads. Now, here's what's less known and equally significant about the company, its organizational design and the associated leadership model that have played a crucial role in driving its innovation success.

It all began after Steve Jobs returned to Apple as CEO in 1997. One of his first acts on his return, laying off the general managers of all the business units in a single day, not a move that inspires a welcome party. But there was a method to Jobs' madness. Apple at the time had a conventional structure for a company of its size and scope. It was divided into business units, each with its own profit and loss responsibilities. Jobs believed this conventional management stifled innovation. He put the entire company under one P&L and combined the different functional departments of the business units into one functional organization. Simply put, a functional structure divides an organization into departments based on their function. These departments are headed by functional managers who are experts in the roles they supervise. The functional structure, which Apple retains to this day, ensures that those with the most expertise and experience in a particular domain have the decision rights for that domain. Senior vice presidents at Apple then, are in charge of functions, not products.

As was the case with Jobs before him, current CEO Tim Cook occupies the only position on the organizational chart where the design, engineering, operations, marketing, and retail of any of Apple's main products meet. In effect, besides the CEO, the company operates with no conventional general managers.

Apple's structure is based on two views. First, the organization competes in a market with a high rate of technological change and disruption. It has to rely on the judgment and intuition of technical experts who can predict which technologies and designs are likely to succeed. General managers are unlikely to be able to do that. Second, Apple's commitment to offer the best possible products would not be achieved if cost and price targets were the fixed parameters within which to make design and engineering choices. Instead, R&D leaders are expected to weigh the benefits to users against cost considerations. A case in point is the decision to introduce the dual lens camera with Portrait Mode in the iPhone 7 Plus in 2016. Paul Hubel, a senior leader who played a central role in the Portrait Mode effort and his team were taking a big risk, if users were unwilling to pay a premium for a phone with a more costly and better camera, the team would have less credibility the next time it proposed an expensive upgrade or feature. The camera turned out to be a defining feature for the iPhone 7 Plus.

Under a traditional structure, Hubel would not have been empowered to take such a risk and the feature would likely not have been made because traditional cost and price analysis lack a deep understanding of users' needs. It's easier to get the balance right between attention to costs and the value added to the user experience when the leaders making decisions are those with deep expertise in their areas. This explains Jobs' decision to change the way Apple works, the combination of its organizational structure and its leadership model not only saved the

company from bankruptcy but also transformed it into one of the most influential tech companies in the world.