



"You can't shrink your way to greatness."  
– Tom Peters

# Organize Your Business

*for*  
***Success!***

Mike Hayden

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# **Organizing your Business for Success**

**“(Subtitle TBA)”**

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**by  
Mike Hayden**

**Fremont, California**

## Copyright Page

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### **Organize your Business for Success**

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Published by:

Senior Management Services  
39270 Paseo Padre Pkwy, 439  
Fremont, California 94538  
(408) 817-5684  
(952) 674-1767 Fax

<http://www.SeniorManagementServices.com>

First Edition, 2005

ISBN 0-9723725-2-0

10 9 8 7 6 5 4 3 2 1

Published in the United States of America

## Epigraph

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*If you can't describe what you are doing as a process, you don't know what you're doing.*

– W. Edwards Deming (1900 – 1993)

## About the Author

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Mike Hayden is Founder and CEO of Senior Management Services and the Documentation Express in Silicon Valley, California.

Mr. Hayden, an expert in organizational development and strategic planning, has more than thirty years of experience as a programmer, writer, author, and consultant for Silicon Valley corporations and has served in industries as varied as software, semiconductors, biomedical systems, aerospace simulation, and business process development.

The Documentation Express, founded in 1974, helps software companies develop their design specifications, technical (API) documentation, and end-user manuals. Senior Management Services (1984), a high-level business development services firm, helps clients increase profits by re-engineering processes, managing quality, and reducing costs.

Prior to founding his company, Mr. Hayden served as a District Sales Manager, Software Design Manager, and Software Engineer for leading computer companies.

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## Chapter 4 - Overview of Potent Organizational Structures

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**NOTE:** Please feel free to email this booklet to friends on your list.

There seems to be a continuum of organizational structures between functional hierarchies and flat(ter) project teams. In this chapter, I will discuss various approaches to designing organizational structures. Generally speaking, your strategic objectives will determine the structure of your organization. In the following paragraphs, I will discuss some examples of how your strategy can determine your organizational structure.

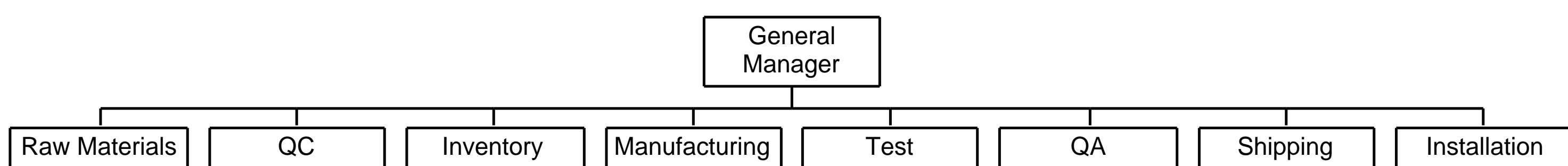
In general, you can structure by:

- **Functions** by grouping common activities into departments / areas / units.
- **Geographic location** when you need to supply products or services to several areas.
- **Common activities** in different regions or areas, each one a model of the home office.
- **Products or services** when different products and services, including quantity and complexity determine your company's activities.
- **Processes and technology** when your complex processes require grouping of certain activities of the company.

Of course, you can combine various organizational structures to suit your particular mission, strategies, and tactics. Let's look at some examples.

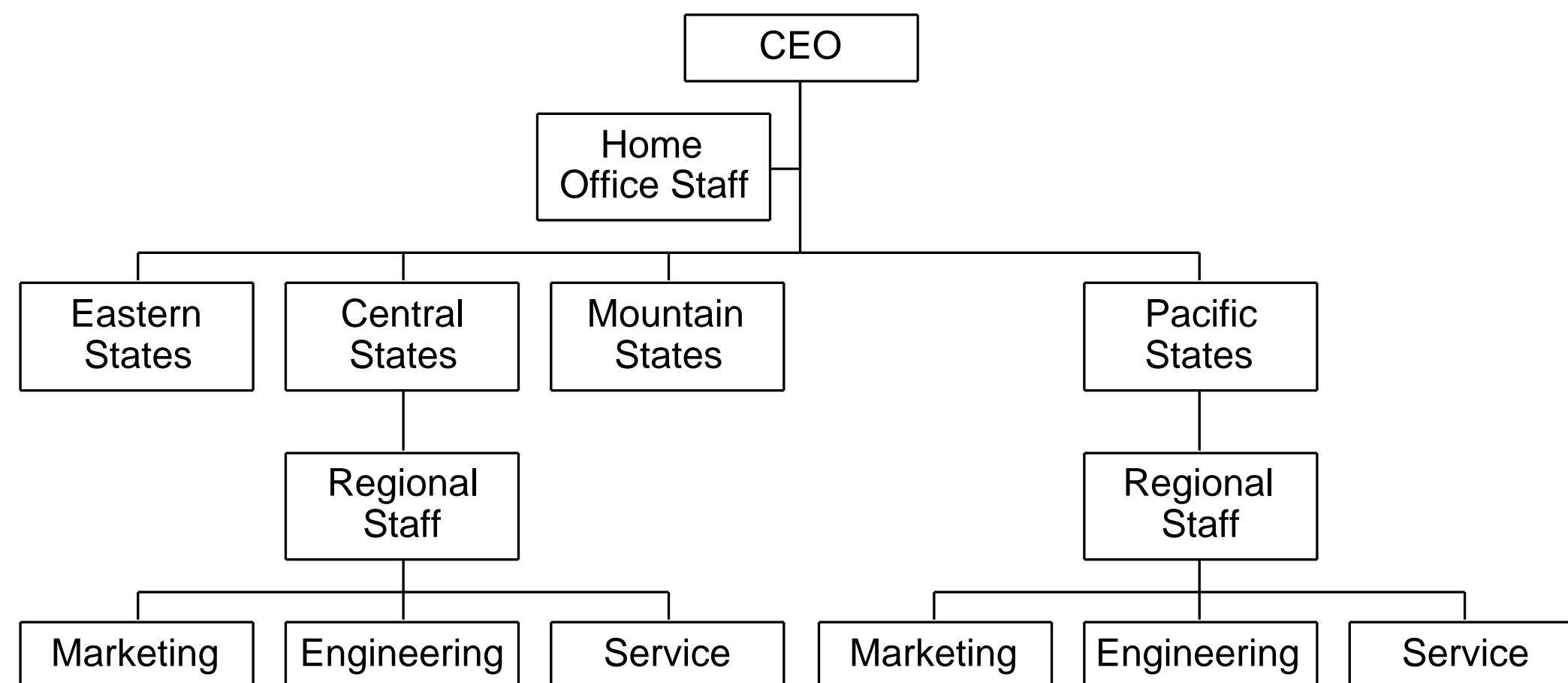
### Strategy-Driven Approaches to Organization Structure

**Figure 1** below shows a *process-oriented* functional organization. Notice that the process functions flow from left-to-right from Raw Materials to Manufacturing to Shipping and Installation. Presumably, each function would have at least one manager; however, this process-oriented structure could represent a small organization with one manager and 2-3 employees who handle more than one function.



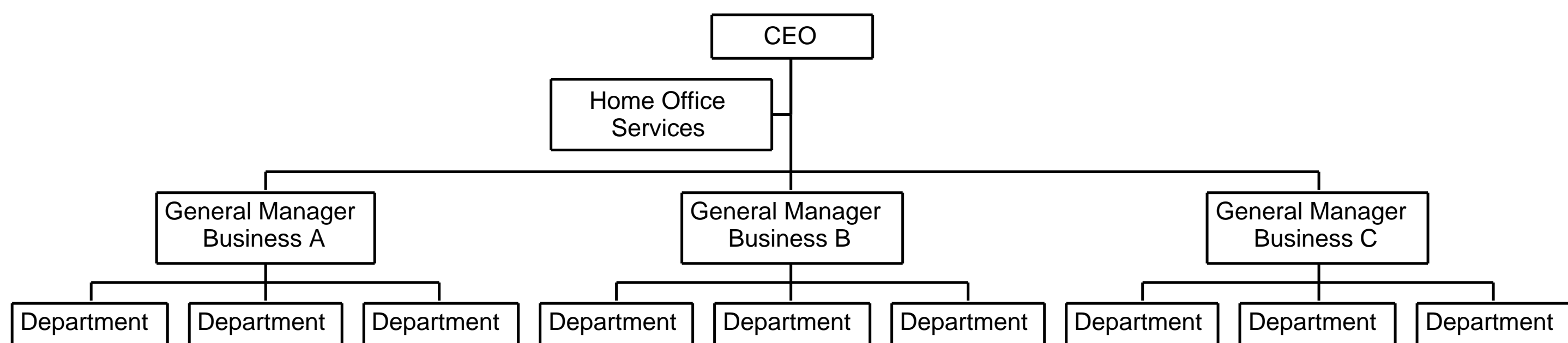
**Figure 1. Process-Oriented Functional Organization**

**Figure 2** below shows a *geographic* organizational structure with a Home Office and staff, plus 4 regional offices and 2 regional staffs that perform local marketing, engineering, and service functions. This organization might be used for an equipment manufacturer requiring custom proposals, engineering, and onsite service. Obviously, you could use this basic structure to support different countries, too.



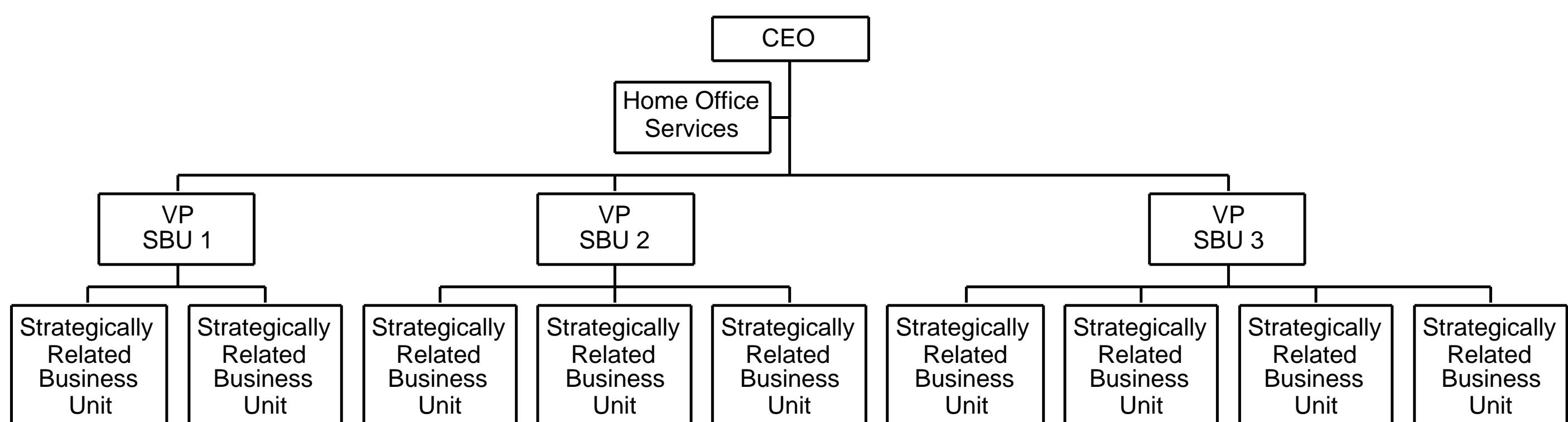
**Figure 2. Geographic Organizational Structure**

**Figure 3** below shows a *decentralized* structure with a Home Office and separate and decentralized business entities, which might be in separate locations. The decentralized businesses could handle different product lines.



**Figure 3. Decentralized Line-of-Business Organization Structure**

**Figure 4** below shows an organizational structure similar to **Figure 3** above except that here you have *strategically related business units*. Notice that **Figure 4** below shows VPs reporting to the CEO, whereas **Figure 3** above shows General Managers that report to the CEO. The General Managers may be more independent than VPs.



**Figure 4. Small Business Unit (SBU) Organization Structure**



Finally, **Table 1** below, shows a matrix organization composed of team members from a functional hierarchy. Here, team members participate during different phases of the project.

**Table 1. Matrix Organization of Team Members**  
**“X” = 1 Member, “P” = Product Manager, “T” = Team Leader for that Phase**

	Marketing	Operations	Finance	Legal
<b>Phase I - Feasibility Study</b>	<b>P</b> X X	X	X	X
<b>Phase II - Prototype Development</b>	<b>P</b>	<b>T</b> X X X X		
<b>Phase III - Test &amp; Revise Phase</b>	<b>P</b>	<b>T</b> X X		
<b>Phase IV - Beta Test</b>	<b>P</b> X X	<b>T</b> X X X		X
<b>Phase V - Rollout</b>	<b>P</b> X X X X	X	X	

There is probably no such thing as a perfect organizational design. Each design strategy gives you advantages and disadvantages. Much depends on your products, services, logistics, location(s), market dynamics, etc. If you’re involved in ongoing dynamic situations, you may find that you need to reorganize or supplement your strategy with:

- Special project teams
- Cross-functional task forces
- Dedicated work teams
- Process teams

You will need to match your structure to your strategy. I suggest that you pick a basic design and modify it as needed and, if necessary, supplement it with management tools to optimize processes and communication.

Hierarchical structures make good strategic sense when you can divide work into clear, repeatable tasks performed in mass quantity and customer needs are more or less standardized. Complex products may require multiple levels of functional expertise,.

On the other hand, hierarchical structures may be a less flexible when you need:

- Ongoing capability for custom products
- Flexible manufacturing
- Individualized customer service
- Short product life-cycles

- Fast-response customer service
- Fast-changing technologies
- Fast-changing markets

Today we see various organizational trends that try to adapt to fast-changing markets. If you're involved in a fast-changing market your success probably depends on fast reaction to competition, plus ongoing need for:

- Fast response to changing customer preferences requiring shorter cycles for design-to-market
- Custom orders and getting it right the first time with high quality
- Accurate order filling, expedited delivery, and personalized service
- Creativity, innovation, and fast adaptation of new technologies

These new market dynamics are motivating people to adapt new strategies in organizational design, such as:

- Leaner, flatter, decentralized structures that may decrease work fragmentation, cut bureaucratic overhead, and compress separate tasks into jobs that can be performed by one person or a small team
- Process teams and cross functional work groups
- Lean staffing of support functions
- Partnerships with key suppliers and outsourcing
- Employee empowerment with associated accountability for results

Some of these strategies may give your organization productivity gains at lower costs, increased creativity, and improved customer satisfaction. To (re)engineer your organization, you should implement the following:

- \_\_\_ Develop a flow chart of your whole business process, including interfaces with other value-chain<sup>1</sup> activities. (See Error! Reference source not found..)
- \_\_\_ Assess each process to determine its strategy-critical value.
- \_\_\_ Simplify strategy-critical processes first.
- \_\_\_ Determine which processes you can automate to economic advantage.
- \_\_\_ Evaluate pros and cons of outsourcing various processes.
- \_\_\_ Design structure for performing remaining in-house activities.

OK, with all of this in mind I will describe various organizational structures in more detail.

## ***Functional Organizations***

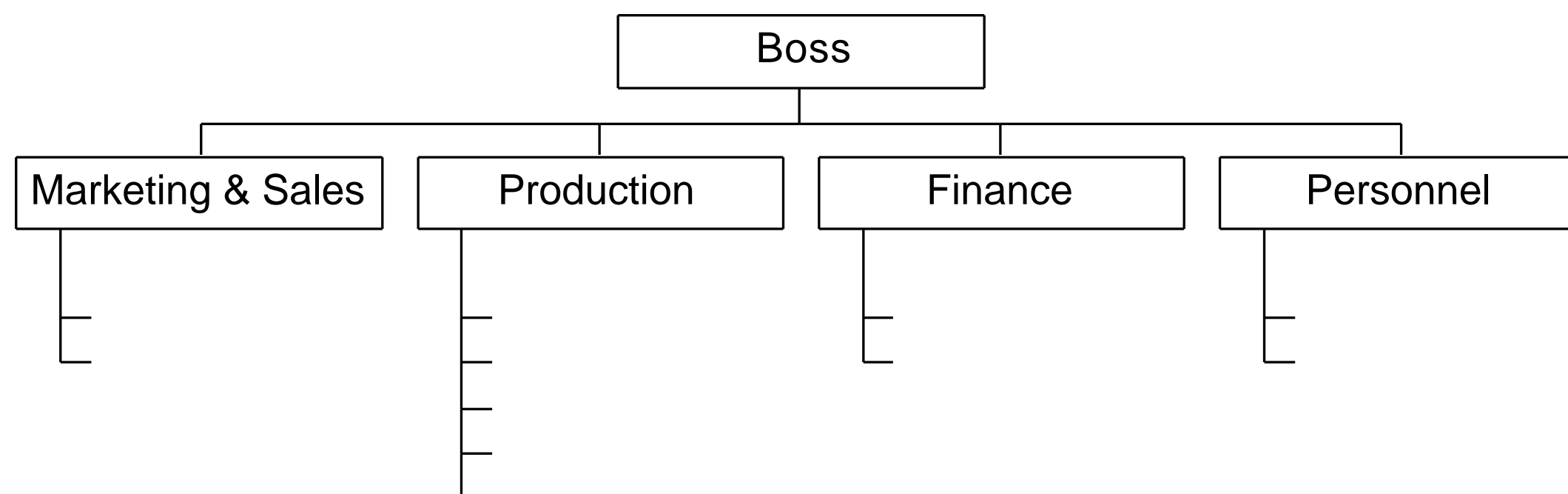
**Functional organizations** are organized by technical disciplines. If your products need a high level of specialized knowledge, you probably require a functionally organized

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<sup>1</sup> **value-chain** the value added to a material, product, or service at each stage of its manufacture, production, or distribution:

structure. In a functional hierarchy, product responsibility is not allocated to a single person. Senior functional managers typically allocate resources.

**Figure 5** below shows a 2-level “functional structure” often used in small companies with few products or services in relatively stable markets. This structure divides the work and allocates authority and responsibility according to functional areas. This organizational strategy gives you one top manager to coordinate employees in all functions. To expand, you could add a manager for each department.



**Figure 5. 2-Level Functional Structure**

If you’re starting small, you may want to look to the future and ask:

- Will 2 levels support your long-term mission and long-term strategy?
- Will a 2-level structure meet your long-term organizational needs?
- Will it give you the best use of your company’s staff with profitable distribution of job positions?

While this structure may give you synergies<sup>2</sup> and efficiency by joining several functional experts, sometimes you may find it difficult to transfer knowledge across department boundaries. Since this will affect your whole company, you will want to set up a reliable and enforceable communication system.

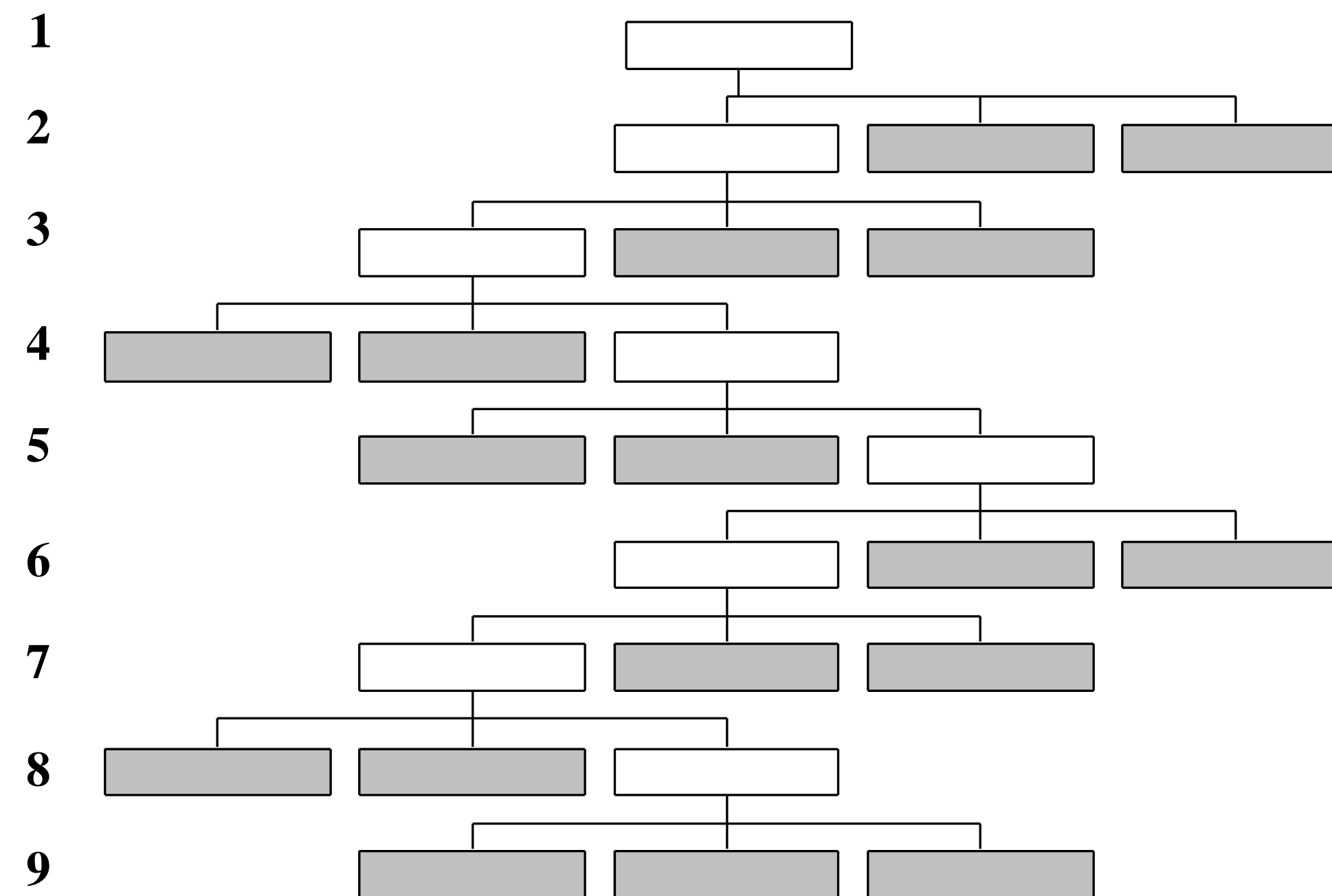
### ***Larger Functional Hierarchies***

A multilevel functional hierarchy, like the one shown in **Figure 6** below, lets you focus skills in given areas. Functional hierarchies give managers more control over subordinates’ production. But sometimes, based on the management style, a manager can be so controlling that s/he suppresses discretion and individual creativity. And often, subordinates are less likely to be exposed to concepts or technology outside their specialty.

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<sup>2</sup> **syn·er·gy** (sîn’er-jê) *noun* (plural **syn·er·gies**) The interaction of two or more agents or forces so that their combined effect is greater than the sum of their individual effects. Cooperative interaction among groups, especially among the acquired subsidiaries or merged parts of a corporation, that creates an enhanced combined effect.

In **Figure 6** below, I have sketched a partial layout of a 9-level hierarchy, based on 3 subordinate positions for every position (except for the 9<sup>th</sup> level). I have not shown the entire hierarchy under the gray boxes because a complete 9-level chart would take 9,841 boxes!



**Figure 6. Partial 9-Level Functional Hierarchy**

Notice that the top 8 levels are managers. The 9<sup>th</sup> level consists of non-managers. In actual business practice, the further down the chart you go, the more positions (4-7, maybe 9) that might report to a given manager, *based on uniformity of work*.

Let's continue with this 9-level idea. In **Table 2** below, I show you the number of employees per level in a 3-subordinates-per-manager hierarchy. Notice that the total number of positions triples with each new level of management. (For example: see the 6<sup>th</sup> Management Level that yields 364 Total Employees in Company.)

**Table 2. Number of Levels vs. Employees (nominal)**

Management Level	Total Employees at a given Level	Total Employees in Company
1	1	1
2	3	4
3	9	13
4	27	40
5	81	121
6	243	364
7	729	1,093
8	2,187	3,280
9	6,561	9,841



Notice that if you add a 10<sup>th</sup> level, you triple 9<sup>th</sup> level Total Employees to 29,524. Anyway, all this is sort of academic because very few, if any, companies grow at a perfect geometric progression.

However, continuing with this academic example, look at the right-hand column (Total Employees in Company). Notice that if the Total Employees in Company are 4, you have one manager (next row up). Similarly, if you have 40 employees, you have 13 managers (next row up). If you have 9,841 employees, you have 3,280 managers. Why is this? The bottom level employees are always non-managers without subordinates.

So, let's say your company has grown to 9,841 employees.

In companies where management accountabilities are essentially unspecified and unknown to subordinates, employees may get the impression that managers are “empty suits” who contribute little or nothing. Eventually, someone will say, *“We’ve got 9,841 employees, but 3,280 are managers. Why do we need all those managers? Let’s downsize! Let’s get rid of some of these managers, flatten the organization, and save some money.”* (Popular sport these days.)

Or, some management-hater might even say, *“Hey, let’s get rid of ALL the managers and let the president manage the remaining 6,561 employees by herself!”*

Seriously, let me review what I have said so far about functional hierarchies:

- Functional hierarchies allow you to focus skills and expertise in a given area.
- Functional hierarchies give managers more control over subordinates.
- Sometimes, a manager can suppress individual creativity.
- Workers are less likely to be exposed to areas outside their specialty.
- Hierarchical organizations grow geometrically with each new level of management.
- The bottom level employees are always non-managers with no subordinates.
- Today’s companies are looking for ways to flatten (“downsize”) organizations by eliminating management levels.

Let’s review the management basics of a hierarchy:

- No manager may give a command or communicate substantive information to anyone except his or her immediate subordinates.
- A recipient should reject information and/or requests presented in violation of the line relationship. (*“Please talk to my manager.”*)
- No one can report to (be “line to”) more than one other person. (Only one boss.)
- Line Relationships – In a line relationship, the boss is “line to” his or her subordinates, specified by lines on the Org Chart. For example, your boss is “line to” you and has authority to give commands and substantive information to you as his or her immediate subordinate.

- **Staff Relationships** – In a staff relationship, neither person has authority to give commands or substantive information to the other. (If you are *not* “line to” or “subordinate to” someone, you are automatically “staff to” that person.)

Thus, when you create a project team, you may create management problems that you should carefully consider. Still, you can use management tools, such as, *Contractual Commitments* and *Controlling Calendars* to minimize possible stumbling blocks. (More on these management tools later.)

For long-term projects, it may sometimes be more effective to create a separate project team than to “loan” employees intermittently.

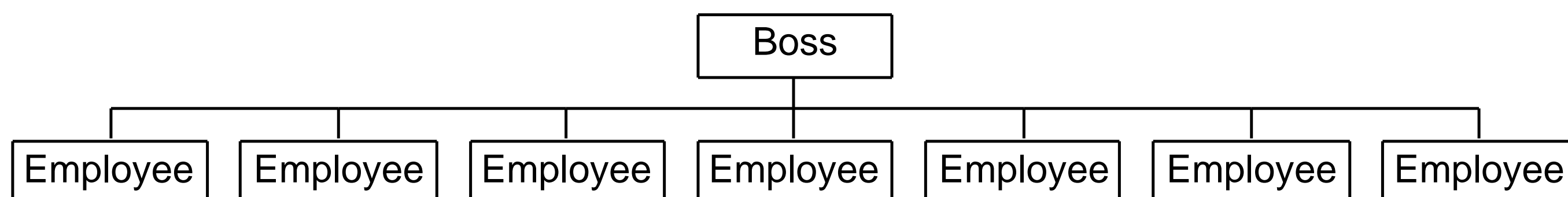
Now, let’s look at the possibilities of flat(ter) organizational structures.

## ***Flat Organizations***

A truly flat organization would work only for a small business or organization where all employees report directly to the boss.

### ***Small Company Structures***

**Figure 7** below shows the simplest structure, often used in small companies, with two levels: the managing owner (boss) and the employees. Here, the boss holds most managing responsibilities and runs the company real-time, without clear task definitions.



**Figure 7. Small Company Structure**

This small company structure only works when the company is small. (Example small companies can include: dry cleaner, restaurant, machine shop, retail shop, etc.) But, as the company grows, the boss will have more and more difficulty keeping control of the whole company. (Can you say, “entrepreneurial nightmare?”)

For a larger organization that delegates some authority downline, you have a “flatter” organization where layers of management are minimized and workers are given more authority and responsibility to achieve assigned goals.

Flatter organizations de-emphasize centralized management, which necessitates employee involvement in decisions. You can use a flat organization structure to create independent teams. Or, you can create small enterprises that can rapidly respond to customers’ needs or changes in the business environment. The team supervisor tends to have a more personal relationship with his or her team members.

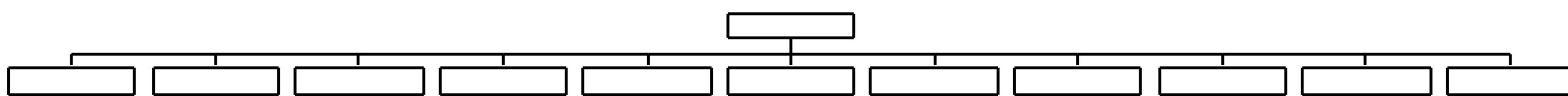


Many organizations are changing from “vertical” functional hierarchies to “horizontal” flatter process-based operations. You can organize flat organizations around processes, teams, and opportunities where every employee essentially works for the customer and has the knowledge to act like an owner as they serve the customer.

You can and should manage these relationships by using *contracts* (similar to vendor agreements) that call for delivering certain results, work and behavior during limited projects. Flat organizations, like hierarchies, can establish external relationships (such as strategic alliances or outsourcing) to accomplish basic activities. Flat organizations can sometimes maximize strengths and competitive advantages by taking on expansion initiatives.

NOTE: If your business is a public business that issues public stock, you can’t totally eliminate the hierarchy because the corporation has many fiduciary and legal requirements. Thus, your top management must provide policies, direction, and controls to ensure that everyone complies with these requirements.

**Figure 8** below shows a **flat** or **horizontal organization** with one leader at the top. I will refer to this organization as a “team.” Again, this type of organization usually requires your employees to be more involved in making decisions.



**Figure 8. Flat (Horizontal) Organization**

This structure has the possibility of making your organization more flexible and responsive to market changes. Why? Because, you don’t have to wait for decisions to filter down from “on high.” On the other hand, you have less management control of activities and less specialization of assignments.

In practice, team members might come from several departments. And, most team members will have a “boss” other than the team leader, which clashes with the rule of having only one boss. There’s only one way this can work. All substantive agreements must be documented, and all team members must keep their word with their boss and with the team.

### ***So, how do you manage horizontal (flat) organizations of teams?***

More and more companies are using team management structures. But, since traditional business organizations are vertical hierarchies let’s consider a large orchestra where dozens of musicians play for one director – with neither chain of command nor complex multilevel structure.

## ***Time for a Break!***

**Before I tell you how to manage horizontal (flat) organizations, let me ask you a question.** How are you doing so far? You've looked at strategy-driven approaches to organizational structure. You've looked at functional hierarchies, flat organizations, and small company structures ... *Is this approach something you want to pursue to organize and advance your company or organization?*

**Many people might say,** *"This sounds like a lot of work! Besides, I don't know how to do what you suggest."*

**I understand.** Many people feel the same way at this point. But, most find that more information will make the process more clear. Still, in this small booklet, I can only tell you what to do, not how to do it.

You can take these ideas and run with them yourself or you can jump ahead and get complete how-to instructions in my full book entitled, *Organizing your Business for Success*.

**But, if you're like most readers,** you want to see more FREE information first -- before deciding to buy the book. So, let's get you started with more information about how to manage flat organizations. (I will also tell you more about Matrix Organizations and the trade-offs between functional hierarchies and project teams.)

**OK, ready to take the next step?** Download the rest of Chapter 4 at:

<http://www.SeniorManagementServices.com/OBS-chapter-request-2.html>

Best Regards,

*Mike Hayden*

Mike Hayden

**PS: For a limited time** you can download another of my booklets entitled *"7 Easy Steps to your Raise and Promotion"* at:

<http://www.SeniorManagementServices.com/Images/7-easy-steps-booklet.pdf>

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Thanks.



