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How to Move From Flat to Functional

🕒 JULY 26, 2010 👤 JARIE BOLANDER

Flat organizations have tremendous advantages when your company is a small, nibble startup. As you grow, the flat organization starts to strain under the burden of too many reports, reporting to too few people. Startup management likes the flat organization because they feel they can directly connect with employees. In reality, that connection will be lost as the company starts to grow. When growth happens, management will try in vain to hold onto control. This is when the downsides of a flat organizational structure will start to show. To be clear, a flat organizational structure is one in which there are few if any layers of management. The classic flat management structure is the small startup (under 10 people) where everyone reports directly to the CEO.

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WHEN FLAT IS GOOD

Small organizations (read startups) need a flat organizational structure because it affords the maximum amount of team interaction. When the management chain and the working chain are directly coupled, decisions can be made rapidly and stuff gets done. This is critical when a venture starts out. The vision of the CEO needs to be directly and continuously communicated to the troops in order to ensure that it gets properly implemented. At this stage, no real management infrastructure is in place so everything needs to be communicated in real time and will likely change in real time. Flat organizational structures allow this real time management where more traditional structures require much more

inertia to change direction.

WHEN FLAT IS BAD

Flat organizational structures are ideal when the group is small primarily because of management bandwidth. In reality, a manager can only effectively manage 7 to 9 direct reports. As the number of reports increases, so does the management burden. This is one of the reasons a flat organizational structure does not scale — a manager can only handle so many reports. Another reason is that once the company starts to grow, the management role changes. When it was just 5 guys in a garage, management was easy — it was all about building the product. Once growth happens, the higher level managers have to remove themselves from the daily grind and focus more on strategy and direction. This is when things get dicey since the old ways of doing business will change. It's inevitable that this will create a tremendous amount of tension and anxiety.

SETTING UP FOR SCALE

Growing a company requires management to realize that process and structure needs to be put in place. This process and structure is the complete opposite from how a flat organization works. The days of making rash decisions in the hallway will slowly fade away into more disciplined thought processes and much more debate. This debate is critical because now the company has momentum and changing momentum gets harder and harder as a company grows. Consider these other activities that are essential for scaling a company.

- **Create process and procedures:** Most startups skimp on any kind of process or procedures when they are developing their products. This skimping is fine when there are only five people. As the company scales, guidelines need to be in place to manage everything.
- **Develop or hire leaders/managers:** Managers are vital to a growing company. They are the glue that will hold the whole enterprise together as the growing pains start to show. Hire and develop these managers as soon as you can.
- **Streamline reporting structures:** With growth, comes people. With people comes reporting structures that need to be rational and reasonable. Gone will be the days where everyone reports to the CEO.
- **Write down requirements:** All kinds of requirements are critical to capture and adhere too. This is important because inertia will rapidly sap all productivity if the

requirements constantly change.

- **Settle on a road map:** Creating a product roadmap is the single best way to align your growing company. These roadmaps are the compass in which to steer. Without them, your company will flounder due to no one will know what direction they should be going in.
- **Stick to decisions:** The bigger the company, the more important it is to stick to decisions. The constant changing of decisions will send the wrong message to your employees and this will confuse them. So, don't change decisions on a whim, rather, be deliberate and logical about why decisions are made and changed.
- **Trust employees:** With scale, comes loss of control. In order to mitigate this, the management team needs to trust all employees. This trust is the single biggest thing that can help the transition from small startup to world class company.

Setting up these systems, policies and attitudes before the growing pains start will make the transition from nibble startup to world class company much smoother. There will be chaos and the old ways will fight hard to stick around. That's why it's critical to admit that different stages of a company require different skill sets and people. Some of these skill sets are complementary while others just don't mix.

SOME PEOPLE WILL BE LEFT BEHIND

When a company scales, some employees will be left behind. By left behind, I mean they will never full transition from flat, nimble startup to structured, real company. In some cases, this is the best for all involved. Nothing will crash morale, disrupt operations or make the transition harder than someone who desperately clings to the way things used to be. This can be especially disruptive if these individuals are high up in an organization and don't realize that their roles are changing.

A successful company will have to change many times over it's lifetime. It's critical for management and employees to embrace these transition points and strive to bring their company to the next level. Doing any less will result in squandered opportunities and lackluster performance.

Wondering how to move your startup from flat to functional? Checkout Cameron Herold's method he used to take 1-800-GOT-JUNK from \$2M to \$100M in sales from StartupPlays.com [here](#)

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