

Who's The Boss?

Management Structures

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Preface

As today's workforce evolves towards tomorrow's management, the values and characteristics of younger generations will play a larger role in the identity of tomorrow's businesses. These values will not only change the way we currently manage employees, but may also introduce new and more effective management styles that will change the structure of organizations in the future.

According to the Bureau of Labor Services, the combination of Generations X and Y will make up nearly 59% of our country's workforce in 2009. Locally, Illinois' Department of Commerce and Economic Opportunity projects this same subset in McLean County to be nearly 80% in 2010.

And yet, according to the authors of *Workforce Crisis: How to Beat the Coming Shortage of Skills and Talent* (Dychtwald, Erickson, & Morison, Harvard Business Press, 2006), the number of potential people in the "mature workforce", those older than 55 years of age, will have grown by 50% from the year 2000 to 2010.

These changes in workforce demographic need to be recognized as an opportunity for both private and public sector employers to benefit from the talents and experiences of the older worker. A forward-looking community needs to recognize where the workforce is now, what is happening to it, where it's heading, and formulate a strategy to benefit from it.

Although factors that motivate a mature workforce do not significantly differ from those of a younger workforce and include the need to be engaged and challenged as well as provide value to the organization, these factors will require managers to consider older employees' working arrangements, professional development, compensation and benefits in ways that may differ from the managerial skill set needed to provide tactical direction to younger workers.

In all cases, a rethinking of "Who is the Boss?" in the traditional employee-employer relationship must take place to achieve greater productivity for the employer and greater flexibility for the employee, regardless of whether it is the increasingly prevalent Generation X and Y workforce, or the growing "mature workforce."

Therefore, it is important for businesses and corporations to take note of this shift in majority, once held by the Baby Boomers. What an organization does to capitalize on this information could determine their future success. In this analysis, we will attempt to provide recommendations based on our perspectives representing the emerging workforce.

Introduction

In “Future of the Workplace,” The New Leadership Board uncovered the quintessence of younger generational workers and its effects on the workforce: what motivates employees, the future employer, and what the future workplace will be.

By addressing the conceptual aspects of how and where these generations work, it opens the discussion for more concrete recommendations, specifically, what can be done, and under what structure would they best work. That which motivates or deters an employee will most certainly affect what management structure they perform best within. Therefore, it is imperative that we acknowledge those characteristics to determine the foundation of our recommendations.

In Management Structures, we look first to examine the history and nature of current structures. We will propose our insight and opinions as to the most effective model, and present recommendations, both to the EDC, as well as the general business populace, as to what forms of management structure and what other measures will help guide our economy in the future to greater prosperity.

Current Management Structure Types

First, we analyzed the traditional vertical management structure and then evaluated the more recent trends toward a matrix/horizontal management structure.

Traditional/Vertical Structure

The evaluation of business from small practices that were managed by the owners to larger, hierarchical firms was the result of changes in infrastructure and technology. These changes such as the development of mass production technologies and railroads enabled organizations to produce goods at ever decreasing costs in a single location and then transport the finished good to end consumer. These types of businesses lent themselves to vertical management structures. These firms also benefited from the Great Depression as they were the only ones standing following that timeframe. These were firms such as General Motors, Standard Oil, and DuPont are the classic examples of traditional, vertical management structures.

These organizations tended to be hierarchical and bureaucratic in nature (see organizational chart in Figure 1). The majority of decisions are made from the top down and have to travel through a bureaucratic approval process, which creates an environment that suffers from slow decision-making and a lengthy communication cycle. These organizations focus on departmentalization with layers of management within each department. Each department often has a top manager that reports to a single or multiple executives before a final decision is made. The factors contributing to departmentalization

are location, function, process, or product. Each department has a specific function within the organization and rarely collaborates with other departments.

Employees in a traditional organization are loyal and committed to their functional group or department and less in tune with goals of the overall organization or corporation. This creates a situation in which employees are looking up through management instead of out to customers. Employees in traditional organizations have little freedom and little authority to carry something out without prior approval from management.

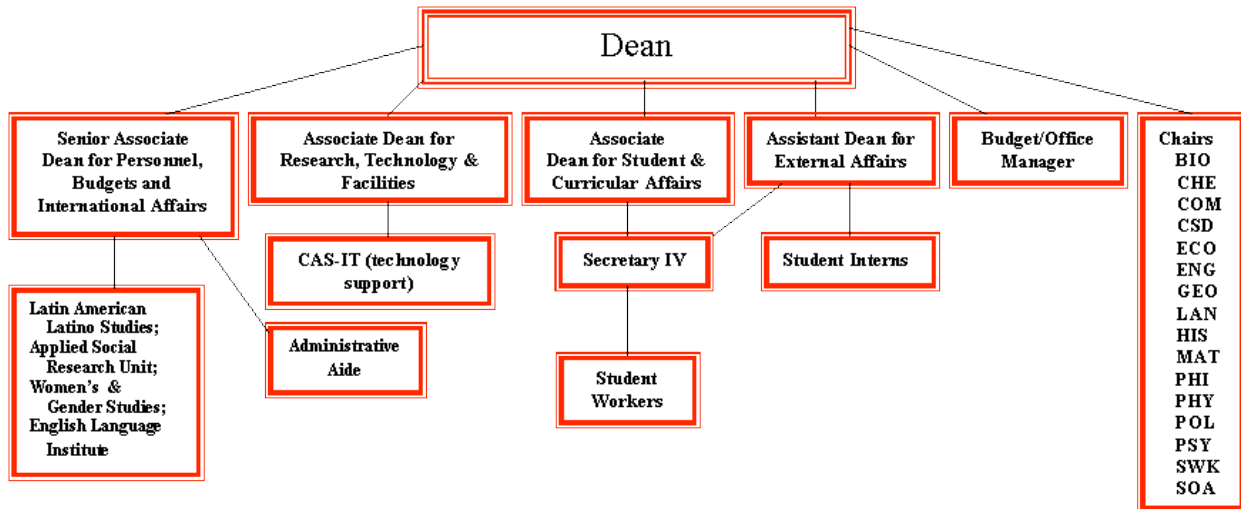


Figure 1: Example of a horizontal organizational chart (from <http://www.cas.ilstu.edu/office/images/orgchart.gif>)

Matrix/Horizontal Structure

While the vertical management structure appeared to be advantageous, overtime it started to show some cracks. As companies explored ways to expand into new markets, the firms experienced the negative side of dealing with excessive bureaucracy and red tape that was born from the large, vertical management structures. As business started to globalize, organizations began to realize the need to become more flexible and have the ability to adapt in a rapidly changing business environment. And in order to meet this need, they needed to encourage innovation.

Based on the U.S. Bureau of Labor Statistics Working Paper 405 (“Workplace Organization & Innovation” May 2007), innovation is found to have a positive correlation with both information-sharing and decentralized decision making. Traditionally, businesses believed that by creating certain incentive compensation structures that they could drive desired innovation. However, studies have proven that there is only a weak correlation between incentive pay and innovation. Anecdotally, today’s younger generation of workers place more value on having a career in which they feel utilized compared to one that might be more lucrative but not provide a sense of worth. Firms began realizing that by structuring their organizations in more of a horizontal manner, they were able to encourage more

information-sharing and decentralized decision making. The horizontal structure removed the multiple layers of management that an idea or feedback needed to travel through before reaching an ultimate decision-maker. And by removing these layers, the firms were able to respond to change and implement new strategies quicker. Thus, we have seen a greater trend toward horizontal management structures.

The trend did not stop with just an ordinary horizontal management structure, but has evolved even further to what is now referred to as the matrix/horizontal structure (see an example organizational chart in Figure 2). Within the matrix/horizontal structure, a firm is structured along multiple dimensions. As an example, assume we are looking at a national manufacturing firm. This particular firm might be structured in a way that an area manufacturing manager reports to both a regional manager as well as a national operations manager. In this case, the firm is organized by geography as well as by function, thus creating a matrix. The matrix/horizontal structure enables a firm to solve the problem of scarce human capital. For example, instead of having a staff of engineers for each division within a company, the company is able to leverage one engineering department by also having the engineers report to different product groups.

As consolidation has continued to create large global corporations, executives have identified the need to implement a management structure that promotes faster decision-making and better communications. Firms have learned that as a company increases in size and scope, that decision-making needs to be more decentralized and pushed to the “workers in the trenches.” By creating this work environment, a company is better suited to make rapid changes in order to remain competitive in today’s ever-changing markets.

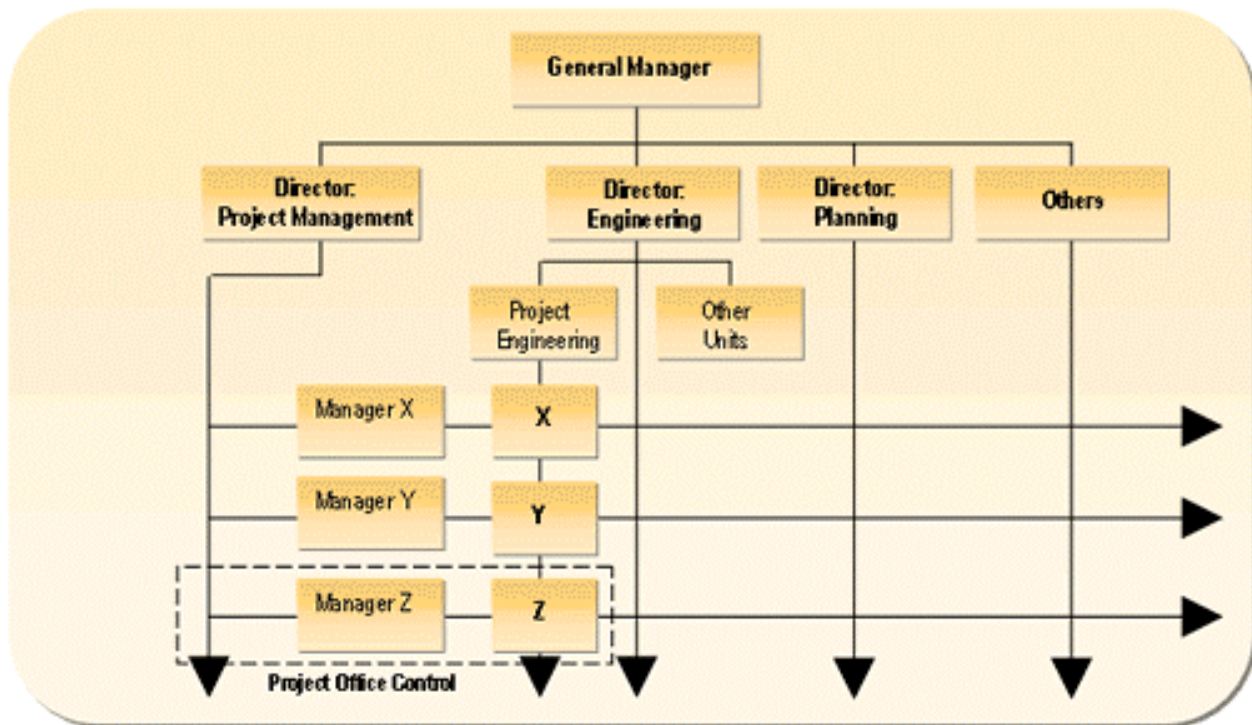


Figure 2: Example of a Matrix Organizational Chart (from http://www.fta.dot.gov/images/const_fig32.gif)

Current Management Structure Types: Summary

As we look into the future, we believe that organization will tend to be structured more closely to the matrix/horizontal structure than the traditional, vertical structure. We see the matrix/horizontal structure as enabling a company to accomplish two critical goals: (1) remaining nimble enough to change with market conditions and (2) creating a work environment that is appealing to valuable employees.

Local Management Structure Case Studies

As part of our effort to find out “Who is the Boss?,” we surveyed ourselves with four questions to determine what structures we work within now and what we’d like to see change in the future. We have aggregated our individual responses as employees and/or managers below, concluding with a summary of the ideal management structure, and what it means for future employers.

Local Management Structures

How would you describe the management structure you are currently in?

Members considered several management structure and organizational types, including seniority v. performance-based, rigid v. flexible, vertical v. horizontal work environments, and also whether the driver of productivity in the workplace (“the boss”) seemed to be the goals of the company, the goals of a workplace team, the satisfaction of every customer, or perhaps the completion of a project. It is important to note that employees discussed in this analysis run the gamut, but include managers at large companies, directors at medium-sized companies, and owners of small start up companies.

Although workplace structures varied widely (see Appendix 1, which includes three Case Studies from companies within our group), workers sounded several common themes. First, was that the structures in place tended to place a premium on performance, rather than placing a premium on seniority. Whether it was a traditional employee at a large company working in a team environment, or a small company owner, performance and results mattered. Second was that the structures were set up in largely a collaborative setting, to maximize production at a smaller company or perhaps to gain an interdisciplinary efficiency at a larger company through a team effort. And reports about management structures are that they are flexible in this type of team environment, although the rigidity and verticality of larger companies sometimes cast a shadow on the workplace.

Especially in the smaller companies, the structure is set up so that employees are either “on board” with the goals and direction of the company, or they are no longer working there. At larger companies, the structure seems to be increasingly focused on year-to-year performance measures, which are being achieved in various ways, but increasingly in a collaborative, team based environment.

Advantages of Local Management Structures

What do you like about your workplace structure?

Workers in this demographic were relatively satisfied with their status, setting aside obvious higher ambitions, and felt good about their ability to advance in their jobs, careers or companies. Given the tendency of employees in this generation to change jobs when they are unhappy, and given the trend of larger companies placing less value on retaining employees long-term, it is likely that employees in this group would move to new careers if they were unsatisfied.

For the most part, performance based systems, where local teams drive productivity for a larger company, or where small companies are setting well-defined goals, sits well with this demographic. When goals are placed in front of them, they enjoy performing in a team atmosphere, where their compensation is directly tied to their performance in achieving those goals, more so among those who worked for small companies where success of the company is more directly tied to your daily performance. Accountability is always at a premium.

Responses in this group started to differ somewhat along the lines of company type. At traditional larger companies, where a structure might be a more vertical, silo oriented, employees like the growth opportunities, stability, professional development opportunities, clear expectations, with the corporate ladder placed squarely in front of them.

Given the trend to a more matrix management structure, where a larger company might split into cross-functional teams to achieve goals, employees felt the individual manager and their management style might have as much affect on outcomes as anything. Further, these type of employees favored working in interdisciplinary groups, the accountability a team atmosphere brings, and the camaraderie and respect that is built up in a team atmosphere. And those in smaller companies where accountability is local and direct, employees enjoyed and craved control, accountability and the ability to directly affect the success of the company.

Disadvantages of Local Management Structures

What do you wish you could change about your workplace structure?

There remained some significant qualities about these structures that created limitations or the need for change. Whether working in a small company, traditional company, or a matrix type system, employees want flatter management structures. All seemed to agree that faster decision making, quicker problem resolution, and local accountability was of the utmost importance, regardless of management structure. While those at smaller companies felt that structure of the company mattered less than performance and results, all workers

craved more training and professional development opportunities, in addition to the on-the-job training that most in strictly performance-based job environments tend to get.

What We Want In Local Management Structures

Describe your ideal management structure you would wish to work in.

Finally, employees in this group and demographic tend to be satisfied with the structure of their organization and suggested mostly minor tweaks that can help enhance performance and results.

Regardless of company or management structure, employees believed that performance based systems are their ideal for how a management structure should look, and the actual structure seemed to matter less. The competency and management style of a particular manager matters more, as does the opportunity to fit into a team environment where teamwork and accountability is stressed.

Local Management Structures Case Studies: Summary

Employees want a structure in which results matter, and to know that their evaluation and compensation is based on those results. The structure should allow their voice to be heard, it should provide for accountability to others, and the structure should provide an opportunity for the employee to feel needed and that their results will move the company forward. From our perspective, “the boss” seems to be RESULTS based on the goals of the company, whereby those results are a product of an employee’s active engagement in the outcome, their performance and accountability.

Recommendations and Guidance for EDC

Based on both the survey of group members as well as the case studies (see Appendix 1) of local management structures and corporate histories within the group, our team has come to several conclusions about “who is the boss” in the McLean County workplace, and how management structures of the future can be better shaped. As such, we now offer the following guidance to the EDC regarding management structures in the workplace, based on our experiences and beliefs. Further, we also offer some additional thoughts about how we can work to improve those structures, and perhaps improve employee morale, effectiveness and productivity.

Management Structures of the Future

Overall, this team recognizes that management structures are evolving, as the younger generation grows from workforce to management. In an ever-changing business world, the workplace has become flatter and more horizontal, and increasingly productive as employee attitudes and values evolve. We believe this structural evolution towards the matrix/horizontal structure provides:

- more and better access to information,
- more ownership and accountability in the end product
- better opportunities for performance and incentive based compensation.
- freedom for employees to achieve goals and expectations regardless of how their workday is structured
- recognition for individual and team achievements
- most importantly to this group, an ownership stake in the positive outcomes achieved by their employer

Further, in order to better achieve a healthier, more effective and more productive management structures in an increasingly competitive world, the group also recommends continued expansion of professional development opportunities for managers, with the goal of helping small- and medium-sized businesses achieve greater heights.

The ultimate question placed before this team was “Who is the Boss.” This Management Structures team finds that the **goals of the company** are “The Boss.” This conclusion can be drawn whether an employees is in a smaller company, where employees are either on board with the goals of the company, or they no longer work there, in a mid-sized company, where employees pursue advancement by meeting the goals of the company by reaching targets placed in front of them; or in the environment of a larger company, where employees are increasingly working with teams to achieve the goals of the company, in a flatter matrix/horizontal management structure.

In conclusion, we believe these recommendations and guidance can be used by the EDC to both enhance management structures already in place in the area, and to provide direction to future employers, toward meeting the goals of the EDC to enhance and grow small and medium-sized business into future market contenders.

Advantages:

- A “one-stop shop” for professional development (as well as the requested resources listed in Recommendations #2 and #3) means more attention to the organizing institution, such as the EDC.
- A single-source of professional development can provide more focused learning and growth potential for small- and medium-sized businesses
- Sustained and comprehensive development translates into less turnover and stable work environments.
- The EDC can save resources by asking out-of-town professionals who provide on-site training to larger companies in town to dovetail their visits with EDC-sponsored, non-company-specific workshops during the same trip.
- The majority of employers and employees in our team said they would pay for such training.

Disadvantages:

- Point-of-need training requires buy-in from mentors and participants to respond in quicker, less time-blocked ways.
- Single-sourcing professional development opportunities may be difficult to aggregate and maintain.

Appendix 1

Case Studies

1. *Farnsworth Group, Inc.*

Industry: Engineering-Architecture Consulting Firm

Professional Services: Full range of engineering services in civil, environmental, transportation, mechanical, electrical, structural, and municipal engineering; as well as architecture, surveying, commissioning and LEED® consulting.

Business Structure: S-Corporation

Management Structure: Matrix organization segregated by professional discipline and location. Structure is driven more by professional discipline/group leaders than traditional location centers. Managers are selected based on performance, experience, and licensure, not necessarily seniority. This structure is a hybrid of the more traditional vertical structure.

General Stats:	Total	IL	Bloomington-Normal
Employees	320	200	109
Offices	16	7	2

Demographics: 73% Male, 27% Female, 7% Minority
Average Age of Employee - 40

History of Growth:

Firm history dates back over 100 years to 1890 with Land Surveyor, Elmer Folsom. Firm has grown from sole proprietorship with a few employees in the first half of the 1900's to a general partnership with 40 – 50 employees in the mid 1900's. In 1984, the firm transitioned to an employee-owned S-corporation. In the mid 1990's, the company grew in size and services through several mergers and acquisitions of other firms – added architecture, mechanical, electrical, commissioning, landscape architecture, etc. Since 2000, the firm has grown in size and revenues through organic growth.

Goals for Future Growth:

Market driven growth – organic vs. acquisition

3. Mavidea Technology Group, LLC

Industry: Digital Convergence & IT Services Company

Professional Services: Full range of IT consulting and support, hardware & software installation, web application development and web design services.

Business Structure: Limited Liability Corporation

Management Structure: Functional team-based.

General Stats: Bloomington-Normal

Employees 17

Offices 1

Demographics: 82% Male, 18% Female, 6% Minority

Average Age of Employee - 31

History of Growth:

Formed July 1, 2007 with seven partners by merging seven "1-man shops." Our initial structure was a silo of Web Development and IT Services with each half responsible for its own sales, staffing and accounting, but with shared overhead of marketing and rent. Web Development saw immediate growth and hired 3 staff in 15 days. First partner left Web Development in 60 days because he couldn't transition out of 1-man shop mode. IT Services side also hired additional techs. By Dec. 2007 Mavidea was at 12 staff and realized silos were a bad idea and started talking about a transition to a traditional hierarchy. Mavidea pursued its first line of credit to fund significantly larger hardware and software sales opportunities. The search served as a real wake-up call to how our organizational structure appeared to the outside world. CEO and COO were elected to run operations. Mavidea is now at 17 staff on 4 functional teams – Web Development, IT Services, Sales/Marketing, and Back-Office. Accounting has been consolidated and streamlined. We brought on an experienced sales-person and shifted 1 employee to act as a dedicated sales-engineer to spec and build quotes.

Goals for Future Growth:

Organic and Acquisition Growth planned. Mavidea will open second office in Tampa, Florida, before the year is out, with plans to be in 1 tier-1 and 5 tier-2 markets within 4 years.

4. *ComeToBuy, Inc. (CTB, Inc.)*

Industry: Web application and development company

Professional Services: Full range of web services including business and web development consulting, Tier 1 Network web hosting, custom web application development, website design, website optimization, and online marketing .

Business Structure: C-Corp

Management Structure:

Traditional tiered for senior management, Supervisors work alongside many of the regular employees in a more horizontal work environment. Most successful employees take responsibility for their projects and are encouraged to treat clients as though they were the owner of the business. Flexible work hours allow for each individual to allow work to accommodate their schedules and are encouraged to identify an optimal work schedule for themselves. Contract employees are available to supplement projects and allow for phased strategic growth.

General Stats:	<u> </u>	<u>Total</u>
	Employees	13
	Offices	1

Demographics: 77% Male, 23% Female
8% Minority
Average Age of Employee - 35

History of Growth:

ComeToBuy, Inc. (CTB) began in 1999 by the 2 co-founders working from their homes. One of the first products developed, was the origination of the "Zero New Cost Marketing Model" for mail order companies. Understanding a measureable growth model was the standard for mail order companies; many did not want to invest in the internet and thus fostered a partnership opportunity for CTB to provide internet services and e-commerce to these companies at no cost. CTB chose to strategically purchase its own hardware, and not share hardware. This choice not only differentiated CTB from competitors, but also simplified compliance with the CISP (credit Cardholder Information Security Program) and HIPAA (Health Insurance Portability and Accountability Act) standards, as our client's businesses and needs continued to grow.

The first full-time employees were hired in 2002 to handle the growing support needs of our clients. It was during this time that several internet applications were also identified and produced for several Fortune 100 companies. Other diversified web products were

also provided to small to medium size businesses, as CTB identified a need to help foster the growth of new and existing businesses.

Late 2005, CTB purchased the property at its current location where 5 employees moved with the company. Growth of CTB has been very strategic and steady as satisfied client referrals have produced a majority of new work.

Goals for Future Growth: \$2.8 Million revenue by 2015 (based on average growth since 2000)