Source: Management and Finance Online Journal: Vol. 3, No. 1 (November 2019)

Published by: Harvard Extension Student Management and Finance Club (HESMFC)

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MANAGEMENT AND FINANCE ONLINE JOURNAL

Published by Harvard Extension Student Management and Finance Club

(HESMFC)

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FLAT CORPORATIONS: FEASIBILITY OF SELF-MANAGED WORKPLACES

Rodrigo Salvaterra
Harvard Extension School, Harvard University, 51 Brattle Street, Cambridge, MA 02138
Contact Email: rodrigo.salvaterra@alumni.harvard.edu

ABSRACT

This essay discusses the feasibility, benefits, and challenges of implementing a fully flat structure in modern organizations, with no formal managers. Tall organizations with several layers of management are often criticized for its inefficiencies and bureaucracies, but other severe problems are hidden and pose a higher risk to the company, individuals, and society. Hierarchy results in inequality, unethical behavior, discrimination, usurpation, and unjustified privilege. Disciplines such as management, organizational behavior, and human resources, look at organizational problems mostly assuming some form of hierarchy. Instead, if the company had no managers, some of these problems would be eliminated or reduced, while others would be introduced. Business and behavioral sciences are evolving rapidly on the basis of traditional structure and this paper increment the embryonic literature of flat organizations.

***Keywords*:** flat organizations; structure; hierarchy; tall; power; organizational behavior

INTRODUCTION

Corporate hierarchy is a formal establishment and recognition of organizational power and status by the institution, usually documented as an organizational chart. Power is distributed among employees, based and others are subordinate in some sense (Diefenbach, 2013).

Rodrigo Salvaterra is a Global Business Engineer, responsible for Strategic Programs and Emerging Technologies at J.P. Morgan Chase. He holds a A.L.B. degree major in Economics from Harvard University and is pursuing a Master's degree in Management also at Harvard. He is a member of the American Economic Association and performs various volunteer activities at community banks on Data Science and Analytics improving their capacity in reaching underserved and low-income families. He started his career at a very young age as a developer building managerial software for small business. Later, he worked in the software, utilities, and financial industries where he increased his passion for technology aligned with business,

Power distribution can be based on merit, experience, or credentials, but are often based on a mix of objective and subjective criteria, in which subjective criteria prevails. Tall structures are defined by a great power differential between employees at the bottom and managers to the top, with several layers in between. It is common to find large businesses with tall structures but none with fully flat structures. Studying flat structures helps us understand markets and business in alternative ways, as it forces us to disentangle from vicious assumptions. Some problems that are attributed to individual behavior could be a result of a tall model. This article looks at the origins of the corporate hierarchy and why it persists. It also presents the cases of three companies that adopted a flat structure in which two of them abandoned the model. Finally, it argues that we do not have evidence that hierarchical models are preferable to flat models, and hence hierarchical models are unjustifiable.

finance, and banking. He worked for more than a decade as an advisor and consultant for large corporations such as IBM, HP, Barclays Capital, Citigroup, and Thomson Reuters in different markets including Brazil, UK, and the US. He also studied Business Administration and Computer Science in universities abroad. He gives speeches on innovation globally and writes about Artificial Intelligence, Economics, and Management. He is an advocate for democratized state-of-art technology, making it accessible to everyone and bringing academia and business together.

Corporate hierarchy has some clear advantages. It reduces the communication costs since subordinates are expected to comply and not be persuaded, it ensures certain stability over time (Zaleznik, 1989), it creates incentives to productivity such as promotion, and it reduces the coordination efforts. However, hierarchy has many disadvantages that by far outweigh its advantages (Diefenbach, 2013). It increases unethical behavior, social and financial inequality, power unbalance, unjustifiable privileges, unequal access to common resources, discrimination, oppression, exploitation, usurpation, and many other negatives outcomes part of unequal social relations. (Daloz, 2007) (Sidanius, Pratto, van, & Levin, 2004) (Gould, 2002) (Sidanius & Pratto, Social dominance: An intergroup theory of social hierarchy and oppression., 1999) (Gouldner, 1960) (Mills, 1956).

ORIGINS OF CORPORATE HIERARCHY

To analyze flat structures, one has to deconstruct the embodied notion that current arrangements are essential. The history of social stratification and hierarchical relations among people can be traced back to the ancient history (Nolte, 2015). However, the nuances of modern corporate hierarchies are much more recent with the development of capitalism. Socio-economic arrangements on feudalism, for example, entitled classes of people to land and the product of the land, while peasants

received a small portion of grain, coin, or both (Abdy, 1890). These arrangements defined a clear power structure which precluded any upward mobility. With the Industrial Revolution, machinery transformed these relations introducing the division of labor with a more complex segregation of duties. Even business in socialist regimes which praised equality, these orthodox hierarchical structures persisted. (Chavance, January 01, 1995).

It is difficult to assert if the rigid hierarchical structure of businesses was inevitable or a product of the transitional zeitgeist. A possible explanation was the tendency to replicate existing models such as the government, military, or the church that for many centuries had institutionalized hierarchy. Using computer simulation, researchers concluded that biological networks without a connection cost never evolve to be hierarchical (Mengistu, Huizinga, Mouret, & Clune, 2016). The results could suggest that hierarchies are not the natural state of affairs. However, when introduced a connection cost, the network becomes clustered and hierarchical. On example of connection cost is communication. Communication is extremely costly because a two-way communication is an interactive task that usually requires full attention from the parties. Verbal communication, for example, is intrinsically time-consuming and inefficient as only one person can speak at the time.

A good way to understand how modern hierarchy evolves is by looking at the lifecycle of a small business. A small business can start flat and become hierarchical as it grows. As the business grows, there is a clear need for segregation of duties since miscommunication and lack of control lead to financial losses and customer dissatisfaction. Segregation of duties results in departmentalization. Each department then creates a process to manage their group better. Departments then elect a leader who can motivate the team, handle communication with other areas, and provide reports to the business owner.

HIERARCHY AND SIZE

Behavioral specialist Ph.D. Robin Dunbar theorized that the turning point for the business is when it reaches 150 employees, which is now called the Dunbar's Number. The explanation comes from the cognitive limitations of social interactions. He argues that "[t]here is no question that the dynamics of organizations change once they exceed about 150 or so," (Dunbar, 2016).

A flat organization is not necessarily one single big team. As the business increase, more people will perform similar functions, and functions that were unnecessary become crucial. Team members can identify that some segregation is necessary to increase efficiency. However, research suggests that as the team increases, employees reduce their effort as they feel less responsible for the deliveries, called the Ringelmann effect (Forsyth, 2014). The question of team size for flat organizations seems to be similar to hierarchical structures, therefore, keeping small teams seems important in both structures.

VALVE

Valve is a small tech company with 360 employees and uses a flat structure. Valve's employee's handbook leaked a few years ago and instantly became viral (D'Orazio, 2012). It outlined the principles of what they called "a fearless adventure in knowing what to when no one's there telling you what to do" (Valve, 2012). The fifty pages manual gives directions on what to do in the first few months, how-to pick-up tasks and projects, and how employees are reviewed. The company produces video game software and it became popular, voted the number one place "most wanted to work for" (International Game Developers Association, 2015). People discuss with each other ideas and form spontaneous groups to work on a project. Teammates review their peers regarding commitment, engagement, deliveries, etc. Peer-pressure then becomes an informal factor, replacing unilateral manager-subordinate relation.

GITHUB, MEDIUM, AND ZAPPOS

Some companies struggled to adapt to flat structures abandoned the model. Medium, GitHub, and Zappos, which employs 400, 800, and 1,500 people respectively, are some examples. GitHub struggled with administrative issues, including accusations of discrimination, which led the company to abandon the flat model (Evelyn, 2014). As the company reached 600 employees "a flat organization compromised its ability to get things done." (Mittelman, 2016). Medium and Zappos implemented a specific flat model called Holacracy. Later, the CEO of Medium reversed the model claiming that "it was difficult to coordinate efforts at scale… for larger initiatives, which require coordination across functions; it can be time-consuming and divisive to gain alignment." (Doyle, 2016) The company did not see as a failed experiment, but as a positive journey which introduced concepts that remains in the company. Finally, Zappos experienced similar problems, including confusion on compensation, which led 18 percent of the workforce to leave the company within the first ten months after going flat (Gelles, 2016). Although Zappos introduced hierarchy back again, the CEO, who left the company, still believes that the model of organic structures can be successful.

PROBLEMS OF TALL ORGANIZATIONS

Hierarchical organizations lack democratic participation. Opinions that directly affect employees are not taken into consideration. Even decisions that do not require deep understanding on a specific subject (such as renovating the workspace) do not count with democratic participation. Hierarchical organizations associate paygrades to titles, rather than establishing a strong evaluation system (Jaques, 1990). This approach funnels the evaluation process to a single point of interaction, removing the needed for justification of high salaries. Once the manager reached a higher title, she can never be 'downgraded'. The bonus is argued to fulfill this gap between salary and performance. However, in many companies, the manager decides on the pool of bonus, who is likely

to get a large bonus. This creates a wage gap in which CEO receives sometimes 1,000 times the median worker (Wakamo, 2018).

POWER RELATIONS AND TITLES

If not planned, eliminating hierarchy can also have its drawbacks as the changes the relation of dominance, status, and influence among employees. When hierarchy is completely removed, a different hierarchy emerges, incentives for status reduces, and auxiliary functions can become a bottleneck. Firstly, it is inevitable that leaders with specific personality traits such as sympathy, eloquence, credentials, experience, etc., will stand out in a company without managers (as they do in tall organizations). They possess what is called expert and referent power, a type of power that is not given by the institution. (French & Raven, 1959). People who possess these skills will use them to influence the group (Koski, Xie, & Olson, 2015). Jo Freeman (2013) criticized the lack of structure by saying that another structure will replace it. A former Valve employee describes that "there is actually a hidden layer of powerful management structure in the company and it felt a lot like high school. There are popular kids that have acquired power in the company, then there's the trouble makers, and everyone in between" (Warr, 2013). The difficult question is if a 'free-market' power is preferable or not to institutionalized power. The difference between the two is that institutionalized power is given and defined by another person while non-institutionalized power is given by each individual. Secondly, removing hierarchy presupposes removing titles, which would change the dynamics of status and influence. Some people value power over other aspects, including compensation. Reducing power disparities might affect the incentives of ambitious people, how would otherwise perform better if titles existed.

CONCLUSION

Adopting an unorthodox flat model raises strong concerns of coordination, administration, motivation, and compensation. Such concerns might decrease the likelihood of success and the inclination to persist in the model. Success and failure of tall structures are often attributed to one or a few leaders. On a flat structure, it is easier to blame the model, when there is not a specific person to blame. The lack of literature and real-life examples indeed imposes a significant risk on the odds of flat models, but as we have seen in the case of Valve it can be successful. Current social economic relations seem to have influence on how hierarchies emerge and prevail, and flat models might be less preferable under such system because it works disconnected with concepts of individualism and exchange-based relations.

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