7-Somewhat Easy Steps to Create an Organizational Structure for Your Small Business
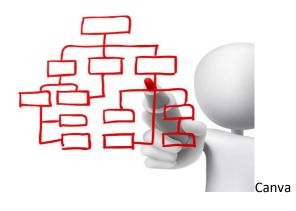

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What are Organizational Structures

[Managing a business](#) can be daunting. It isn't simply opening the doors; customers will come, and employees will know what to do. It's more of planning, planning, planning, and finally executing. It's when the hobby or idea evolves into a structured and fully operational activity that begins making money. This means you need some structure. The purpose of an organizational structure is to group rules, roles, relationships, and responsibilities that outline how your business processes and activities are directed to ensure your product or service is delivered to the consumer correctly. The structure of the business process operates in a concise, comprehensive, smooth, and efficient manner with the least amount of expense.

Considering the options of your small business structure is an essential step in that direction. Because all small businesses are different by industry, size, and scope, there is no one-size-fits-all solution to the structure of any business. Business structures can be one style or a combination of techniques. With the new work climate, remote workers, and the changing flow of work, organizations must operate with a flexible and agile structure.

Defining Which Organizational Structure is Best and Why

Understanding the factors that help you identify which organizational structure is best at the startup and operational stage and which gives the best opportunity for managing change and growth is essential.

Depending on your industry, the answer varies. The Small Business Administration (SBA) considers both industry and income. Typically, a small business has fewer than 1,500 employees and a maximum of $38.5 million in average annual receipts, according to the SBA. These businesses are privately owned corporations, partnerships, or sole proprietorships with less revenue than larger businesses. To review all definitions of the SBA, read *What Is the SBA's Definition of Small Business (And Why)?.* The SBA defines microbusinesses as those that have 1-9

[employees](#). There are other definitions for different states or localities. Some states also look at an industry and annual revenue to define a microbusiness and may offer different types of licenses and registrations.

Regardless of the business size, all small businesses need an organizational structure.

Advantages and Disadvantages of Having an Organizational Structure

Organizational structures have both advantages and disadvantages, as with anything else in the operation and management of a business. It's important to weigh options, look at all the internal and external factors from your business plan before finalizing a startup structure, and look to the future for growth and expansion. Regardless of the chosen form, weighing the typical pros and cons is essential.

Here is a list of advantages and disadvantages that are specific to all.

Advantages of Organizational Structure

Increases operating efficiency. Planning and implementing a strong startup organizational structure that aligns with your organizational strategy will improve operational efficiency while preparing for growth and expansion. When the need arises to hire new staff members for different tasks that aren't on the current organizational structure, or profitable projects, that have expanded outside the existing structure, it's essential to define an additional location. It's time to rethink the startup and move to a model better aligned with your growth business plan and long-term strategy.

- **Clarified management structure**. A startup business must have a clear structure that identifies and distributes tasks and duties that align with the processes and flow, skills and expertise, and business deliverables of products or services. This assists new and current employees in not only understanding where they fit within the organization but also supports what their expected contribution is. A well-defined management structure eliminates the confusion of who is in charge of what, how projects are moved forward, and understanding where the end-user fits into the picture.
- **Greater employee performance.** Within any business, employees expect to perform the tasks they were hired to do. An organizational structure can improve that performance through guidance and design to improve performance, boost morale and personal confidence.
- **Better communication**. When managing a business, regardless of the specific structure, it's essential to have an organizational reporting hierarchy to ensure productive communication between individuals and teams and enhance the communication between cross functions. This ensures proper workflow performance and offers opportunities for innovation and creativity.
- **Faster decision-making.** With an organizational structure that provides hierarchical and cross-functional communications with different teams, this ability will positively impact the speed with which decisions are made and the flow of information and innovation.
- **Operation efficiency improvements.** When using cross-functional teams from various departments with various skills and expertise, there could be a significant risk of duplicated and overlapping work. When work is segregated into different areas, skills, or departments, and teams are multi-dimensional with skills and expertise, not only is there an enhanced level of efficiency and communication, the organizational structure

provides an effective, efficient, simplified, and performance-driven system that improves the company's operations.

- **Reduced workplace conflicts.** Organizational structures can potentially eliminate conflict between employees. Although several factors may be involved, an employee who understands their specific duties, their agreed goals, and the chain-ff-command focus more on performance and less on coworker conflict.
- **Growth and expansion.** As a small business owner, it's crucial to create an organizational structure to support your startup and plan for the future by either keeping the same one or building on another when the time comes. Different structures may support a more efficient process as you grow and expand. As new technology comes into play, some areas might need revamping or eliminating. If you are planning for multiple locations, it is in your best interest from a time, financial and liable place to have similar and consistent policies and operating procedures at all locations. Further, future lenders will want to see not only your startup organizational structure but also a structure that reflects your agility and flexibility during expansion, growth, unexpected changes like reorganizing and employee reductions, and rapid growth.

Disadvantages of Organizational Structures

Although each business structure has its disadvantages, some are common to all. Sometimes these disadvantages cause a trickle-down effect within businesses.

- **Disproportionate management lines**. When a manager has more direct reports than other managers, there often increases bureaucracy, which may slow decisions and communication.
- **Formal structures.** Micromanagement may become present if managers have too many or too few employees to oversee and direct. Strict lines of communication and processes may slow decisions and flexibility because of the bureaucratic processes and procedures of more formal structures. This might impact the production and delivery of products and services.
- **Decreased flexibility**. Depending on supply and demand and the changing nature of how business is created and delivered, formal structures supporting business operations that aren't flexible enough to change rapidly or at all may impact the ability to thrive and survive.
- **Cost of doing business.** Having a formal business structure as a startup might be just the thing; however, as you expand and grow, having multiple departments means having many managers, supervisors, and employees. This means a higher cost of doing business across the board. If it's not planned, it might not be a viable option to expand.
- **Organizational rivalry.** Formal organizational structures often pit departments and teams against other departments and teams. Sometimes, departments and teams make decisions that do not benefit only them rather than the organization. Working independently with more formal lines of decisions and communications might create a rivalry that results in a loss of employee engagement, performance, and trust in the organization.

Types of organizational structures for small businesses

Most organizational structures are either tall or flat. There are many types of structures, including but not limited to:

Hierarchical also known as Line **Functional** **Horizontal also known as Flat or** **Flatarchy** **Matrix** **Project-based** **Modular**	**Divisional also known as multidivisional structure, including market, product, or geographical based** **Team** **Network** **Circle** **Organic**

Small business startups typically use these organizational structures. The rationale is that they can keep using any of these structures, allowing them to build out departments or functions without changing the structure. These organizations are flexible and agile in times of growth, expansion, and change and encourage less management oversight and more employee engagement. They are also quite adaptable to modifying or moving to a new structure. You may find detailed information reading Types of Organizational Structures and Their Pros and Cons.

The structure types most often used by small businesses are:

1. **Hierarchical**
   - Wikipedia defines a hierarchical organization as an organizational structure where every entity in the organization, except one, is subordinate to a single other entity. It's usually depicted as a pyramid-shaped organization with the senior leader of title and power at the top with subsequent levels of power beneath them. An example of a hierarchical organizational structure is **here**.
     - Pros: clearly defined authority; encourages specialization; distinct career path and promotion plan; department loyalty; room for expansion and growth; and levels of control.
     - Cons: may foster employee bias and loyalty to the department and not the organization; slow innovation or change within, and can cause rivalry between different levels of employee.
2. **Functional**
   - The functional organizational structure is similar to the hierarchical structure in that they are managed by leaders of title and power who report up to another leader of title and power; however, there are some differences. The functional structure organizes employees by their specific skills and the function they provide to the organization. Departments are managed independently of one another. An example of a functional organizational structure is **here**.
     - Pros: because employees are grouped by their skills, it allows them to focus on their personal roles; creates a sense of teamwork and self-determination, encourages specialization, and is scalable.

- o Cons: may create silos within the organization, creating unhealthy competition; may deter communication between departments and management issues.
3. **Horizontal or Flat (Flatarchy)**
   - This structure has little or no management levels between upper and staff level employees. There may only be one manager between the senior executive and the rest of the employees. Flatarchy is a hybrid of a hierarchy and a flat or horizontal organization. An example of a horizontal or flat organizational structure is **here**.
     - o Pros: cost-efficient; offers excellent open communication, provides employees with more responsibility, decisions made faster, and contributes to higher employee morale.
     - o Cons: may cause employees to have generalized knowledge and skills; confusion with leadership and control; may be difficult to maintain as the company grows and expands; and may cause potential employee conflicts.

7-Somewhat Easy Steps to Create an Organizational Structure for Your Small Business

Having a visual representation of the structure of the organization you are creating, identifying all of the positions needed to support the product or service, and the skills and abilities of the employees you hire to deliver that product or service. Just as a business plan is essential to the success of your small business, so is an organizational chart.

There are 7-somewhat easy steps to create the structure that best suits your needs. This will take time, elbow grease, and much thought. However, the investment of your time now is money in the bank for the success of your startup.

Here are the steps:

Step 1 – Confirm a Thorough Analysis of Your Idea
- Start with the basics. Review the 5-Steps Before Starting Your Business. Be sure you complete a thorough analysis of your final idea, market and competitive research, personal and investment finances, and family support, and are ready to put it together. To save time, be sure you have identified the type of business you will create (LLC, partnership, corporation, etc.) and are licensed.

Step 2 – Begin the Business Plan Process
- Now comes the hard part. Begin laying out your Business Plan. This is another "must-have" to get any loan. It's also a great indicator of where you are now, where you want to go, and how well you got there. You will need the research and other data you've collected to complete this process and create the organizational structure.

Step 3 – Determine the Processes that Get Your Product or Service to Market
- Building your business plan and organizational structure go hand-in-hand to some degree. To complete the business plan in full, you'll need to understand the creation, processes, and how and where you will get the product or service to market. This is where the structure begins. First, consider what industry you are in. Next, identify the types of positions needed to create your product or service. Once done, determine what processes will be required, especially logistics, packaging, and marketing, to prepare your product for the market. And

finally, what will be the distribution and sale process to get the product to the consumer. Think about your business as it will exist as a startup and how you want it to grow.

Step 4 – Select the Best Structure for your Business

- Now it's time to decide which organizational structure best suits your needs. Any of those mentioned above are best suited for a small business startup. Review each of these structures to find the one that best matches your business needs, including the processes you've identified and the consideration for expansion. Each box will need a position title which will be the position you will hire for once you are established. It might be an excellent time to prioritize the positions to fill first.

Step 5 – Identify Specific Information for Each Box

- As you begin to identify the job titles in your structure, give specific thought to the knowledge, skills, and education required to support all of your processes. This information, including the tasks, is critical to a job description and will comprise almost a good position description. Think about what tasks will need to be completed and how it all fits together to get your product or service in the hands of the consumer. How will these systems and logistics interface? What is the best way for your business to flow daily?

Step 6 – Fill in the Structure Boxes with Job Titles

- Now begin filling in the boxes of your chosen structure. Keep it simple and concise. You don't need anything but a reporting line and the title of the position in the box for this basic structure. As you produce your structure, again, return to your process. Do these positions and structures support the organization's process and its deliverables?

Step 7 – Complete the Organizational Structure

- Mull your structure over for a few days. Once you are clear that this is the structure that will support your product or service to the consumer, you may want to consider using software designed to create organizational structures to speed the process and make it easier to modify. Once finished, you will want to save and store it in a secure location. If you are using a software system, be sure that a few people have access to the password.

Resources to Get the Ball Rolling

Good news! You don't have to do this without resources. Here you will find the Top 10 Free Org Chart Software in 2021.