

ORGANIZATION & STYLE:

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RUNNING YOUR BUSINESS. WHICH MODEL TO CHOOSE?

Every industry is unique. Different customers, different products, and different processes require different organizational models. The one that works best for one industry rarely does for another.

In this regard creative services is not different from any other industry. We are different, though, in three other ways: our total dependency on talent, our concerns about organizational structure, and our uneasiness about management.

The talent issue. Like all service organizations, creative businesses are little more than a collection of people. Assets come in the door in the morning and go out the door in the evening.

The significance of this is that personnel organization and management style are absolutely crucial to the success of all creative businesses. There is little else that can be modified: few facilities to improve, no manufacturing to run more efficiently, no distribution to change. Any betterment must happen at the organizational and management levels.

The organizational phobia. Despite the obvious, it is still a common belief among principals of creative shops that less organization is probably better. And even as much as the need is accepted, it is often viewed as a compromise—a business necessity we worry will have a negative effect on our shops' creative products.

We suffer from the fear that too much structure will reduce the freedom that is an essential component of every creative individual's persona. This keeps

some freelancers from expanding, keeps some principals from hiring more staff.

As has been said here before, growth and size are not necessary for a creative business to be successful. But, neither should they be ruled out because of organizational phobias.

Truth is, not only are organization and structure necessary for the business side of creativity, but they actually improve the product side as well. They do *not* reduce the freedom that defines our personalities, and that we so cherish.

The style dilemma. Most principals want their firms to be collegial in style, to consider their employees as family. Many principals also have non-confrontational personalities. And, of course, few have management training. It's a problematic mix.

What's best for business is not always in the interests of individual employees. Principals must

feel free to make tough decisions without undue concern about confrontation or employee feelings. This is difficult, maybe impossible, when the decisions involve friends.

So the best management style is to keep employee relations on a less than familial basis. Be informal, open, and friendly. Also take a genuine interest in their lives and welfare. But stop short of personal relationships.

It is possible to be a nice gal or guy, to have a happy operation, and to run your business efficiently. But doing so requires keeping an emotional distance from employees and their personal lives.

UNIVERSAL NEEDS

The success of every creative services business is largely dependent upon the collective output of its staff. So the first and most important goal of organizational structure and management style should be to create the working environment that will be most conducive to producing product quality and staff efficiency. No less.

This need is the same whether the organization is legally structured as a corporation, partnership, LLC, or sole proprietorship. And whether large or small, all creative organizations also share the common need for predictability and scalability.

Predictability. Consistent processes and results are key to business success. Yet, lack of predictability is also the very essence of creativity. How to reconcile? Or is it even possible when every project, every client, is different?

Actually, this is not the dichotomy it seems. While the creative process itself can't be structured, the procedures that make it possible can and should be. This is because *creativity is always enhanced by a predictable working environment*. The more organized and stable things are, the less individuals are distracted, and the freer they are to concentrate. So the more their

creativity will flourish. Creativity thrives within structure it withers in chaos.

Despite common perceptions to the contrary, *Creative Business* surveys consistently show that most employees in most shops would be happier with more, not less, structure. Simply, the more predictable their working environment, the happier they become. Conversely, unpredictability—lack of procedures, confusion, and dealing with the

Goal One: An Environment Conducive To Quality & Efficiency.

unexpected—is high on the list of employee gripes. Principals' well-meaning attempts to keep policies and procedures to a minimum usually backfire. Most err on the side of too few, not too many.

Predictability is also essential from a productivity standpoint. Efficiency is enhanced when individuals have no doubts about a course of action, and when routine functions are handled in a routine manner. The alternative is redundancy, wasted time, and reduced profitability.

To make the case for predictability is not to argue for complexity and regimentation. An organizational model for creative services companies should be one simple enough to provide all the benefits of predictability, but not one so complex as to be rigid or inflexible.

Scalability. By most standards creative organizations are

volatile businesses. That is, activity is prone to rapid expansion or contraction, depending on client needs. Change always affects workflow, efficiency, and profitability, and sometimes it even necessitates hiring or laying off employees.

Inherent volatility means that *creative organizations must be able to accommodate business fluctuations without affecting efficiency*. That is, they must work as well at one activity level, one size, as another. The way to ensure this is to disperse as many tasks and functions throughout the organization as practical. Doing this reduces the chances of problems—details being missed or bottlenecks occurring—when change inevitably happens.

The less concentrated the decision making, the more flexible the organization, the less chance it will breakdown under the pressures of change.

Principals often delegate too little and not far enough down in their organizations. Sometimes this is out of a fear of consequences, sometimes it is because they are reluctant share control. Whatever, the benefits of greater delegation usually far outweigh any of the potential risks of doing so.

There is also another, very practical reason for delegating responsibilities: it frees up time for management needs that can't be delegated. Only you can determine your company's overall direction, culture, and positioning. You will probably have to be involved with marketing, especially to key accounts. And you will have to continue to make many daily decisions regarding finances, operations, and personnel. Since the most crucial responsibilities can't be delegated, others should be. Not doing so is to risk being overwhelmed by minutia.

LAYING THE FOUNDATION

Just as types of businesses develop their own procedures,

individual businesses develop their own cultures. In larger ones it is formed by a combination of history and management practices. In small ones it is mostly from the personal idiosyncrasies of the principal(s). In short, your personal style becomes the style of your organization (in small shops), or heavily influences it (in medium-size ones).

This is important when considering organization and management issues because major changes can be disruptive. You have to be careful not to attempt to redefine your organization in a way that doesn't fit your personal preferences and skills.

The appeal of each of the three operating models described and illustrated in this special issue—chain-of-command, coaching, and associate—largely depends on the size of the business, the personality of the principal(s), and the workplace culture.

THE CHAIN-OF-COMMAND MODEL

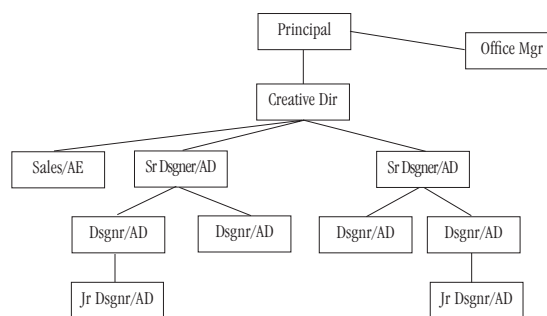
A top-down, hierarchal model would come to the mind's eye of most of us if asked to visualize an organizational structure. It is the familiar, traditional approach. Organization charts look like pyramids.

This is the default of organizational structuring. Consciously or not, and for better or for worse, it is the way most of us run our businesses: we (the boss) make decisions, others (employees) carry them out.

Where it works. The larger the organization and the more specialized the functions of employees, the better a chain-of-command organization works. And vice versa. The perfect example is a manufacturer's assembly line where each employee carries out one prescribed operation.

This model can also be appropriate in larger creative businesses where employees handle single project functions. For instance, agency copywriters or art directors working within a creative department or account structure.

THE CHAIN-OF-COMMAND BUSINESS MODEL



This is the traditional, hierarchal structure. *Advantage:* it is what we are used to. *Disadvantage:* often too rigid and bureaucratic for best creativity and efficiency.

Even in these situations, however, chain-of-command models need to reflect the times. In today's complex, information-driven economy employees also need to be encouraged to contribute outside their specific job function. Doing so—empowering employees—increases enthusiasm and morale and provides a new source of ideas as well.

For these reasons, many large creative firms today operate with a modified model. It organizes the business into many units, within each of which the structure is relatively flat. This allows greater teamwork, while still preserving the business' overall chain-of-command.

Where it doesn't work.

Despite its widespread use, the chain-of-command model is seldom suitable for small to mid-size creative organizations. It is too rigid and doesn't work well where employees handle entire projects.

It is particularly ineffective when combined with informal, laissez-faire management, the style of many creative shop principals. Combined, they produce the worst of both worlds—minimum potential for employee initiative, maximum for confusion. It is a square-peg management style within a round-hole organization.

Where there are multiple owners, the situation can be even worse unless there are clear cut

and well-understood divisions of responsibility.

Generally, the broader the functions of employees and the more subjectively their work is evaluated, the less efficient the chain-of-command model is. This is especially true in small creative organizations where employee teamwork is crucial. Such firms typically require maximum employee empowerment, top to bottom.

THE COACHING MODEL

This model, also traditional, is a stylist modification to the chain-of-command approach. It came out of the experiences of organizations seeking efficient ways to work with independent-minded, creative employees—inventors, teachers, researchers, designers, planners, etc.

It recognizes that true creativity can only be encouraged and directed, it can't be specified, ordered, or demanded. So how to encourage and direct most efficiently? The answer lies in a sports analogy: the coach and his or her team.

In this model the coach (principal or supervisor) has overall responsibility for winning; the team (employees) has specific performance responsibility. There is no question about authority and who gets to set direction and strategy. But there is also recognition that the coach stays mostly on the side-

lines and team members make most on-the-spot decisions. It works best when there are no more than 10 “players” (employees) to each “coach” (principal or supervisor).

The role of coach. It is to organize, strategize, direct, motivate, and mentor in whatever ways produce winning results. This usually requires: having experiences and talents similar to those of the team members... recognition that the talents of team members are often greater than those he or she possesses... and maintaining the respect of the team, because without it their performance will lag.

Good coaching also requires: a willingness to delegate... to share knowledge and experience... and to make unpopular decisions.

In short, the role of coach is to lead by inspiration, example, and respect, not to direct because of authority or rank.

Picking the team. Good coaches pick team members based exclusively on how much strength and depth they add to the team. They don't hire those who duplicate existing talents and experiences, or just because they like them or their style.

This is particularly important for creative businesses because variety in experiences, talents, and styles are crucial factors in both problem-solving and attracting a mix of clients. Shop principals who suppress variety by hiring employees whose styles and backgrounds closely match their own unknowingly strangle their businesses.

The more diverse the employees, the greater the opportunity to solve the diverse challenge of a greater variety of clients. The less the chance of being adversely affected by fads and trends, too.

Working with the team. Teamwork requires that every team member be informed of, and perhaps participate in, most project (or account) stages — sales, strategy, budget, scheduling, etc. The greater the

involvement, the more employees will feel a part of a team, the higher their satisfaction, the better the quality of their work, the happier the client.

Implementing a team environment may be as simple as providing more detail in staff meetings. Or it may call for employee participation in new functions and activities. Or it may require greater delegation.

However implemented, the goal is the same: to get employ-

Goal Two: Get Employees Interested In The Business Side.

ees more interested in the big picture. It is to counteract the tendency among creatives to focus on creatively-inspiring tasks to the exclusion of others; it is to shift focus in a way that keeps projects on track and employees' feet planted firmly in business reality.

Fulfilling the promise. *Creative Business* recommends most principals of small to medium-size shops (up to 25 employees) follow the coaching model when running their businesses. It combines the familiarity of traditional structuring with the flexibility required to stimulate creatively-talented employees.

The distinction between it and the chain-of-command model is mostly in style. Policies, standards, job descriptions, and employee evaluations needn't change. But principals' attitudes, actions, and behavior should.

THE ASSOCIATE MODEL

This is a way of organizing and running a project-based creative business that goes well beyond mere style. It involves both a different way of thinking about the business and a radical restructuring of its operations. In some ways it is an updating of the historic guilds that were the very first commercial creative establishments.

The background. The traditional employer/employee system assumes different level of abilities (management and labor), value added through experience, and more or less predictable market demand. It is a system designed around traditional product manufacturing and sales environments.

In contrast, creative businesses are comprised of individuals with more or less comparable skills whose talents do not become appreciably more valuable with experience. In addition, in traditional project-based markets (e.g., design) there is also highly-fluctuating demand.

For these reasons, a traditional management/labor structure, rewarding employees based on seniority and paying them the same in times of high or low activity, may not be appropriate. Even more of a concern is paying employees a regular salary when they are not busy, then paying them overtime or farming work out to freelancers in times of extreme activity.

A possible solution to these issues is adopting a system more in keeping with that used by other professional service organizations, such as consultants, lawyers, and accountants. It is the associate model and it is based on employee profit-sharing.

For principals it avoids many issues that accompany having employees. For employees, it is a way to enjoy many benefits of self-employment without many risks.

The basics. In the associate model some senior employees are given the chance to become associates of the firm and work

not for a salary, but for a percentage (commission) on each project they are given responsibility for. In effect, they become project managers with a financial stake in individual projects. To clients, this arrangement is transparent: they deal with the firm no differently than they would deal with any other.

The associate model is based around three components: 1) *the firm*, which is the owner and her or his facilities... 2) *sales associates*, who find new clients, handle account service and oversee all jobs (they may also be principals in firms without professional sales help)... and 3) *creative associates*, employees who are assigned responsibility for a project, including getting it done on time, on budget, and to the firm's quality and client's specifications.

The firm's legal structure (e.g., corporation) is not affected. The owner has full management responsibilities, including hiring, firing, and quality control. Associate employees are partners in individual projects, but not in the firm. For tax and benefit purposes, they are treated no differently than other employees.

Income distribution.

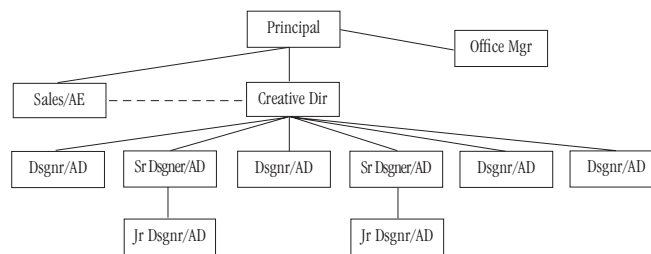
Billable income for each project handled by associate employees is divided three ways.

15% goes to the sales associate. This is her or his "salary." She or he also gets the same percentage on any markup of outside services... *45% goes to the creative associate.* This is her or his "salary." She or he also gets the same percentage on any markup of outside services... *40% goes to the firm*—to cover overhead and profit. The firm also gets the same percentage on any markup of outside services.

These percentages are recommended as starting points based on the need to attract and hold good individuals, and provide a fair return on a firm's investment in facilities and support. They may be modified as appropriate.

Obtaining and estimating projects. Working on the associ-

THE COACHING BUSINESS MODEL



This flatter structure puts more emphasis on individual initiative. *Advantage:* more similar to the way creatives work. *Disadvantage:* requires a non-traditional style of managing.

ate model requires a strong commitment to ongoing sales and marketing. Creative associates depend on sales associates (or a shop principal) to provide a steady stream of work, which is distributed based on talent and busyness.

Because both the sales and creative associates have a stake in completing each project profitably, pricing and what will or will not be provided, is a joint exercise. A proposal is written, and a commitment made to the client only when both agree.

The attractions to employees. For creatives, the associate model combines the major benefits of self-employment—freedom and opportunity—without all the down sides of establishing their own businesses. For salespeople, it removes any earning cap.

Money. Employees have the potential of earning what they are worth, despite seniority or experience. Ambitious, talented ones can earn more than they could in any other employment relationship, possibly more than they could in their own businesses.

Association. Size, reputation, and experience are important in the eyes of many clients. And the associate structure is transparent to them. So an employee, working as an independent associate within a well-known firm, can work on projects that might be

impossible to land as a freelance.

Facilities. Office, computer, software, etc. are all provided, just as they would be for any regular employee. So there's never a concern about keeping up with technology or paying the rent.

Support. Having full-time sales representation eliminates the biggest headache of freelancing—the constant need to find new clients and projects. It becomes possible to concentrate on creating, not worrying about where the work will come from. Likewise, clerical support eliminates paperwork concerns.

Lifestyle. Because compensation is directly tied to their output, associates are largely free to make their own working arrangements. This freedom within a structure is a particularly strong attraction to working parents or anyone who wants independence, but not the isolation of working alone.

The attractions to the firm. The associate model eliminates many financial and management concerns that accompany creative firm growth.

Less cash flow worry. Associate employees are paid their percentage of a project's billings only after the client pays. So the only regular payroll expense is for draws against future commissions, support staff, and employees not working as associates. Thus, the cash-flow crunch that plagues many firms with a hefty

professional payroll is minimized. The need to carry a substantial bank balance or line of credit is also reduced.

Less management worry. Associates are self-managed. They require no supervision, performance reviews, raises, or bonus calculations. They also assume management responsibility for each project they work on. This reduces regular management issues to support staff and employees not working as associates. It frees up principals to devote more time to business management and strategic issues.

Reduced turnover. Associates are not only well rewarded, but they play the major role in deciding what work to take, how to approach it creatively, and how much to charge. This participation eliminates nearly all the reasons to move to another shop (few pay better, or offer more stimulation), as well as most of the reasons for considering setting up their own shop (many more risks with only marginally more opportunity).

Accumulation of equity. A creative firm's cash value (owner's equity) is largely dependent on how little of its activity would be lost with new owners. The more intimately involved the principal is in the business, the less value it has. Even in small firms the principal(s) of those working on the associate model need not be involved with every project or client. So it is less likely that many clients or projects will be lost with a change of ownership.

The downside. The associate model does not offer the immediate profit potential of the chain-of-command or coaching models. This is *not* the model for a principal who wishes to maximize profit, especially in the short-term. Indeed, it is possible that in some years principals may actually make less money than some of their associate employees.

Nonetheless, annual net margins up to 10% of sales are possible from the firm's business activities. Moreover, if the principals

also work on some projects as associates (sales or creative) they can supplement what they take out of the firm in profit with their project commissions. Plus, the principals can also benefit from any buildup of equity.

In summary, the associate model is not one that's focused exclusively on business profitability. Rather, it is a balanced business model that combines the opportunity to combine reasonable short-term profits, a more

Goal Three: Greater Profitability, More Personal Satisfaction.

collegial working environment, a lower-stress management, and the potential for equity build up.

THE IMPLEMENTATION

Whichever one of the three types is chosen, deciding on an organizational structure is but the first step in increasing a creative firm's efficiency. The second step is implementing: hiring, showing, explaining, informing, reviewing, and adhering.

Hiring. Organization and policies notwithstanding, this is the keystone in building a happy and efficient operation. Although successful hiring is a subject too expansive to cover here, keep the following two points in mind.

1) Seek diversity in talent and experience. Having a predominant style or look is like being a one-horse circus—vulnerable as well as attractive only to a small audience. 2) Hire people better than you and give them latitude.

Pay them as much as you can afford, too. Don't let creative ego overrule business practicality.

Showing. As formal and off-putting as they may at first appear, organization charts serve the important role of showing employees where they fit within an organization. Also, by showing the lines of authority and responsibility they minimize employee confusion and encourage better workflow. The bigger the shop, the more important this becomes.

Creative Business recommends that all shops of more than a half dozen and up to twenty employees publish an organization chart in the firm's employee handbook. Larger firms should publish and post it separately.

Explaining. There should be a job description for every position, open or filled, in every organization. They are needed to ensure that employees know what is expected of them, provide a rational basis for performance evaluations, set a grade/salary range, and indicate the criteria for career advancement. They, too, should be published in the employee handbook.

Informing. An employee handbook is the crucial means of informing employees about policies, and procedures. It should strike a balance between friendliness and comprehensiveness. The better employees are informed, the more their morale improves, the happier and more productive the shop becomes.

At minimum, an employee handbook should explain: working hours... overtime procedures... payroll scheduling ... performance reviews... holidays... vacation accrual... sick and personal days... leaves of absence... use of equipment and facilities... and benefits.

Reviewing. As a rule, creative individuals need more attention than other types of employees. Given the highly personal and psychological risk inherent in creative activity, even long-term vet-

erans need occasional input. Creative types tend to be more sensitive, too.

At the same time, commenting on and perhaps recommending changes to someone else's creative efforts is a minefield. Nonetheless, this can't be avoided if a shop's standards are to be maintained. There is no solution to the dichotomy. But sensitivity to it is crucial to maintaining a productive organization.

Adhering. Setting up the right business model is a one-time effort. But making it work, day-in and day-out, takes an ongoing management commitment. Unless policies and procedures are universally enforced, exceptions will eventually become the norm and the benefits will be lost.

Among the areas of particular concern are: working hours (tardiness)... sticking to estimates... inappropriate use of facilities (surfing and freelancing)... inaccurate or tardy time recording (time sheets)... and meeting attendance.

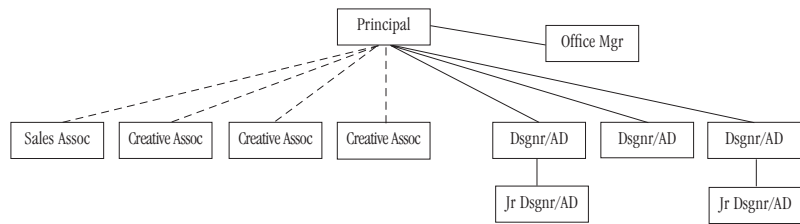
THE BOTTOM LINE

There are two sides to the success of any commercial enterprise. One is product quality—let it slip and there will be no more customers. The other is management—let it slip and there will be no more business. Most principals are fanatical about the former, lackadaisical about the latter.

Attention to organizational structure and management style is nothing more than a way to keep the two sides in balance. For shops both large and small it can produce happier employees, more satisfied principals, and a better creative product.

Employees' happiness. It is enhanced by a moderate amount of workplace structure—enough to let them concentrate on creating, but not so much as to be autocratic and inflexible. When principals give little or no thought to structure, operations become either too unpredictable,

THE ASSOCIATE BUSINESS MODEL



This structure provides project profit-sharing for key employees. *Advantage:* greater employee initiative and less turnover. *Disadvantage:* less short-term profit.

or too rigid for employees. Either way, morale and enthusiasm suffer.

To be concerned about this is not to be altruistic, as noble a sentiment as that may be. Rather, it is a pragmatic realization that in a field where the product is a more or less novel solution to a problem, maintaining morale and enthusiasm—employee happiness—is crucial to success.

Principals' satisfaction.

Running a creative business should be nothing short of personally enjoyable and financially rewarding, irrespective of size, complexity, or growth. This may sound idealistic, but it is also just being practical. Do you wish anything less for yourself?

Better organization—finding ways to accomplish more with less effort and cost—is the only way to increase the satisfaction and profitability levels of a business that is experiencing little or no growth. If your business is stable and not as lucrative or rewarding as you wish, this is your only option.

If your business is growing, it should be doing so in an orderly manner. It should *not* be more hectic and less rewarding than before. Satisfaction and profitability should grow right along with it. This only happens when procedures are in place to rationally allocate the finite capabilities of you and your staff to your business' expanding requirements.

Think of organizational planning as time-management. When procedures and responsibilities are well-organized there's time to address big problems without being overwhelmed by small ones. And there's also more time to consider personal goals and priorities.

Better products. One of the world's most enduring myths is that creativity thrives on chaos and withers on serenity. Don't you believe it! Unless that is, you want to test one of the world's most enduring cliches: that of the starving artist.

In the world of communications creativity, success requires compelling and persuasive products to be produced on demand. Delivered on time and on budget, too. The only way to ensure this is with an organization that is as fresh and creative in the way it approaches and runs its business as it is in the products it produces.