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BY **PHIL MORETTINI**

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Organizational Structures in Software & IT Companies



So you've put together a hardware or software startup company. Chances are you didn't give a lot of thought to what the next step should be in your IT or software company organizational structure development — you just wanted to bring in some revenue and find a way to keep the doors open. Or, maybe you gave it a great deal of thought, even before you finalized your initial business plan—there are quite a few anal-retentive, extreme-planner types out there—you know who you are!



I don't mean to make light of this issue; it's actually quite a serious one. Let's look at a few of the questions to consider when deciding how to organize your company, as well as a few typical options:

IMPORTANT ORG STRUCTURE QUESTIONS TO PONDER

What are the strengths, weaknesses, and operating styles of the principals?

I believe that this is a critical question to ponder, if one wants to organize the company successfully. One of my all-time great examples is HP. Bill Hewlett and Dave Packard instituted a decentralized org structure almost from the very beginning of Hewlett-Packard. They were careful to keep the operating units small by breaking them up as they grew. In my opinion, this was one of the great drivers of HP's success and worked well because it suited their own personalities, as well as the folks that they hired. They believed in "Management by Walking Around", but also believed in motivating high performance by allowing their employees to use all of their talents without unnecessary constraints. It seems simple, but it is often hard for managers (especially hands-on, entrepreneurial types) to let go and give their employees enough rope and space to excel. Again, I believe that this hands-off, decentralized approach *only worked well because this style fit with Bill and Dave's personalities.*

What are the key personality traits of your employees and target hires?

Similar to the question about the principal's styles above, the organizational style needs to fit with the "personality" of your company: it's culture. As a quick example, if you have a lot

of type “A”, self-motivated people with strong leadership skills a decentralized org chart may fit better than a hierarchical, centralized approach.

Are there disparate technologies within the company?

This should be a big driver in deciding how to design an IT or software company organizational structure. If you have several different technologies, how do they fit together technically—if at all? Do they fit together from a market perspective? If there is a lot of synergy or need to coordinate between technologies/products, a centralized, hierarchical approach may work best. The less overall “fit” that there is between your core technologies/products/markets, the more inclination I would have to organize the corporation using a decentralized, fairly autonomous business unit approach. This assumes that the resources are available for a decentralized organization, because one disadvantage of this approach is there is always going to be some duplication of roles across independent business units. But if resources are so scarce that you can’t decentralize properly, does it make sense to try to be successful with multiple disparate products/technologies anyway?

Now let’s take a look at some common ways to to design hardware and software company organizational structures.

HARDWARE & SOFTWARE COMPANY ORGANIZATIONAL STRUCTURE OPTIONS

Hierarchical/Functional/Centralized – the classic organizational style of traditional businesses. The strength of this type of organization is that it is easier to optimize each function, as there are more resources available within each function in a centralized approach. This can enable a more sophisticated approach to best practices. On the downside, I remember well the frustrations of my first job with a Big 3 Automotive manufacturer, which was VERY hierarchical and centralized. The company was SO hierarchical that it paralyzed the organization to a huge degree. Trying to get even the simplest, small thing done had to go many levels up. It was like trying to turn a battleship on a dime and was really painful. I’m not a big fan of this org structure style for larger and complex companies, but for smaller, single-market or single product companies, it generally is optimal.

Decentralized/Autonomous Business Units – This is the polar opposite of the traditional hierarchical organization. It’s my preference for a growing software company organizational structure which is starting to “spreading their wings” beyond their initial

market or technology focus, as well as for larger companies. It's strength lies in the ability to keep lines of communications short, keep personnel close to the marketplace and motivate self-starters by providing more positions of broad responsibility. For medium-sized companies, the danger lies in decentralizing before there is really critical mass to run separate business units, which comes with some added costs due to duplication of functions, as mentioned above. One good way to mitigate this is at least initially is to centralize and share as many of the non-product specific functions as possible, such as finance, HR, quality control, etc. The key functions that absolutely need to reside in the business units are usually marketing, product development, possibly manufacturing (for hardware companies) and occasionally sales.

Product-Centric or Market-Centric– This is a variation that can be combined with either of the two major types of IT or software company organizational structure discussed above. For example, within your marketing department, there could be people assigned to product lines as product managers, or to market segments as market managers. Sometimes a hybrid approach is used, where there are product managers for unreleased products, and market managers for currently-marketed products.

Matrix – This organization style is “overlaid” on top of a more typical organizational structure, such as the types discussed above. The main idea is to set up “dotted line” teams, responsibilities and reporting structures that are desirable, but fall outside of the normal way a team is organized within the main structure in use. For example, in a hierarchical organization, you might set up a matrixed, cross-functional team to put focus on the launch of an important new business initiative or product line. This may give the new initiative more emphasis than it normally would get, given what might be seen as its modest importance to the overall business at that point. If used properly, matrix management organizational techniques can be a great way to dampen the negatives that are inevitable in any rigid organizational structure. It must be used with caution, however. If used too frequently, or without endowing the “head” of the matrix with real power to accomplish the desired goals, matrix organizations can quickly become ineffective and politically driven entities—and the butt of jokes around the water cooler.

This is just a quick take on a very complex topic. There are many different ways to design a hardware or software company organizational structure for success—too many to discuss here. We just touched on a few of the issues to consider as well as typical organizational styles. Hopefully this short article will stimulate some thinking on this important topic, and help you avoid an organizational structure which tends to be formed haphazardly as companies are started and grown. Post a comment below if you have a take of your own to share.

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About Phil Morettini

Phil Morettini is the author of the [Morettini on Management Tech Blog](#) and President of [PJM Consulting](#). Mr. Morettini has an extensive C-level software and hardware company executive background. [PJM Consulting](#) provides management consulting and interim management services to technology companies.

Comments

Anonymous says

February 27, 2009 at 6:30 am

Good summarized article. Thanks

[Reply](#)

admin says

October 31, 2011 at 2:41 pm

Paul,

I have to admit to not being up on the specifics of IBM's current organizational model. I'm not a big fan of organizational structures that rely too heavily on matrix models, but as stated in the article, they can have value if used sparingly and properly. I'm a big fan of ownership of results—anything that detracts from that in a major way is a negative, imo. In general, though, results speak for themselves, and IBM has done well over the last decade or so. So maybe they've found a great balance. Whatever they're doing must be working pretty well.

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Paul Nelson says

October 31, 2011 at 2:16 pm

Great summary on org. structures. I think that the matrix structure has been getting the most attention of late, but I wonder if companies like IBM that implemented the intrapreneurship program would be considered a true matrix organization. I would submit that they are a hybrid with hierarchical management that has business units that run as matrix organizations. This hybrid model has produced upwards of 25 new market innovations at IBM and is considered by many to be the driving force for their re-emergence as an innovative force. Thoughts?

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Phil Morettini says
February 11, 2015 at 9:35 am

Marc, thanks for your addition to the discussion, makes a lot of sense.

Reply

Srividya says
February 11, 2015 at 3:48 am

In the modern times, a lot of emphasis is given to innovation and innovation driven organizations. What in your opinion would be an enabling organization structure to stimulate creativity and innovation.

Reply

Phil Morettini says
February 11, 2015 at 7:37 am

Srivi,

In general I would recommend a decentralized organization of a relatively flat nature and obvious lines of responsibility. But for innovation, I think that the culture is even more important than the org structure. A culture where decisions are allowed to be made low in the organization by people closest to the market/technology and flow

UPWARD for approval tends to lead to far more innovation where the decisions/ideas come from the top and flow down. It is also very important that "failure" is allowed and not penalized too heavily, so that people can feel comfortable taking calculated risks that can lead to innovation. These are the types of things that can't be legislated strictly by org. structure.

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Marc Friedmann says
February 11, 2015 at 9:26 am

In early stage companies I've had good experience with a hybrid organization: hierarchical at the top level and matrix in the product development organization. Hierarchical at the top helps maintain company focus and control costs, while the matrix in product development enables flexibility in executing the product plan and helps develop leadership skills within the team.

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Jair Humberto Calimeño says
November 16, 2017 at 7:29 am

thanks, I am going to translate this article respecting the copyright, can I?

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Phil Morettini says
November 16, 2017 at 3:17 pm

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Phil Morettini says
November 16, 2017 at 4:31 pm

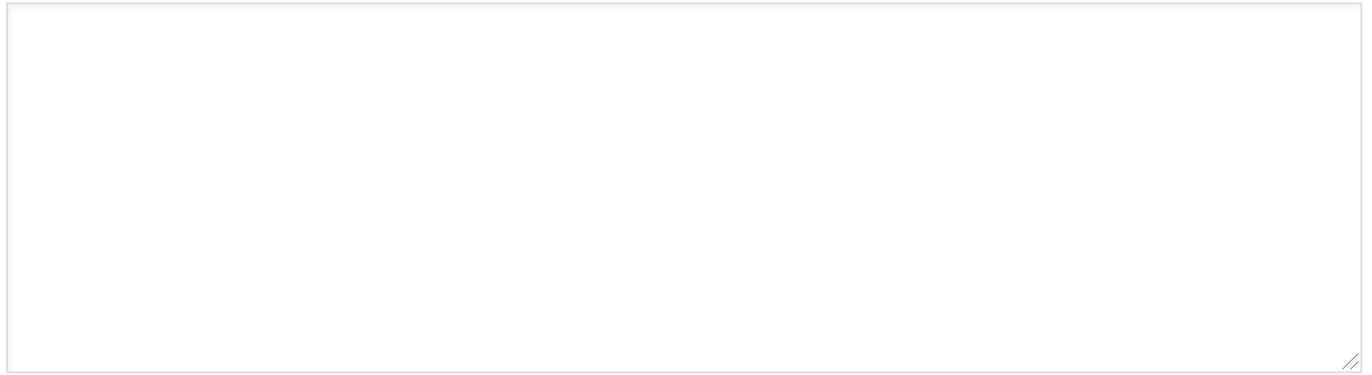
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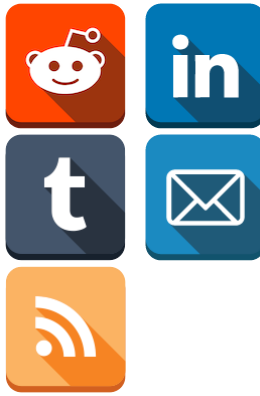


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