The 7½ Types of Organizational Structures
Without Order, There is Chaos

Like it or not, structure brings order. As an organization grows, there is more risk of chaos without structure. In an organization, org structure does 2 things:

- Clarifies roles & reporting relationships
- Supports good communication

And it results in:

- Efficient and effective work process flow
- More productive employees
A Brief History

From where have we come?

- **First org chart in 1855** by the New York and Erie Railroad
- Until the early 1950s, most U.S. companies were functionally organized
- Late 1950s-1960s - Economic and product growth lead to complexities divisional/product structures sought to control
- **1970s** brought globalization and increased regulations which led to matrix structures
- Late 1970s until today - organizations have sought to be more flexible and creative in
The Science behind Structure

According to a study by McKinsey and Gallup:

- **84%** of U.S. employees were matrixed to some extent
- **49%** of employees serve on multiple teams some days
- **18%** of employees serve on multiple teams every workday but with different people, though mostly reporting to the same manager
- **17%** of employees report to different managers in their work with different teams
- Organizations with clear and accountable roles have a **76%** probability of achieving top-quartile organizational health
How Are You Organized?

Not every organization is organized the same. Exactly how it is organized depends on:

- The **functional groupings** of work processes
- The **natural groupings** of teams, work groups or units
7 ½ Common Business Organizational Structures

1. MATRIX
2. FUNCTIONAL
3. PRODUCT
4. CUSTOMER
5. GEOGRAPHIC
6. FLAT
7. HOLACRACY
7½. TRIBES & SQUADS
Matrix Organizational Structure

Features:
- Reporting levels both horizontally as well as vertically with cross-company teamwork
- Employees may be part of a functional group (i.e. engineer) while serving on a team (i.e. a specific product)

Advantages:
- Employees have responsibility for their department and organizational projects
- Cross-team collaboration minimizes departmental and data silos

Challenges:
- Employees may receive direction from two different managers
- It may be difficult to prioritize work responsibilities

Example of a Matrix Organization
- Starbucks
Functional Organizational Structure

Features:
- Individuals are grouped by specific functions performed
- Common departments are organized by separating each area and managing them independent of the others

Advantages:
- Functions are separated by expertise
- There are clear roles, responsibilities and lines of command

Challenges:
- Different functional areas can turn into silos that focus only on their area of responsibilities
- There can be a lack of collaboration between departments

Example of a Functional Organization
- Microsoft

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Example of a Functional Organization
- Microsoft
Product Organizational Structure

Features:
- Company is organized by specific product type
- Each product has an executive leader who oversees everything related to that product line

Advantages:
- Products are organized by category
- There are clear roles, responsibilities and lines of command

Challenges:
- Each product division can create completely separate processes
- The lack of cross-product collaboration can result in duplicative processes and inefficiencies

Example of a Product Organization
- Johnson & Johnson
Customer Organizational Structure

Features:
- Company is organized by customer type
- Customer expectations are met by a customized service approach

Advantages:
- A customer-centered structure specializes in the needs of each customer group
- Customers receive more consistent experience across channels and touchpoints

Challenges:
- The needs of different customer types may be ignored
- Each customer division may compete with corporate resources, such as IT

Example of a Customer Organization
- Tumi
Geographic Organizational Structure

Features:
- Organization is dispersed across one or more geographic regions
- Typically, a central oversight person leads each geographic region

Advantages:
- Logistical demands and differences in geographic customer needs can be better supported
- Each division can focus its resources and talent to only its own territory

Challenges:
- Each region may operate with its own processes and procedures, creating inefficiencies
- Regions often compete with each other, establishing a hostile corporate environment

Example of a Geographic Organization
- Ford Motor Company
Flat Structure

Features:
- Small number of levels and broad span of management at each level
- Every employee is given equal footing so decisions are made in collaboration or autonomously

Advantages:
- Employees feel like they are all contributing equally and therefore similarly valued
- It's a simple structure for smaller companies where often people hold multiple roles and reporting relationships are sometimes unnecessary

Challenges:
- Without structure, decisions are made as a democracy but often can be slowed as everyone has a say
- Employees can question who is responsible for each task so creativity and productivity can suffer

Example of a Flat Organization
- REVOLVE Clothing
Holacracy

Features:
- Respects the creativity and openness of a flat organization but still has some hierarchy
- Departments and roles are blended so decisions can be made from anyone and anywhere

Advantages:
- People are organized around Work as opposed to departments or seniority
- A hybrid approach appreciates both structure and autonomy so employees have authority within boundaries

Challenges:
- Without any designated middle management, decisions can be delayed
- An open environment must balance creativity and collaboration with productivity

Example of a Holacratic Organization
- Zappos
Tribes & Squads

Tribes & Squads is a form of a Matrix organization but instead of functional leaders managing the teams, project leaders do. The functional leaders may manage other things, such as career paths.

Features:
- Development or functional teams may be renamed “Squads”, “Crews” or “Troops” who own a certain part of functionality from end to end.
- “Tribes” are a collection of squads within the same business area, such as a product or division.
- A “Guild” is a community of members across the organization who want to share knowledge, tools, and practices.

Advantages:
- Promotes team collaboration and innovation.
- Project leaders who are more familiar with the projects are in charge rather than functional leaders.

Challenges:
- Can take time to get used to new jargon.
- People outside of the organization may have a difficult time understanding organizational structure.

Example of a Tribal Organization
- **Spotify**
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