All organizations that operate across more than one country, with more than one product, serving more than one customer group, operate a matrix – by definition. Yet despite this common structure, why do companies frequently fail to make the matrix work? >>
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Executive summary

For decades, the matrix has made eminent theoretical sense for virtually all global organizations. Yet while it is a structure that is inevitable in companies that sell multiple products or services in many markets, only the best enterprises operate it successfully.
However, in a matrix that really delivers, decisions are made faster, better and more effectively. So for organizations that do make it work, significant competitive advantage can be achieved. Innovation flourishes and time to market is cut. Resources are optimized and costs and duplication minimized. Customers benefit from integration too. The result: profitable revenue and growth that is not easy for competitors to replicate.

The good news is that cracking the matrix code rarely requires root and branch reorganization. But it does demand new behaviors. Managers must no longer focus on maximizing their own results at local, country or product level, but instead must act in the best interests of the enterprise as a whole.

Optimizing for the whole, not maximizing for a constituent part, is a subtle, but crucial, change that has implications for job design, rewards programs, behaviors and organizational culture. For the matrix organization to succeed, command-and-control management styles must give way to collaboration and cooperation. Furthermore, every part of the matrix must be represented on the top team in some way. At the very least, the CEO must actively support implementation of the matrix by holding people accountable for making this structure work.

While success in the matrix is far from easy or assured, Hay Group’s research shows that the majority of the World’s Most Admired Companies identified by Fortune magazine make it work to their advantage. So to crack the matrix code, organizations must:

- **Redefine success** – building a culture in which executives optimize for the whole, rather than maximizing their own constituent parts
- **Focus on behaviors** – the most difficult, but fundamental, element in making the matrix work means individual heroism is no longer the way to the top
- **Create ‘do-able’ roles** that take into account the size and shape of the job and where the level of accountability does not equal the level of authority
- **Reward and recognize** performance based on the employee’s contribution to the whole, not just ‘their part’ of the organization
- **Use a strategic scorecard** – the successor to the balance scorecard that asks: ‘What can we do together that we cannot do apart?’
Part 1: why have a matrix?

Responding to the demands of today’s economy, more companies are moving to a matrix structure. The question today is not if functions will be organized as a matrix – but how it will be achieved.

For most global organizations, the matrix is virtually the only way to manage and benefit from multiple geographies, product lines, customer sectors and services, while delivering efficiencies and economies of scale.

Companies that operate the matrix best gain unique positioning with customers and markets by combining products, services and by innovating continuously in a way that competitors cannot imitate. Products and services get to market faster – and revenues and margins improve in sustainable ways.

Managing the white space

The greatest benefits of the matrix can be found in what Hay Group calls the ‘white space’ – those gaps for which no one is responsible and yet provide huge opportunities for integration, innovation and collaboration, as well as greater revenue and margins. However, conflict, wasted time, bad decision-making and costly activities can arise in the white space too, so it must be managed wisely. When managed as an area of contention, problems can be solved. When managed as an area of opportunity, benefits can be gained. Success is determined by addressing conflicts in the white space and turning them to the organization’s advantage.
Where the white space creates contention

One sales manager faced a typical dilemma. He was incentivized to sell, yet confronted by a conflicting strategy:

“When our company first set a strategy to expand by selling integrated services, it was all words, with no real change to back it up. In one case, I was pressured to add a new service line to the package. I had to convince both my team and the customer that this was a more integrated solution. But my team didn’t want to do it. They were not about to risk sales, or future promotion, by pushing for more than necessary, even though this would have been good for the company’s new strategy and maybe even for the customer. Their success – and mine – depends on selling for this area. Helping a new product line is fine, but we’re not going to risk a major sale for it.”

Such stories, not uncommon, show how easy it is for the organization to underperform.

Where the white space creates opportunity

Here is the same sales manager once the white space has been addressed:

“Now things are different. People don’t get promoted if they only focus on their own area. Targets are interdependent, so we all have to pull together to be successful. Two important things occurred to make this happen. Metrics were altered so they matched the words of what was wanted, and the ways that people were promoted and rewarded changed. Individual heroes no longer got ahead. Today my team sells more – and not just hardware, software and consulting services. We sell integrated packages that give customers more value. We achieve better margins too.”

This is the white space working well.
Part 2: why doesn’t the matrix work?

The stark reality is that, except for the basic benefits of efficiencies and scale, many companies have found it almost impossible to make the matrix work.

This is an opportunity missed, because in theory the matrix is so simple: a neat two-by-two (or three-by-three, or four-by-four) solution to the complexities of the modern organization that sells multiple products or services in many markets. The matrix creates a place for everyone and interconnects them; where all have a ‘real’ boss – the solid line – and also another boss – the dotted line. It is the place where every product line, sector, geography or market has a single point of accountability. It is a place of ‘healthy’ competition.

Yet healthy competition causes unhealthy conflict. As competition turns into turf battles and as high-achievers lose sight of the whole picture, parts of the business succeed at the expense of others. While leaders may understand at a logical level that synergies and collaboration will bring the best out of the organization, their emotions and competitive spirit urges them on to win at their own game. They are not optimizing for the whole enterprise, but maximizing for their part.

Organizations frequently take false comfort in thinking that the matrix works because they see efficiencies from shared services, scale and transaction hubs. But the real prize is profoundly greater and is almost always missed. For the matrix can truly make the whole greater than the sum of the parts in a way that is distinctive from competitors. The mistake is that managers and leaders continue to be bred, trained and rewarded to maximize their own results if they want to get ahead, even if this is to the detriment of the enterprise. Command and control styles thrive and are frequently, if inadvertently, encouraged. Nominal dotted line bosses give a sheen of collaboration and connection, but even these can cause further conflict. With all this in mind, it should be little surprise that the matrix fails to deliver.
Why the matrix doesn’t deliver the goods: a tale from the dark side

A manager in a worldwide consumer goods company, responsible for developing new products, reports to the vice president of strategy in world headquarters, and also has a dotted line to marketing.

“My development team, which includes people from all parts of the company, created a new way to package a product at an exciting new price point. My company wanted to innovate with new products, as well as re-packaging existing ones, but the marketing director wasn’t convinced. On the surface, he went along with the plans, but nevertheless sent signals to his teams that this was not a priority. I eventually figured out why: he thought that identifying new ways to package products should have been his territory. Our perceived ‘intrusion’ meant that he wasn’t invested in its success. My direct line boss, the head of strategy, wasn’t powerful enough to counter the marketing director, so the whole idea just faded away. There was never any formal way to identify why what was a good idea failed, but those of us on the ground knew why: organizational politics.”

This scenario provides a useful reminder that, if ‘politics as usual’ are to be avoided, the layers above in the matrix, leading to the CEO at the top, need to actively manage such situations. Common sense, of course, dictates that, if the opportunity is significant enough, at some point someone bangs heads together and the innovation goes ahead to the benefit of the enterprise. Such intervention, though, demands management time, so protocols must be established to ensure this is done sensibly. In one global company known to Hay Group, such incidents can escalate up five management levels, by which time the opportunity is lost, or credibility with the customer is compromised.

“Many companies have found it impossible to make the matrix work.”
Part 3: companies who have cracked the matrix code

The good news is that some companies do make the matrix thrive, and when they do, they unlock a powerful structure.

- **3M** is the 2009 World’s Most Admired medical equipment company. It develops technologies at its centre but commercializes them in very different markets and in very different sectors across the world. It can do this, it says, because of the matrix that it has operated since its inception in 1902. The structure does not run the company; it allows the company to run. The culture and behaviors in 3M support innovation, but the heroes are not the people who get the best results for their own area, at whatever cost. Only truly collaborative and connected leaders are successful, and this is reflected in who is promoted and how people are rewarded. There is a deeply embedded ethos and culture of enterprise working, versus business unit working.

- At **Microsoft**, nearly 150 people around the world from multiple business units have been developing new standards for exchanging Word documents. Very rarely do these people have the same boss and, because this project is just one on which they work, neither do they necessarily have the same goals. Yet every team member has the trust of each other and of their company. They are creating something for the benefit of Microsoft as a whole.

- **P&G** not only has significantly lower operating costs than its main competitors (which have virtually the same matrix structure), it also has faster time to market for new products and services, better cross-organizational innovation and ultimately, better margins and share price. The big difference? They hold people accountable for collaborative success, design do-able jobs and reward people for their contribution to the whole. People at P&G trust each other and the organization.
What do these examples tell us?

Hay Group research on the World's Most Admired Companies¹ for Fortune magazine identified no single best structure for organizational success. Companies may organize in one way in developing markets and another in developed countries. They may similarly adapt in the way they serve global customers and domestic ones.

These companies are deliberate, explicit and flexible in the way that their organizations actually work and they excel at designing and implementing an effective operating model: ie. defining how work actually gets done and how the company intends to achieve its strategy.

Large, multi-country, multi-product enterprises are almost certain to operate a matrix structure to some degree. But as the examples opposite show, they are flexible in implementation, collaborative in behaviors, explicit in communications and align rewards accordingly.

¹ See ‘Charting a course to success: How the World’s Most Admired Companies succeed in fair winds and foul’ (Hay Group, 2009)
Part 4: the Hay Group solution to cracking the matrix code

Our research on Fortune’s World’s Most Admired Companies, together with our own insights into globally successful companies, leads us to a solution set for making the matrix work.

1. Redefine success for leaders
2. Focus on behaviors
3. Address key financial systems
4. Create do-able jobs
5. Reward and recognize for the right things – consistently
6. Use a strategic scorecard, not a balanced scorecard

Organizations must send consistent, visible, clear messages about what success looks like.

1. **Redefine successful leadership:**

As something that only those at the very top level can see, the whole global picture is usually opaque to functional and country managers. But how much better would it be if that visibility were available to all? After all, visibility and coordination is largely the rationale behind many matrix jobs.

Visibility, though, is all very well, but without action it is worthless. One way of achieving it is to redefine success so that managers act as if they are CEOs themselves, taking an overview of the broader situation. This requires the provision of training and support so that managers are equipped with the tools, processes and motivation to act in the wider interests of the organization. They must optimize for all the parts of the business, not just their own.

If behaving like a CEO sounds like a role that many ambitious managers would jump at, beware – for these may not be the people most suited to lead a matrix function. Unfettered ambition, where winning at all costs or grabbing resources regardless of the broader consequences is not a characteristic exhibited by great collaborators. So some hitherto admired people won’t make the transition to top matrix roles which require collaborative leadership.
These new leaders must listen a little more, act a little less. They must keep their eye on the big prize: the enterprise as a whole.

For organizations, this change in emphasis is considerable. Traditionally, businesses over-value high achievers. Individual accountability is lauded. Companies may claim that the team is paramount and the individual only a cog, while celebrating ‘Type A’ personalities who exceed their targets. Once again, this mixes messages; saying that the results of the whole matters, then rewarding those who maximize the collective parts. It is matrix madness.

So for both individual leaders and for the organization, established definitions of success need to be redefined. They must be visible and explicit. Cisco has done it (see page 16). So has IBM. Leaders and managers think and act like CEOs, integrating various products, services and geographies for optimum sales, customer service and margins, while innovating all the time.

**Behaviors needed:**

- ability to lead a team of executives, who may be peers
- build broad networks, externally and internally
- engage in beneficial partnerships
- manage cross-cultural demands
- foster communications
- emotional control, including transcending self-interest.

**Behaviors to avoid:**

- arrogance – you’re right; everyone else is wrong
- interpersonal relationship issues (people who are insensitive, manipulative, authoritarian or aloof)
- resistance to change to a collaborative way of working
- ‘mischievousness’ – believing that rules are made to be broken or that the ends justify the means.

These criteria may sound obvious, but the cultural changes required to become truly collaborative are profound. Just think how corporate people have grown up to judge success by numbers. They thrive or die by maximizing profit, margins and market share. Leaders must take a leap of faith and the organization must send consistent, visible, clear messages about what success looks like. Rewards and promotions must be made in accordance with this new corporate view – without exception. It all requires trust, and in turn trust requires consistency over time. If you promote people who have exceeded their targets and run a successful division, while ruining careers and hurting other parts of the business in doing so, don’t be surprised that your message of collaboration is treated with cynicism. In a successful matrix, collaboration is in; egos are out.
2. Focus on behaviors

New behaviors are necessary in the successful matrix. Individuals must first understand and appreciate that matrix jobs require fundamentally different behaviors, skills and ways of working.

Many organizations have defaulted to a long, laborious consensus model of decision making. All parts of the matrix have to weigh in, they believe. Yet the cost in the time and effort very often results in the ‘lowest common denominator’ solution. Such consensus is unnecessary when people know how to debate, to both find and receive input, to develop possible solutions – and then allow the decision maker to decide. This can only happen when a robust internal governance model defines and makes explicit the decision rights of both the individual and the team. When teams and their purposes are well defined, the expectation that individuals must provide an opinion on every issue is eliminated and replaced with the expectation that everyone on the team can contribute to the decision.

New skills and behaviors mean that people should be able to manage across the organization, rather than just up and down.

The starting point is people development. A large and successful pharmaceutical company learned this early:

“It is not enough to just tell people what the new behaviors are,” says one senior manager. “There must be very clear definitions of what they are – and what they are not. An important lesson that we learned is the need for development. People can know at an intellectual level what is required, but they need to practice and hone these new behaviors. Telling just isn’t enough.”
3. Address key financial systems

It is not easy to change the financial systems upon which companies are built. They are intrinsically linked to structure: product or service lines have their own budgets, profit and loss accounts, as well as targets for turnover and margins. Countries and regions have similar reporting systems. They cannot easily be changed without huge upheaval and cost. Numbers tell a clear story. They make things simple. But the matrix is complex and trying to fit it into a rigid, pre-existing, pervasive financial reporting system stymies it.

Instead, key financial drivers should be aligned to decision-making processes – to how resources and capital are allocated, and to rewards systems too.

4. Create ‘do-able’ jobs

Even if the structure is right, jobs are often designed in ways that make them difficult to perform. The consumer goods example on page 7 illustrates this point perfectly.

The manager delivered a result that was viewed by his direct line boss as a success, but by his dotted line as a failure. Who was right?

To create do-able jobs, there must be:
- explicitness about interdependencies and trade-off decisions
- clarity about what jobs have what input into what decisions
- clarity about how each job adds value to the enterprise and about how it can potentially reduce value
- well-defined reporting relationships; not just dotted and solid lines, but definitions about what they mean in practice.

No job exists in isolation in the matrix. Unless companies understand this they will never create do-able jobs. Key performance indicators and definitions of success must be in harmony with the bosses’ KPIs and success measures – yet it is common for job definitions to change without corresponding changes to the boss or peers. In this matrixed world, if one job changes, others must too.
5. Reward and recognize performance

It’s not rocket-science, but it’s so rare, it might as well be. If you want people to behave, act and perform in a way that optimizes the whole rather than just maximizes their own area, then reward on that basis.

However, beware of false comfort. In many organizations, bonuses may be in place that reward people on whole-company performance, and while this is absolutely necessary, it is not by itself sufficient. Such a broad approach to rewarding for the success of the whole does not drive behavior. At senior levels people have so much at stake in terms of their career and progression that they still focus first on their own area. This is especially the case if their own performance targets and rewards are linked to the achievement of their own business unit or functional goals, even if these go against the spirit of the wider company bonus plan. This can only be avoided if an appropriate definition of success reflecting unit inter-dependencies, is in place, as one director of a global consumer goods company illustrates below.

6. Use a strategic scorecard

In the 1990s, the balanced scorecard of Kaplan and Norton became widely adopted. It expanded horizons beyond bottom-line numbers and renewed emphasis on customers, employees and innovation. It focused on the medium or longer term, rather than the quarterly results cycle. The balanced scorecard was a product of its time, and helped organizations to realize that a ‘balance’ of elements – not just numbers – needed to be rewarded and measured.

Today’s business complexities, with multiple reporting lines, overlapping accountabilities, intense interdependencies and profound opportunities for synergies, makes it time to look beyond the balanced scorecard. Hay Group’s strategic scorecard instead focuses on the elements required for making matrixed organizations successful. The differences between it and the balanced scorecard are considerable. The strategic scorecard defines key performance indicators based on interdependence and synergies and concentrates on the ‘must win battles’ that are necessary to achieve organizational strategy.

“The company put in a bonus element for whole-company performance, which was supposed to make us all ‘do the right thing’ and work together for the common good. It really didn’t have much effect. At the end of the day, we’re all focused on our area being the most successful that it can be. After all, egos, promotions and reputations are on the line, and my bonus for achieving my business unit (BU) goals is far more significant than the company-wide one. I feel I can greatly impact on the bonus for my BU; but I have little direct influence on the company-wide scheme.”
The strategic scorecard makes the requirements of the matrix explicit – an essential requirement if everyone is to understand the roles, responsibilities, required behaviors and new criteria for success. The top team has to dictate these new criteria, but with the strategic scorecard defining both the work and the results, employees will find it harder to work to their own agendas or focus on their own narrow targets.

The work that goes into constructing a strategic scorecard in itself leads to better understanding of the issues, such as the points of conflict and the behaviors that must be addressed. The process which one must go through to create a meaningful scorecard helps towards formulating a more strategic agenda. What are the must-win battles? What work is on the periphery? Where are the white spaces – and what conflicts or opportunities arise there? Finally, what can we truly achieve together that we cannot do apart? When these questions are answered and a scorecard constructed, it is explicit to all.

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<th>Strategic scorecard</th>
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<td><strong>Focus is on a business unit</strong></td>
<td><strong>Focus is across business units</strong></td>
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<tr>
<td><strong>Sets key performance indicators and targets in a balanced way for individual business units. Balance is based on qualitative and quantitative factors</strong></td>
<td><strong>Sets KPIs and targets in an integrated way across business units; targets are based on ‘must-win battles’ across the organization</strong></td>
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<tr>
<td><strong>Drives leaders to maximizing performance for the BU in a balanced way</strong></td>
<td><strong>Drives leaders toward optimizing performance to get synergies</strong></td>
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<tr>
<td><strong>Success for the business unit is the primary factor for reward</strong></td>
<td><strong>Success for the organization is the primary factor for reward</strong></td>
</tr>
<tr>
<td><strong>Rewards leaders for ‘running the factory’</strong></td>
<td><strong>Rewards leaders for optimizing and finding synergies</strong></td>
</tr>
<tr>
<td><strong>Reinforces ‘maximize my own area first’, but also ‘collaborate’ as a secondary factor</strong></td>
<td><strong>Reinforces ‘optimize to get synergies and good trade-offs’, and also ‘maximize performance in my own area’</strong></td>
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<tr>
<td><strong>Answers the question: ‘what should I do to maximize my business?’</strong></td>
<td><strong>Answers the question: ‘what should I do to optimize for greater performance across the company?’</strong></td>
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The matrix is inevitable in global organizations, so the fundamental structural question is not should the enterprise be matrixed, but rather given that it is, how can results be optimized for the whole, rather than maximized for the constituent parts?

Many organizations settle for economies of scale and elimination of duplication as the pinnacle of matrix success. They fail themselves. For the best companies go far beyond such fundamental achievements and define success as getting synergies which lead to more revenue, margin and sustainable growth. They make an effort to make the matrix work. By examining, understanding and learning from these companies, the matrix code can be cracked.

**Conclusion**

Cisco collaborates – the matrix at its best

IT systems company Cisco has ridden the storm of four downturns, including the burst of the 2001 dotcom bubble, to emerge stronger each time. From a position where the top 10 people in the company developed and drove projects, today Cisco has a network of boards and councils that are empowered to launch new businesses. Cisco encourages communication and collaboration in the virtual world, encouraging people across the organization to contribute to projects, through social networking tools and, naturally, their own IT solutions. This approach enables innovation and decision-making and delivers new products and services to market faster. Cisco has gone to great lengths to make its processes explicit. Executives who want to make something happen know how to get a project off the ground, secure funding and bring teams together, because someone has taken the trouble to document it, talk about it, share it.

It works. What used to be ‘me’ is now ‘we’ says CEO John Chambers. “We now have a whole pool of talent who can lead working groups, like mini CEOs and COOs”. Chambers argues that Cisco operates the best possible model for a large, global business, where leadership emerges organically, unfettered by a central command. Maximization of individual fiefdoms is an anathema to the philosophy. ‘Collaboration: ‘co-labor’; working towards a common goal’ is the mantra.
**Cracking the matrix code: a checklist**

- **Focus on behaviors**
  - establish a senior team to identify the white space and turf wars

- **Optimize don’t maximize**
  - the whole can be bigger than the sum of the parts if people are attuned to the needs of the whole

- **Redesign every job everywhere:**
  - bolting on matrix jobs to an established framework is a recipe for confusion
  - create do-able roles

- **Make the matrix explicit**
  - communicate clear, consistent messages, backed up by actions
  - create a common vocabulary

- **Employ the strategic scorecard**
  - which recognizes strategic integration, not simply balance within a business unit
Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

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