Brief

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The seven secrets of successful matrix organisations

Making matrix designs work – a challenge receiving lots of attention from leaders, and little from experts

Matrix organisations are ubiquitous, problematic and, usually, the source of leadership tension and debate. Periods of economic restraint are often opportunities for CEOs to improve and adjust their organizations and often to simplify and slim down. We searched through the most recent research and publications to see what new insights and thinking is available on how to make matrix designs work - and found it a subject receiving very little attention.

As it is such a common area for leadership focus we have pulled together the most interesting insights from the sources we found, which includes research from Hay, McKinsey, an article in Harvard Business Review and *Matrix Management* - an old standard from Bartlett and Sumantra.

Seven themes

We found seven themes emerging:

1. ***Nowadays virtually all organisations with over about 100 people are matrix organisations***

   The only alternative is to work in silos with no common benefits - where the whole is likely to be less than the sum of the parts.

   The need to collaborate and respond at speed these days, has led most organisations to create at least some lateral elements in their organisations.

2. ***Most matrix organisations do not work as effectively as they could – but they can be fixed***

   Although some work very well, many are very inefficient. When matrix organisations go bad (or just mediocre) it is usually because too much time is spent negotiating to get things done at the 'intersections' of the silos, or because ambiguity about who is in charge on what leads to muddled accountability and poor performance.

   One of the most infamous examples of a matrix design failing – in the public domain – is that of the newly merged UK Inland Revenue and HM Customs to create HMRC in 2005. According to parliamentary publications: “the immediate impression of HMRC was one of complexity, both in terms of its many constituent parts and its matrix management structure. It was difficult to relate roles and responsibilities amongst senior management to accountability". It was blamed for some major failures and led to resignations of CEO and chairman.

There are many examples of managers in a matrix succumbing to excessive internal preoccupation and losing touch with the marketplace.

There is also a danger that matrix management is seen to 'replace' group decision-making - especially at the senior level.

However all these issues can be avoided or fixed.

3. ***An effective matrix organisation depends on everyone being clear about the dominant dimension***

   There are only really four broad models for any organisation structure:
   a) geography driven: by region, country, or area
   b) product/service driven: usually types or groups together
   c) function/process driven: for example R&D, production, sales, service or finance
   d) market/customer driven: usually by industry sector, or major relationship

   A matrix is usually a hybrid of two of these dimensions. The question is which is the primary one? Does geography own the p&l, or does service line?

4. ***The choice of primary dimension should be driven by strategy and in particular the sources of growth***

   If your growth strategy is geography driven (eg we use the mature markets as cash cows, we rapidly exploit emerging markets and we invest in totally new markets), then geography will be the primary driver. If growth will be achieved above all by service line (eg we use generic service X as our cash cow, we extend premium service Y into our remaining markets and rapidly extend online service Z to all markets), then service line will be the primary dimension. And so on.

   High performing companies have more dynamic models that allow them to operate differently in high-growth markets than in developed markets without changing the organisation design. This can be a competitive advantage that is hard to copy.

   High performing companies also tend to change their strategies less often, which means they are not continuously changing their organisation. Like a tree with a strong trunk that supports flexible limbs, they are simultaneously solid and supple.

5. ***The most significant single success factor for effective matrix organisations is clarity of accountability and decision rights***

   These must be clearly articulated, commonly understood and fully owned by the leadership team. Who is responsible for P&L? Who has the last call on making a sale? On pricing? On hiring and firing? On developing a client relationship?

   All dimensions will have a role and contribution to play but the governance must be clear, unambiguous and widely known - and having standard role descriptions will usually not be enough. The most common problem is blurred lines of responsibility between the axes of the matrix. Where they work well there is clear division of responsibility.

6. ***This must be backed, consistently, by leadership***

   If distinctive accountabilities are regularly undermined and the agreed governance ignored, then leaders drift back to endless negotiations, ambiguity and inefficiency. The best approach is to have regular explicit conversations at the leadership team meetings about how well it is working - and taking action to fix problems (eg talk to the person in Germany who is out of line, or offer help to the service line leader who can't get access to see any global customers).

   These conversations will be best informed by having a business plan that is based on successful exploitation of the correct model to grow the business.

7. ***And with a consistent reward system***

   Rewarding effective working across the dimensions of the matrix (for example by acknowledgement and incentivisation) is vital.

   For instance, if country leaders have P&L accountability then they should mainly be rewarded for that. But they should also be rewarded for bringing new services to their country's customers, and for expanding a global customer relationship into their country. In other words, supporting the other dimension of the matrix.

Another alternative to support a matrix is to use informal networks – or communities of interest

The spread and ease of digital communication is allowing large organisations to make more of informal networks of people that cross silos and improve collaboration. They can work better and faster than traditional organisation structures – and be built just as deliberately.

The main purpose is for leaders to extend influence over people they do not have line authority over, to build buy-in knowledge and capability in support of a key priority, challenge or issue for the business. The informal network is ‘voluntary’: ideal for sounding out and improving plans - and for early warning of disconnects between global plans and reality on the ground.

See our *Brief* on communities of interest: *Leadership is influence – making informal networks work as well as formal structures*.

There is no ‘best’ structure – only one that is right for your strategy, business model and brand

As Hay said following their analysis of high performing companies around the world: there is no 'best' structure. For every high performing company with a highly centralised structure, another is highly decentralised, even within the same industry. "These organisations don't look to others for what will work for them. As long as the structure is aligned with the business model and how the company can win the market, it can work."

Overall, as with most things in organisational life, the simpler and more precise the matrix concept, and the more consistently it is explained, the more likely it is to succeed.

Sources

Sources used for this article include: Hay: *The best way to organise*, McKinsey: *Big corporations must make sweeping organisational changes to make the most of their professionals*, Bartlett and Sumantra: *Matrix management; Wenger: Communities of Practice;* and one of the earliest pieces from Harvard Business Review - Davis and Lawrence: *Problems of matrix organisations*.

