Design Your Governance Model to Make the Matrix Work

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The Matrix is Here to Stay

Peter Drucker argued that "the best structure will not guarantee results and performance. But the wrong structure is a guarantee of nonperformance." Drucker stated that organization structure should only be as complex as it needs to be. But as early as the mid-1970s he argued in support of the matrix: "It will present greater difficulties than either work-focused or result-focused design. But there are organizational problems where the very complexity of relationships makes [a matrix] the only appropriate design principle" (Drucker, 1973).

Organization structures have become as complex as the business challenges they face. Matrix structures are designed to balance competing, but equally important, priorities and decision rights across global, local and functional units. Despite a great deal of frustration over its failures, the matrix is here to stay. In fact, increasingly complex matrix structures will continue to flourish.

Heywood, et al. (2007), offered a persuasive case that companies are likely to generate more value by reducing the *negative effects* of complexity through clear operating-model choices and clear roles and decision rights than by attempting to simplify organization structures and business models. Cisco's "distributed-innovation" networks and boards deliver 70 percent of the company's innovations today, according to CEO John Chambers (McGirt, 2009). Chambers' drive to shape a culture of enterprisewide collaboration began with a massive restructuring shortly after the tech bust of 2001. His objective is to maximize innovation through simultaneous empowerment and integration.

Cisco is already teaching AT&T, GE, Procter & Gamble and others how to bring Web 2.0 to life in their businesses through creative combinations of organization and technology. Cisco is convinced that real innovation is possible only when diverse functions, P&L units and market leaders collaborate together and with customers. Chambers wants to do it in a manner that reduces dependency on him and other top executives to manage the work.

In nearly all multi-nationals, the drive to innovate must be balanced with pressure to reduce costs and to leverage corporate resources fully. (Drucker also argued that organization structures needed to separate the work of operating management—managing things we know—from the work of innovation.) Few may achieve the level of flexibility of culture and structure that Chambers envisions. But all global, multi-business companies must find ways to manage the chaos and continuously rebalance the tension among customer intimacy, brand building, functional excellence and cost effectiveness. And today they must do so in the context of Sarbanes-Oxley and what are likely to become even more stringent fiduciary controls, with board and regulatory oversight.

Coca-Cola's chairman, Neville Isdell, made major strides turning around the brand giant during the past four years by embracing the complexity of seeking both global brand excellence (with leveraged R&D spend) *and* local responsiveness with bias to action. It was precisely his predecessors' refusal to manage the built-in conflicts between local and global that accelerated the company's slide to degraded earnings, sluggish sales growth and stagnated innovation. Isdell's "freedom within a framework" (Kesler, 2008) became the means to corralling an accepted level of chaos—a way to engage the natural tension between many new global initiatives and the need for geographic GMs to get more aggressive about finding local solutions to brand, product and revenue gaps.

Isdell dubbed his framework the "manifesto for growth"—a sweeping vision, long-term objectives and set of beliefs about the world and business that empowered and demanded, in uncompromising fashion, that leaders would work together and with corporate social responsibility to re-energize the brand around the world. Isdell's (and his team's) success in "managing the matrix" is arguably the major difference in Coke's performance since 2005 versus the previous six years.

Corporate Versus Operating Governance

Corporate governance is the system and processes by which power is managed in the business enterprise—the means by which business corporations are directed and controlled (Schliefer and Vishny, 1997). Prior to the Sarbanes-Oxley Act of 2002, a body of literature addressing corporate controls was well established. Sarbanes-Oxley added a stimulus to both corporate activity and academic interest in the subject of governance and control (Romano, 2005).

But it is useful to separate corporate governance, meeting the legal requirements of governance embodied in legislation (e.g., Sarbanes-Oxley, FASB) and corporate charters (board rules and bylaws), from what we term *operating governance*. At its basic level, corporate governance structures specify the distribution of rights and responsibilities among different participants in the corporation such as the board, managers, shareholders and other stakeholders. Control and governance provide the structure through which company objectives are set, and the means of attaining those objectives and monitoring performance, while assuring the enterprise acts as a responsible member of the community.

Operating governance, in contrast, refers to the way managers within the business make decisions and the ways they delegate decision-making vertically into the organization (driven by structure, policy and process). Additionally operating governance reflects the way that decision rights are allocated *horizontally* across functions and business units. Put another way, *operating governance is the process—intentionally designed or by happenstance—by which power is managed*. Power is embedded both vertically, as in what is delegated down through organizational layers, and it is embedded horizontally, among peer units, as in who carries decision rights between potentially conflicting organizational entities or functions.

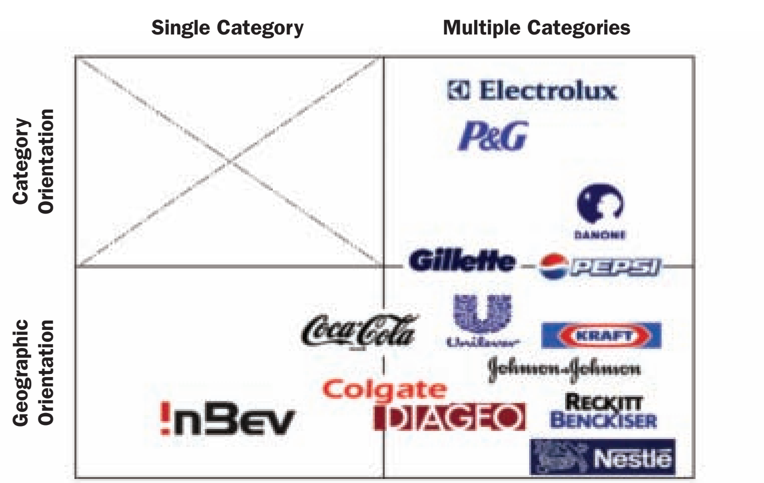
Most companies simultaneously have global businesses with regional and in-country management, corporate staffs, business-unit staffs, centers of excellence and so on. In many, decision rights have become highly problematic. There are many reasons for this:

- Today's growth strategies demand competing priorities be balanced, especially with regard to geographic market management versus global product/category management.
- Innovation in most sectors demands greater integration of efforts across business lines, geographies and functions—and externally with customers and suppliers.
- Geographic footprints for business growth have shifted dramatically and traditional regional structures are dated—often requiring the elevation of emerging markets like China to assure more management attention.
- Corporate functions now demand a stronger hand in setting worldwide priorities and resource allocation ("end-to-end") for the entire function—often sparring directly with local and global business unit demands.
- Pressure to reduce costs and to leverage key company resources across businesses remains high—especially in a worldwide recession.

TABLE 1: TENSION IN THE MATRIX—TYPICAL CONFLICT AREAS BETWEEN GLOBAL AND LOCAL-GEOGRAPHIC BUSINESS UNITS

Global Product Division	Geographic Division
Product investment priorities—new technology (fewer, bigger bets)	Strong voice in product creation priorities—continued local development
Global product standards, specs and pricing corridors	Local adaptation of product to local customer/consumer needs
Assure all aspects of brand management are aligned with positioning	Keep brand "stories" relevant
Provide best practice and guidelines for developing local media strategies	Develop locally relevant media strategies and manage execution
Provide global copy strategy for major advertising initiatives	Tailor global campaigns to maximize impact
Set demand-creation budget for global	Set demand-creation budget for the geographic units

FIGURE 1: CONSUMER PACKAGED GOODS COMPANIES MOVING FROM GEOGRAPHY TO CATEGORY DECISION MAKING



Adapted from: McKinsey review of annual reports; company Web sites; press releases; press clippings

Governance practices are often left undone or incomplete. Conscious design of operating governance frameworks is critical to making complex, matrixed organizations work. As an illustration, Table 1 provides an example of the potential areas of conflict between global product and territorial general managers.

An examination of 12 major global consumer packaged goods companies reveals the difficulties in staying the global course. Most consumer packaged-goods companies find themselves managing primarily on the local-national axis in the matrix, despite claims to being global. (See Figure 1.) Few have successfully shifted the power to the global axis of their matrix on a sustained basis.

Nestlé appears satisfied to manage a few core food products globally, while continuing to encourage local-national innovations in food brands products and formulas. Unilever has made numerous efforts, on the other hand, to move further into the global space in the model, and is now pushing hard in this direction. But P&G and a handful of others are among the few who set a course, and despite some very rough bumps, have moved continuously to shift the power in the matrix from primarily entrenched, regional P&Ls to powerful global categories, matrixed with regional-market development units and strong core functions (Kates & Galbraith, 2007).

P&G found a way to reinvigorate local marketing influence with clear division of roles and responsibilities, relative to the center. The journey was painful, but it has clearly paid off as P&G has substantially outperformed its peers in innovation and growth. P&G's willingness to engage leaders around the world in building relationships, spelling out decision-rights and actively managing its complex customer and innovation networks has contributed significantly to its success.

More than Decision Rights

It is clear to most leaders that structure alone does not drive effective execution. Jay Galbraith's star model (Kates and Galbraith, 2008) argues for alignment of business process, rewards, people and structure with the strategy. It is less obvious to organization designers that clearly defined operating-governance process and practices are a critical part of the design. Today the business must meet tougher corporate-governance standards and manage faster, more effective decisions around strategy and execution—at all levels of the business.

A recent and widely read *Harvard Business Review* article by Rogers and Blenko, "Who Has the D?" (Rogers & Blenko, 2006), described four common opportunities for dysfunctional conflict, role ambiguity and plodding, ineffective decision making:

1. global versus local;
2. center versus business unit;
3. function versus function; and
4. inside versus outside partners.

The authors outlined a compelling case for defining roles in a manner that clarifies simple, clear decision making whenever possible. They argue for the use of a decision-rights process characterized by an acronym, RAPID (recommend, agree, perform, input, decision), to clearly identify a single decision maker for all key decision points where matrix tensions live. Many organizations have taken this type of model and developed detailed decision charts, guidelines, statements of principle or other forms of operating governance. But it is clear that these tools are far more likely to gain traction when they are part of a systemic and behavioral view of operating governance—when there is a framework or larger context that is an integral part of the way the business is run.

We have experimented with tools intended to create greater role and power clarity, like the RAPID tools. In attempting to assemble these tactics into a coherent approach, we have discovered a powerful model, developed by Robert Simons (1995, 2005) that provides a practical lens for engineering the right power dynamics into the organization design. Employing Simons' framework management can create a change strategy to consciously make governance part of the strategy-execution work.

Return on Management

Recall the goal of Cisco's CEO to "reduce organization dependency on himself and senior executives." Underlying the Simons model sits the same idea, a compelling concept about time and attention he has dubbed "return-on-management" (ROM). Management attention is a fundamental constraint in business execution. Prioritizing opportunities to invest management time is a key part of operating governance.

Because matrix organizations are more complex, they require more management time. Anyone who has worked in a large matrix company knows the risks of prolonged decision making, complex communications and the need to sort through competing priorities without wasted energy. In our view ROM demands we not ignore these time-wasting conflicts. It requires that executives learn to manage the tension in a surgical, efficient fashion in the best interest of customers and owners. Again, Drucker spoke to this, arguing complex organization designs need "clear goals, high self-discipline throughout the structure and a top management that takes personal responsibility for relationships and communications" (Drucker, 1973).

Levers of Governance and Control

Simons proposed four levers of control (Simons, 1995):

1. belief systems, used to inspire and direct the search for new opportunities;
2. boundary systems, used to set limits on opportunity-seeking behavior;
3. diagnostic control systems, used to monitor and reward achievement of specified goals; and
4. interactive control systems, used to stimulate organizational learning and the emergence of new ideas and strategies.

Simons's levers are presented in Figure 2 on the next page.

According to Simons, these four levers create the opposing forces—the yin and yang—of effective strategy implementation. Two of these control levers—belief systems and interactive control systems—create positive and inspirational forces. They drive managerial energy. The other two levers—boundary systems and diagnostic control systems—create ➤

FIGURE 2: R. SIMONS'S FOUR LEVERS OF CONTROL TO SUPPORT STRATEGY IMPLEMENTATION

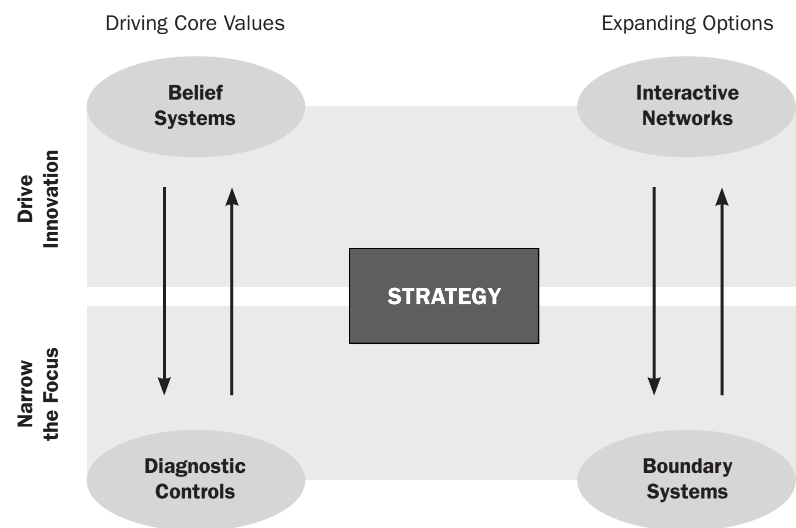


TABLE 2: SAMPLE OF GOVERNANCE TOOLS WITHIN EACH OF THE LEVERS—BALANCING POWER IN THE MATRIX

Beliefs	• Values • Design principles • Direct management interaction	• CSR commitments • Executive speeches • Internal education programs
Networks	• Global business planning teams • Executive talent reviews and talent movement • Co-location arrangements • Town hall meetings	• Formal networks and councils • Action-learning teams • Ideation teams
Boundaries	• Decision-rights docs • Role definition • P&L alignment; budget ownership • Brand and corporate identity rules	• Success profiles • Formal business process • Procurment policy
Controls	• Business dashboards • Balanced score cards • Performance data • Organization effectiveness studies	• Benchmarking • Performance management practices • Audits of various types

constraints and ensure compliance—thereby focusing and conserving managerial attention. Creating a proper balance among these competing levers and providing effective decision rules achieve an optimal return on management. Managing power in the matrix means finding the balance in these forces. The wrong constraints on the wrong axis in the matrix—say, product management—destroys initiative and creativity. Unlimited freedom to all axes in the matrix assures lack of focus and poor return-on-management.

Table 2 outlines tactics that we have found useful related to each of the four levers. Each lever is discussed below.

One: Beliefs

Beliefs are an explicit set of organizational norms that senior managers communicate formally and reinforce systematically to provide values, purpose and direction to the organization (Simons, 1995). Beliefs inspire and guide the search for opportunities to increase value and provide guidance to managers on how to manage relationships internally and externally. A strong commitment is measured by acceptance of the organization's beliefs and values (Steers 1978, Tirole, 2001).

Beliefs are most likely to be effective in companies that have well-defined cultures and leadership norms. At Nike, the "Just Do It" culture is still intact. People assume they are empowered to act in its complex matrix. Innovation is equally real in Nike's belief system, and this ethic energizes the design community in the matrix to translate product-performance technologies into indie and urban fashion statements that are as hip in Tokyo and Beijing as they are in Milan and New York.

Two: Interactive Networks

Exploiting market opportunities requires organizations to break out of limited search routines. Interactive practices are the catalyst for innovation and adaptation (Simons, 2005). Governance must encourage continuous search activity and create information networks to scan and report critical changes, and make it the practice to widely share information and insights. Interactive governance tactics allow for search "beyond boundaries"—that may lead to modification of strategies and, in turn, the other governance levers. One of the purposes of a matrix organization is to promote this creativity through competing points of view.

Bartlett and Ghoshal (1989) argued 20 years ago for the importance of relationships—building and other "soft" processes needed to create "transnational" effectiveness. Interactive governance practices are likely to be easier in companies with rich traditions of dialogue and relationship building. Companies that quickly form teams around business problems are likely to be most effective with these practices, but all competitive businesses need to get better at this "soft" set of governance practices. Without these practices, the tension in the matrix is wasted energy.

Antonio Lucio, formerly chief marketing officer at Pepsico, outlined a perfect example of interactive governance at work in the brand giant (Lucio, 2005). His goal was to make local marketers and bottlers successful.

Lucio explained, "We operate through a bottom-up, highly participatory and interactive process. It is lengthy and time consuming, but highly effective. There is a committee—consisting of people from the top 29 countries around the world—that drives everything we do. At Pepsi, the local marketer owns the branding locally: the actual manifestation of the positioning statement within the context of his/her particular market. What we, at the center, do is provide a menu of programs that first and foremost, those local guys helped develop. They provide input to everything we do at the center and at each and every step of the development process—from advertising to product development."

Three: Boundaries

But Lucio doesn't stop there in describing the process at Pepsi. He goes on to say, "We also have a smaller operating group, consisting of seven regional vice presidents and four core brand VP's from the center who make final decisions on the work developed by the team of 29. If there is discrepancy, I cast the final vote." Even with all the creative touch points, there are boundaries and clarity at Pepsi.

Colgate's consumer brands have been worldwide for a long time, and its geographic business units are still the dominant voice in the matrix, empowered to adapt products to local habits and tastes. But the brand book for Colgate's big-red toothpaste icon makes it very clear how the brand will be positioned and its brand boundaries must not be violated.

Four: Diagnostics

Diagnostic-controlling tools monitor the compliance of results and behavior against the strategies, objectives and fiduciary accountabilities of a company. Simply, these are the measures that drive the right behaviors in the business in a fashion that allows self-correction. Diagnostics include classic financial controls (income statements and balance sheet) as well as operational, market and customer measures used to execute business plans. Diagnostic-based governing methods have been drivers of innovation in companies that have established dominance in a particular competence—for example Walmart for supplier management, Dell for cash and inventory management or 3M for new product creation.

Diagnostic controls require active managerial involvement in working through data, assessing risk and making tough decisions. The meltdown of capital markets in 2008 was largely related to a shortage of diagnostic controls and a complete lack of management understanding of the risks that were being incurred in opaque derivatives collateralized with sub-prime mortgage debt. The matrix organization in institutions like Citigroup (organized around a set of three axes: customers, geography and products) had become quite complex. Citi's top executives appeared unwilling to manage the infamous power struggles within the matrix—or possibly they did not know how to act.

Boundaries must be applied in all businesses, but some companies are more likely to rely on them than others for governance. Companies with histories of managing multiple P&L units from the center rely heavily on these tools.

Boundaries impose limits on the organization's search for opportunities. They spell out what may not be done and often specify the consequences of boundary violations (Sanders, Hamilton and Yuasa, 1998). Boundaries come in two forms: business conduct and strategic-decision alignment.

Business conduct boundaries define acceptable behaviors. These are governed by regulation, policies and codes of conduct (Gatewood and Carroll, 1991). Strategic boundaries limit areas of opportunity in the search for growth and innovation. At Nike, it is *not* OK for locally generated product-innovation to diminish the brand stories that come from the center.

Boundaries must be applied in all businesses, but some companies are more likely to rely on them than others for governance. Companies with histories of managing multiple P&L units from the center rely heavily on these tools. The line items in budgets can be shaped to alter the horizontal power dynamics between geographic units and global product units. The third line in Table 2 presents a series of tools that reflect the allocation of power and responsibility. They range from budgetary to brand and policy considerations. These limiting or boundary devices tend to be less subject to near-term adaptability.

The Case of Apparel Brands Inc.

The objective in applying the four-levers model is to achieve an approach to governance through a balance across all four of the levers in the framework—suited to the business strategy. The story of Apparel Brands Inc. (ABI – name changed to protect anonymity) provides some valuable insights into how Simons's framework can be used as a road map to do just that.

ABI is a highly successful $12 billion marketer of apparel and accessory brands. Its brands are very visible all over the world, and its quality products enjoy attractive margins as a result of the power of those brands. But ABI began to discover that its intense focus on great product, developed in several parts of the world, was limiting its ability to communicate directly enough with consumers—and that it had become more difficult to deliver compelling brand stories around the world. Its leadership sought more growth through better alignment with highly dynamic consumer segments. The result was a strategic decision to develop, market and manage retail through global, consumer-focused categories.

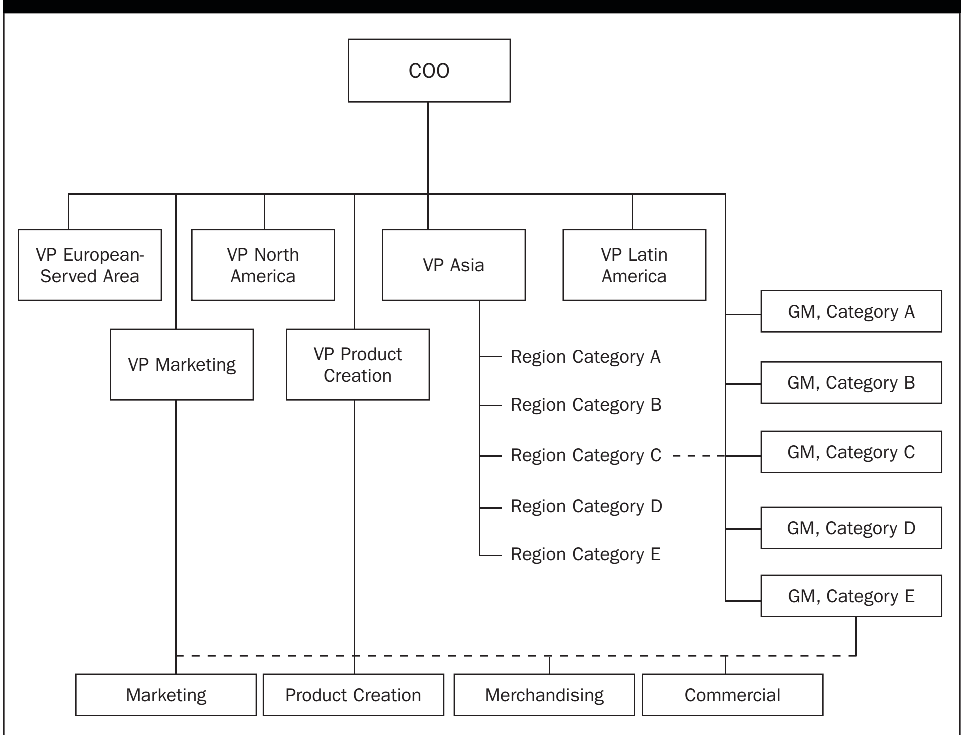
Historically, the organization design at ABI was focused on a product and geographic matrix. Some products were managed globally and others were managed very locally. Leadership discovered that the old structure made it very difficult to create consumer-aligned category focus because its three separate product units each went to market separately. Products that consumers might naturally buy together would arrive weeks apart or fail to blend in style and color. And it was extremely difficult to align resources around big, global bets, due to the autonomy of regional business units.

It was clear that the new consumer-focused strategies called for less geographic autonomy and greater reliance on globally coordinated decision making. Top executives spelled out a set of organization-design criteria. They sought an organization that would create these capabilities:

- See the world through consumers' eyes.
- Create and sustain relationships by consumer segments.
- Use a consumer category lens to inform all decisions.
- Get beyond single transactions and always deliver a premium product.
- Create great experiences—product, services and content.

These insights led to a strategic decision to realign the historic, product business units into five global, consumer-aligned category business units, and to re-focus the product business units into more creative product-development units. (See Figure 3.) This decision was validated through various research methods, including extensive consumer research.

FIGURE 3: THE NEW GLOBAL CATEGORY ORGANIZATION DESIGN AT ABI



Challenges in the Matrix

Matrix tension is nothing new to ABI, and cynicism long ago gave way to gentle humor among insiders who agree that a matrix is "just part of working at ABI." But the potential for confusion and bottlenecks was ratcheted higher with the new organization when it was launched in late 2006.

Global categories would have to take power from both local geographies and the company's powerful product divisions—without compromising product excellence or local relevance in critical markets. And the corporate brand organization would be expected to continue its very strong leadership of the "brand ethos." Even with cooperation from a broad base of leadership (which was largely accomplished through a persuasive case for change) the opportunity for unclear roles was high.

Go-to-market (GTM) process definition was part of the fix. But the process designers were flummoxed by the difficulties in defining who had the D in each of its key milestones in that process—including locking in global product designs, setting directed global-product assortments and planning worldwide launches and ad campaigns. The challenge would be to manage the tension among category, geography and several functions through each GTM milestone—in a manner that served consumers—and ultimately, shareholders, the best way possible.

Shortly after the announcement of the new organization, a steering committee composed of the COO and his direct reports set about actively managing a transition (that is now more than two years in progress).

Sub-teams, guided by the steering committee, were assigned to complete several parallel

work streams at the start—all aimed at effective completion of what the COO described as the most difficult change ever initiated in the company. The four governance levers, adapted from Simons's work, were used as a key framework for guiding the change strategy.

The Beliefs Lever at ABI

Simons argues that beliefs should drive the search for opportunities. ABI has made its values statement part of the management process for years. But the executive steering committee reached beyond company values to guide the implementation of the new category structure in ABI. A compelling business case was the starting point. The CEO and COO worked together to create a leadership document that laid out the exciting shifts underway within five different "consumer communities" that were at the core of ABI's opportunities. Shifts among competitors were described along with larger business trends—all adding up to a compelling case for a new organization aimed at tapping into these global consumer communities. The road show was very much about building a new set of shared beliefs.

Executives understood that the most difficult change would be behavioral. The key was to maintain the collaborative culture while expecting greater leadership from the newly staffed category general-management positions. A sub-team of the steering committee next began to assemble a set of guiding principles for developing the details of organization structure in the countries, the functions and in the new category teams (horizontally).

The Boundaries Lever at ABI

Boundaries impose limits on teams' and individuals' search for opportunities. Brand is the heartbeat at ABI, and it is the inspiration for much creativity. But there also are controls intended to avoid brand-diminishing decisions and behaviors inside the company and with its franchise and retail partners.

Decades earlier, ABI discovered the hard way that geographic decentralization and weak boundaries exposed its supply chain to serious ethical issues in the form of sweatshops and child labor. The company's response was to centralize supply chain management and to establish rigorous, formal policy and audit practices to eliminate those lapses. (These boundaries actually evolved into beliefs that later became part of the emerging social responsibility agenda for the company.)

Later, these boundaries served both ethical and strategic objectives. In the matrix, the supply-chain function has not been a strong leadership presence in the company. But in the emergent category structure its role is being strengthened (a horizontal re-balancing of power) to improve the economics of the procurement spend—an increasingly important element of strategy alignment. The function is being centralized and is receiving formal decision rights in the go-to-market process.

As mentioned earlier, RAPID and similar decision-rights documents can be effective boundary-defining devices when they are part of a larger governance model for the business. The major challenge in defining roles and decision-rights is to create discrete, non-overlapping roles—to avoid redundant staffing and slow decision making.

We strongly recommend first defining very bright lines by forcing simple three-word descriptions that capture the essence of the value that each axis contributes—then build specific roles around those bright lines (Bartlett and Ghoshal, 1989). At ABI, after lengthy debate, the role of each major axis was boiled to its essence:

- global category mission: *strategist, architect, and creator*;
- geography mission: *sensor, integrator and market activator*; and
- global retail mission: *builder, translator and executor*.

With these bright lines drawn, the steering committee developed a set of decision rights for each of the five major GTM processes, spelling out "who owns the D" for several key decision points in each. These were worked widely across the company, with edits along the way, until every function and business unit had put its imprint somewhere on the documents. Two years later a second round of reviews led to more edits, based on two years of experience in the new category flying formation.

The Diagnostics Lever at ABI

Simons (2005) argues for setting the right "span of accountability" in designing individual managerial roles in the business. In our experience, a functional manager typically should be accountable primarily for those process measures, elements of the P&L that ➤

he or she could directly influence (e.g., a procurement manager accountable for cost of purchased materials).

A P&L leader, on the other hand, should be held accountable for a broad mix of results reflecting a range of trade-off decisions he or she might make. These role-design decisions often are not handled very well. "General managers" often are given too broad or too narrow a span of accountability. In the matrix this issue is critical because the head of a global business unit (product, category or customer) does not control all of the elements in the trade-off decisions she might make to drive profitable growth, but will have very substantial influence—given the right leadership skills. She should be measured as if she has those skills.

ers to consider prospective changes in the market and in the economy, and they alert key actors to the changing future needs of the business. They create dialogue within the organization and they are designed to produce modification or revision to the strategy and, subsequently, the other three governance levers.

At ABI, relationships are an ever-present part of the way business is done. Interactions are candid and spirited. But like any culture, the players can become internally focused. The consumer-based categories energized the leadership dialogue at ABI. The interactive governance process was enriched with frequent consumer forums at the corporate center from each of the targeted lifestyle groups.

The new process required open dialogue, and functional, category and regional leaders compared and debated their assessments of shared talent.

Effective measures had not always been used at ABI, but the new global category leadership jobs (five global GMs) were designed with attention to the metrics. Steering-committee members laid out the measures of all key roles, side-by-side. First, the company established clear market measures and ownership for the consumer. For category GMs, ABI defined profitability as gross margin, based on the ability to set prices and drive revenues through superior product innovations and brand strategies.

ABI assigned region GMs operating income metrics, based on their ability to sell into retail accounts and influence retail sell-through to consumers; regions carried allocated corporate costs as well, given that they continued to own the most assets and numbers of people in the business. Realigning the reporting systems was a challenge, requiring two years of manual reporting during the transition. ABI established robust performance reviews and other management routines to work through the results on a continuous basis.

Interactive Practices at ABI

Interactive governance practices are central to organizational learning. They allow lead-

Few governance practices have more impact than interactive talent reviews. The chief human resources officer at ABI worked to create a much stronger role for the corporate center in facilitating worldwide talent forums. The new approach tipped the matrix to a strong, functional and category voice in rating leaders, including a "51-percent vote" in staffing and promotion decisions across the company.

The new process required open dialogue, and functional, category and regional leaders compared and debated their assessments of shared talent. Power allocation around all talent decisions (in the matrix) was played out in these forums at least two levels deep into the organization. After a couple of annual cycles, the change in behavior is startling when these practices are effectively used, and ABI was no exception.

Interactive business planning was another powerful lever in adjusting the governance of ABI. The company replaced product-focused and geographic-focused strategic planning in the first full year of the new organization. In its place appeared a category-focused strategy lens. Initial strategy meetings were awkward. Product and region leaders bit their tongues while category GMs brought their business cases forward, with varied levels of effectiveness. But the learning was quick. Soon category strategies were translated into annual and quarterly go-to-market plans through highly interactive meetings with worldwide leadership, aimed at deciding what the apparel collections would look like three and four or more seasons ahead.

European managers balked at the thought that American-based leaders could make fashion choices that would suit European consumers. But highly interactive governance processes assured strong, consumer-focused voices from many parts of the world in those decisions. Mistakes were made. In some categories the global center over-reached its ability to create "global product." In others, assertive geographic managers dragged the process backward. But in the second cycle, ABI adjusted, people listened and the results were favorable.

One of the major conclusions after the second cycle of GTM planning was that the process was too burdensome, required too many people in the room at one time and was simply too expensive to operate. ABI considered more efficient practices for gaining input and ownership. And in the end, it became clear that fewer people could effectively participate in some decision-making forums. People had to trust others to act on their behalf.

Insights for ABI and Others

The application of the model at ABI and other client companies reveals some useful insights about strategies to make the matrix effective:

1. It is probably not the scope of authority and ownership embedded in a given function or axis so much as it is clarity that drives success in the matrix.
2. The four governance levers must be aligned and integrated into a whole to be effective in creating the optimal balance of vertical and horizontal power across units. Decision rules need to be considered in that balance.
3. By nature, some organizational units (e.g., product development) tend to act as catalysts for divergence and innovation, relative to Simons' model; others (e.g., finance) by nature are charged with constraining opportunities and focusing attention. These realities should be considered in balancing the formal power that each is given in the matrix.
4. Each of the four levers will be more or less useful in a given culture. Attention should be given to whether goals are best served by introducing practices that are culture friendly, or whether to select practices to challenge the culture. Both are likely to be appropriate, but each should be considered deliberately.
5. The cost of management time in the effective matrix is higher than in simple structures. Issues of complexity, decision delay and frustration—as well as decision-quality gaps—can be vexing. Thus, in looking at decision rules and operating governance frameworks, management needs to be guided not by architectural elegance, but rather by returns on management time and expense. Does giving more people more input improve the quality of decision making or strangle initiative in endless "process?"
6. In ABI, effective measures embedded in solid management routines enabled the multiple power centers of the matrix to work together to self-correct. Return on management improved during the second year of the change process. This should be the goal.
7. Openness to new ideas was easy in the ABI culture. More hide-bound companies find this difficult. Setting the right interactive practices is critical to keep leadership tied to the outside forces that matter. Controls are important, but governance also must serve to keep the business open to new ideas. It is important to overcome the risk that management attention becomes overly focused on internal tensions.

Conclusion

Operating governance is a challenge in the complex, matrix organization, but it is a critical part of making the matrix work. Organization design is not complete until robust governance tools are designed in. Create a framework to bring those practices together into a coherent whole. Tie practices to the business strategy to assure the right functions, businesses and geographies interact in a way that serves the objective. Use four lenses to design balanced power in the matrix: beliefs systems, boundary systems, diagnostic controls and interactive practices.

The effort management takes to labor through these elements of design, early on, will pay off many times over in the return-on-management time needed later to make the whole greater than its diverse and often conflicting parts. P&S

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