Perspective

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The Matrix Reloaded
The Multi-Axis Organization as Key to Competitive Advantage

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The Matrix Reloaded

The Multi-Axis Organization as Key to Competitive Advantage

Since the first bar of Ivory® soap landed on store shelves outside America in the early 1900s, consumer product companies have been managing a multidimensional business. Brand and category managers have vied with country leaders and corporate functionaries in driving the overall enterprise forward. And some version of the matrix organization has been around—in theory, if not effective practice—for much of that time.

The first-generation matrix models almost universally failed—many hoisted by their own petard. They purported to be the answer to the multidimensional management challenge, and yet most considered only a single dimension of the organization's design—its structure. Consumer packaged goods (CPG) companies dutifully rearranged reporting lines and boxes around some combination of three axes—brand/category, geography, and function—but they did not make the necessary changes to decision- making rights, information flows, and motivators to support and enable this new structure. Nor did they sufficiently accommodate the need for continuing corporate oversight and coordination. The result was a Babel-like governance model rife with mixed messages, conflicting agendas, and sub-par performance.

The key to getting the matrix right—and, in our view, the key to competitive advantage—is actively managing at the intersections of the model. Global CPG companies need to explicitly anticipate and address the myriad trade-offs that need to be made between and among the brand/ category, geographic, and functional axes of their organization. What does that mean in terms of organizational design? First, it means more than "restructuring." Companies need to do more than move lines and boxes; they also need to integrate and align the underlying decision rights, information flows, and motivators. Only then can a company successfully navigate the complex trade-offs between and among the multiple dimensions of a global CPG business. Second, companies need to retain strong corporate functions (e.g., strategic planning, finance, marketing) to plan, coordinate, and continually adjust the direction of the enterprise as a whole.

It is far from easy to strike the right balance between central control and axis authority and find the optimal trade-offs between and among global brands, local tastes, and corporate scale efficiencies. But those that master the matrix organization enjoy a competitive advantage that is powerful, sustainable, and highly adaptable as market and company priorities change over time.

The Merits of a Matrix Organization

Managing for growth in today's consumer goods market requires managers to assess multiple dimensions simultaneously. For instance, how do you tailor a product to local tastes while preserving the integrity of the global brand? How do you exploit the advantages of scale in, say, manufacturing while retaining a local "look and feel"? If a manager leans too "local" in her decisions, she loses the benefit of scale; local successes are not as transferable and easily replicable, hence not as lucrative. On the other hand, if she stays too "global" to maximize scale benefits, she risks forfeiting local positioning and being dismissed as "genericized." Finding the optimal balance is as easy as walking a tightrope…suspended ten stories off the ground…without a safety net.

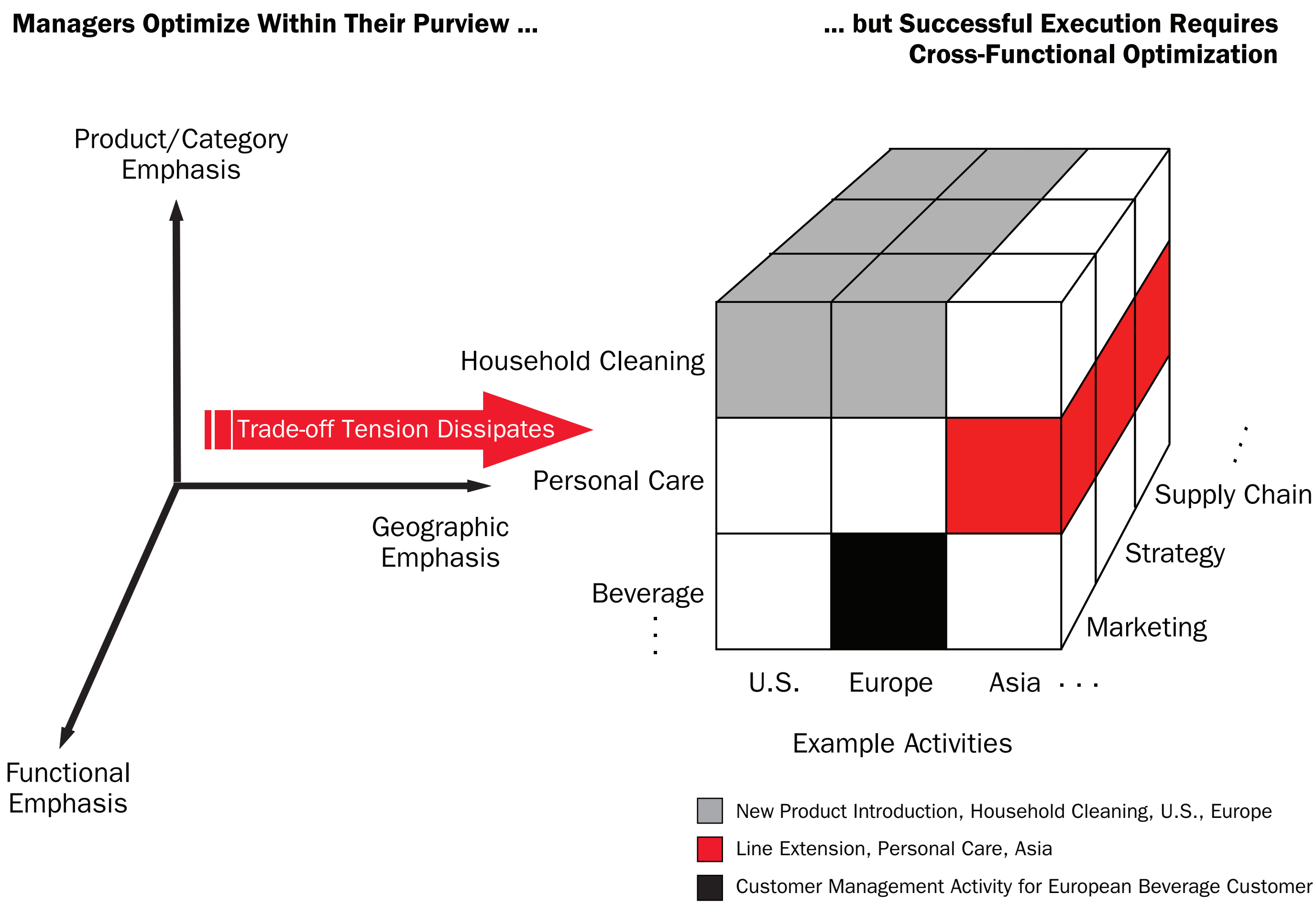
And the challenge is that much harder if the organization itself is not multi-dimensional. A traditional single-axis or even two-dimensional organization is ill-equipped to balance the trade-offs between global brands, local tastes, and corporate scale efficiencies (which is why they seem to switch their primary axis every three to eight years). Managers are conditioned to optimize only what is within their purview. However, the secret to successful execution in a global CPG business is learning to manage at the intersections, where reporting lines, information access, incentives, and, most important, decision-making authorities have historically been blurred (see Exhibit 1, page 3). It is at the intersections where most critical and competitively differentiating decisions are made, and where most CPG companies falter, having failed to set up clear decision rights, information flows, and motivators.

A matrix organization enables senior executives to explicitly consider upfront the myriad "intersection" decisions around product, category, marketing, resource allocation, innovation, customization, and so on. Moreover, it ideally establishes parameters within which managers at multiple levels can either make these decisions or escalate them. This approach stimulates local market entrepreneurship without compromising the integrity of the brand or category.

Take, for example, Pantene hair care products. Global category managers zealously safeguard Pantene's premium brand attributes around the world, but to deliver a consistent Pantene experience, Procter & Gamble defers to local manager input and adjusts the shampoo's formulation across markets to deliver the expected performance for various hair types (e.g., European vs. Asian vs. African). An effective matrix organization easily accommodates these local adjustments while preserving the overall global brand experience.

Matrix organizations also facilitate innovation—both new-to-the-world and line extensions—by encouraging collaboration at the intersections of brand, geography, and function. Group Danone has organized its whole innovation group around a matrix to further its efficacy in circulating

Exhibit 1
Matrix Organizations Allow CPG Companies to Manage at the Intersections



Source: Booz Allen Hamilton

best practices among regions, identifying local customization opportunities, and syndicating globally those with high potential.

A high-functioning matrix organization enables an enterprise perspective on performance, trends, and investment priorities while highlighting select growth opportunities around the world—opportunities that might have been previously overlooked.

But the matrix organization can only furnish these benefits if it's set up correctly around two key organization principles.

First, the organization's design needs to consider—carefully and consciously—all four elements of what we call its "Organizational DNA" (see sidebar, page 4). It is only when all four—decision rights, information, motivators, and structure—are integrated and aligned that an organization effectively executes. Changing only one or two of these building blocks (e.g., structure) is arguably worse than doing nothing, as it knocks the organization out of alignment and disables execution.

Organizational DNA

Booz Allen Hamilton's decades of experience helping clients with organizational issues has armed us with some robust perspectives on organizational dysfunction and its causes and remedies. Based on this experience and recent academic work on the economics of organizations, we've developed an overall approach to organizational design called Organizational DNA, which features an online assessment tool called the Org DNA Profiler® .

By answering 19 questions on decision rights, information flows, motivators, and structure, respondents can generate a snapshot diagnosis of their organization's type. There are seven types—four healthy, three unhealthy—that together describe the persistent patterns of behavior we've seen in our work with clients over the years. They are (from worst to first) Passive-Aggressive, Overmanaged, Outgrown, Fits-and-Starts, Just-in-Time, Military Precision, and Resilient.

Since its launch in December 2003, more than 62,000 individuals have visited our website, www.orgdna.com, to fill out a survey. In addition, we've set up nearly 60 client-specific Organizational DNA sites to facilitate work with corporate, government, and not-for-profit organizations. Represented in the Org DNA Profiler® data set are 24 industries, 100 countries, and more than 10 internal departments/functions. We also have data related to position or level within the company as well as revenue size.

For more information on Organizational DNA or to test your own organization's profile, visit the Org DNA Profiler® at www.orgdna.com.

Second, the organization needs to establish clear and strong corporate planning and resource allocation functions to coordinate strategy, measure progress, assess risks and opportunities, and essentially maintain balance within the matrix.

Aligning the Elements of Organizational DNA

An effective matrix organization is built on a foundation of four mutually reinforcing building blocks (see Exhibit 2, page 5).

Like the four nucleotides that comprise human DNA, the four Organizational DNA building blocks and the way they combine largely determine how an organization behaves and whether it can achieve results.

Decision Rights are critical in a matrix organization. Today's global CPG companies are only as good as their ability to make swift and accountable decisions, particularly at the intersections. That is where opportunities are lost…or value is unleashed. Establishing a system of clear decision rights that anticipate common trade-offs and resolve potential conflicts is a mammoth undertaking, but it

Exhibit 2
Organizational DNA Differs in a Matrix Organization

	Single Axis	Matrix/Multi-Axis
Decision Rights	▪ Delegated down the chain of command ▪ Divisions act like independent companies ▪ Divisions can change tactics and resource allocation	▪ Clearly defined decision rights across boundaries ▪ Cross-divisional strategy translated into resource allocation priorities ▪ Planning groups manage decisions across the matrix ▪ Managerial flexibility within predefined parameters
Information	▪ Information is "siloed" within divisions ▪ Decentralized systems support divisions ▪ Information flows along chain of command, yielding few, if any, cross-boundary insights	▪ Cross-boundary information flows ▪ Consistent company-wide systems yield cross-divisional insights ▪ Information almost too bountiful—requires structure to generate insights
Motivators	▪ Manager defines and determines performance ▪ Performance based on group P&L only ▪ Non-financial motivators inconsistently applied across divisions ▪ Career movement across divisions unlikely	▪ 360° assessments more prevalent ▪ Performance based on brand/category + geography + functional P&L and growth objectives ▪ Motivators can include team collaboration incentives ▪ Talent managed and developed across the entire organization—careers span divisions
Structure	▪ Clear reporting lines and singular accountability ▪ All necessary resources report directly to divisional head	▪ Dual reporting relationships ▪ Resources may be shared by multiple owners ▪ Teaming necessary to accomplish objectives

Source: Booz Allen Hamilton

expedites execution tremendously and allows the organization to react quickly to local market opportunities without compromising scale advantages or global brand integrity. Managers now know what decisions are within their purview and which require senior intervention or discussion within a multidimensional governing council.

Information feeds decision rights. Those closest to the best, most relevant information should make decisions based on it, or information flows need to be redirected. In single axis companies, information can easily become siloed, moving up and down the chain of command but never across divisions. The matrix organization is designed to break down these informational barriers. CPG companies understand the value of information. The industry spends millions of dollars each year culling insights from focus groups, database mining, and POS information. The information needed to make critical trade-off decisions and enable resource allocation is no less important and can unlock trapped value.

Motivators can act as performance "accelerators" if they reinforce the right behaviors, for instance, decision making that optimizes the allocation of resources across axes. An appropriate divisional motivator might be a P&L that incorporates performance measures from all three axes of the organization. Individual motivators might include personal incentives that are triggered by hitting certain performance targets at intersection points (e.g., bonuses for decision makers who optimize the profitability of promotions on a certain product line within a certain region). Regardless of what form they take—monetary or non-monetary—motivators must accomplish one objective: align individual behavior with the organization's overall strategic objectives.

Structure is the physical manifestation of these realigned decision rights, information flows, and motivators. Structure does not create alignment—a lesson that previous unsuccessful restructurings have taught the CPG industry; rather it reflects it. Structure, does, however, make it possible for both employees and the outside world to distill how the organization defines success—how it makes decisions, arms decision makers with information, and motivates them to achieve organizational priorities.

Where to Place the Fulcrum: Core Planning and Coordination Functions

As discussed, organizing a global company around three equally important axes is a delicate balancing act. The right decision rights, information flows, motivators, and structure can effectively align an organization behind its goals… but who is defining, monitoring, and adjusting those goals?

That's the role of core planning and coordination functions. These are the parts of the organization—strategic planning, financial analysis and forecasting, marketing strategy, innovation, supply chain management, consumer insight/market research—that determine where to place the fulcrum in balancing the trade-offs between portfolios, regions, and categories. These functions resolve the tensions between local country management and global brand management, between category and consumer, between customization and scale, between innovation and operations. The core planning and coordination functions anticipate upfront the issues that attend the task of effectively levering a matrix organization. Through careful and deliberate analysis, they deliver cross-divisional insights to management at all levels and inform trade-off decisions. Moreover, they help the organization maintain an external perspective focused on the market and competitive set, which results in the continual readjustment of strategic goals and capital investments.

While some managers might bristle at what they perceive to be the imposition of corporate authority in their division or region, these corporate planning resources are not supervisors so much as stewards. Establishing an enterprise perspective with these functions is less about moving decision rights closer to the core than it is about enabling insight creation that can, in turn, empower mid-level managers to make better decisions. Take marketing spending, as an example. Allocating these funds invariably incites turf wars at CPG companies. Do the regions get to decide what products/brands to promote in their market? Or does brand management get the money to allocate to whatever regions they choose? Who determines overall marketing strategy, messaging, and execution? Within the matrix, planners reside at the intersections, providing the key, cross-company insights needed by managers to make well-informed decisions based on spend effectiveness (marketing), performance expectations (finance, marketing), strategic fit (strategic planning), and ability to execute (operations planning).

Strategic, financial, and marketing planning functions play a vital role in setting up common decision-making frameworks across a highly complex organization. Moreover, they act as a mechanism for circulating up-to-date information and best practices. They measure, monitor, and modify the organization's overall direction. They are, in essence, the glue that holds the organization together. Without them, the matrix organization loses its center of gravity and succumbs to the centrifugal force of conflicting brand, geographic, and functional agendas.

The Matrix Reloaded: The Time Is Now

Historically, CPG companies have focused their "go to market" activities around a primary axis, and that axis has typically been geography. Companies like Unilever, Nestle, and Coca-Cola (through its local bottlers), for example, have built strong country operations over the years.

This approach to "think global, act local" worked when markets were relatively regional and not yet globally harmonized. However, over the past decade, the world has changed; it's gotten smaller. The developed markets have become more homogenous (certainly in non-food categories), and emerging markets, with their growing middle class, are increasingly demanding similar, if not identical, products to those found in the U.S. and Europe.

P&G was arguably the first to respond to this shift with the formation of global business units around product categories. Of course, the initial sailing was far from smooth, and P&G has had to make adjustments; but the overall wisdom of this approach has since been confirmed. But then and now, the economics clearly favor the formation of global brands that allow scale in R&D, consumer research, and marketing, while accommodating the flexibility to adjust to local preferences.

On the decentralization-centralization spectrum, CPG companies will pick the spot that best suits their unique organization, product portfolio, global footprint, and growth strategy (see Exhibit 3, page 8). There is no one right answer; all have merit.

But all CPG companies should explore the advantages of migrating to some form of multi-axis organizational model. When decision rights, information flows, motivators, and structure are properly aligned, the matrix organization demonstrates an ability to execute well both in

Exhibit 3
The Matrix Organization Can Take Many Forms

	Primary/Lead Market	Cross-Market Coordination	Global Growth/ Brands	Global Category Management
	Regional			Central
Description	*"First among equals" and regional cooperation*	*Key brands managed "globally"; regional cooperation otherwise*	*Central growth/branding planning; regional management of local business and execution*	*Central planning functions; regional management of execution*
Growth Plan	▪ Regions develop and drive growth plans ▪ Global plans must fit within regional objectives	▪ Regions drive own plans ▪ Lead regions responsible for global brand growth plans	▪ Central planning for global brands and growth strategy ▪ Regions own local growth plans on top of global	▪ Centralized planning for growth ▪ Regions own local optimization of global plans
Brand Development	▪ "Lead" region develops brand ▪ Secondary regions lever to pursue own growth plans	▪ "Lead" region develops and manages brands ▪ Houses a category management capability (CM) for the brand	▪ Brand owned centrally—including new product development ▪ Category management in-region, within brand parameters	▪ Brand, marketing, manufacturing, R&D all owned centrally ▪ Category management planned centrally
Resource Trade-offs	▪ Regional management own resources ▪ Lead has authority within a controlled brand/portfolio	▪ Regional management own resources ▪ CM works with other regions on category-related trade-offs	▪ Regional management own resources ▪ Lead has authority within a controlled brand/portfolio	▪ Global functions own planning and resource allocations ▪ Regional trade-offs decided within category plan
Global/Local Interface	▪ Growth functions owned by and positioned in-region ▪ Cross-regional conflicts rise to senior management	▪ Growth functions owned by and positioned with lead regions ▪ Conflicts either go to senior management or to CM	▪ Growth functions owned by and positioned in-region ▪ Cross-regional conflicts rise to senior management	▪ Significant "dual reporting of functional planners to facilitate information flow and decision making ▪ Integrated global/local interaction

Source: Booz Allen Hamilton

the moment and over time. It moves profitably with the market and metamorphoses seemingly effortlessly, without having to embark on an organizational transformation program every three years. Matrix organizations that leverage effective central planning functions exploit the benefits of global scale and brand recognition while appealing to local consumers as "authentic" and "relevant."

Matrix organizations facilitate innovation, enable disciplined execution, and help companies negotiate the inevitable trade-offs that attend managing a highly complex, multifaceted global business. They are worth a second and considered look.

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