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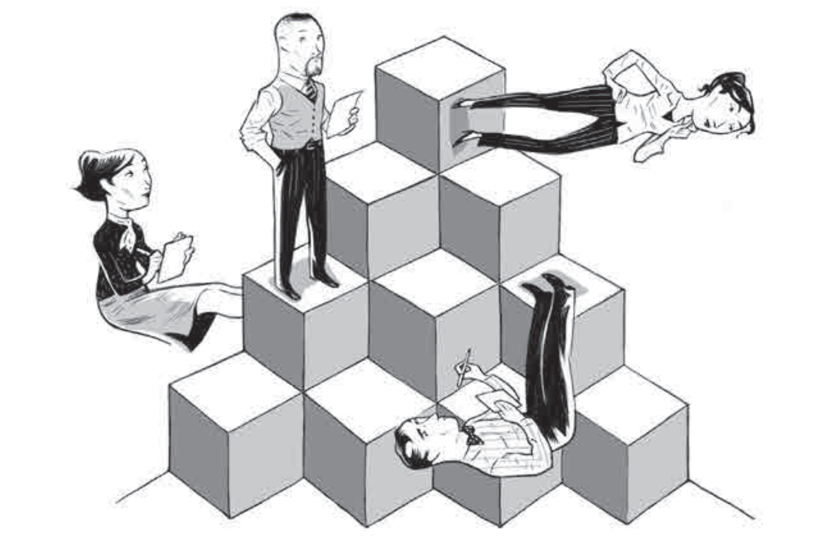

Life in the Matrix

As companies evolve away from traditional hierarchies, a major cultural shift is required.

by Jon R. Katzenbach and Adam Michaels

Not long ago, a global consumer products firm based in Europe found itself hobbled by its traditional organizational culture. It had fiercely independent product development and marketing divisions, and equally siloed business units, whose members hardly talked to one another. Even small management decisions languished while awaiting sign-off from the top four executives, who were the only people with accountability for the whole enterprise. The company's top management recognized that something had to change.

So they reorganized the enterprise into a matrix structure. In formal terms, a matrix is an organizational design in which employees have multiple reporting relationships; one person may be accountable to two or more functions or businesses. The typical goal of this design is to ensure cooperation among business and market leaders, by dispersing accountability. At this consumer products firm, the leaders hoped their matrix would help them get products out to market with agility, finesse, and speed.

To their credit, the people of the firm took the reorganization seriously. The CEO pulled together representatives from every part of the company to redesign the process and flow of work. They crafted a highly articulated formal structure, assigning equal responsibility for P&L to the business units and the marketing staff, and integrating all the roles across functions. The designers of the matrix worked thoughtfully and diligently to redefine decision rights, to place strong talent in high-priority roles, and to set up new financial systems that made the data on business results highly transparent throughout the company. They put everyone into new, cross-disciplinary management teams—in which one individual would report to two or three teams—and charged the teams with developing local strategies that would reflect the global strategy set by business units.

The firm then brought its top 500 executives together for the rollout. After an energetically facilitated retreat, participants signed a formal agreement to collaborate, and capped it off with handshakes all around. A memo that clarified responsibilities and roles was disseminated to people at every level, and people dubbed "tie breakers" were assigned to mediate potential conflicts.

Expectations that the company would operate with enhanced alignment ran high. Yet it didn't take long for most of the new matrix structures to fizzle. To be sure, it was already a challenging year. The global economic recession hit the company hard, triggering unexpected cutbacks. But tensions rose even in the more successful parts of the enterprise. Business unit managers, accustomed to having sole responsibility for finance, grew frustrated at the need to act in concert with marketers. They felt it bogged them down in negotiations and reduced their efficiency. Marketing leaders, for their part, sometimes overstepped their roles. At other times, they hung back and deferred to the business leaders, even when they had something valuable to say. "Tie breakers" found themselves in heavy demand, mediating even small-bore disagreements. People spent a great deal of time clarifying who "owned" which decisions. Pre-matrix problems continued to surface: Regions squabbled over shared services, and supply chain partners remained

Illustration by Lars Leetaru

hard to reach. As people became disillusioned, an unspoken consensus emerged that the matrix itself had become the problem.

Don't Blame Your Matrix

We've seen similar scenarios play out in many other organizations. First, they adopt a matrix structure, believing this realignment will solve problems caused by hierarchical rigidity and internal silos. They often spend significant effort and resources on getting the formal elements of the matrix right, paying particular attention to defining roles, rules, measures, policies, and procedures.

Optimism usually prevails until the organization encounters a problem. It could be a business problem, such as a new product failing to gain traction in the market; the R&D and product development teams then blame marketing and sales for insufficient effort. It could be an organizational problem: Two newly merged units continue to operate as if they were separate entities, their supposedly aligned leaders fiercely contending every inch of turf. It could be a process problem: Managers feel unsure whether they should even mention a new idea in a meeting in which another matrixed unit is not represented. It could also be a teaming problem: Designated work groups overlook the discipline required for seamless, genuine, "real team"–style collaboration. If these problems crop up repeatedly and require constant mediation, people become disappointed and exhausted. It isn't long before they begin to blame the matrix structure.

We believe the problem in most instances is not the matrix but how the matrix is understood. All too often, a matrix is viewed as a structure, a formal mechanism for managing dispersed accountability. But a matrix also has an innate cultural dimension. It is a way of operating and interacting—a complex web of formal and informal relationships that reflects how things actually get done across the organization. Even when the matrix structure has been well defined, this existing web of relationships and concerns continues to be a far greater influence on behavior. And when the web of relationships is at variance with the alignment that the organization needs, people experience it as frustrating and inauthentic.

A matrix structure, for example, might show two co-workers, Nora and Charlie, being connected, in the sense that they share responsibilities for the same part of the supply chain, or the same product line. But if Nora and Charlie have no real relationship, no sense of common purpose, no habit of keeping in touch, no way to identify or express common values, they will struggle to collaborate. And they may end up concluding that their interests are opposed.

When matrixed organizations flounder, it's usually because the company has taken on the formal elements of organizational redesign—reworking the org chart and reassigning decision rights—without making the corresponding cultural moves that are needed to support the new structure. It's easy to understand why this happens. The concrete and rational aspects of the matrix can be clearly defined, drawn, and mapped, which makes them easier to deal with. By contrast, the web that connects people and influences how they go about their daily work seems intangible, difficult to define. It is at least as emotional and informal as it is rational. Certainly it remains resistant to mapping. Too many leaders naturally focus on the more tangible aspects of design—who reports to whom, where lines intersect—and then hope for the best when it comes to the functionality of relationships among people.

To set the matrix free, we must recognize its dual nature. A structure that demands collaboration across traditional silos and boundaries requires a culture that fosters and energizes correspondingly collaborative behaviors: openness, a willingness to try new things, acceptance of small missteps, and so on. In short, the matrix should be designed as a web of alignment. What people bring to the table and how closely their attitudes and behaviors are aligned should affect the flow of information and activity as much as where people sit on the formal organization chart.

Even when the matrix structure has been well defined, the existing web of relationships continues to be a far greater influence on behavior.

Cultural Alignment in Mexico

One of the more compelling examples of cultural alignment across a matrix took place starting in 2009 within PepsiCo's subsidiary PepsiCo Mexico Foods (PMF). All through this episode, PMF was a crown jewel of performance within the overall global PepsiCo organization (it is also one of the biggest food companies in Mexico, with 55,000 employees and more than US$4 billion in annual revenues), but that didn't make it any less challenging.

As PMF president Pedro Padierna tells the story, it began in 2010 with the merger of two major food producers in Mexico, both of which had been acquired by PepsiCo years before. Gamesa, Mexico's largest cookie manufacturer, was based in Monterrey. Sabritas, a snack company headquartered in Mexico City, was the source in that country for the Frito-Lay global brands and its own local brands, such as Sabritas chips. The merger was intended to further strengthen PepsiCo's position in Mexico, but it also brought together two very different companies. It would take a high level of engagement to align them.

Padierna, who became president of the combined enterprise in 2011 (he had formerly been president of Sabritas), viewed this cultural challenge as being at least as significant as the strategic and operating challenges he faced. As he described it to us, "The two [legacy] companies could not have been more different" in how they approached the market and how they ran their operations. Sabritas was direct and functionally oriented, and Gamesa was collaborative and process oriented. Sabritas prized the individual as heroic, able to solve any problem, whereas Gamesa believed that teamwork created results and passion for the work. What was important to Padierna, however, was that they were both successful companies, and their cultures were individually thriving. The key to success was the recognition that Gamesa and Sabritas were coming together not in a takeover, or owing to the failure of one company, but rather, as he stated, "as a merger of equals."

It was thus important to signal that the merger would not result in the transformation of one company or the absorption of one company into the other; rather, PepsiCo Mexico Foods intended to obtain the very best of each company. Padierna began by assuring employees that as redundant positions needed to be eliminated, leaders would choose the people they kept "based on merit. It's not going to be a quota system, taking one from here and one from there." Although some people were skeptical the merger would truly unfold this way (as he expected they would be), after several months they began to believe that Padierna's intentions for a new, hybrid company were sincere.

The Amazon became a symbol of the new PepsiCo Mexico Foods. Each employee could identify as a drop of water in the united river.

Blending Two Rivers

Another essential step was to find a new image for everyone to share, to help employees come together as a new company. As Padierna explained, "One of my early decisions was to move away from the former dual company images and adopt one PepsiCo Mexico Foods image. All of us who were driving the transformation, from that moment on, simply forgot about our past. We emphasized behaviors that demonstrated that we belonged now to a new company: PMF."

The logo of the new company helped express this idea. "We created a powerful image of two rivers coming together to form a new river. We used the image of the Amazon River, which is actually formed by two rivers: the Madeira and the Rio Negro." One compelling part of the story is the way the two originating rivers blend. "Because of the way they drain from the mountains, their waters are different colors. One is black and one is brown. Once they come together, for the first 100 miles they don't mix. The Amazon runs with one side one color, the other side the other color. Then they mix, to become one river that really drives the ecosystem of the world. I believed the same thing would happen here. Our two cultural situations would not mix at first, but then they would become one."

The image of the Amazon became a simple, accessible symbol of the new PMF. Each employee could identify him- or herself as a drop of water in the united river, contributing to a single enterprise. This idea helped capture everybody's imagination, in ways that launched critical behavior changes—including among many of PMF's 40,000 frontline employees.

The symbol of the two merging tributaries was rolled out in many concrete ways. One example involved the uniforms that the sales force wore on daily visits to customers. For the first time, Gamesa and Sabritas employees wore shirts of the same color, with the new PMF logo on them. The new shirts became ever-present reminders that helped fuel key behavior changes. However, the company also kept the old Sabritas and Gamesa logos on the left side of the new shirts, so as not to disrupt the sales force's identity, or move too quickly. The rivers need to merge at their own pace, and since they were most closely associated with each brand, the sales forces were very sensitive. PMF took time to merge their practices.

They used a matrix structure to set up the new organization. One goal was to free up the collaboration across boundaries that true integration would require. Another goal was to focus attention where it mattered most: on opening new markets and meeting customer needs with well-targeted products delivered in a timely manner.

The new enterprise was composed of four business units: savory snacks, biscuits, confectionary and new businesses, and foods. As president, Padierna had 12 direct reports, four heads of the business units and eight leaders of functions: finance, sales, R&D, marketing, IT/transformation, legal, operations, and human resources. The sales units, which had formerly been organized according to product, were now deployed by customer—for example, one each for Walmart and for convenience stores. Most departments reported both to a function and to a business unit.

Even with this new structure in place, Padierna knew leaders could not simply move people around, especially because the two legacy identities would remain in place for a while. To create a better hybrid culture, people on both sides would have to focus on something new and different from the old companies' cultures—a culture that perpetuated what was good from each, but was not afraid to develop wholly new elements as well.

During its first year, through mid-2011, the merger engendered a measure of confusion and did not itself create an automatic sense of alignment. Entrenched behaviors and traditions remained in place even as new reporting lines and processes were solidified. Territoriality surfaced in the business units, which continued to drive the business as if they had their own P&L sheets. Leaders competed to get the more highly regarded people to be loyal to them.

In addition, while the more interconnected and horizontal structure mandated that people take more responsibility and initiative, the long-established traditions in both cultures made people reluctant to challenge leaders or hold them accountable for decisions that undermined real collaboration. A leader in the savory snacks division launched a cheese-based cracker, even though the biscuit division was already developing a similar product. Instead of acknowledging the possible consequences of this overlap, people on the snacks team simply went ahead with trying to create the new cracker and get it out into the market. As a result, marketing and R&D got pulled in opposing directions as the biscuit and snacks units sought the same resources. Collaborating for the greater good was not an easy task, despite the tremendous efforts and disposition of everyone involved.

Change also proved difficult—even impossible—for some people individually. Most of them quickly identified themselves, and were offered an easy out. As Padierna put it, "In a merger, there are three kinds of people: those who are willing to accept change and become your partners from the very beginning; those who are willing, but cannot make the change even if you help them; and those who don't want to be part of it at all." Finding and energizing the first group, he added, is essential: They can model and help spread the change you want the company to follow.

Finding "those who are willing to accept change and become your partners" is essential: They can model the change you want.

By late 2011, with the structural and formal parts of the merger largely complete and the matrix design in place, Padierna knew he had to find a better way to integrate the best of both cultures. The organization would have to identify behaviors and customs that needed to change, and find ways to support these changes. In 2012, he went to the global corporate leadership group at PepsiCo headquarters in Purchase, N.Y., and made a presentation to more than 20 senior leaders. In it, he described how his leadership team was implementing a capabilities-driven strategy based on superior customer and consumer service across priority food categories. He explained that to become the kind of culturally aligned company that this strategy required, PMF would emphasize four fundamental behaviors that he described as follows:

1. Focus externally by always putting the customer, shopper, and consumer first.

2. Foster open and honest dialogue by soliciting input, listening respectfully, and sharing opinions proactively.

3. Expedite and empower decision making based on facts, processes, and PMF's priorities as a multicategory business.

4. Mobilize and support effective matrix teams that unlock the value of a PMF-wide perspective.

Although these behaviors are both clear and achievable, they manifest differently at different levels and in different parts of the four businesses. For example, the executive team made a simple but significant behavior change in all meetings. Team members, to make their first critical behavior of "focusing on the customer" concrete and tangible, began opening every meeting with a report on customer feedback and reviews. Meetings used to begin with performance reports, and Padierna described the shift as initially "awkward, because we were not used to that." But it has not only had the effect of reminding everyone that the customer must be central, but also demonstrated a meeting behavior that is new to both Sabritas and Gamesa people, thereby reinforcing a better, unifying hybrid.

Another change, aimed at the second behavior, was to create a new shared vocabulary for PMF, paying attention to the differences between the way Sabritas and Gamesa people referred to things, and fostering open dialogue about it. For example, Sabritas called the HR department *recursos humanos* (human resources), whereas Gamesa used the term *capital humano* (human capital). Neither side wanted to use the other's name, so Padierna decided they needed an entirely new name, *talento y cultura* (talent and culture). Padierna said this attention to semantics was essential: "One of the hardest things that we did was to write the new vocabulary. Now, everybody speaks the same language."

Padierna also expected that the sales force, PMF's front line, would once again be the hardest part of the company to engage with about the new behavior. For this reason, PMF delayed working on the salesforce culture until after cultural work was under way in the rest of the company. Sabritas's sales force was very metrics oriented, and each individual salesperson collected specific, detailed numerical indicators. Gamesa was much more focused on teamwork, and used peers to motivate salespeople to do their best, without tracking their specific results closely. To "empower decision making based on facts," the third critical behavior, the new sales force would have to adopt many of Sabritas's practices and collect more individual indicators. So sales-force training for Gamesa became much more oriented around metrics.

At the same time, Gamesa's teaming skills could bring valuable motivation and energy to the Sabritas sales force, and help salespeople focus on the fourth critical behavior: "mobilize and support effective matrix teams." Within Sabritas, salespeople were encouraged to give one another more feedback, and gather in teams to come up with suggestions for improvements. Although the merger of the sales forces is still in its early stages, PMF's critical few behaviors have already become a guidepost for how to reinvent behaviors on the front lines.

"We are now marching ahead to really complete the integration of the sales force," says Padierna. "But that will bring, again, lots of culture alignment challenges.… So, I'm not going to let the new behaviors go. I would say that's [priority]number one. And I think that it is already beginning to pay off."

The cultural transformation program in PepsiCo Mexico Foods is still under way. It is part of a holistic multiyear transformation strategy that is led by Padierna, overseen by the executive committee, and designed by a transformation team. Although it is still too early to come to conclusions about its success, the signs are positive.

PepsiCo Mexico Foods recently received the Donald M. Kendall Award and the Business Unit of the Year Award from PepsiCo CEO Indra K. Nooyi. This is the first time a business unit has received both awards in the same year, a clear recognition of the value of what Padierna and his team are doing.

First Principles for the Matrix

For many companies these days, an effective matrix structure has become a viable way to achieve organizational success, if only because the demands of the global economy have grown more complex. At the same time, culture has become more challenging as an instrument of change because high-trust relationships are more difficult to develop and sustain across highly dispersed geographies. A decade ago, if a company sent a U.S.-trained executive to open a division in China, he or she would have already developed ties with colleagues and leaders at the corporate office. This would provide an informal and intuitive sense of whose support, at headquarters, could help make the venture a success.

Today, such a firm would be more likely to engage someone based in China to open the office there, giving him or her little opportunity to forge relationships or get a feel for the cultural situation back home. Without knowing the right person to call or the right questions to ask, a manager in charge of the Chinese operation might have no way to access information essential to success. The result? The manager's potential would never be fully realized, and lessons learned in other parts of the organization will go to waste.

A structural matrix can help address these global complexities, providing the individual with a broader range of reporting channels and more formal connections to the firm. But if people on the ground don't have personal connections across geographies or speak the uncodified language of the organization, they will be operating with limited information and resources, and their behaviors may undercut what they are in good faith trying to achieve.

As Douglas Conant, former CEO of Campbell Soup Company, suggests, a guiding principle for a matrix-bound culture could be as simple as "It's a win for both of us or there's no deal." The enterprise leader should then provide just enough structure for people to make progress, while letting them figure out the actions they need to take to get there. In effect, this approach allows people to construct the matrix experience themselves. Once they begin to make progress, their new behaviors will start to feel natural, part of their experience. When this happens, the organization is on its way to cultural alignment in a way that fits its strategic and operating priorities.

A company's ultimate goal should be to liberate the emotional energy of the matrix, to unlock its full potential by emphasizing the importance of its cultural aspect. With that process under way, people throughout the organization can take on together the hard but rewarding work of building a high-performance, collaborative company. +

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