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EXECUTIVE BRIEFINGS
BUSINESS & MANAGEMENT: REPORTING STRUCTURES

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The Matrix Reloaded

Twenty three years ago, Bob Parker, Chairman Mobil Asia Pacific, was responsible for what was then the world's fastest growing region and, in the fullness of time, projected to evolve into a dominant market. Mr Parker's beat extended from Japan through to India, encompassing large and small economies including New Zealand, Korea, ASEAN, and clearly China. This basically meant that he was responsible for everything, including P&L. Most large diversified multinational corporations ran global operations with one regional manager carrying P&L responsibility across products and brands for his geography. Following this pattern, individual country managers reporting into the regional head, were responsible for their respective markets. Effectively, there was single point responsibility for business, governance, compliance and pretty much everything else.

The system worked well for many reasons. For the parent company, it was simpler to deal with a single individual as markets were smaller and financial exposures limited. For the local subsidiary the structure was suitable as authority and responsibility were vested in one individual who, within the confines of the operating parameters dictated by the head office, could attune his business to local market conditions.

Over the years, as operations became larger and the diversity of product offerings enlarged, this structure began to wobble. For one, intrusion from head offices increased in line with perceived market opportunities. Not only did they want to see higher revenues, they also wanted greater influence over the way business was conducted. Everything, as the thinking went, could no longer be left to a single individual. In the case of multi product companies there were more compelling reasons. Different products had different complexities – production systems, technology and distribution parameters. One country manager could hardly be an expert in all and increasingly found himself stretched on operating and technical issues. This was said to hamper decision making and nimbler single-product local rivals began to surge ahead. Headquarters agonised over the fact that their respective product lines were not getting the attention they deserved, leading to bickering amongst global product heads.

Over the course of the last few weeks, we undertook a series of interviews with chief executives of large multinationals operating in India. This was to ascertain whether geography or the alternative matrix structure worked better. The research concluded that, insofar as multi-product companies were concerned, the matrix is now the dominant paradigm. The way it works is simple. Business managers have ultimate responsibility for customers and revenues. Therefore, a diversified company may for internal consumption prepare several profit and loss statements to define individual product performance. Frequently, the supply chain, HR, governance, finance, etc are centralised with function heads responsible for each. The country head has a dotted line to business managers but is generally responsible for governance and HR and occasionally, supply chain and finance. Business managers report to a regional product head and so on. Our research concluded that this system seems to work proficiently.

More relevant questions, perhaps, are in the detail. How do matrix structures cope with multiple unit heads pulling their businesses in different sometimes conflicting directions? How are they able to leverage market opportunities that necessitate concerted, cross-cutting action across silos? And how does the CEO himself cope with the peculiar situation of ostensibly having responsibility for the entire

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business but, often, not the authority? Our conversations revealed that different companies have evolved different solutions but the essential ingredients are common.

Making matrices work

The first prerequisite for a successful matrix organisation is clarity of purpose. The local CEO must know his role, which is to manage administrative affairs without intruding on the primary function of business managers. Their mandate, on the other hand, is sales and revenue. Understandably, for country CEOs this cannot be a tranquil change to get accustomed to. Foregoing the thrill of active business development and focussing instead on a facilitating role is a sacrifice of sorts. It is their job to ensure that the company adheres to required standards on regulatory compliance, public affairs, health and safety and myriad other considerations that, if not managed properly, can give rise to worrying consequences. Business managers, absolved of this burden, are then free to pursue growth. Occasionally, the growth imperatives of one business unit come into conflict with those of another or indeed with corporate considerations. In many cases, the country CEO would play the conclusive role and successful MNCs formalise the distribution of powers clearly to render this a smooth exercise. In circumstances where the problem cannot be locally resolved the regional headquarters would play arbitrator.

Secondly, despite the ostensible segregation of responsibility, the fact remains that a matrix cannot survive without active cooperation between business heads and the country CEO. Each business could run the risk of becoming a silo, wasting the benefits of synergy and scale that a larger organisation is capable of providing. This is where individual maturity becomes critical. Business heads are sometimes tempted to exclude the country CEO from their decision making given that their direct reporting is overseas. However, successful companies have institutionalised a process of consultative decision making, for instance, through the formulation of committees chaired by the country CEO. This enables the execution of cross-platform and integrated go-to-market strategies. The CEO of a speciality chemicals company gave the example of how his involvement was instrumental in the introduction of multi-modal transportation to move the company's goods across the country. The move saved a large amount of money. Individual unit heads had neither the interest nor the exposure to wider supply chain issues to be able to come up with such an idea.

A different kind of CEO

On his part, the CEO needs to have skills very different from those required two decades ago. Rather than technical knowledge or marketing prowess, he is expected to provide statesmanship, diplomacy and indeed, counsel. He also needs to present a unified face to external stakeholders even on issues that are not in his control. To do this effectively, he needs to be well-networked internally but most of all, he must command the respect and cooperation of his dotted line reportees, as well their superiors overseas. Only then can he get everyone to fall in line when collaborative action is required. To win their respect, he needs to be hands-on and intricately involved in every business, but at the same time cannot bully the unit heads into submission.

Conflicts amongst silos

At a more mundane level, a hitch with matrix structures is the inefficiency and conflict that arises when individual businesses chase common customers, enter common markets or use common distribution channels in different ways. Successful companies adopt one of two methods to address this. Firstly, areas of potential conflict are identified and a consultative system is established where all business heads, their regional superiors and the local CEO get together to work out a strategy that minimises divergences or duplication. For instance, in the case of large common customers, they may establish a cross-company team that approaches the customer with an integrated solution rather than individual businesses providing piecemeal offerings. Apart from affording greater bargaining power, this approach

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opens doors for lesser businesses that may otherwise not get a foothold in large customer organisations.

The second approach is more suitable in cases where one of the businesses is intrinsically different from the others – either in terms of profitability, technological sophistication or importance for the customer. In this instance, the 'non conforming' business unit is spun off as an entirely different legal entity with its own CEO and independent reporting line. This frees both organisations from the need to make compromises for the other's benefit. The company as a whole does not lose through this bifurcation because there were not too many synergies to exploit in the first place.

The matrix is here to stay

No matter how good business heads may be in their individual domains, the big picture remains as indispensable to the organisation as it was before. The matrix structure therefore is in no way a replacement for a skilful leadership at the top. However, it is considered superior to the geographical organisation as it can better ensure that each business or product line gets the expertise and attention it deserves. The compliance and regulatory complexities of markets such as India demand dedicated resources that would be too burdensome for business managers to cope with. A compromise on one parameter or the other would be a constant risk and global businesses could never settle for this. By all accounts, whatever their challenges, matrix structures are here to stay.

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