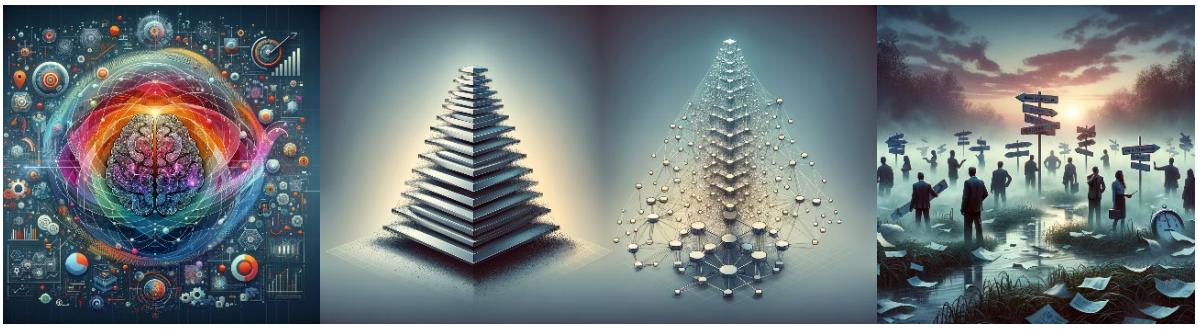
Purple Ocean Advisory

BEYOND BLUE AND RED

Purple Papers

Optimizing Decision-Making in Hyper-Matrixed Organizations

Visual Abstract



DECISION SCIENCES | HIERCAHIICAL VS MATRIX | DECISION STAGNATION

Introduction:

Numerous management textbooks teach us that a variety of organizational structures exist, each designed with the underlying intent of either driving structured control, referred to as "authority," or fostering innovation and the freedom to operate, known as "empowerment." These structures are often tailored to fit the industrial environment, the stage of an organization within the S curve of

"hyper-segmentation and overly complex division of accountabilities"

maturity, or the specific remit and purpose of a sub-organization/department within the broader organizational framework. In whichever industry you operate you face a highly dynamic environment (VUCA) where the "fast fish is beating the big fish" thus decision-making is paramount. Regardless of whether you have experienced a reorganization, such events can be triggered by changes in the competitive landscape or macroeconomic challenges. Typically, a large management consultancy firm is brought in to redesign and, albeit unintentionally, elevate cortisol levels within the workforce.

This purple paper reviews the rise of the matrix organization, its underlying purposes, and how, in some instances, it has evolved into what we have termed as "hyper-matrixed." This evolution poses challenges in decision-making, and accountability, and can potentially disempower an organization.

Personal observation of the issue

The issue, based on personal experience, revolves around the hyper-segmentation and overly complex division of accountabilities. Here, core product performance accountability became secondary to customer segments. This organizational design was pursued to simultaneously: (a) foster a focused customer approach and the possibility of offering multiple products with distinct differentiations within the same customer segment and (b) capture synergistic knowledge and resource allocation whilst breaking down silos to form a "glocal" design. However, when adding the complexity of regional and then market accountability, we observe an exponential increase in complexity.

My personal experience was framed within the healthcare industry where, initially, assets

(drugs/biologicals) were categorized into various indications (diseases), where the indication was the primary driver vs the asset, leading to a fragmented approach to asset accountability. This fragmentation was exacerbated as indications often spanned multiple assets, each at different stages of their lifecycle. The situation was further complicated by the four geographic regions, then subdivided into country level which diluted the accountability for an asset's performance (P&L) at regional and local levels. At country level, the organizational structure emphasized indication leads over asset leads and in the absence of an overarching country lead, made managing the country's P&L challenging due to a lack of centralized oversight and resource allocation. Consequently, there was no definitive decision-maker responsible for overseeing the comprehensive portfolio of assets and indications, nor was there accountability for overall returns. This absence of a unified leadership role, such as a general manager/country leads and brand heads, meant that strategic decisions and asset management were conducted in a dispersed and uncoordinated manner, undermining the organization's ability to effectively optimize returns across a portfolio of assets.

This organizational structure could be highly beneficial as long as you have deployed a network of decision bodies. However, this will be management by consensus rather than guided by your strategic direction.

My humble reflection on the dynamics of a highly matrixed organization:

Accountability: Within a highly matrixed organization, accountability often becomes obscured. It is unclear who owns what and at what stage. This ambiguity does not foster accountability, as the presence of too many possible avenues and individuals involved dilutes clear responsibility.

Empowerment: The goal of building a matrix organization is to empower individuals. However, this objective contradicts itself due to the involvement of numerous stakeholders, ultimately disempowering the organization. Instead of facilitating empowerment, the complex structure leads to confusion and a lack of clear authority.

Decisions: The question arises: Who makes the decisions? With so many people involved and no clear decision-making boards beyond the C-suite, the organization often resorts to consensus for decision-making. This approach, though, is fraught with challenges. Effective decision-making by consensus requires everyone to have perfect information and a thorough understanding of the overarching strategy—conditions that are rarely met. Consequently, organizations can stagnate in the quagmire of consensus, unable to move forward decisively.

In summary, the intricacies of a highly matrixed organization can inadvertently lead to a loss of accountability, disempowerment, and decision-making paralysis, hindering the organization's ability to act swiftly and effectively.

How to move from stagnation to decisions within a highly matrixed organisation.

Firstly you need to understand where you are on the matrixed spectrum. We provide below a qualitative framework to conceptualize and categorize the level of matrixed organization from "mild" to "hyper". The framework is based on several dimensions that reflect the degree of matrix complexity (See appendix A). We consider the extent of cross-functional collaboration, the number of reporting lines,

the diversity of projects or products, geographical dispersion, and the level of interdependence among different parts of the organization.

This framework forms the starting point to identify where your organization stands in terms of matrix complexity and understand the specific challenges and opportunities at each level. It also provides a basis for developing tailored strategies to manage and optimize the matrix structure effectively, ensuring that the organizational design supports rather than hinders the achievement of strategic goals.

Reflecting on your organization's position within the matrix spectrum, how can you transition from stagnation to effective decision-making?

Decision models are well-documented and studied. Let's consider the interplay between classical decision theory, behavioural economics and naturalistic decision models in a matrix environment where decision-making as described earlier can be complex.

Let us quickly review the three theories in the context of a matrix environment.[1]

Classical Decision Theory

This model assumes that decision-makers are rational actors who have all the necessary information to make an optimal choice. Decisions are made by maximizing expected utility or value, considering the outcomes of each choice and their probabilities.

Application in Matrix Structure: applying classical decision theory can help in systematically evaluating the outcomes of different project directions or resource allocations. It would require clear communication and data sharing between the different managers and teams to ensure all variables and outcomes are considered.

However, the assumption of complete information and rationality may not always hold true due to the inherent complexity and dynamic nature of matrix organizations.

"Review your organization's purpose and strategy with a focus on Simplicity and Accountability"

Behavioural Economics

Recognizes the limitations of human decision-making, including biases and heuristics that individuals use in the face of complexity and uncertainty. It suggests that decisions are not always optimal but are bounded by cognitive limitations.

Application in Matrix Structure: behavioural

"Interplay between classical decision theory, behavioural economics and Naturalistic decision models"

economics can provide valuable insights into understanding the behaviour of team members and managers in a matrix setup. For example, awareness of confirmation bias can lead to efforts to seek diverse perspectives in project planning sessions. Understanding that individuals might overestimate their ability to meet deadlines (overconfidence bias) or prefer immediate rewards over long-term gains (present bias) can inform the design of incentives and project milestones.

[1] Handbook of Human Factors and Ergonomics, Fifth Edition. Gavriel Salvendy and Waldemar Karwowski.

Naturalistic Decision Models

Focus on how decisions are made in real-life situations characterized by uncertainty, time constraints, and high stakes. It emphasizes the role of experience, intuition, and the ability to recognize patterns in guiding decision-making.

Application in Matrix Structure: given the complexity and the need for rapid decision-making in a matrix organization, naturalistic decision models are highly relevant. Managers and team members can be encouraged to rely on their expertise and intuition, especially in crisis situations or when rapid responses are required. Training programmes can be designed to enhance situational awareness and pattern recognition skills across different domains.

Applying Models in a Matrix Organization:

A practical approach in a matrix organization might involve integrating aspects of all three models. For instance, classical decision theory could guide the initial planning phase, behavioural economics could inform team management and communication strategies, and naturalistic decision models could be applied in dynamic and uncertain contexts.

Clarifying decision authority and developing effective conflict resolution mechanisms are crucial in a matrix structure. Understanding the psychological and social dynamics (as highlighted by behavioural economics) can facilitate smoother interactions between different stakeholders.

Effective decision-making in a matrix structure depends on the flow of information between teams and levels of management. Systems need to be in place to ensure that relevant information is accessible to those making decisions, aligning with the premise of classical decision theory that decisions are better with complete information.

The organization's culture can significantly influence the applicability and effectiveness of each decision-making model. A culture that encourages risk-taking and innovation may align well with naturalistic decision models, while one that values data-driven decisions may lean towards classical decision theory.

Conclusion

In conclusion, understanding the challenges inherent in navigating the spectrum of matrix organizational structures is crucial. Decision-making within such an organization should be context-sensitive, integrating various models. Consider applying classical decision theory for strategic planning, behavioural economics to manage team dynamics and communication, and naturalistic decision models for making swift decisions under uncertainty. It is paramount to clearly define roles, responsibilities, and conflict resolution mechanisms. Ensuring an efficient flow of information is critical for smooth operations. Additionally, cultivating a culture that values both data-driven and intuitive approaches to decision-making can enhance adaptability and innovation within the organization's complex framework

Purple Ocean Advisory

BEYOND BLUE AND RED

Purple Papers

About the Purple Ocean Advisory

Purple Ocean Advisory is a boutique advisory organization which brings a wealth of experience from engaging with a variety of organizations, offering a unique perspective on the challenges and intricacies of strategic planning, decision and organizational design. Allow Purple Ocean Advisory to be your guiding partner through the intricacies of decision-making and organizational design. Together, we can turn challenges into opportunities for innovation and success. Reach out to us today info@purpleocean-advisory.com to begin your journey towards excellence.

Purple Ocean Advisory richard@purpleocean-advisory.com

3 March 2024

Appendix A:

1. Mild Matrix	2. Moderate Matrix
• **Characteristics**: Limited cross-functional teams, primarily functional reporting with some project-based dual reporting. • **Cross-Functional Collaboration**: Occasional, with a few roles participating in cross-functional projects. • **Reporting Lines**: Mostly single, with some roles having a secondary project-based reporting line. • **Project/Product Diversity**: Low, with a focus on a limited range of projects or products. • **Geographical Dispersion**: Minimal, often centralized in a single location or region. • **Interdependence**: Limited, with clear delineation of departmental functions and responsibilities.	• **Characteristics**: Balanced mix of functional and project reporting lines, with more roles involved in cross-functional teams. • **Cross-Functional Collaboration**: Regular, with many employees participating in project teams outside their functional departments. • **Reporting Lines**: Dual reporting is common, with clear distinctions between functional and project accountability. • **Project/Product Diversity**: Moderate, with projects or products spanning several areas but still within a related set of domains. • **Geographical Dispersion**: Regional, with teams or projects spread across multiple locations but within similar time zones. • **Interdependence**: Moderate, with departments needing to coordinate frequently to achieve project and functional objectives.
3. Strong Matrix	**4. Hyper Matrix**
• **Characteristics**: Significant emphasis on projects, with project managers having considerable authority across functions. • **Cross-Functional Collaboration:** Intensive, with team members often working on multiple projects across various disciplines. • **Reporting Lines**: Dual reporting is the norm, with project and functional managers sharing decision-making authority. • **Project/Product Diversity**: High, with projects covering diverse areas requiring a wide range of expertise. • **Geographical Dispersion**: Global, with teams and projects distributed internationally, necessitating advanced coordination. • **Interdependence**: High, with complex interactions between functions and projects requiring sophisticated management mechanisms.	• **Characteristics**: Extremely high level of matrix complexity, with multiple dimensions of collaboration beyond function and project, including product lines, geography, and possibly other axes. • **Cross-Functional Collaboration:** Pervasive, with nearly all employees engaged in multidisciplinary teams across numerous axes. • **Reporting Lines**: Multiple, with individuals potentially reporting to more than two managers (e.g., function, project, product line, region). • **Project/Product Diversity**: Very high, with an expansive range of projects, products, and initiatives that cross traditional boundaries. • **Geographical Dispersion**: Extensively global, with critical operations and teams spread across numerous countries and cultures. • **Interdependence**: Extremely high, with intricate dependencies requiring advanced coordination and integration mechanisms across the entire organization