CHAPTER

12

WHOLE ORGANIZATION AND MULTIPLE ORGANIZATION INTERVENTIONS (PART 1)

Adjusting the Matrix

Amy Kates

LEARNING OBJECTIVES

This case will help business leaders and the organization development practitioner to:

- Understand what makes for the successful design of a matrix organization;
- Identify the practical set of changes that can be employed to adjust organizational dynamics across the matrix to achieve desired results; and
- Illustrate a best practice in organization assessment, engagement, and learning.

This case demonstrates a best practice in activation. It shares the story of how the executive team of a services company (called here SolutionsCo) implemented a matrix organization and then assessed results and made needed adjustments.

Organization design is not done until the intended design is brought to life with people in new roles, working in new ways, and making different decisions that drive new outcomes. This process of "activation" often takes 2 to 3 years. Only then has the organization gone through multiple cycles of business planning and performance monitoring. During this time, leaders will notice that some of the intentions and assumptions of the original design work did not turn out as expected. A major part of activation is assessing results against expectations, diagnosing root causes of gaps, and then exploring and implementing needed adjustments to the design.

OVERVIEW OF SOLUTIONSCo

SolutionsCo is a multibillion-dollar company that provides technical services and information technology support to its clients. It was spun off from a larger company. At the time of the separation, leadership organized the new company as a two-dimensional matrix, one axis focused on capabilities and one focused on customers.

During the first 2 years after its spinoff, the company achieved numerous successes in terms of customer wins and access to new markets that were partly attributable to the new organizational structure. However, leaders recognized the need to clarify the roles and responsibilities of frontline supervisors related to the management of people, particularly in the areas of performance management, compensation, and professional development.
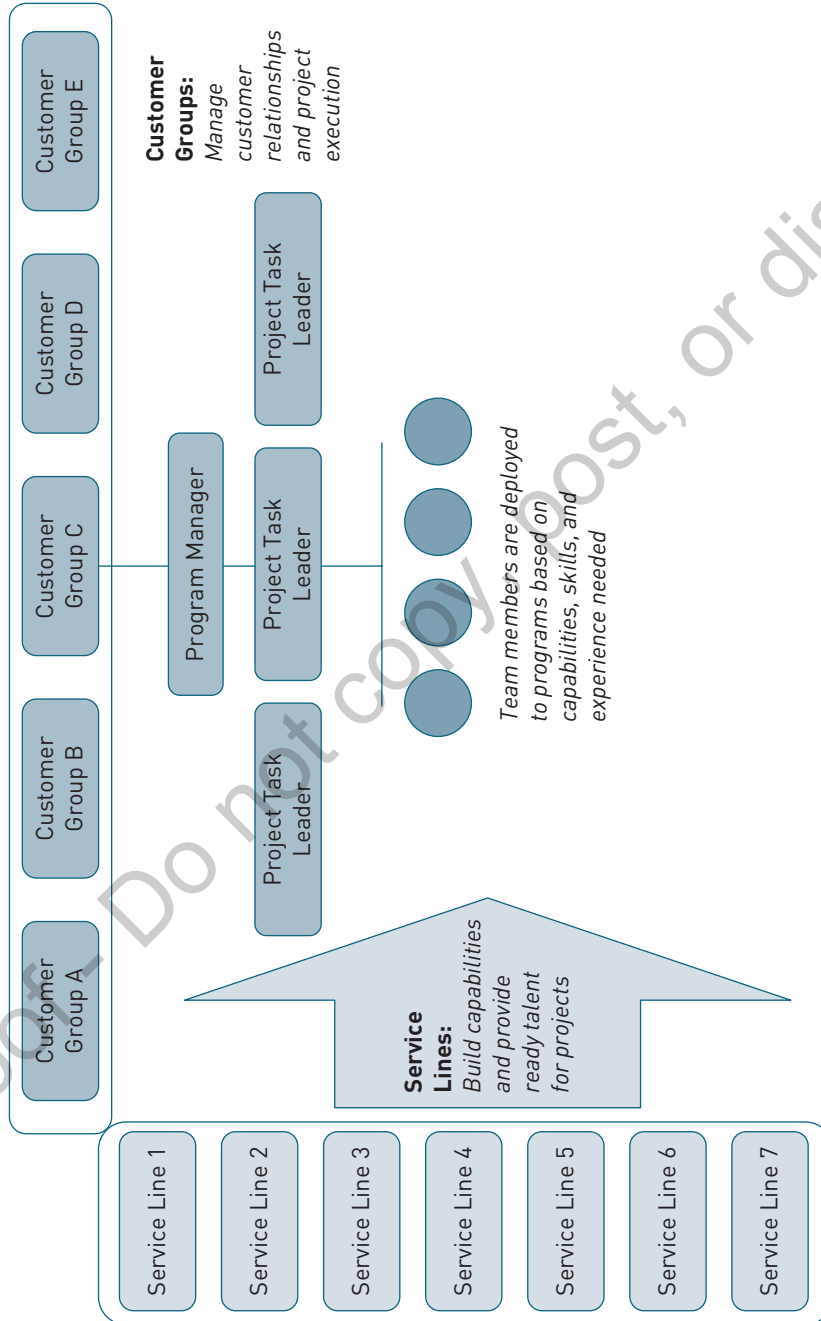
THE MATRIX

The SolutionsCo matrix has two dimensions:

1. Five customer-facing organizations—the Customer Groups—develop deep customer knowledge and relationships, lead the proposal process, and oversee the delivery of services through program teams to meet contract specifications.

2. The seven Service Lines maintain and develop capabilities and deploy skilled and ready employees to the program teams.

The intent of the SolutionsCo matrix is to optimize two strategies. Customer Groups focus on meeting customer needs and ensuring high levels of customer satisfaction. The Service Lines ensure that the company has a ready supply of current and emerging technology skills. By working together, all the assets and expertise of the firm are visible and available to win and deliver projects in a highly competitive market.

Figure 12.1 is a simplified illustration of the SolutionsCo matrix.

FIGURE 12.1 ■ SolutionsCo Matrix

Customer Group A

Customer Group B

Customer Group C

Customer Group D

Customer Group E

Customer Groups: *Manage customer relationships and project execution*

Program Manager

Project Task Leader

Project Task Leader

Project Task Leader

Team members are deployed to programs based on capabilities, skills, and experience needed

Service Lines: *Build capabilities and provide ready talent for projects*

Service Line 1

Service Line 2

Service Line 3

Service Line 4

Service Line 5

Service Line 6

Service Line 7

With the launch of the matrix, the leadership team undertook careful definition of frontline management roles.

On the customer side, Program Managers were defined as the key supervisors of daily work. For large programs, there are often additional levels of supervisors, or task leaders, who report to the Program Manager. Program Managers were tasked with accountability for the following:

- Program management (prioritization, program delivery, program review, technical staff management during program execution, and external customer satisfaction)
- Business development (planning, pipeline management, pricing)
- Demand planning (people and resources)

In addition to the Program Managers, a set of technically experienced staff within each capability-focused organization were assigned responsibility for the development and deployment of 20 to 30 employees each. These staff, called Team Leads, were tasked with the following:

- Technical capability (provide the technical solution, make vs. buy decisions, capability development and investment)
- People (technical recruiting and hiring, resource deployment/redeployment, development and training, performance reviews)

Team Leads are billable employees with their own project responsibilities. The management role was expected to take approximately 5% of time away from project work.

This delineation of responsibilities is effective and straightforward when Team Leads are on the same program as the Program Managers and when the teams are long term, stable, and co-located. In this case, the two are managing both the work and the people together. In some cases, however, employees and Team Leads are not co-located or assigned to the same projects. In these cases, called cross-connects, employees do not have regular contact with the Team Lead. Many Team Leads charged with supporting employees remotely or outside of their projects struggled to provide coaching and professional development in the brief amount of time allotted by the design.

CUSTOMER GROUP/SERVICE LINE MATRIX WORKING GROUP

SolutionsCo leaders understood that working in a matrix would be new for many employees, particularly frontline supervisors who now had to coordinate with colleagues to ensure that people were appropriately developed, deployed, managed, and engaged.

The Customer Group/Service Line Working Group (Working Group) was set up to identify and address issues related specifically to the new organization structure.

The Working Group is not a decision-making body. They describe themselves as "catchers of issues," which they surface together with recommendations for enterprise resolution.

The Working Group has 12 members drawn from across the organization and from all levels of management. Membership rotates. Two respected and senior leaders from each side of the matrix serve as cochairs, set the agenda, and facilitate the discussion.

The group, which meets weekly, has proved highly valuable as a way to identify and address organizational issues that might otherwise not get coordinated leadership attention. Many issues that have come to the Working Group have had to do with the mechanics of people management. While the organization was seeing tangible success collaborating on proposals and the actual delivery of services, there was significant confusion regarding the roles and responsibilities of various supervisors. The Working Group wanted to ensure that this confusion did not contribute to employee turnover and conducted a survey to frontline managers to assess the situation.

DIAGNOSIS

Kates Kesler Organization Consulting was engaged to conduct a diagnosis on the root causes of the confusion and to develop potential options for resolution. In-depth interviews were conducted with a diagonal slice of 20 leaders to better understand the issues highlighted in the survey as well as those collected anecdotally by members of the Working Group.

The diagnostic process found that overall the matrix structure was producing the intended wins for the business. The customer strategy was clear, internal competition had been eliminated, and the company was able to bundle capabilities for bigger and repeatable wins. The company was starting to get the promised benefits of both agility and leverage of assets through the matrix. The following was a typical example cited:

> We had the opportunity to bid on a big training contract. SolutionsCo had a good relationship with the customer, but only for software development. Meanwhile, another part of our business specialized in training. Before the matrix, the connection between the customer relationship and a capability would never had been made. This time we came together. The customer group team led the calls. The service line repackaged our capabilities. We beat several strong competitors. In the past, we would not have even put in a bid, much less won it.

The diagnostic process also found that the division of supervisory tasks seemed to work well for stable, long-term projects where Team Leads were co-located with their teams and assigned to the same program. In many of these cases, Team Leads also served as task leaders so that roles of supervisor and career coach were resident within the same person.

However, where these ideal conditions did not exist, there was likely to be some degree of confusion. The diagnostic made a number of observations (typical comments are in *italics*):

1. Program Managers feel accountable for performance to the customer, but often feel disempowered to manage performance effectively because they only have limited input and visibility into the performance management process.

   We need a mental shift. The Program Manager should own the person while they are on the program. The Team Lead should focus on longer-term development. Ideally, the employee should feel they have two people looking out for them; two places for information.

2. SolutionsCo has a simple matrix but a diverse business. The wide variation in program size, duration, and skill mix means that what works in one situation doesn't work in another, regardless of the skills or mind-set of the Team Leads and Project Managers.

   We play at the extremes of the business—both low cost and highly customized. We can't have one size fits all customer types. For smaller, more dynamic programs, there is more coordination needed between the program and service line to bring in or exit people. On the other hand, in some places we have 150 people who have all been working for the same Program Manager for the past 10 years. Let's not complicate it there.

3. Cross-connects exacerbate these issues. When not co-located with their teams, few Team Leads can successfully execute the intention of the role or build needed working relationships with the Program Managers.

   We are very lean and don't have a lot of time to spend on managing. When there is distance it is even more difficult. As a Team Lead, I had three people who I never met. I did performance reviews based on what the Program Manager gave me. The employees didn't feel that I really knew them or their work.

ANALYSIS

Frontline employees everywhere want good management—to feel that "I have someone to go to for coaching, I am being fairly evaluated by all the people who have a stake in my performance, and someone is looking out for my development and career."

At SolutionsCo, this work has been divided between the Team Lead and the Program Manager. The root causes of confusion are the following:

- (Structure) The matrix connection sits very low in the organization. This creates a huge number of people who have to work together to manage others,

on top of delivering their day jobs. This construct puts a lot of pressure on a lean organization.

- (Structure) While the concept of collaborating across the matrix has been embraced, the layers don't line up across the Service Lines and the Customer Groups. This creates complex interactions, particularly on large projects, where the Program Managers and task leaders are layered and dealing with multiple service lines and Team Leads, some of whom are not on the project.

- (Structure) A one-size-fits-all frontline management model doesn't fit the diversity of the business; therefore, roles and responsibilities must be clearly defined but also allow for flexibility.

- (Processes) The frontline management task has been split awkwardly giving accountability for some core management tasks, such as performance management, to Team Leads, who sometimes lack visibility or daily connection to employees they help supervise.

- (People) The expectations of the Team Lead role are not consistently understood. and the Team Leads are not always enabled with the training, skills, or time to be effective frontline managers.

With time, many of the kinks in the matrix have been or will be worked out by managers making their own adjustments on a team-by-team basis. But the fundamental issues identified here have been created by design choices. If these are resolved on a local level, the coherence of the overall construct will be lost, reducing agility across the company. Only a combination of interventions at the level of individual, team, and organization will address the issues raised in this case.

The role of the organization designer and developer is to identify the interventions that will have the most impact against the issues, with the highest likelihood of success given the context. The work of leadership is to understand these options, make choices, and execute the changes.

Discussion Questions

1. Use Jay Galbraith's Star Model to analyze the findings. Sort the issues by:

   a. Structure/Role

   b. Processes/Lateral Connections

   c. Metrics and Rewards

   d. People Development

2. Which seem to be the most important to address in this case?

3. Generate a set of options for interventions that could be considered at the individual, team, and organization level.

For Further Reading

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Global Retirement Strategies, Inc.: A Tale of Two Cities

Tom Jasinski

LEARNING OBJECTIVES

- Identify and define the underlying issues causing project team dysfunction.
- Recommend relevant solutions to resolve project team dysfunction.
- Be able to make the case for early organization assessment during the corporate acquisition process.

Global Retirement Strategies, Inc. (GRS) is a U.S. company based in New York, doing business in 70 countries around the world. Its mission is to provide retirement income solutions to high net worth individuals and families. Its strategy is to profitably grow through a combination of increased market share (organic growth) and expanded markets (inorganic growth), offering a portfolio of both traditional and innovative annuities, bonds, and other long-term investment products. With $75 billion in annual revenues, GRS is a *Fortune* 50, *Global Fortune* 100 public company trading on the New York Stock Exchange. Founded in 1930 as a life assurance company in the predawn of the Social Security Act, it has a long history of helping to build social safety nets for families to supplement pensions and social security payments in the United States, and similarly filling gaps left by state and nonstate plans in countries across Asia, Europe, and Latin America.

A NEW LEADER

GRS is led by Kenneth Stevens, who joined the company as CEO 3 years ago after a long career in hedge fund management and venture capital. His selection was quite

a departure for GRS, which had never before picked an outsider as CEO, choosing instead to groom inside business unit heads who had come up through the ranks. But the board of directors was dissatisfied with the firm's stagnant growth over the prior 5 years and wanted a leader with a track record of aggressive and competitive market leadership. Investors and analysts have since reacted to his tenure with cautious optimism, having followed "Killer Ken's" Wall Street career. They hope that his aggressive style can positively influence a conservative, careful corporate culture but recognize that preservation is a fundamental element in the nature of GRS as a provider of long-term financial security.

Back to the subject of growth, unlike smart phones, electric cars, or online retailers, the retirement income business is a rather slow-growing industry—some would say stagnant or worse—with little consumer excitement given its nature as a long-term bet on a long life. Also, would a person rather spend $1,000 on a nice vacation or on a product that will pay off 20 years into the future? Stevens recognizes the demand problem and has formed an executive "team of rivals" from consumer, financial, manufacturing, and other industries who in their respective careers have had to overcome market barriers and create customer demand. Like Stevens himself, all have had extensive mergers and acquisitions (M&A) experience on the capital side as well as the company side.

GRS is the market leader in the U.S. retirement income business, among the top players in Europe, a rising presence in Asia, but virtually unknown in Latin America. To address this untapped market, the executive leadership team (the top seven company executives) has approved a bid to acquire MejorVida, the largest pension provider in Chile, based in Santiago. Its current owner, a major Spanish bank, is looking to sell the asset due to unrelated losses in its core commercial lending business that require significant cash to ensure solvency in terms of new European capital standards. Unlike many business corporations, MejorVida is beloved in Chile, with net promoter scores in the 70s—rare for this industry. It is known for having a highly engaged, dedicated workforce, earning it recognition by *Revista Magazine* as one the top 10 places to work in Chile.

SIGNIFICANT RISK

The deal represents a significant portfolio risk for GRS, which has no experience in the defined benefit public pension business. Complicating matters is the reality that in Chile, as in other Latin American countries, pensions are big business both economically and politically—some of the region's presidential elections have been decided on who will best protect retirees' financial security. And at least one former president is reflecting on his failures in this regard as he spends his days in a prison cell for a conviction of corruption

for illegally spending pension fund reserves. Accordingly, this newly privatized industry is closely regulated by Superintendencia Pensiones (SP), with strict rules on protecting consumers' assets and privacy. GRS's global strategy, however, calls for Latin American expansion in the short run, something only possible with a significant acquisition that is immediately accretive to the balance sheet.

There are three major GSR constituencies involved in the MejorVida deal:

- The Corporate Center (New York), represented by the business development, finance, IT, and investments functions
- The Latin American team (Santiago), represented by regional marketing, sales, and legal
- The corporate human resources organization development (OD) team

GSR has only recently had success with acquisitions following a long history of failed integrations. There are many reasons for these failures, but all had in common a love of making the deal itself and a lack of interest and capability in what came after the deal's close. As a result, old and new organizations did not align, top talent fled, and internal squabbles led to costly mismanagement.

CEO Stevens is well aware of this history and so has formed a "Red Team" of experts and leaders from New York, Santiago, and OD. He has charged them with using a coordinated, interconnected approach to managing the MejorVida deal from due diligence to close, from integration to operationalization.

HARMONIOUS KICKOFF

The concept of the Red Team is new to GRS, and comes from Stevens's war room experience leading the M&A group at Bridgeburner Capital. Leaders of the GRS team include the following:

- Andrew Jones, head of business development (New York)
- Eduardo Herrera, LatAm region general manager (Santiago)
- Theresa Joswick, head of OD (New York)

These leaders and their appointed representatives were thrilled to be invited to join the team and eager to get started on such a high-profile project. In fact, they have a 50% bonus incentive if they can close the deal ahead of schedule. The first meeting was exciting, marked by inspiring speeches from the CEO and other New York executives, a compelling video of how MejorVida improves citizens' lives in Chile, and a snappy

(albeit lengthy) slide presentation from the external consultant. Then, each leader made a few remarks:

Andrew Jones: Folks, this is a big moment for GRS, and I couldn't be happier to be surrounded by such committed talent. I am confident we can do this deal right and set a new benchmark for deals to come.

Eduardo Herrera: Andrew, I agree. LatAm has been pushing for such a significant transaction for a long time, and I think we have the players to make it happen. Chilean pensions are important to the society, and how we perform in this work will affect people's lives as well as our company results.

Theresa Joswick: I have to agree with all of you and add that our two guiding principles should be that We Rise or Fall Together, for the sake of collaboration, and Create a Living System, for the sake of those who must come together to work in the new MejorVida-GRS organization.

Kenneth Stevens: I certainly picked the right team, and with the help of McKinley, our external consultant, I am confident in a speedy and effective outcome!

It ended with dinner at the Gramercy Tavern and the hopeful glow that follows such an auspicious beginning.

TROUBLE BREWING

Despite the harmonious project kickoff, there is trouble brewing. After the second meeting, it is clear that New York wants to move quickly and focus on booking the deal's financial value as soon as possible with an early close. Santiago also wants to reap these benefits for the regional scorecard but is keenly aware of the regulatory constraints and cultural challenges of a U.S. company taking over a Chilean business. OD is feeling shut out, as the other two parties do not believe that organizational concerns come into the picture until after the close happens and the champagne is poured. OD knows that while financial components, systems platforms, and process alignments are important, it is the MejorVida people who will make or break this deal—time must be taken to assess, understand, and account for organizational alignment, consolidation, and integration:

- Will jobs be lost to redundancy?
- Are there gaps in capabilities between GRS and MejorVida?

- How will management governance (leadership teams) be established?
- How will functional departments (like finance and marketing) between the entities be connected and reconciled?
- How will the acquired people feel about joining GRS, and also about saying goodbye to colleagues due to redundancy?

Theresa Joswick has been asking these questions. Andrew Jones sees Theresa's passion but thinks these matters will work themselves out, *after* the close, and that speed needs to be the primary driver. Eduardo Herrera is initially concerned about the regulators and feels that once the legal and governmental issues are settled, we can then turn our attention to organizational matters. These conflicting interests became manifest in a recent phase-gate review of the Red Team:

Andrew: Theresa, while I appreciate your viewpoint, there is no time and little value for doing an extensive organization assessment of MejorVida before close. We just need your colleagues in HR to inventory the jobs, decide who stays and who goes, and make sure payroll systems are ready to run on Day One.

Eduardo: I have faith that the Chilean workforce will accept the acquisition if we have enough communication. They will be happy just to have jobs once the dust has settled. We can figure out who reports to whom later, and where to move the boxes.

Theresa: Gentlemen, this is exactly where GRS has failed before on other acquisitions. We must examine the organizational structures, capabilities, governance model, and resource allocation now, not later. When people show up on Day One after the close, they should know to whom they report, what their jobs are, how decisions will be made, and how changes will be managed. If we are to realize the full value of this deal, the organization must be understood and properly designed before the close.

Andrew: There is money on the table, Theresa, and it's getting cold. The regulator seems ready to say yes to our deal, and other suitors for this deal are in the wings, so I don't want to risk missing the opportunity or our targets. Ken already told the investment community to expect a close within 3 months, and your organization design activity would add 2 months to that.

Theresa: Yes, but not accounting for organizational needs and dynamics would kill the value you are looking to gain. It's the people that created that attractive

balance sheet, and it doesn't help us if top talent from MejorVida leaves because we don't have our act together.

Eduardo: You know, Theresa makes a good point, Andrew—we do have only one chance at getting this right. If we lose the people, we lose the deal, and we all suffer. Chileans are not New Yorkers, and must feel connected to one another and the organization in order to perform well. The value of this asset is in the people who have built the confidence of the customer and the public. Perhaps we should take more time on the organizational preparations. I do worry that Ken and the board will not understand if we take too much time in due diligence, but I worry more that proper design and alignment of the teams have to be addressed.

Andrew: I get it, folks, but I'm not about to tell Ken that we can't deliver on his deadline. Besides, we have to wrap this up. I have two other deals in the pipeline needing my attention.

The meeting ended without agreement, as did others. Over time, HR was relegated to counting the heads, lining up the payroll system, and ordering the cake for Day One. Theresa was beyond frustrated and decided to speak with Ken directly, hoping to appeal to his prior OD experiences with other acquisitions. She knew from her own outside experience that a small and early investment of organization design time would help assure an intentionally built and aligned new entity, not one that is haphazardly bolted together. Good design in this confirmatory due diligence phase calls for understanding the new GRS Chilean pension strategy, defining the required capabilities, assessing the gaps, connecting the jobs and departments, and installing a management governance system and process to ensure the combined entity could *perform* and not simply *exist* on Day One and beyond.

A TALE OF TWO CITIES

In some ways, Theresa is seeing this dilemma as a tale of two cities: the aggressive, bottom-line orientation of the New York team versus the more holistic, people-centric view of the Santiago team. She has had extensive experience at other companies with acquisitions in Latin America and knows that culture trumps financials every time. You must show that you understand, respect, and align the incoming organization to the existing one or you will lose the talent and hence the value of the deal. Organization design and change management are critical activities in M&A deals and belong up front, early in the due diligence

stage and beyond the close if true integration is to be achieved. With only 6 weeks until the close of the MejorVida transaction, time is running out to do what Theresa believes to be best for the deal and best for GRS. She went to see Ken:

Theresa: Ken, thanks for taking the time to see me.

Ken: Theresa, I respect your viewpoint but wonder if you are seeing organization design due diligence as the hammer and MejorVida as the nail. I've put a lot of pressure on Andrew, Eduardo, HR, and frankly you to get this done quickly. Why should we inject another 4 to 6 weeks of assessment and design when we pretty much know what we are buying?

Theresa: Ken, it's because we don't know exactly what we're buying that is causing my concern. The balance sheet is one thing; the workforce is another. Chilean work culture is very connected and familial. The people at MejorVida have been together for 20 years in some cases and are known as the best in the pensions business for efficiency and effectiveness with customers. If we don't understand how their organization works and carefully align it to GRS, I fear we will lose their hearts as well as their status as employees. This isn't New York.

Ken: Theresa, I respect you, but New York isn't necessarily New York either. I do agree there is more to any acquisition than the money regardless of country. Maybe the New York team does need to come up for a bit of air. OK, so put together for me your business case on how to proceed here. I am soon to publicly announce a date for the close. I'm not saying I fully agree yet, but if you show me the benefit to the deal of taking more time to do a deep organizational analysis and draft design before the close, I may support it and reconsider the current closing date.

Reconciling the need for speed with the need for depth is a classic dilemma in M&A deals. Organization design in particular is not usually regarded as a big part of due diligence, and as a field is often not well understood. Business unit heads sometimes see organizations as boxes to be filled and sticks to be connected. OD leaders see them as living systems to be closely examined and designed with the strategy in mind.

The case of GRS and MejorVida, this tale of reconciling the needs of New York and Santiago, is a challenging one. It's essentially about the mutually inclusive creation of value for diverse stakeholders. How well one identifies their needs, balances their interests, and delivers that stakeholder value will determine the sustainable value of the deal itself.

Discussion Questions

1. Is there a compelling case for a disciplined process of organization during preclose due diligence? What are the three benefits and three risks of embedding such a process?

2. The Red Team is having difficulty reconciling their differences.

    a. What are the interests of each leader?

    b. How are those interests not being met?

    c. How can their interests be reconciled?

    d. What is really going on here?

3. Going directly to the CEO is a risk for Theresa. Did she approach it properly? What should she have done differently?

4. Assuming she prevails in her request, how should Theresa prepare and pursue the organization design activity she feels is essential to this deal? How should she deal with her colleagues on the Red Team?

5. Finally, how does one begin to reconcile the cultural differences between a results-based U.S. culture and a relationship-based Latin American culture when considering the integration of organizations?

For Further Reading

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