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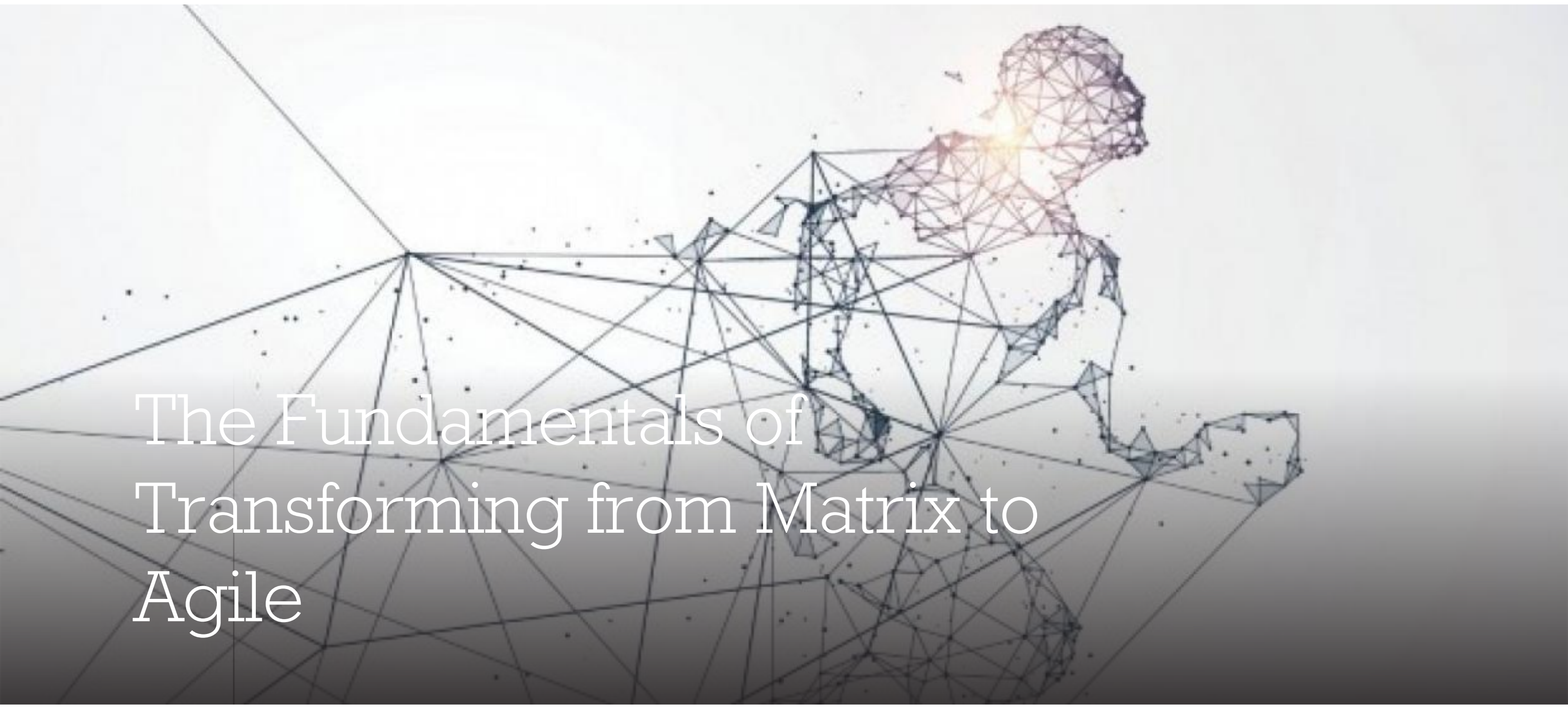

The Fundamentals of Transforming from Matrix to Agile

Nothing less than an evolution of strategy, structure, processes, people and technology will do.

Although it remains **a common way to structure an organisation**, the matrix is increasingly showing its weaknesses in the digital economy. Born in the 1960s and popularised in the 1970s, the matrix organises employees into grids, with each employee answering to at least two managers – functional, product or project, divisional or geographical. The matrix was envisioned to break down silos, foster lateral coordination and improve efficiency. In an era of rapid but steady productivity and economic growth, it soon became the norm across industries, with giant corporations such as Citibank, General Electric and Texas Instruments jumping on the matrix bandwagon.

But the matrix's heyday appears to be over in the age of disruption, not least for businesses in fast-evolving sectors. Motorola and Eastman Kodak come to mind, but perhaps no other company offers a more salutary example than **Nokia**, once the world's dominant mobile phone maker.

In 2003, as its early innovative drive flagged and competitors caught up, Nokia restructured itself along matrix principles into business groups – multimedia, mobile phones and enterprise solutions – and further among customer uses and lifestyles. It was hoped that the market-facing business groups would be entrepreneurial, but also share the company's resources (e.g. technology platforms, operating systems and software development, manufacturing, logistics and distribution) as they created differentiated products.

But the business groups soon found themselves competing for limited resources as middle managers came under immense stress to deliver results. Unproductive coordination meetings ensued and decision making slowed. Each group began to develop and adapt its own software, but was stuck with the same laggard user interfaces and processors. The company did churn out more products, but each was only incrementally or cosmetically better than the last. Shortcuts were often taken in development, resulting in poor quality.

Ten years and more futile restructurings later, Nokia's global market share had plunged to 3 percent, less than a tenth it had in 2004. It sold its mobile phone business to Microsoft in 2013. Only two years later, the latter closed it down and took a massive write-off.

The Agile approach, created in the 2000s by software developers, is often seen as a fix for the coordination and role-ambiguity problems associated with matrix organisations. In Agile companies, employees form small multifunctional teams that are tailored to customers' needs and empowered to make decisions. Teams operate in rapid action-learning "sprints" and fast decision cycles; they adapt to changing conditions quickly and resolve inter-team conflicts without having to report upwards.

Agile has improved success rates in software development, quality and speed to market, as well as worker satisfaction and productivity. And much like the matrix, Agile has **spread across industries and functions**, from manufacturing and banking, to healthcare and social services. In 2017, 41 percent of 2,500 companies **surveyed by McKinsey** had become fully or partially Agile.

Agile is not for every company, or every department in the same company. Routine and predictable tasks such as maintenance and purchasing lend themselves well to hierarchy and stable processes rather than sprints. So do control and compliance tasks. For a matrix organisation aspiring to be Agile, it is critical to be aware that Agile is not merely a fix. Fundamental changes are needed in terms of strategy, structure, processes, people and technology, as we outline below:

Strategy: From ambiguous strategic vision and conflict over resources to a shared purpose or North Star

Internal conflict over scarce resources is common in matrix organisations. Typically, such conflict is resolved between middle managers who have to satisfy their multiple bosses, or through various planning committees. In Agile organisations, a shared sense of purpose and direction guides decisions and allocates resources to the organisation's most pressing strategic issues.

Structure: From rigid hierarchy to empowered teams

Agile organisations keep a very small top-level executive team, but replace much of the traditional middle management hierarchy that emphasised task and input fragmentation with flat and flexible networks of autonomous, multifunctional small teams. Dutch bank **ING**, for example, swapped in 2015 the hierarchical structure at its headquarters for 350 squads of 8-10 people clustered in 13 "tribes". Each tribe has a clear purpose or domain like payment systems, and each of its squads bears end-to-end responsibility for a project in that domain. These networks facilitate fast responses to emerging needs and opportunities by balancing individual freedom with collective coordination.

Processes: From complex coordination and slow decision making to rapid decision and learning cycles with strong team dynamics

Matrix organisations are typically slow in making decisions and bringing products to market as a result of bureaucratic processes and waterfall or linear management. In Agile organisations, multifunctional teams work on rapid iterations, supported by strong team dynamics that tap into the collective intelligence of all members. In practice, this means that a team produces an initial primary deliverable (minimal viable product to experiment with lead customers) and continues to work towards the final version.

Agile organisations standardise ways of working – in terms of language, processes, meeting formats – that facilitate interaction and communication between teams. Every team can quickly and easily access the information they need and share information with others, maximising learning in the process.

People: From hierarchical management to self-management

Employees in matrix organisations often feel disempowered and micromanaged as they answer to multiple managers who tend to have competing priorities. Agile firms empowers employees to take responsibility and accountability, albeit with the right mindset and flexibility. ING's reorganisation required 3,500 employees to reapply for 2,500 jobs redesigned for Agile processes, and those with the right mindset were valued over some who had the best skills but were less adaptable.

At e-commerce retailer **Zappos**, former CEO Tony Hsieh announced in 2013 that its employees would "act more like entrepreneurs and self-direct their work instead of reporting to a manager who tells them what to do". Not everyone liked the change: At least 18 percent of staff opted to leave in 2015 with a severance package. The approximately 1,500 staff who remained are organised in a flat system of 300 circles directed by "lead-links" who provide goals and priorities.

Technology: From systems built for control to solutions that empower

Technology in matrix organisations is often limited by priorities and budget; enterprise resource planning systems were designed for control rather than empowerment. In Agile organisations, technology is channelled into real-time communication and work-management tools to help employees make quick decisions and develop fast solutions. The emphasis is on transparency, communication and real-time data capturing.

Agile's logic of decentralisation turns the matrix structure on its head. It is not a quick fix for the matrix. A clear understanding of the five aspects of Agile transformation is the prerequisite for its success.

*Read our previous **article** on the factors that organisations should consider before committing themselves to Agile.*

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