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Beyond the matrix organization

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In this *Quarterly* archive article, Tom Peters examines the flaws of the matrix-organization design and explores several more effective approaches to implement no more than one or two essential corporate thrusts at a time.

"Our historical cost advantage is lost; the only way we can stay in the ball game is to optimize our production facilities worldwide."

"But you can't close the Livorno plant! The moment you do that, they'll hit us with special tax regulations."

"I'm sick and tired of that 'every country is different' routine. We've got to have a uniform worldwide product image, and that means . . ."

Insoluble conflict? The chief executive of a consumer-goods company decided a few years ago that he saw a way to resolve such differences between managers. He had just read about matrix organizations and concluded that a matrix structure would, in effect, leave managers no option but to interact effectively with each other–not only "vertically" with their line superiors and subordinates, but also "horizontally" with their peers along major financial, geographic, product and/or segment dimensions. Everyone would have to talk to everyone else. The ideal solution, he decided, after much thought. So he took the plunge.

Three years later, however, the company was losing momentum faster than before. Major issues were taking longer to resolve, and the CEO was constantly called in to referee disputes between product-line, geographic, and functional chiefs. Too often, what tardily emerged from the decision process was a lowest-common-denominator political compromise. Top managers were spending more time than ever before in meetings or in airplanes taking them to and from meetings. Gamesmanship and political jockeying were widespread. The volume of detailed analysis, by the CEO's own careful assessment, had nearly doubled; much of it seemed to be aimed at "nailing" the other guy on trivial points. Buck-passing had become a fine art; the product managers blamed the production people, and vice versa. It was tougher than ever to get products to market; new product opportunities were slipping by time and again because engineering would never let go.

In short, the CEO had never been so frustrated, so aware of managing a bureaucracy. He could no longer pin responsibility for results on anyone, and nobody but him seemed to be worrying about the big picture.

The organizational evolution

Much the same story has been enacted in many large corporations in the past few years. Up through the early 1950s, most companies were functionally organized. The postwar boom and subsequent economic growth led to mushrooming product lines and organizational complexity. During the late 1950s and 1960s, many companies sought to regain control and achieve "product-line rationality" by shedding their traditional functional organizations for a divisional structure based on the model initiated by General Motors and DuPont in the 1920s. For most the move proved successful; strategies became more coherent and divisional managers could be held broadly accountable for their operations.

In the mid-1960s, however, longer-range, more elaborate capital-investment projects called for a partial recentralization of corporate decision making. As a result, neither staff (planning) nor line (division management) could be held clearly responsible for medium-or longer-term performance.

New threats to divisional autonomy had appeared in the 1970s, as requirements imposed by foreign governments hampered businessmen's efforts to maintain the integrity of their product lines worldwide. At home, proliferating regulations from the Occupational Safety and Health Administration, the Department of Energy, the Environmental Protection Agency, and other governmental agencies demanded centralized corporate response. Problems arising from product-line growth and attendant shorter life cycles called for more attention by headquarters to various engineering and manufacturing issues.

Typically, business's response went through three phases. In Phase 1, inspired perhaps by the spectacular success of project management in the Polaris missile program and the even greater triumph of NASA's moon-shot project, companies first set up "project teams" as a means of securing a coordinated functional, geographic, and divisional response to various current threats. Teams and task forces multiplied, often doubling or tripling in number in the space of a few years. As the teams proliferated, the sense of urgency that had attended their creation began to evaporate, established channels of responsibility and authority began to be blocked or bypassed, and teams began to get in each other's way. Clearly, something had to be done to regularize matters again.

Exhibit Three matrixes that misfired

Business situation	Desired structural shift	Principal unintended consequences
Service company wishing to introduce product-line thinking into its decentralized area organization	**From:** Area **To:** Area + product	More separation than before between product managers and regional czars; differences rather than similarities became highlighted by matrix
Consumer-goods manufacturing company in moderate-technology industry wishing to exploit engineering similarities among product lines	**From:** Product **To:** Product + technology	Market share eroded and new product introductions seriously delayed while engineers tried to standardize products
Commodity manufacturer attempting to introduce line-of-business marketing thrust	**From:** Manufacturing **To:** Manufacturing + marketing	Manufacturing staff met the "threat" by increasing its demands on line managers and blocking marketing managers' efforts to influence decisions

Source: McKinsey analysis

In Phase 2, matrix was embraced by an influential minority of large and sophisticated companies as the only organizational answer. For some, however, the honeymoon promised by matrix never materialized, as the examples in the exhibit indicate. For others, the honeymoon was quickly succeeded by the disillusionment of Phase 3, the situation described at the beginning of this article. Some CEOs reacted to Phase 3 by calling in behavioral scientists. "Team building" and "conflict management" became the order of the day. But the objectives of these efforts were unclear, and the headaches only got worse. In other companies—mostly giant corporations boasting "advanced" matrix organizations—open conflict was replaced by a silent battle of memos and "economic models." Organizational Maginot Lines were built. Bureaucracy burgeoned and corporate performance continued to deteriorate.

One vivid instance of the matrix malaise is reported in a recent article by Cheryll Barron in the British journal *Management Today*. A product manager of the giant Dutch-based Philips Gloeilampenfabrieken NV is quoted as reporting: "We feel the disadvantages of the matrix acutely here in Groningen. For one thing, we definitely feel it is a disadvantage not to be responsible for sales—we have people who don't feel the need to sell the product tomorrow, and yet have part of the responsibility for profits. The matrix is too slow—we are in a very turbulent market with great potential, and we have far too many low-cost competitors. We need very short communication lines, quick decisions, alertness—we've got to be able to adapt fast." Barron comments: "At the moment, the Philips organization appears to suffer from all the obvious inefficiencies of the

Japanese system with which the matrix has so much in common—endless time spent in meetings and in building personal relationships, and in communication—without enough of the Japanese strengths."[1]

In short, the matrix "solution" had brought with it problems at least as knotty as those it was supposed to cure. But no fresh alternative was in sight. Indeed, a look at the postwar evolution of corporate structures—from functional to divisional to matrix—suggests that the end of the line has been reached. The first dominant form featured functional autonomy; the second, product autonomy. The third, promising to combine the advantages of both, often bogs down hopelessly in practice. Given the cloudy record of matrix, where can a company go?

Quest for alternatives

In the spring of 1977, some colleagues and I began a systematic effort to address these questions. First, we wanted to assess the "state of the art" in organizational theory. Second, we wanted to discover to what extent current theory might be borne out by actual corporate experience. Accordingly, after a comprehensive review of the current literature, we conducted extended interviews with top academics in 20 leading business schools in the United States and Europe, most of whom have tested their research findings by means of practical consulting work for large organizations. Despite many differences of focus and emphasis, we found they held in common an underlying set of concepts. In an attempt to validate these concepts, we then conducted a second set of interviews with a series of senior executives in half a dozen consistently successful companies which, though large and complex, appear to be comparatively free of the organizational ills that have driven others to experiment with the matrix "solution."

Surprisingly, perhaps, we found no basic differences between our two sets of respondents with respect to one central issue: Organizational restructuring is no longer the answer—if it ever was—to the most difficult problems of shifting organizational focus. Indeed, the shape of the organization chart is less and less relevant to their solution.

Researchers today see structural tools as inherently inflexible, and therefore as inappropriate to an unstable business environment marked by rapid change and shifting environmental threats from all directions—competitors, governments, and unions at home and overseas. They have accordingly focused on learning how organizations can build capabilities for rapid and flexible response. They have concluded that successful organizations choose a temporary focus, facing perhaps one major threat this year, another two or three years on. Paradoxically, however, the flexible organization must be underpinned by a unified value system geared to long-term continuity in order to secure the commitment of its members in this turbulent environment. The task of the executive becomes that of managing the tension between fast-paced external shifts and the requirements of internal stability.

[1] Cheryll Barron, "Format fears at Philips," *Management Today*, August 1978, p. 75.

Industry leaders' experience supports these findings. By and large, leading companies are learning to cope with the design paradox to which the researchers point. In their rapidly changing environments, companies such as IBM, Kodak, Hewlett-Packard, GM, DuPont, and P&G pay obsessive attention to maintaining a stable culture. At the same time, these giants are more responsive than their competitors. They do not seek to achieve responsiveness through major structural shifts. Instead, they have typically relied on a series of temporary devices to focus the attention of the entire organization for a limited time on a single top-priority goal or environmental threat.

To most top executives, however, structural solutions have a powerful appeal stemming from two properties—the first real, the second largely fictional. Realistically, structure in the organization-chart sense is one rational way of dividing up the organization's tasks for optimum productive efficiency. Indeed, it has traditionally been useful in matching up authority with responsibility and in imposing a business focus along a desired dimension—product or segment, for example, in the case of a divisional organization. The second reason why so many senior managers are irresistibly attracted to structural "solutions" is that they look so deceptively easy. Management-information systems, management styles, and informal communications networks cannot be tinkered with on the back of an envelope. Structure can. Massive shakeups can be engineered on the same envelope by replacing solid lines, symbolizing authority and responsibility, with dotted ones, signifying merely the right to advise and consult.

Regrettably, managers are prone to forget that this is purely an imaginary exercise of power. The reorganization may be duly announced, the new organization chart and revised position descriptions promulgated. But unless the management of implementation becomes the dominant preoccupation of senior management, little changes. Given a realistic commitment to implementation, structural reorganization along functional or divisional lines has worked out successfully in many companies. This is to be expected, since the concepts of functional dominance and product-line autonomy are fair approximations of what actually goes on in functional and divisional organizations respectively. Indeed, in the latter case the structure often fits the basic strategy like a glove; hence its continuing success.

In contrast, matrix rests on an overly optimistic model of how people in organizations actually behave. Its central concept—that simultaneous decisions can routinely be made along multiple dimensions with fragmented accountability—overestimates the information-processing capacity of most human brains and the problem-solving capability of most social systems. Multiplying the signals to which managers are expected to respond eventually overloads the circuits.

The overdetermined matrix

The last point provides an important clue to alternative strategies. Although many forces have chipped away at decentralized product-group autonomy, the divisional structure in some form (GE's new "sector" organization, for example) remains a reasonably effective vehicle for many organizations because of its underlying efficiencies of information flow. Alfred Sloan decentralized General Motors because he could not coordinate the detailed strategies of an agglomeration of car companies, each of which he hoped would eventually dominate its own markets. Rather, he exerted careful control over a few key processes, especially financial ones.

Organization researcher Charles Perrow calls this "third order control." He argues that top managers' influence typically is greater than they think and is directly related to what he calls the fundamental "premises of decision making." For example, Sloan taught his financial philosophy to GM managers for ten years and then decentralized fully, confident that his senior managers would act as he would in similar contexts. GM still works hard at instilling in its top people a common philosophy. There can be little doubt of the success of this approach; in a recent comprehensive survey, a majority of the chief executives polled ranked GM first among US companies on two counts: having a "coherent management philosophy" and a "high caliber of top and middle management." These are among the few elements that can still be centrally controlled in the vast empire that is now GM.

Another crucial aspect of the Sloan approach, according to British researcher Derek Pugh and others, is that Sloan never left decentralization alone. He would centralize some dimension for a while and then turn to another. The dynamic restlessness survives in GM today. In the latest of a long line of management coups, GM beat its competitors by years in downsizing its product line. This success was achieved, by and large, through "temporary recentralization," in the form of something called a project center.

This, says *Fortune*, "was probably GM's single most important managerial tool in carrying out that bold decision. It has eliminated a great deal of redundant effort, and has speeded numerous new technologies into production. Its success rests on the same delicate balance between the powers of persuasion and coercion that underline GM's basic system."[2]

Sloan was the first to identify the conscious management of that shifting balance as the CEO's key task. His determination to "keep it simple," his incessant preaching of a coherent philosophy, and his consuming preoccupation with the critical issue of the moment all stood in stark contrast to the premises of the matrix.

One of today's most renowned students of organization, Nobel laureate Herbert Simon, provides a compelling theoretical framework supporting a similar point of view. Simon and his successors have developed intricate models which describe the simple-minded, usually chaotic

[2] Charles G. Burck, "How GM turned itself around," *Fortune*, January 16, 1978, p. 86.

way in which huge organizations respond to shifts in their market or regulatory environment. These researchers warn managers to beware of one-variable (eg, structural) solutions that aim at making big organizations behave rationally.

Given the success of Sloan and his successors and the results of Simon and others, why have so many companies chosen matrix structures? And doesn't matrix occasionally work?

The answer to the first question is easy. Given the numerous conflicting pressures on business, attempts at matrix-like (ie, multidimensional) solutions are inevitable. Answering the second question is more difficult. There is little systematic empirical evidence that matrix does or does not work. Recent research by Stephen Allen of IMEDE suggests that the divisional and matrix models are largely straw men. In a survey of 70 companies with average Fortune 500 characteristics, he found no fewer than 18 kinds of divisional organizations, some of which were far more of a hodgepodge of central and devolved authority than the typical matrix. Moreover, even the matrix's strongest advocates warn of various obstacles to implementation.[3] "Power struggles," "groupitis," and "navel-gazing" are among the matrix-related pathologies identified by Stanley Davis and Paul Lawrence.[4]

Lawrence suggests that formal matrix structures seem to work best when the company was informally practicing something like matrix management before the structural change was introduced. In other words, matrix works best after the organization has already learned to cope with multiple, simultaneous major stresses. But that begs the question of how they learned to cope.

There are, it seems, approaches other than matrix which companies as successful as GM are using to achieve flexible, focused coordination. It is those we shall now explore.

An emerging consensus

A different and promising approach to what managers have customarily thought of as structural problems is beginning to emerge from current research into the dynamics of large organizations. There emerged a common theme from our interviews: "Stop worrying about permanent structures; concentrate on temporary systems to achieve a limited agenda."

In spite of the emphasis on temporary systems, neither the business-school researchers we interviewed nor the senior executives of leading companies that have steered clear of the matrix solution suggested that the organization chart should be discarded or that the concepts of hierarchy, authority, and accountability are obsolete. However, the more sophisticated

[3] Stephen A. Allen, "Organizational choices and general management influence networks in divisionalized companies," Academy of *Management Journal*, 1978, Volume 21, Number 3, pp. 341–65.

[4] Stanley M. Davis and Paul R. Lawrence, "Problems of matrix organizations," *Harvard Business Review*, May–June 1978, p. 131.

organizations are no longer (if they ever were) pursuing the one right structure. Reorganization, as they see it, is no more than a means of enhancing organizational effectiveness over the short-to-medium term in response to changing internal and external pressures.

The new approach to organizing recognizes the same array of competing demands that has led some to matrix, but it refuses to pursue optimization beyond the limits of the achievable. It escapes the trap of complexity by cutting down top management's agenda to the implementation of one or two essential thrusts. Temporary structural, procedural, or other energy-channeling devices are employed to muster resources and enhance important capabilities in whatever way proves empirically most effective.

In our respondents' view, the complexity of today's business environment and the consequent high level of uncertainty is the most compelling reason to concentrate corporate energies on just one or two key thrusts. Large organizations are obliged by their very nature to cope with a welter of pressures. Because no structural device will cope with them automatically, top management's most significant leverage lies in directing attention at the margin to one or two significantly enhanced capabilities.

The emerging approach to organization can, at the risk of some oversimplification, be formulated in four practical principles: (1) manage the routine, not the exceptions; (2) learn to circumvent the snares of systems management; (3) be aware of the limits imposed by the organization's past; and (4) never stop reorganizing.

Managing the routine

Under the time-honored principle of management by exception, the organization runs itself until divergence from plan triggers off a warning signal. However, in today's complex organizations, equipped with overly elaborate planning and control systems, warning signals are constantly being triggered. Giving the attention of top management to each (the implicit consequence of matrix structure) means dissipating the company's sense of direction.

The first principle implies that senior management's task is to select from the organization's possible agenda no more than one or two plausible, important thrusts; develop effective commitment for the choice; and then focus the organization's energy and attention, within reasonable limits, on testing and implementing the implications of the chosen direction. Effectively limiting the agenda, then, multiplies the chances of effective implementation by mustering energies behind a clear and sensible thrust. Selecting the thrust demands no certain prescience. What it does require is a willingness to set temporary priorities and tolerate internal ambiguity while the thrust is being tried out.

There are perhaps six critical tests of the possible thrust:

- Internal achievability. Can a “cost-oriented” company begin to turn itself into a “product-innovation” leader in three to five years?
- Political feasibility. Can the top team be persuaded to support the thrust?
- Soundness in competitive or regulatory terms. Is a marketing thrust a good choice for a high-cost producer in a shrinking market?
- Freshness. Will it be perceived as a new direction?
- Early wins. Will it be possible to show some results in the first few months, even though full-scale implementation may take years?
- Excitement. Can most people from middle management on up eventually become enthusiastic about it?

Once the thrust has been selected, it must be identified and announced. Political scientist Edward Banfield describes one approach: picking out, at the appropriate moment, the best of what is going on in the institution and labeling it as the cornerstone of the chief executive’s program. This may sound like a cheap shot, but frequently the top team can give a theme life and credibility merely by touching on it. Pointing out and praising some aspect of an inconspicuous but significant program is frequently a wise opening move. A study of senior executives by John Kotter and Paul Lawrence unearthed a similar routine: Successful new executives spent a year or so sorting out programs, building constituencies, and seeding new actions; only at the end of that time did they act to “label” their own thrust. Less successful men latched on to the first program they ran into, publicly touted it as their bellwether, and then lost credibility if it failed.

“Managing the routine” means the active, insistent, detailed intervention of top management to develop, over time, top-to-bottom enthusiasm and action consistent with the proposed predominant thrust, and the generation and reinforcement of appropriate signals to the rest of the organization to sustain that support. Refocusing a large organization’s attention on a new theme is no simple task. It requires, among other things, political skills and a shrewd sense of timing.

Suppose the new chief executive wants to shift his organization’s attention from, say, manufacturing or engineering to the customer. Except in an overwhelming crisis, it is unlikely that he can successfully force major change down the throats of several scores of senior managers. Rather, the CEO will nudge the organization's attention toward the new theme by asking himself how (by down-the-line appointments, by a noticeably large dose of capital in a previously undernourished area?) he can most clearly, promptly and effectively signal his new concern. While he must not get too far "out in front" of the organization, he must also take care not to sound like the voice of yesteryear. ("Every new CEO always starts off talking about serving the customer. This too shall pass away.")

Through mundane daily actions, then, the CEO and his top team must convince the organization that the rewards will tend to flow to those who are working most vigorously and imaginatively to advance the chosen thrust. For instance, four years after a switch toward a "marketing orientation," the CEO should be able to say something like: "Nine of my twenty most important general-management appointments this year went to people with outstanding records in marketing. That's three times as many as two years ago."

This hands-on approach to shifting corporate focus is no substitute for activities such as strategic planning; formal systems will necessarily continue to exert great influence on behavior within the organization. But hands-on management of the major thrust can be much more than a supplement to formal systems; it can become the primary shaping and guiding force of the enterprise.

Examples of CEOs and top teams who devoted their entire tenures to achieve a single thrust are legion. Paul Sticht, *Business Week* reports, has turned R. J. Reynolds from a decentralized holding company into a centrally-run marketing company in five years.

Bank of America's A. W. Clausen recently described to *Forbes* his ten-year effort to move loan officers from the traditional industry concerns with building loan volume to the pursuit of profit. Walter Spencer of Sherwin Williams has said that it took him five years to instill an irreversible marketing thrust into an organization steeped in a century-old manufacturing culture. Perhaps most ambitious of all is ATT chairman John DeButts's six-year effort to start moving the million-person Bell System from a service orientation to a market orientation.

The cases examined in the course of our study attested again and again to the importance of insistent senior-management concern with detail. One of the companies we investigated, for example, has a broad slate of commodity-like products. About two years ago, the chief executive unveiled an up-and-down-the-line "program of manufacturing excellence." Since similar programs in the past had had little lasting impact, the CEO, his chief responsible staff officer, and two operating company presidents are spending about 25 percent of their time on the road helping to take the message to the field. Even the most trivial of efforts demonstrating commitment to the new program are being rewarded; a well-kept control room led to an on-the-spot $1,000 bonus for the plant manager and a promise of an unrequested $50,000 for maintenance.

Avoiding snares

Systems, especially planning systems, readily become the focus of organizational gamesmanship. Forecasts are carefully shaped to depict a rosy world to managers within the organization competing for scarce investment resources, as well as to outsiders such as institutional analysts deciding how much stock to hold. Matrix organizations, not surprisingly, have been especially beset by these woes. The drive for results is dissipated in endless debate over planning assumptions which support the product view or the engineering view. Analysts build models while Rome burns. For the bureaucratic behemoth of the 1970s, institutionalized planning—the management hope of the 1950s—has turned into a nightmare of red tape. In the words of Harvard's Theodore Levitt: "Model builders seek to simulate everything from cash flows to balance sheets twenty years hence to next year's labor negotiations. They build intricate decision trees whose pretension to utility is exceeded only by the awe in which high-level line managers hold the technocrats who construct them."[5]

Systems snare management at many levels; senior executives, for example, too often take what is put before them at face value, without asking what hidden assumptions—assumptions made, perhaps, by a blinkered staff analyst four layers down—underlie those plausible projections.

Breaking the hold of everyday systems execution is not easy. Roy Ash's multiple tactics for redirecting attention at Addressograph-Multigraph are instructive. Instead of immediately revamping the company he had just joined, Ash spent his first several months visiting its widely scattered operations and politely asking a great number of searching questions. His predecessors had always summoned support from the headquarters building which had long lived up to its official name, The Tower. Ash left his office door open, placed his own intercom calls to arrange meetings, and always questioned people in person, not in writing. He removed some of the company's copying machines "to stop breeding paperwork." Spotting a well-written complaint from an important customer in Minneapolis, Ash hopped a plane and flew off to visit him. As he now explains: "I wanted the word to get around our organization that I'm aware of what's going on." Ash's next dramatic step toward reshaping the company's attitudes will be to move its headquarters to Los Angeles. He justifies the move primarily on psychological grounds: "We must place ourselves in a setting where—partly through osmosis—we get a different idea of our future." For much the same reason, he wants to change the corporation's name.

Using language. What is on a company's mind usually shows up clearly in how it "talks" internally. For instance, an historically finance-oriented company's presentations are largely vast arrays of numbers. The new CEO contrasted it with presentations from two renowned marketing-oriented companies whose communications focus on customers, products, and the competition.

[5] Theodore Levitt, "A heretical view of management 'science,'" *Fortune*, December 18, 1978, p. 50.

Managers can redirect an organization's attention by changing the nature of the questions they ask. "I get calls from my 12 division presidents each month, telling me about last month's sales, profits, and cash flow," says a president. "I want to get people thinking about the competition. I started dropping the question about sales and asking about market share. We don't even have information systems that report it in several places. But I got answers nonetheless. It's a small move in the right direction."

Follow-up and the adroit use of written or oral history can focus and reinforce the initiatives which emerge in the course of daily activity and which might not otherwise be singled out for attention. When an action system gets overtaxed with nonessentials, for instance, building a system on top of a system is often effective. The operational "real" action agenda in the US Navy Department in the early 1970s were the "Z-grams"—action memoranda from Admiral Zumwalt, the chief of naval operations. These became priority items for the Navy's top management. The chronicler of events, as many commentators have noted, also has the opportunity to single out and call attention to his own themes. Taking advantage of this opportunity, one president sends out three or four notes after each meeting, with a circulation of 10 to 15, on things that he liked in presentations and discussions—at least half to junior participants. In the course of a year, he may send thousands of such personal signals to various parts of the organization.

Using time. The priorities and concerns of the organization are largely shaped by the allocation of executive time as mirrored in calendars and agendas of meetings, formal and informal. Economist Kenneth Arrow observes: "There is a real value to putting an item on the agenda. The Employment Act of 1946 amounted to nothing more than a statement that full employment was at last on the Federal agenda. And many felt that this was a hollow victory indeed. But those that opposed it so violently were not deceived; in the long run, this recognition was decisive. Once the item has arrived on the agenda, it is difficult not to treat it in a somewhat rational manner."[6]

Executives' time can be spent most effectively on activities characterized by a succession of small, discrete events, occurring rapidly enough to demonstrate movement and provide opportunities for visible feedback. They should be unobtrusive, yet ultimately pervasive in their impact.

Using place. Management of settings combines the two tools of language and time. One observer in a large company recalls: "The breakfast meetings were the breakthrough. The CEO reviews used to be circuses. He and his staff would sit on one side of the table. The operators and their analytic guns sat on the other. After a few opening remarks by somebody, the meeting rapidly deteriorated into an endless trade of barbs between staffs. One month, the CEO decided to invite just the division general managers to breakfast. It caught on. The real forum for talking turkey became the monthly breakfast meeting."

[6] Kenneth J. Arrow, *The Limits of Organization*, New York, NY: W. W. Norton, 1974, p. 47.

These tactics, bundled together and used self-consciously, form what my colleagues and I have come to call “mundane tools.” They are detailed; their use requires time and attention. Yet in practice this seems to be the best, if not the only, way to break the back of constraining systems and to redirect overall institutional attention.

A senior executive recently told me: “We have here the worst of all possible worlds—the intersection of the engineering mentality and the civil-service mentality. The result is a blizzard of plans, committees, ‘interfaces to be checked out,’ and papers justifying everything. We can’t execute. We don’t use the phone. Somehow we’ve got to unravel the 50 years of tradition behind our current approach to action. It’s an awful task to contemplate. We’ve got to attack on a hundred fronts–and beat the so-and-so’s at their own game.” To him, “beating the so-and-so’s at their own game” means a carefully crafted attack on the minutiae of doing business. And he is using all of the tactics above and more, plus a complicated series of implementation mechanisms, including several handpicked outside hires from very different kinds of business organizations, the infusion of a score of “assistants to” as a fifth column to work with each senior executive who in turn is trying to act as a model of the new approaches, and pilot training programs led by a costly new internal “management institute.”

Exploiting the past

The organizational culture is at once the CEO’s chief resource and the chief constraint on his ability to pursue even a modest change of agenda. It can provide the momentum to bring about significant change, but at the same time it constrains the chief executive’s ability to send out signals that will be believed and heeded. His effectiveness as a direction-setter and the credibility of his messages will be determined in large part by people’s perceptions of what is possible and likely in the light of his and the organization’s known history.

Think of the system as a set of senders and receivers of messages. What kinds of styles of signals were sent out by the key management actors in previous years? The answers to the following questions can give a fairly precise measure of a chief executive’s opportunities to bring about significant change:

- What do most down-the-line managers perceive the organization’s general approach to business to be? (eg, “Cost cutters are the real winners.”)

- What is the view toward risk? (eg, “We’re the mecca of ‘me-too’ products.”)

- What are the company’s historical roots? (eg, “We’re still following the founder’s ghost.”)

- What are the real control systems? (eg, “We talk profit, but we eat, sleep, and breathe share.”)

• To what extent is the company really decentralized? (eg, "The old man preaches line autonomy, but there are six guys he talks to before he'll authorize a $25 dinner—and every damn one of them is staff.")

When these questions are not asked, a company can find itself unprepared to execute the changes it hopes to bring about. For example, a consumer-goods company designed a strategy to expand its product line as competition closed in on its historically successful bread-and-butter item. Unfortunately, it was a strategy that only a Procter & Gamble could have executed. It required a more flexible approach to the market than the top team was prepared to take. All seven senior executives had come from manufacturing (for over 40 years the company had been the lowest-cost producer in the industry). Moreover, the salesmen had only learned how to sell what manufacturing said could be delivered. In short, the players weren't ready.

So the company wisely decided to slow down and, more important, to build from its strengths. It changed its short-term strategy to one of expanding into a related line where its low-cost tradition would pay off. At the same time, it began to prepare for a different future through selective outside hiring (without attendant firing) and development of up-and-down-the-line training. Four of the seven top team members, including the CEO, went off to marketing courses lasting a month or more at leading business schools; the senior vice president for sales took a year off for a degree program in business. In their environment, these were radical, untraditional moves.

At times, cultural constraints can be so binding that only radical surgery—a change of CEOs and a massive dose of new blood—will suffice. In most such cases, however, there is a time, before the calcification of the culture has gone too far, when less drastic action can save the day.

Reorganizing

Success eventually breeds failure, because successful patterns go on being repeated long after they have become counterproductive. Management can keep ahead of the process only by constant, deliberate experimentation with new organizational missions and themes. Consider the following:

• Monsanto "reorganizes" like clockwork each year. It's part of the new CEO's plan to keep things moving and to kill the fear of change.

• At IBM, partial reorganizations regularly shift attention temporarily to one new thing or another.

• GM, some say, looks almost like a functional organization again. Marketing and purchasing, for instance, have been substantially centralized.

- Koppers Corporation just reorganized for the purpose, the CEO states, of providing opportunities for the "young Turks" in their forties. The number of SBUs was increased sixfold, not because of market pressure but in order to raise the level of excitement again for another five years.

"The most successful companies," notes *Economist* editor Norman McRae, "have been those restless enough to be unsure what their management styles should be. Successful big US corporations today will often centralize their policy making, and get a significant initial gain in effectiveness; but then, as time passes, will find that this does not work because the central planners do not know what is really going on out in the field. So these corporations will then decentralize, and get a significant initial gain in effectiveness. This constant reorganization is in fact very sensible, and is a main reason why I judge that big American corporations are still the most efficient day-to-day business operators in the world."[7]

The Hawthorne experiments of 40 years ago demonstrated that, no matter what management did—factory lights up, factory lights down—productivity improved. That was the consequence of focusing management attention on a previously undernourished group and providing regular doses of change. Any successful program—strategic planning, manufacturing productivity—has a "cycle of productive excitement" which can vary from three or four years to as much as a decade, depending on the scale of the enterprise, the pace of change in the environment, and the like. When the excitement begins to fade, it's time for a fresh thrust.

Dynamic imbalance

As the snippets of data reviewed above suggest, growing organizations are always in motion. In part, of course, their inherent instability is due to changes in the competitive or regulatory environment. But that is far from the whole explanation. The philosopher Arthur Koestler, a student of fundamental phenomena, has pointed out: "All complex structures and processes of a relatively stable character display hierarchic organization, regardless of whether we consider galactic systems, living organisms and their activities, or social organizations."[8] Koestler argues that the fundamental feature of hierarchies is the "polarity between the self-assertive tendency and the integrative tendency."

In a business context, there is always tension between the task of managing *my* plant and that of being a good corporate team player. Division presidents will always protect their direct reports from central-staff pressures. Central staffs will always seek to grow and assert control over a division. The newly-appointed line-of-business boss will try to run rough-shod over the regional man. The regional man will try to torpedo him. And so on.

[7] Norman McRae, "The coming entrepreneurial revolution: A survey," the *Economist*, December 25, 1976, p. 43.
[8] Arthur Koestler, *Janus: A Summing Up*, Hutchinson & Co., London, 1978, p. 31.

This inherent tension, at or below the surface, cannot be "settled" by a structural solution. The focus can be shifted; the stage set can be arranged. But the same drama will continue to be played out. At bottom, Koestler and McRae are talking about the same phenomenon, and it was Sloan's preoccupation as well, though he never articulated it in terms like theirs.

The implications for structure, then, seem to be clear:

- Structure is crucial, but unchanging structure is a snare and a delusion.

- The way to use structure successfully is to achieve temporary, dynamic imbalance. No structural solutions—least of all overdetermined structures like matrix—can ever resolve the healthy, coherent tension between centralization and decentralization. That resolution must be actively managed over time.

- Structure is only one of several levers available to the senior executive who seeks to rechannel (and thereby enhance) the energies of a ponderous organization. Others are detailed persistent intervention in the daily routine, and the calculated use of signals that will be credible in the light of the organization's history and culture.

It would be wrong to read the message of our study, with its emphasis on inherent, purposeful instability, as an endorsement of haphazard change for change's sake. An organization can certainly overdo the rate of even partial reorganizations. This, in fact, is one weakness of the matrix structure: since everything is tightly wired up, *all* issues on the agenda are in a sense perpetually "up for grabs." The key to success in the purposeful management of change is probably timing. Effecting temporary (three- to ten-year) cycles of attention shift (from slight to substantial) in order to build even a single new capability into a company's repertoire requires high expenditures of energy, emotion, and detailed day-to-day involvement by senior management.

What is called for is, in fact, the antithesis of undirected restlessness. It is the painstaking infusion of tension to bring about the kind of dynamic imbalance that has always been the hallmark of the successful, growing organization. □

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