

### RESEARCH HIGHLIGHT

# How to Make Your Matrix Organization Really Work

Shifting the reporting structure to a matrix model has its challenges, but leaders can find success by focusing on four key elements.

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Much has been written about why matrix organizations are needed and what they look like at a surface level. Far less advice is available about what it takes to make them work. This information gap sets many teams up for

disappointment because matrix organizations flourish or fail based on attention to their design and dynamics.

Consider the case of Juan, a regional supply chain leader in a large health care system who was caught between competing agendas from multiple bosses in his organization. Juan reports to Brenda, his enterprise-level boss in the supply chain organization, but he also has a reporting relationship to Steve, a regional operations executive. (Note: All names have been changed for anonymity.)

Brenda's goals for Juan included implementing a new supplier network model with ambitious timelines. Meeting her goals would require a substantial time investment for Juan and his small team. Meanwhile, Steve was grappling with critical materials and staffing shortages and had asked Juan to optimize workforce and supply costs. Steve expected Juan to meet a tight schedule for opening a new clinical facility to help reach regional volume targets.

Brenda wanted Juan to avoid changes to the workforce or supply commitments until the new network model was approved by senior leadership. However, this would negatively impact Steve's regional budget and goals.

This situation left Juan frustrated and uncertain about how to prioritize the trade-offs and frame solutions mutually beneficial to Brenda and Steve. Additionally, this made him worry about how his leaders would perceive his performance and ability to deliver on goals.

The challenges Juan, Brenda, and Steve faced are typical of those faced by leaders moving to a matrix organization at Atrium Health. Atrium Health is a nonprofit health care system based in Charlotte, North Carolina, with more than 75,000 employees and over \$12 billion in annual revenues. Founded in 1940 as a single charitable hospital serving the local community in Charlotte, the system had grown mainly in North Carolina until 2018. At that time, Atrium Health's leadership, recognizing that greater resources and scale were necessary to meet competitive challenges, initiated a series of mergers with other health care systems to create a larger system with operations in North and South Carolina, Georgia, and Alabama.

Atrium Health's leadership understood early on that the organization's legacy functional structure could not cope with the increased scale and geographical dispersion. As the organization grew, operations were organized geographically into regions and then into smaller markets within regions. However, there was a need to drive some enterprise-level standardization around system quality and in other areas, and to realize potential economies of scale, including in the supply chain. To balance the benefits of enterprise standardization and centralization versus regional/market customization and decentralization, Atrium's leaders decided to move to a matrix structure with three business dimensions:

- Clinical service lines, such as cardiovascular and orthopedics.
- Geographically organized operating units overseeing the work of many facilities.
- Centralized shared-service functions, such as supply chain, finance, and HR.

With this shift came two challenging but critical tasks: establishing matrix reporting relationships and making the matrix organization work.

Hundreds of leaders at Atrium Health had to make the shift from straight-line reporting to having two bosses, as does Juan (whom we will call a *matrixed leader*); having reports who also report to someone else, as do Brenda and Steve (whom we will call *business dimension leaders*); or both. Many people were struggling with the complexity and ambiguity of balancing the needs of the two business dimensions and getting decisions made in a timely manner.

It's best to think of shifting to the matrix model as a type of organizational transformation, the goal of which is to maximize the potential benefits of the matrix and mitigate the disadvantages. (See "The IMD Research.") Creating dual reporting lines on an organizational chart is one thing; bringing joint reporting relationships to life and achieving the proper balances in managing competing tensions is quite another. To support the transformation process at Atrium, we created the Matrix Model to encompass both the challenges of

making matrix organizations work and the multiple elements that must be considered in designing and implementing them. This framework is supported with tools, best practices, and learning initiatives to help leaders adapt more effectively.

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### The IMD Research

- The researchers conducted a survey of past participants in the Transition to Business Leadership executive program at the International Institute for Management Development (IMD) that yielded 85 responses.
- All of the participants in organizations with more than 5,000 employees reported that they used a matrix structure.
- Of those that were using a matrix structure, 82% said the advantages outweighed the disadvantages.
- Reported advantages included standardization and economies of scale (41% of respondents), enhanced collaboration (29%), increased flexibility (18%), and sharing of best practices (12%).
- Reported disadvantages of the matrix structure included slower decision-making (44%), a lack of role clarity (23%), complexity in managing

performance (14%), challenges in managing change (12%), and power struggles (7%).

# Designing Matrix Organizations That Work

The heart of a matrix organization is a reporting structure in which matrixed leaders like Juan have two or more upward reporting lines to business dimension leaders like Brenda and Steve. Multiline reporting is the most obvious design dimension of matrix organizations. Think of this as defining *where* people report in terms of the formal structure. Dual reporting lines are established to manage the core organizational tensions mentioned previously: enterprise standardization and centralization versus regional/market customization and decentralization.

However, in addition to the reporting structure, other supporting factors in matrix organizations also require careful focus: (1) defining roles and incentives, (2) designing key processes and establishing operating principles that guide action, and (3) selecting and developing leaders with the right mindsets and skills to operate effectively.

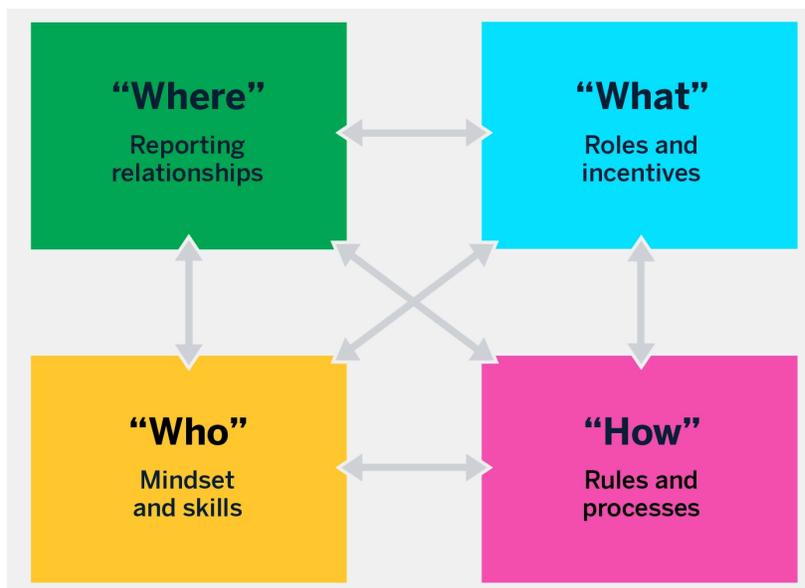
There are four elements that make up a well-functioning matrix model. (See “The Four Matrix Design Elements.”) To help remember them, think of them as *where* people

report, *what* roles they should play, *how* the matrix works, and *who* gets placed in leadership positions. The arrows linking the quadrants highlight the need for fit or consistency in the four matrix design elements.

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## The Four Matrix Design Elements

Success in a matrix organization depends on creating strength and balance among the four elements: *where* people report in the organization, *what* roles and incentives they have, *how* rules and processes govern the organization, and *who* becomes a leader based on mindset and skills.



Weaknesses in any of the four elements can create dysfunction and imbalance in the matrix, so it’s essential to be intentional in designing them and ensuring fit among them. The following section details best practices for creating this fit among the four elements.

## Where: Reporting Relationships

A common mistake companies make in setting up a matrix reporting structure is designating straight-line and dotted-line reporting relationships. This inevitably introduces hierarchy into the matrix, which is problematic because the whole point of a matrixed system is to avoid hierarchy and siloed decision-making. In practice, it's better to start with two straight reporting lines and use the other design elements to tune the matrix to achieve the right balance.

In the example of Juan, Brenda, and Steve, if Juan reports directly, or in a straight line, to Brenda and indirectly, or in a dotted line, to Steve, this creates a challenge in that Juan is likely to give more weight to supporting Brenda's objectives, especially if Steve does not get equal input into assessments of Juan's performance or provide opportunities for Juan's advancement. The resulting power differential can easily defeat the purpose of a matrix structure — which is to have Brenda and Steve negotiate the right balance of goals to be pursued by Juan.

## What: Roles and Incentives

A lack of clarity in roles and misaligned incentives can contribute to confusion and dysfunction. In well-designed matrix organizations, roles and decision-making authorities for the matrixed leaders are clearly defined. It is also essential to specify business dimension leaders' roles and incentives (performance metrics and rewards) so that they are in tension but encourage collaboration.

In the case of Atrium Health, this meant making business dimension leaders jointly responsible for considering local market conditions while still leveraging economies of scale and beneficial standardization. Budgets are one area in which the tensions must be worked out. Operating budgets are held in the regional markets but can be spent on initiatives directed by enterprise leaders. However, the regional market leaders still are held accountable for the delivery of the budget.

While it is essential to do a good job upfront establishing roles and incentives, care must also be taken to ensure that power stays balanced across the matrix. In this type of system, it's important not to confuse "balanced" with "static," as power in a matrix is in constant motion. Even without the distortions introduced by straight- versus dotted-line reporting, business dimension leaders often try to shift the balance of power in their favor to better achieve their own goals. Role clarity and careful design of incentives help to maintain the balance and encourage the business dimension leaders to achieve the best possible overall outcomes.

## **How: Processes and Operating Principles**

Establishing processes and operating principles to support a well-functioning matrix is essential. Without them, the avoidable tensions in the matrix strain relationships and cause additional work for already busy leaders. Early in the matrix transformation process at Atrium Health, some leaders created unnecessary tensions by focusing only on one business dimension of the organization rather than seeking balance within the matrix.

Open communication among the matrixed and business dimension leaders is critical in solving immediate issues and benefits the wider business. Communication about developments in one market, for example, can provide

an early warning of broader changes and help the whole organization prepare.

Companies moving to a matrix model need to establish operating principles and best practices that provide established norms for how leaders and reports can approach the new system. (See “Atrium Health Matrix Reporting Best Practices.”) One example: a rule that says decision-making will be pushed down to the lowest possible level and escalation will be used as a last resort. To support this, there is an agreed-upon process for escalating intractable conflicts among business dimension leaders to higher levels for resolution. This means balancing the requirements and needs of multiple reporting lines by having goal-setting processes that result in shared accountability for overall performance.

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## **Atrium Health Matrix Reporting Best Practices**

"AS LEADERS WITH JOINT REPORTING SUBORDINATES, WE SHOULD..."	"WHEN REPORTING TO MORE THAN ONE LEADER, I SHOULD..."
... empathize with those subordinates that managing multiple reporting leaders, including at the enterprise/local level, is complex and challenging.	... discuss conflicting enterprise/local goals, expectations, and processes in a productive manner jointly with leadership.
... listen to our joint reporting subordinates in a collaborative manner.	... communicate if conflicts emerge based on changes to meeting schedules, work products, timing, or relevant activities occurring across the enterprise/local level.
... create a safe space free of aggressive or retaliatory behavior.	... err on the side of overcommunication by bringing updates to 1:1 meetings with my direct leaders and follow up with actions and outcomes, including enterprise/local leaders for awareness.
... conduct joint conversations at minimum biannually together with our subordinates to align role clarity, performance, job satisfaction, etc.	... be open to multidirectional feedback, including from enterprise/local leaders, and ask for clarification if I receive conflicting feedback.
... align together to eliminate confusion (that is, one set of goals) and reduce conflicting goals at the enterprise/local level.	
... collaborative to clarify enterprise/local operational priorities whenever necessary.	

## Who: Leadership Mindsets and Skills

Finally, business dimension leaders and matrixed leaders must have the right mindsets and skills to thrive in a collaborative, dynamic structure. Specifically, leaders must embrace what we refer to as a *matrix state of mind* that (1) leverages influence rather than authority as the primary way to get things done, (2) embraces ambiguity and complexity, (3) proactively manages the built-in tensions, and (4) is adaptive and resilient in dealing with uncertain and rapidly shifting environments.

The move away from relying on authority to get things done in the matrix is essential. One experienced Atrium Health leader said, “If you try to use authority to get things done, you will fail. People don’t have to oppose you actively; they’ll just ignore you.” Therefore, it is imperative to select and promote leaders based on their ability to work collaboratively in a matrix organization.

Because the move to a matrix organization is a significant transformation, it’s important to apply change management best practices. The starting point is recognizing that leaders are experiencing potentially painful losses of control, affiliation, identity and sense of competence and that the transition will take time.

In addition to having the right mindsets, leaders need to develop essential supporting skills to thrive in a matrix organization. Based on our experience implementing the matrix model at Atrium Health, the following are the most important:

- **Influencing and negotiating:** Building relationships with and among key stakeholders, understanding their needs and aspirations, and using the tools of influence to create alliances.
- **Fostering collaboration and inclusiveness:** Leading decision-making and problem-solving processes that integrate diverse perspectives and encourage deep dialogue.
- **Managing conflict:** Understanding conflict dynamics and tools for managing emotions, bridging differences, and creating collective value.
- **Leading change:** Understanding the technical and social challenges of leading change and developing and executing plans to achieve needed transformation.

Together, the right mindsets and learned skills reinforce role clarity, promote a collaborative environment, balance fundamental tensions, and support the implementation of matrix best practices.

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Adopting a matrix model allows growing organizations to optimize the benefits of centralization and standardization at the enterprise level and decentralization and customization at the local level. Achieving these benefits without suffering from the potential disadvantages requires careful attention to designing all four elements and ensuring balance across these dimensions in the organization.

## Topics

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[Leadership](#)[Strategy](#)[Leading Change](#)[Organizational Structure](#)[Talent Management](#)[Organizational Transformation](#)

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