Making Matrix Structures Work: Creating Clarity on Unit Roles and Responsibility

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Managers often find matrix structures ambiguous, confusing and inefficient. A key reason for these problems is the lack of clarity on the roles that each unit in the matrix is intended to play. We therefore propose an approach to describing unit roles, responsibilities and relationships in a way that is clear, but not excessively detailed and hierarchical. We also put forward a new taxonomy of eight different types of unit role. The taxonomy forces more clarity about basic differences in roles between units, and also helps in laying out different possible organisation design options in a powerful and concise way. It is therefore an essential component in making the matrix structure work.

More and more companies are wrestling with the challenges of complex, multidimensional organisations. Faced with the need to develop specialist product expertise as well as broad-based customer solutions, global co-ordination as well as local responsiveness, and economies of scale as well as focussed resources for specific target segments, they have set up interdependent matrix structures. In Unilever, for example, the basic organisational unit is the country-based sales and marketing team. However categories are increasingly international and need to be managed globally. As a result, Unilever has for many years had category managers at global and regional levels. More recently, brands are being stretched across categories, as brands like Vaseline enter the deodorant or shampoo categories. This makes it necessary to have a brand management function or process above the level of the category. Similar issues arise in supply, as manufacturing and purchasing increasingly need to be managed not only across brands and categories but also across countries and regions. Unilever’s organisation therefore involves a complex network of relationships between interdependent units, working together in a matrix structure.

But although the matrix seems to be a logical organisational solution, most managers have not found it an easy structure. They have struggled with ambiguous responsibilities and reporting relationships, been slowed down by the search for consensus decisions, and found it hard to get all the different units to work constructively together. Many companies are now deeply suspicious of matrix structures, and even leading proponents of it, such as Shell and ABB, have concluded that such structures are no longer working for them.

In this article, we argue that a key requirement in matrix structures is clarity about each unit’s role and responsibilities. We discuss how to achieve sufficient clarity about unit roles without descending into a level of detail that is excessively bureaucratic and inflexible. We then lay out a

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1 Academic experts have advocated matrix structures as a means of creating a focus on more than one dimension of competition for some time. See, for example, Davis and Lawrence (1977), Galbraith (1973, 1994)

This content is explored in Ashridges one day workshop, Matrix Organisations and our 4 day Organisation Design course.
new taxonomy of eight different types of unit role and show why and how this can be helpful in making matrix structures work\textsuperscript{2}.

**Clarity, Detail and Design Intentions**

If managers are not clear about their respective responsibilities, there will be conflict about who should take the lead on what activities, wrangling about the decision process in areas of shared responsibility, and a danger that some important tasks will fall between the cracks. These problems are particularly damaging in matrix structures, where complex interdependencies are built into the design.

We worked with one professional service firm that was extending the range of its services and establishing an international network of offices. Individual partners had been asked to lead specific practice areas, such as information systems, and regions, such as Asia. But the frontline of the firm remained client teams, assembled for particular projects by the relevant client relationship partners. The nature of the responsibilities of the practice areas and the regions was left somewhat vague, and the extent of the power and authority of their leaders in dealing with the client relationship partners was unclear. Although most partners recognised the need to try to manage both the practice area and the regional dimension, there was widespread dissatisfaction with the new structure because it led to constant frictions between client relationship partners, practice area leaders and regional heads, together with higher management overheads and slower decisions. Furthermore, there were complaints that the practice areas and the regions were not proving effective in enhancing the firm’s capabilities in these dimensions and were not being held to account for these shortcomings. Lack of clarity on roles and responsibilities was undermining an organisation, whose basic concept was generally agreed to be sound.

The obvious answer to a lack of clarity in organisation design seems to be to specify responsibilities in more detail. Make clear the respective responsibilities of practice areas and regions, lay out the processes by which client relationship partners, practice areas and regions should jointly agree on priorities, establish the roles of firm-wide and regional management, and so on. But although laying out responsibilities in more detail can be helpful, there is a limit to how much detail the organisation designer can, or should, attempt to impose.

As all practising managers know, fat manuals that lay out exactly who is responsible for what are seldom used or even useful. There may be some valuable discussion about roles and responsibilities in the process of developing the manual. But once the manual has been produced, it is usually filed away and largely forgotten. It does not become an essential reference guide for shaping decisions, and any managers who try to use it for such purposes are branded as bureaucrats, who are more concerned with following procedures than with getting the job done. We have asked many companies whether they use responsibility charts and manuals to guide day-to-day decisions, and have almost invariably met with a negative response.

There are good reasons for this apparently Luddite attitude to responsibility manuals. Firstly, no manual, however detailed, can anticipate all eventualities. Unpredictable developments in markets and technologies, shifts in the political or regulatory context, and changes in the climate of public opinion can all present fundamentally new challenges for a company. And, on a more mundane level, detailed issues are constantly coming up that do not quite fit within pre-defined processes or responsibility allocations. What is more, attempts to make responsibility manuals comprehensive render them less user-friendly. Their length increases, the ‘ifs’ and ‘buts’ proliferate, and their intelligibility and usability for the average manager decline. The quest for a comprehensive responsibility manual is not only vain but counterproductive.

\textsuperscript{2} For a further discussion of unit roles, and of the research on which this article is based, see Goold and Campbell (2002).
A second, and even stronger, reason for avoiding excessively detailed responsibility allocations is to allow flexibility for managers to decide how they will work together as circumstances change. An ability to adapt responsibilities and relationships to take account of new circumstances and of individual learning is much preferable to a rigid and cumbersome design in which senior management try to mandate every responsibility from the top down. Many organisation experts now argue strongly that companies need to move away from excessive reliance on hierarchically imposed structures and systems and empower frontline managers to make their own decisions in accordance with a broader sense of corporate purpose.

The organisation designer therefore confronts a perplexing dilemma. Clarity about the way the organisation is intended to work is vital. But it is neither feasible nor desirable to design an organisation in great detail from the top down. How can organisation designers make clear their intentions without descending into excessive detail? How can they hardwire in enough design, but not too much?

**What to Specify**

From our research, we have concluded that the most important things for organisation designers to make explicit are the basic purpose or role of each unit. For example, we noted that managers often felt clearer about their responsibilities and their relationships with other parts of the organisation if they were told that their unit was a ‘business unit’ or a ‘shared service unit’. This was because these terms were recognised as having important implications for the unit’s:

- broad area of responsibility
- intended reporting relationship to upper levels of management
- intended horizontal relationships with other units in the company
- main accountabilities.

Although it may be necessary to spell out some of the key decision processes in more detail, specifying broad responsibilities, relationships and accountabilities provides a context within which unit managers can, in most situations, work out detailed decisions for themselves on a self-managed basis.

**Broad Responsibilities**

Unit responsibilities need to be specified in a way that makes the broad remit clear, but leaves most of the details to be determined by the unit. A product group, for example, needs to know what sort of products and markets are, and are not, within its responsibility. An Automotive Components Group, for example, should know that it will be off-limits if it proposes getting into breakdown services, but has discretion about whether to compete in shock absorbers as well as brake pads, and can make its own decisions about what specific shock absorber product range to offer. Similarly, a European Manufacturing unit is clearly charged with running the manufacturing facilities in Europe, but can have a high level of discretion about what processes and equipment to adopt, and even about the overall European plant configuration. In addition, the unit needs to know what resources it will have in carrying out its responsibilities.

**Reporting Relationships**

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3 See, for example, Ghoshal and Bartlett (1998).
4 Our concept of unit roles has some analogy to the sociological concept of individual roles. See Merton (1968).
It is also important to specify to whom units will report, and what the nature of this reporting relationship will be. It is in the nature of reporting relationships that the senior managers to whom units report have ultimate authority to appoint and reward the unit’s general manager, to approve the unit’s budget, plans and major investments, to monitor performance and to intervene in exceptional circumstances or crises. But they may also reserve a range of other responsibilities and powers, and exercise more or less influence on the unit. The details of the influence that upper levels will exercise do not need to be spelled out as part of the organisation design. But the extent of the unit’s intended autonomy from hierarchical influence should be made clear.

In our research, we have encountered a variety of levels of influence by upper levels on the units that report to them. At one end of the spectrum, business unit general managers are normally closely involved in the decisions made by the main operating functions reporting to them. They expect to be consulted, and to have the final word, on important decisions within the R&D, operations, sales and marketing functions in the business, because they are responsible for integrating together the efforts of all the functions to achieve the business’ overall goal.

At the other end of the spectrum, some corporate parents adopt a very hands-off role with respect to the units reporting to them. They prefer the units to have a high level of autonomy, believing that the parent does not have enough knowledge to intervene productively, except on a limited set of issues. Other corporate parents are more involved. In order to add value, they believe they need to have a more hands on relationship with the units reporting to them. Hands-on parents reserve more powers and exercise more active influence on a wider range of topics.

There are therefore different possible reporting relationships, ranging from a closely involved general manager, through a ‘hands-on’ parent, to a ‘hands-off’ parent. There are, of course, many shades of difference along this centralisation/ decentralisation spectrum and many detailed differences in what responsibilities are delegated or retained. But specifying the type of reporting relationship that is expected is important, since it helps to clarify how much freedom of action the unit will have.

Lateral Relationships

Lateral relationships between sister units are even more varied than reporting relationships. But in interdependent structures it is important for units to have a sense of what sort of relationships they are meant to have with other units. In part, this concerns relative power and influence in key shared decisions. But it also concerns the spirit of collaboration that should prevail, and the extent to which collaboration is optional or mandatory.

In our research, we found five main types of lateral relationship, in each of which the basis of collaboration was fundamentally different.

*Mutual self-interest* relationships are similar to third party market relationships. Sister units work together if both parties see an interest in doing so, but are free not to collaborate if they do not. Customer – supplier relationships, for example, where both sides are free to do business outside the company, can be governed by mutual self-interest. Mutual self-interest relationships create self-managing quasi-market pressure on units to satisfy each other’s commercial objectives, since otherwise the units will not collaborate.

*Pressure group/principal* relationships obtain where one unit has the final word on a decision, but the other unit is expected to exert its influence on the outcome. The unit that acts as a pressure group advocates its perspective vigorously and seeks to persuade the unit with ultimate authority,

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5 In previous research, we described a variety of different management styles adopted by corporate parent managers, ranging from highly decentralised (Financial Control style) to more influential (Strategic Planning style). See Goold and Campbell (1987).
the principal, of its view, but is expected to buy into and support whatever is finally decided. The principal unit has an obligation to listen to the pressure group unit and to try to satisfy it, but has the final word on eventual decisions. As we shall argue later in the article, overlay units and project units typically have pressure group/principal relationships with the business units with which they collaborate.

In service provider/client relationships, the service provider must aim to be responsive to the clients’ requirements, subject to any overriding corporate guidelines. In other words, the service provider must treat other units as its customers, endeavouring to win their business through the quality, responsiveness and cost-effectiveness of its service offering. Sometimes client units are mandated by corporate management to work together with the in-house service providers. But even with tied relationships of this sort, the service provider has an obligation to strive to satisfy the client units.

The resource owner/user relationship is somewhat similar to the service provider/client relationship, but with some important differences. The resource owner must not only respond to users‘ requirements, but must also develop and nurture the resource on behalf of the company. With scarce and valuable resources such as skilled researchers or software programmers, the resource owner’s first duty is to strengthen the depth and quality of the resource and to ensure it is used as productively as possible. This may imply prioritising different users’ requests, rather than attempting to respond to all demands. Similarly, user units must recognise that they are bidding for the resource, and cannot always expect to have all their bids fully met. Resource owners therefore need to strike a delicate balance between responsiveness to their users and attention to wider corporate priorities.

In team relationships, all units must collaborate to realise the goals of the larger, upper-level unit of which they are part. Team members must strive to learn enough about each other’s concerns that they can arrive at a consensus about the best collective way forward. This is a costly decision process, unless the team has a clear leader, who is empowered to impose a decision on the team. In any case, all the team members are eventually expected to align themselves with the decisions of the team. Thus all the function heads within a business unit should work together, under the direction of the business unit general manager, to achieve the business unit’s objectives. The function heads must ultimately put the business unit’s needs ahead of their functions’, must attempt to reach consensus with other members of the team about how to work together, and, if necessary, must accept that the business unit general manager has the authority to resolve disputes and impose a way forward.

The value of these five archetypal relationships lies in their ability to capture the intended orientation of each unit towards other units. There are, of course, subtle variations within each type of relationship. Furthermore, units’ main relationships may be complemented by different secondary relationships on specific issues: for example, an overlay unit which normally acts as a pressure group may have the final authority on a few issues. However, we believe that the five relationships we have described provide a simple but powerful means of specifying the large majority of intended lateral relationships in interdependent structures.

Understanding intended lateral relationships helps a unit to work out for itself how it should handle specific collaboration issues with other units. The intended relationship provides guidance on how each unit should conduct itself, without imposing detailed process design.

Main Accountabilities

The final component of a unit’s role concerns its main accountabilities. What key performance measures will be used? Will they emphasise bottom-line profitability, or will they focus on other goals? How far will they be unit-specific or more widely drawn? How strongly accountable will unit managers be, in terms of close monitoring, powerful incentives and tight control?
The importance of a unit’s accountabilities is amply demonstrated by the old adage: ‘what-gets-measured-gets-done’. The nature of a unit’s main accountabilities helps managers to decide what priorities they should give to different tasks on their ‘to do’ lists, and therefore shapes the way in which they discharge their responsibilities. A business unit manager who is held tightly and exclusively to account for annual unit profit performance will give little attention to collaboration that does not have an immediate benefit to his or her unit profit. An overlay unit that is measured on sales growth will see its role differently from one that is measured on profitability. So a unit’s main accountabilities give further essential context for interpreting decentralised responsibilities.

Specifying Design Intentions

By laying out what the unit is supposed to be doing (broad responsibilities), how it is supposed to work with other units (reporting and lateral relationships), and how its performance will be assessed (main accountabilities), the organisation designer provides sufficient specification to help the unit management to make sensible self-managed decisions that are compatible with the organisation designer’s intentions. While most organisation designs do cover the broad responsibilities of each unit, they are typically much weaker on reporting relationships, lateral relationships and accountabilities. These are very often the areas that cause problems, especially in matrix structures.

Clarity about broad responsibilities, relationships and accountabilities does not prevent all organisational conflict and confusion. Difficult people, who disagree with the organisation design or are dissatisfied with their personal positions within it, may try to flaunt the intentions behind the design. Difficult decisions, where managers can legitiately disagree about the extent of their units’ responsibilities, their relative power and influence, and how they should therefore work together, may still arise. But, provided managers are willing to accept the designer’s intentions, clarity about these key issues does resolve most disputes and is essential for avoiding the sort of confusion that so often bedevils matrix structures.

A Language for Unit Roles

As we wrestled with the challenge of specifying design intentions, we also noted that managers lack a widely accepted language for distinguishing between different unit roles. To assist in clarifying unit roles, we have therefore devised a new language or taxonomy of eight unit types, each with basically different roles:

- Business units
- Business functions
- Overlay units
- Sub-businesses
- Core resource units
- Shared service units
- Project units
- Parent units

Our language adheres as closely as possible to common usage, but gives more precision about each unit’s responsibilities, relationships and accountabilities. We believe that it gives managers practically useful building blocks with which to design and specify an organisation.
### Business Units

Business units are recognised as the fundamental building blocks in most corporate structures. They are set up to serve selected target product/market segments and are responsible for maximising the value that can be created from serving these markets. They typically have a relatively high level of power and autonomy over decisions about which customers fall within their product/market scope, and about how to serve their target segments. Business units represent the primary dimension of focus in the organisation.

Business units report to parent managers, who leave most decisions to the business’s management. The parent may be more or less hands-on, with more or fewer reserved powers, but in any case the business will expect little interference on day-to-day issues.

Business units’ relationships with other units are generally guided by a mutual self-interest orientation. However, the nature of the relationship also depends on the role of the other unit or units concerned, as we shall see later in the article.

Lastly, accountability emphasises unit-specific performance. Business unit managers are held strongly accountable for the bottom-line performance and particularly the profitability of their units.

### Business Functions

Within the business units, there is usually a functional structure. For example, there may be a logistics function, an operations function, a sales function and a development function. Business functions’ responsibilities are to achieve functional excellence and cost effectiveness, in a way that contributes to the overall success of the business unit.

The design of the functional units within the business units, including the extent of their decentralised powers, is normally left to the business unit general manager to whom they report. The general manager may well retain responsibility in key areas, and is likely to be influential on most major functional decisions. For example, the general manager will help to shape the marketing strategy and will be involved in major IT investment choices. General managers need to be close enough to functional decisions for their guidance to be positive and beneficial.

Business functions are intended to work together as part of a unified team, led by the general manager, which develops and implements the business unit’s strategy. The power and influence of the general manager means that it should be easier to push through collaboration between functions, even where there are difficulties to be overcome. For example, the general manager can insist that product designers take account of manufacturing implications, and can make sure that those who do not make little career progress. Given the nature of these reporting and lateral relationships, business functions, such as sales or R&D, do not have much autonomy. It is not possible for the sales force and the research labs to go their own separate ways.

In terms of accountability, function-specific measures of performance are not sufficient, since they may not capture the vital importance of the contribution that the function makes to overall business unit results. For example, it is obviously wrong to penalise the sales function for underachieving its revenue targets, if it has been asked to cut back severely on advertising spend in order to help meet the business’ profit goal. Simple, output-oriented, unit-specific measures of performance are not appropriate for business functions. The business unit general manager should, however, have enough knowledge about what is going on in all the functions to be able to make more subjective, holistic judgements about their performance.

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6 This section focuses on the functional structure within business units. However, there is usually some sort of functional structure within all the unit types we described. The observations that we make concerning business functions are relevant, mutatis mutandis, for functions within other sorts of units.
Overlay Units

The purpose of setting up an overlay unit is to create a focus of management attention on product-market segments that may not be given sufficient emphasis by the business units. Overlay units therefore resemble business units in the nature of their responsibilities. They are also market-focused, with responsibility for selected product-market segments. But the segments for which the overlay units are responsible cut across the segments of the business unit. If the business units are focussed on countries or regions, the overlays may focus on product groups or channels. If the business units are designed around products or technologies, the overlays may target customer groupings or even major accounts. Overlay units are intended to create additional dimensions of focus, and hence to develop sources of competitive advantage that the main business units are likely to neglect.

Overlays are common in professional service firms, where focus benefits may be sought around practice specialisms, customer groupings, and geographical regions. In McKinsey and The Boston Consulting Group, the primary line of reporting and the business units are defined geographically, in terms of local offices or regions. But there are also overlay units concerned with practice areas, such as value-based management or organisation development, and with customer groupings, such as healthcare or financial services. In Booz, Allen and Hamilton, where the primary business units are defined in terms of customer groupings, around global industry specialisms, the geographical regions and the practice areas are the overlays. WPP, the marketing services group, has overlays to pull together its advertising, market research, PR and other services for specific industry sectors: a unit called The Common Health, for example, concentrates on healthcare customers. Equally, a number of consumer products companies, such as Unilever and 3M, whose business units are defined around products, have set up overlay units to focus on their relationships with key retail customers, such as Wal-Mart or Carrefour. These overlay units are set up by senior management in the corporate parent, to whom they report.

The extent of the decision-making power of overlay units varies. The overlay can be made more powerful by giving it a budget to spend and authority over certain decisions. But overlays inevitably have smaller budgets and final word responsibility for fewer decisions than business units. In its lateral relationships, the overlay is essentially acting as a pressure group on behalf of its target product-market segments. It should be pressing hard to accumulate resources and influence decisions in ways that will improve the service offered to its target segments and enhance their profitability. But it must ultimately accept that decisions on most issues rest with other units, especially the business units that they cut across. The business units have some obligation to listen to the overlays, to take their proposals seriously, and to seek to reach a mutually agreeable consensus. Often the overlays have some right of appeal to senior managers on important and hotly contested issues. But they must usually work with and through the business units.

Overlays can usually measure the profitability with which their target markets are being served. The revenue from these markets can be tracked and it is possible to assess the costs associated with serving them. But parent managers do not always choose to measure overlay profitability, partly because it may involve tricky cost allocations between business units and overlays, and partly because profitability is a less appropriate performance measure for overlays. With less autonomy to set and implement strategies for their target segments, bottom-line profit may not be the best measure of their performance. In fact, it may even be undesirable for overlay managers to push too hard to maximise profitability, if it will result in a reduction in the profitability of the business units. In some companies, targets such as sales volume or customer satisfaction rather than profitability are used to motivate and control overlay managers.
Sub-businesses

Sub-businesses provide a means of combining the benefits of a broader and a narrower business unit focus. The sub-business units concentrate on more narrowly-defined, disaggregated product-market segments than the business unit, while remaining responsible to the business unit’s general manager as part of the overall business unit’s management team. For example, if the business concerned is a national division, the sub-businesses may be set up for local regions or areas. In its US drinks operations, Diageo set up a new, locally-focussed sub-business structure in 1999. As Jim Grover, director of corporate strategy, explained: ‘We recognised that, with a much warmer climate and a huge Latin American community, the drinking preferences in Florida and the South Eastern States are quite different from New England or the Mid-West. So you need a different product mix and different marketing campaigns. We decided that the best way to develop and implement strategies focussed on these different markets was to disaggregate the overall US business into several, separate regionally-focussed profit responsible sub-businesses’.

The sub-businesses have some influence over how to serve their target markets, and have sole responsibility for some activities. But they report to the business units, which typically retain responsibility for key decisions and shared resources. A common role for sub-businesses is to take the lead on sales and marketing tactics, while drawing on shared research, product development, and even manufacturing at the business unit level.

Sub-business unit managers form part of the business’s unit’s management team. They typically meet regularly, under the leadership of the business unit general manager, to co-ordinate and align decisions across all the sub-businesses. Each sub-business is expected to fight its own corner and argue for decisions that will benefit its specific market focus. Sub-businesses need to have sufficient independence to pursue the focus benefits they have been set up to achieve. But it is even more important for all the sub-businesses to work together and accept decisions taken in the interests of the wider business unit as a whole. Sub-businesses that are too aggressively independent cause problems for the business unit general manager, who should have the authority to bring them firmly back into line where necessary. In relationships between sub-businesses, there is a need for collaboration and teamwork as well as self-interest and independence. This is a variant on a team relationship, which we refer to as a ‘quasi-team’ relationship.

Profitability is a key performance measure for sub-businesses: indeed the sub-businesses within a business are often referred to as ‘profit centres’. But sub-businesses are less strongly accountable for performance than business units. Their performance is likely to be as strongly affected by business unit decisions as by sub-business decisions — possibly more so. Their lack of discretion means that parent managers and business unit managers cannot hold them as tightly to account for the results they achieve. But sub-businesses can be judged based on the relative performance of other comparable sub-units. In several companies, such as Rentokil Initial, profitability league tables allow the performance of each sub-business to be benchmarked. Given a relevant peer group, even sub-units with quite low discretion can be rewarded for and motivated by their performance and profitability.

Core Resource Units

The purpose of a core resource unit is to focus management attention on selected resources that are key to competitive advantage in several business units. Core resource units are responsible for nurturing their resources, and for prioritising and allocating the use of these resources on behalf of the group. In pharmaceutical companies, such as AstraZeneca or Pfizer, corporate R&D acts as a core resource unit. In 3M, there are core resource units for different technology platforms, such as adhesives, fibre optics and films. We have also encountered core resource units in IT, manufacturing, sales, distribution and e-business. The management teams of core
resource units are responsible for recruiting the right people, developing their skills, and investing in the support necessary to achieve competitive superiority.

Core resource units report to a parent level of management. The parent gives the core resource unit some autonomy to make decisions but also needs to inject its own views on corporate priorities and to resolve any disputes between the core resource unit and other units. The parent therefore needs to be relatively 'hands-on'. This can be a challenge, since it requires the parent to get to grips with some difficult, often technically complex trade-offs and judgements: it is never easy for the chief executive of a pharmaceutical company, for example, to intervene wisely in the determination of research priorities. But core resource units with hands-off parents are liable to become too insulated from the commercial needs of the rest of the company, too driven by their own special interests.

The resource owner/user relationship is critical. If it works well, the core resource unit will be respected for its ability to provide a top quality resource and for its judgements about when and how to use the resource. If it works poorly, the core resource unit will be seen as arrogant and insular, with little interest in helping the businesses to succeed. At the extreme, the core resource unit becomes a fiercely independent 'empire', impervious to the needs of other units and unwilling to change or adapt to new demands placed upon it. There is plenty of room for conflict between core resource units and other units, which is why clarity on the role of core resource units and the availability of a knowledgeable hands-on parent to arbitrate is so important.

Core resource units are accountable for the quality and cost effectiveness of the competences and resources they provide. These are typically difficult to assess. Objective, output-based measures need to be supplemented with a more holistic and subjective judgement about the contribution of the core resource unit to the company as a whole.

Shared Service Units

Shared service units are responsible for providing their services to other units in a way that is cost-effective and responsive. But unlike core resource units, they should be driven purely by what their ‘customers’ want, rather than by their own views of how best to nurture and allocate their resources. The services may be standard, process-driven, transactional activities, such as payroll or payments processing, or they may be more sophisticated, professionally driven, expert services, such as applications software development or business intelligence. Provided that they are responsive to customer needs, shared service units have discretion over how to provide their services.

Shared service units report to a parent level of management. The corporate parent, whose priorities usually lie elsewhere, is not likely to intervene much, unless there are evident problems with the shared service. There may, however, be some corporate guidelines and policies concerning things such as service level agreements, transfer prices, and the freedom or otherwise of business units to opt out of using shared service units. Furthermore, there may be a shared services head within the parent, who takes a much more hands-on interest in the affairs of the shared service units.

The key to the success of shared service units lies in their lateral relationships with other units. The shared service units should see themselves as winning the business of their customers in other units, and other units should deal with the shared service units largely as if they were third party suppliers. In some companies, the shared service units are set up as quasi-business units, aiming to make a profit from serving their in-house customers in competition with external suppliers. Other companies prefer a closer relationship between shared service units and their customers, in which there is less reliance on time consuming contract negotiations and less freedom for customer units to outsource their requirements. In either case, however, the shared service units need to understand and accept their obligation to treat their users as valued
customers, and the users need to make clear what they are expecting of the shared services. Under these circumstances, collaboration between shared service units and other units should proceed smoothly.

Shared service units are accountable for customer ‘satisfaction’ and for unit costs. Both these goals can be measured relatively easily. A further check on performance is provided by the service and cost levels available from third parties. Indeed, if the shared service unit is set up as a quasi-business, it can also be held accountable for its profitability. However, profitability should not be the main performance measure, because it is more important for the unit to give good service to its customers than to maximise its profits from them.

**Project Units**

Project units focus on specific tasks or projects that cut across other units. For example, a new product development that involves several businesses and a core R&D resource unit, or a major turnkey project that draws on the products and services of several businesses may be handled by setting up a dedicated project unit with its own management team. The projects usually have a finite duration, so that the life of the project unit is time limited. Canon is renowned for its use of project units of different types to work on new product developments at different stages. ABB has made extensive use of dedicated units to create an integrated approach to major construction projects, such as new airports or hydro-electric dams. Professional service firms invariably set up project units to handle specific client assignments. Tasks that cut across other units may benefit from dedicated project unit attention if they are of sufficient importance.

The powers of project units depend on how ‘heavyweight’ senior management wishes to make them. Project units with a cadre of full-time managers assigned to them, large budgets, the ability to override other units on at least some decisions such as pricing or customer contact, and the wholehearted support of top management represent significant formal additions to the organisation structure. By contrast, projects with no full-time staff, little authority and a circumscribed task are better seen as more informal mechanisms for getting different units to work together than as separate organisational units. Heavyweight project units usually report to a parent manager, who may be more or less closely involved in the unit’s work, depending on personal skills and interests.

Like overlay units, project units normally work with other units in a pressure group/principal relationship. The extent of their power and influence in these relationships depends on how much support they have from top management, but they have to rely on the co-operation and goodwill of other units from which the project team is drawn and with which the project unit works.

Project teams usually have clear performance measures focusing on project delivery. But they must avoid damaging the performance of other units by being over-committed to their goals, and their accountability is weakened by their limited discretion over resources. For these reasons, control by upper levels is not easy.

**Parent Units**

Parent units include the corporate headquarters and other intermediate parent levels, such as groups or divisions, together with their support staffs. The parent units are the upper levels of management to which other units report. They are responsible for obligatory compliance and due diligence tasks, and for influencing and adding value to the operating units. They should concentrate on these tasks, and otherwise avoid interfering with the management of the units.

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7 See Goold et al. (1994, ch. 7).
8 See Eisenstat et al. (2001)
reporting to them. The parent should not take on tasks unless they are necessary for the maintenance of the corporate entity (compliance and due diligence) or can be shown to add value.

At the corporate level, there is no upper management level to which the parent reports, although the board acts to some extent in this capacity. Intermediate parent levels, however, report up through the hierarchy to the corporate level.

Equally, the corporate parent has no other units at the same level with which to establish lateral relationships, except through alliances and joint ventures with other companies. Relationships between parent units are normally based on mutual self-interest. In terms of accountability, the parent is strongly responsible for the results and profitability of the whole group of units reporting to it.

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**TAXONOMY OF UNIT ROLES**

<table>
<thead>
<tr>
<th>Type of Unit</th>
<th>Type of Responsibility</th>
<th>Relationships</th>
<th>Main Accountabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent</td>
<td>Obligatory and added-value parenting</td>
<td>Board/parent</td>
<td>Corporate bottom-line</td>
</tr>
<tr>
<td>Core resource unit</td>
<td>Resource focused</td>
<td>Hands-on parent/unit</td>
<td>Resource owner/user</td>
</tr>
<tr>
<td>Shared service unit</td>
<td>Service focused</td>
<td>Parent/unit</td>
<td>Service provider/client</td>
</tr>
<tr>
<td>Project unit</td>
<td>Project focused</td>
<td>Parent/unit</td>
<td>Pressure group/principal</td>
</tr>
<tr>
<td>Overlay unit</td>
<td>Market focused (cut-across)</td>
<td>Parent/unit</td>
<td>Pressure group/principal</td>
</tr>
<tr>
<td>Business unit</td>
<td>Market focused</td>
<td>Parent/unit</td>
<td>Mutual self-interest</td>
</tr>
<tr>
<td>Sub-business</td>
<td>Market focused (disaggregated)</td>
<td>General Manager/unit</td>
<td>Quasi-team</td>
</tr>
<tr>
<td>Business function</td>
<td>Functional</td>
<td>General Manager/function</td>
<td>Team</td>
</tr>
</tbody>
</table>

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* See Goold et al. (1994, 2001) for further discussions of the role of the corporate parent.
Summary of Unit Roles

Figure 1 provides an overview of the eight different types of unit we have described. It is evident that each type of unit will see its responsibilities and relationships differently, and so will make different decisions about how to implement them. Figure 2 shows the different unit types on a conventional organisation chart. It conveys the differences in role by using different symbols for each unit type.

Some organisational arrangements can be hard to classify between the eight roles. For example, if the chief executive has asked a manager to lead a taskforce to develop a new strategy for serving large customers that buy from several businesses, is this an overlay, a project unit or simply a co-ordination mechanism? Or, if the corporate human resources department spends most of its time administering the careers of a cadre of internationally mobile managers, is it a core resource unit (developing and allocating a key human resource), a shared service unit (providing a service to the businesses in which the managers work), or part of the parent (adding value to the businesses by influencing the quality of their human resources)? With more information about precisely how these units are intended to work, we could no doubt form a judgement about how best to classify them. Is the taskforce time limited, does it have any profit responsibility, and is its manager full time? Does the HR department have its own agenda for the international management cadre, or is it simply responding to the administrative needs of the businesses, or is it briefing the CEO on top appointments and career development? Questions of this sort will help to pin down a unit’s true role.

But we should also recognise that there can be some grey areas that are intrinsically difficult to classify. It may be that the major client taskforce falls somewhere between an overlay, a project unit and a coordination mechanism, or that while the corporate HR department has some of the features of a core resource unit, it has others that resemble a shared service unit or a parent support unit. In these cases, none of the role labels fully fits the situation. Nevertheless, the differences between unit types are clear in principle, and in the vast majority of cases there is little problem in how to classify units, provided the nature of their intended responsibilities is understood.
Using the Roles Language

We have found that the roles language has great value in allowing clearer specifications of how organisation designs are intended to work. Proposals to set up interdependent matrix structures are often made without clarifying sufficiently how the different units are supposed to operate. This is sometimes because senior managers do not wish to confront the sensitive issues of relative power and status involved, but more often it reflects insufficient attention to organisational roles and/or the lack of a suitable language for describing them. For example, we worked with a retail group that set up a central category management unit to co-ordinate across its different retail businesses, but without making explicit how it should operate. How broadly should the new category management team see its responsibilities, and over what decisions, if any, would it have final authority? How should it relate to the retail business units, which had previously had primary profit accountability? How involved would corporate managers be in influencing the decisions it faced? What key performance indicators would be used to judge its performance? All too often, answers to these vital questions remain vague, leading to confusion and cross-purposes. Discussions about which of our roles the unit was meant to play forced a resolution of these ambiguities.

If the category management unit was intended to be an overlay, it would have to work through influence and pressure on the retail business units, except on any specific decisions that the organisational designers allocated to it. Primary profit accountability would then remain with the retail businesses, and the category management unit would have a different accountability that might include category profitability but could also emphasise, for example, category market share. If, however, the category management unit was supposed to be a business unit, or a support unit for the parent, this would have different implications. The roles language helped to clarify how the unit should operate without attempting to delve into all the details.

The need for a more precise language for specifying organisation designs is brought out by the ambiguities inherent in many commonly used organisation terms. For example, a ‘product group’ can be, in terms of our taxonomy, a business unit, a sub-business, an overlay, or a parent unit. The same is true of ‘country units’. Equally, a ‘corporate research unit’ can be a core resource unit, a shared service unit, a project unit or a functional department supporting the parent. Organisation designs specified using these terms almost inevitably give rise to confusions, unless the roles of the units are more clearly defined.

Clarity about roles is especially necessary in matrix structures. The term a ‘matrix structure’ can be applied to many different sorts of structures and relationships, and companies use it very differently. When Shell moved to a business stream structure in 1997, it claimed to have abandoned its matrix organisation. But it retained local country organisations and shared manufacturing. Responsibilities may have been less overlapping and consensus less necessary, but the organisation remained multidimensional and interdependent. Labelling the organisation as a matrix (or not) is not helpful, because it gives no useful information about how the different dimensions should work together. Laying out the roles of the different units is, because it makes clear how they should all interpret their responsibilities and relate to each other.

The language is also useful for comparing and contrasting different possible design options. For example, so-called ‘front-back’ structures are becoming more popular (Galbraith, 2000). In front-back structures, separate back-end product or technology units go to market through one or more front-end customer units that sell the products of some or all of the back-end units. Companies that have adopted front-back structures include Tetrapak, Acer, Procter and Gamble, and Citibank. But the front-back label can cover many different possibilities (see Figure 3). The roles taxonomy helps to bring out differences between possible front-back structures, and clarifies the range of design options available. Without such clarification, there is a danger of misunderstandings about how the front-end and the back-end should work together.
The language, therefore, not only provides a simple but powerful means of clarifying organisational roles, but also forces out into the open areas of ambiguity and potential confusion. It can also be a prompt for considering different possible design options. Senior managers who use the roles taxonomy to describe proposed new structures are much less likely to fall into the trap of lack of clarity.

Unit roles are particularly helpful in understanding what one manager referred to as ‘the rules of the road.’ Once a management team has been told that its role is as a shared service unit, the team has much of the information it needs to start work, including what reporting processes to expect with its boss, how to interact with other units, and what targets to focus on. The taxonomy therefore provides guidance on how to approach specific decisions on a self-managed basis, but in accordance with design intentions.
The roles language, then, is valuable because it forces more clarity about basic differences in roles between units and helps in laying out design concepts in a powerful and concise way. It also brings out the range of possible alternative designs, and assists unit managers in discharging their responsibilities in accordance with design intentions. It is therefore an essential component in making the matrix structure work.

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