strategy&

Dealing with market disruption

Seven strategies for breaking down silos

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Executive summary

To stay competitive in the face of increasingly accelerated disruption, many companies need to rethink and retool their offerings and operations. That kind of transformation, however, requires a collaborative effort from all parts of the organization, no matter how different their processes, systems, and cultures have been in the past.

Too often, the transformation effort falls flat due to the problems that arise when disparate parts of the company fail to work together with a shared sense of mission. Most large companies have divisions, or even groups and functions within divisions, that operate in silos. This can be for good reason; in the knowledge economy, jobs often require that professionals work with people who possess similar professional skills to fulfill specific mandates. Silos can exist to harness knowledge-based skills, or specific job functions, or they can be geographic. In many industries, silos are vital to productivity. But when organizational transformation is needed, silos mean that the very parts of your company that must work together are unaccustomed to doing so, and even unable to communicate with one another because they are culturally misaligned, or inherently mistrustful and territorial. These problems can complicate change efforts, or delay or derail delivery of their benefits.

This report highlights seven common challenges that occur when a company tries to break down silos, and best practices for overcoming each of these challenges so that you can build and empower cross-functional teams. These strategies will help the organization harness the right mix of knowledge and skills needed to bring about large-scale change.

Rethinking silos

Digitization, globalization, technological advances, and greater reliance on data analytics are accelerating market disruption at a historic pace, making it increasingly difficult for companies to maintain their competitive advantages. Businesses must adapt their processes, systems, and operating models — often simultaneously — to retain the strategic capabilities that are necessary to have the “right to win.”

Through numerous client engagements, we have found that adapting on the scale necessary to remain competitive, whether done proactively or reactively, is especially difficult for companies that operate in deeply entrenched silos. Conventional wisdom holds that silos are a flawed business construct: a legacy of command and control leadership symbolizing outmoded and inefficient management. In truth, silos help establish boundaries and maintain order — and allow professional teams to operate in a focused, specialized way. During “business as usual,” the positives often outweigh the negatives. Yet during times of significant change, when organizations must be agile, silos can be stubborn obstacles to creating a more effective path to growth and profitability.

Statistics from PwC’s 2015 Global Operations Survey, “Reimagining operations,” tell a compelling story about the challenges of responding to disruption:

- 61 percent of respondents expect changes in customer behaviors to become a disruptive factor for their industry in the next five years.
- 70 percent believe changes in industry regulation will become a disruptive factor — resulting in the need for transformation.
- 58 percent of companies no longer focus on continuous improvement of existing processes alone, but instead focus on transformational change.
- 61 percent of leaders believe changing direction is one of the biggest challenges they face.

The same PwC study reveals how seldom companies successfully work across silos:

- Only about a third (36 percent) of companies prioritize a few cross-functional capabilities at the company level and expect functional leaders to identify how they contribute to the mission.
- More than half (55 percent) of companies work in silos, with each function making its own decisions on which capabilities matter most.
- Three out of five companies (61 percent) say the solution to reaching their strategic goals is collaborating more across functions, paired with faster decision making.

In our experience, a common example of silos slowing down change can occur when a company moves to a new digital platform. Such cases call for collaboration between lines of business and IT groups that have never had to work together before or have tried to do so unsuccessfully in the past. We have seen the silo mentality ("you do your work, and I'll do mine") prevent stakeholders from designing and implementing an appropriate technology solution. In other instances, lines of business with competing goals may clash. Finally, functions such as HR or finance can find it difficult to work with business units and vice versa, ultimately slowing down required changes and stunting growth opportunities.

We have seen the silo mentality prevent stakeholders from designing an appropriate technology solution.

We witnessed how silos slowed the pace of change at a financial- and information-services client company that had been extremely successful for decades, enjoying high operating margins, a large market share, and strong pricing power. When the financial crisis struck, however, the firm had to adapt to a changing world and found that it needed to share information across all divisions. When the company realized that keeping information siloed got in the way of change, senior management decided to upgrade technology systems and the company's operating model to better share information across business lines.

However, silos also posed a problem when it came to transformation. Accustomed to working in silos, the company undertook a change initiative the same way: The technology team pursued IT projects in isolation; the business side pursued its own organizational and process improvement efforts. Compared with companies where such efforts are pursued jointly, this company's isolated efforts were less efficient, and effectiveness was delayed.

Common causes of silos

There are usually sound business reasons for silos (*see Exhibit 1, next page*). Three of the most common are described in detail here.

In the knowledge economy, specific functions require equally specific skills. The need for deep expertise leads employees to follow vertical career paths, staying within a functional group — e.g., supply chain or HR — or within a business unit. There is little opportunity for individuals to bring knowledge from one area to another (e.g., someone from finance bringing their knowledge and expertise to HR so as to learn about talent management, or allowing someone from HR to gain knowledge about how to operate a profit-and-loss division of the company). In turn, siloed companies may place less value on general capabilities, creating resistance or lack of respect for the managerial and leadership skills that broad-based change initiatives demand.

The second cause is decentralized services or fractional ownership of cross-business processes, such as order to pay. We frequently see one of two scenarios. The first is that one of the process owners tries to optimize its part of the operation with little regard for how doing so might affect other owners and customers. The second is that process owners, lines of business, and functions such as HR or finance develop and adopt their own systems, resulting in uncoordinated overlap or a plethora of unintegrated platforms.

Finally, silos emerge due to geographic dispersion. An increasingly global business environment requires companies of a certain size, scale, and scope to have multiple locations, often in various countries and across continents. In other cases, it's necessary to have a line of business or function in a specific location (for example, an energy company locating downstream operations near the energy source). These dynamics can compound the effects of existing silos, or create them anew. Furthermore, acquisitions or entry into new markets can increase cultural disconnects. The concentration of employees in a line of business or a function can create a sense of separation from the rest of the company.

Based on our work supporting numerous clients striving to remain competitive in the face of market disruption, we believe that silos do not inevitably prevent success. Common problems associated with silos can be identified — and even anticipated — and counteracted by best-practice solutions that build trust and improve chances of successful adoption. If you believe you face potential market disruption and your business operates in silos, consider taking action now to combat these problems that silos can cause. In the following section, we highlight common challenges associated with silos, telling symptoms, and potential recommendations for how to deal with them (*see Exhibit 2, page 9*).

The need for deep expertise leads employees to follow vertical career paths, staying within a functional group or within a business unit.

Exhibit 1
Common causes of silos

1. Companies value domain expertise

Pros

Most individuals are highly knowledgeable about their areas

Experts rise rapidly to the top of functional management

Cons

Little opportunity for the development of cross-functional knowledge sharing

General management skills may be lacking

2. Divided ownership of processes

Pros

"Divide and conquer" mentality may mean processes are "optimized" within a given functional area or process step

Cons

True end-to-end process optimization is difficult

Platforms and investments are uncoordinated or duplicative

3. Business units and functions are geographically dispersed

Pros

Diverse and global talent pool

Labor arbitrage opportunities

Tighter management of downstream resources

Proximity and access to key markets

Cons

Culture, language, and time zone differences compound the effects of existing silos

Source: Strategy& analysis

Exhibit 2
How to break down silos

	Challenge	Recommendation
Ready the leaders	Unclear path forward	Align leaders and build governance
Ready the team	Siloed teams struggle with cross-functional problems Teams are confused on priorities and expectations	Create cross-functional teams Create clear roles and responsibilities
Set the team up for success	Global teams run into complexity with scheduling and limited time together Cross-functional teams don't work well together	Co-locate teams during transformation period Create joint incentives
Lead the team	Single leader creates political challenges Consensus can't be reached	Create a "two in a box" structure Clarify decision rights

Source: Strategy& analysis

Making change stick

After you have broken down silos, you might have to develop additional cross-functional ways of working to sustain the benefits. Something that will help will be the creation of joint governance forums that come together centrally and regularly to debate challenges, issues, and trade-offs, with the goal of ultimately landing on common ground. These forums hark back to the importance of establishing clear decision-making authority early in the change process; if there is a stalemate and consensus can't be reached, someone has not only the authority but also the responsibility to make the decision — and make sure there is follow-through. These forums also help with continued information sharing — across geographies and organizational units.

For example, at one client company that was going through a major finance function transformation, there was a strong culture of working remotely (a legacy of only partial post-acquisition integration). Though this practice worked relatively well in business as usual, it proved to be a stumbling block during the transformation. Time zone differences slowed response times and complicated scheduling working sessions. The need to coordinate travel schedules meant it was also difficult to get the necessary leaders and managers in the same room to make critical decisions.

The transformation's cadence became a game of "hurry up and wait." The client ultimately succeeded in its transformation efforts by focusing decision-making authority in a small core team based in one location, with only a few executives traveling. With the group mostly concentrated in one place, it became easier to schedule decision-making forums and ensure that all participants were able to discuss their views and achieve alignment. But it became clear that the results could have been achieved more quickly if there had been a core, centralized location and decision-making forum from the very beginning. Recognizing the benefits that came from reduced dispersion, the client embarked on an effort to become more centralized around major hubs.

Challenge: It is clear that change is needed, but the path forward is unclear.

Symptom: Warring, competing agendas at the top; inertia at the bottom among those not yet directly affected by the changing market; and confusion among the rank-and-file about what to do day-to-day to enable strategy.

Recommendation: Align senior leaders to clarify the path forward and develop the governance to provide guidance along the way. Depending on the level of change required, you may have to engage both business lines and functions broadly, which requires strong and clear messaging from the C-suite. For many of our clients, this support can mean the difference between failure and success: When teams have aligned support and ownership, we see a much higher rate of success compared with those that haven't.

Next, the appropriate governance must be established. Providing the right guidance to manage change requires establishing the appropriate forums — e.g., a steering committee — with the right membership and decision makers. Last, as any effort progresses, day-to-day involvement should transition from those leading a change program to those running the business on an ongoing basis.

Challenge: Siloed teams are assembled and struggle to solve cross-functional problems.

Symptom: There is a strong temptation to create teams composed of people who have a history of successfully working together; it seems efficient because they can speak in shorthand and share similar norms and ways of working. However, this approach replicates existing problems — often the ones that you are trying to eliminate — instead of encouraging individuals from different functions to truly "think future state" and collaborate.

Recommendation: Rather than creating separate groups of functional and business unit representatives, create cross-functional work streams and teams. Pay attention not just to the composition of the team, but also to the size. In large teams, responsibility is often diffuse, which can lead to stalling of efforts.

Challenge: Freed from the natural comfort zones and power structures of their silos, employees in cross-functional teams can be uncertain of priorities and expectations.

Symptom: Employees don't know what to do, whom to listen to, or how to balance the demands of their day jobs with new company or team needs.

Recommendation: Determine clear roles and responsibilities for team members. If a joint team is created, determine who is accountable for final sign-off and who in the business and function must be informed. Another way to break the silo is to create strong "process feeders" or "global process owners" who can drive horizontal integration, or have a very senior leader with a mandate from the CEO, the chief operations officer, or the chief financial officer pull work out of these functions to create a stand-alone unit.

Challenge: The organization is global and so are the teams.

Symptom: Global teams may work well within the context of business units or silos, but global teams working on cross-functional efforts often run into complexity, with scheduling problems and reduced time to work together.

Recommendation: Co-locate. Although geographic dispersion is often inevitable, in some ways it is the simplest problem to solve. Since the need for communication, collaboration, and planning will be extensive, we recommend keeping teams in the same physical location.

For example, in one international shipping and logistics client headquartered in the U.S., the majority of the transformation efforts were focused domestically, despite the fact that growth was expected to come from international markets. It was necessary, then, to design for the future of the organization, and that meant involving people from overseas. Ultimately, the company brought staff from all over the world to its headquarters so that everyone could work together on one floor for several months during a critical period of the transformation.

Though it was not practical to co-locate teams for the duration of the multiyear effort, having them together during this period allowed for a level and type of collaboration that would have been impossible otherwise. People from both different geographic locations and business functions who would otherwise never have spoken to each other did, paving the way for a stronger collaboration and better communication going forward.

Challenge: Joint or blended teams don't "play well together."

Symptom: Individuals in cross-functional groups sometimes revert to a cliquishness that can border on high school lunchroom behavior when confronted with new team members, new ways of working, and different metrics. We often see this as a result of process-oriented silos, with each part of the process trying to optimize its part without thinking about the impact either upstream or downstream. In some cases, there may be two functions whose mandates seem to be in conflict. For example, in a large international drugstore chain, we saw that the logistics division was concerned about having sufficient inventory, whereas the finance division was worried about minimizing working capital.

In this case, the logistics division had an incentive favoring availability of product, while finance had an incentive to maximize the cash flow. To solve the problem, a joint committee led by a senior executive designed joint incentives. These incentives tied working capital and inventory levels not just to individual silos favoring maximums and minimums but to the level of each variable that optimized the company's overall profit.

Recommendation: Create joint incentives. Particularly in a heavily siloed company, it's important to create not only joint deliverables and metrics, but also joint incentives to get people working together more cohesively. Ensure that year-end reviews and bonuses tie joint or blended team leaders to overall desired outcomes, not business as usual. This improves the likelihood that the decisions made will be best for the business overall rather than for individual siloed functions.

Challenge: Businesses assign a single leader to a cross-functional team made up of people from different silos.

Symptom: Though conventional wisdom dictates that "no man can serve two masters," the choice of a single leader who comes from one of the silos can appear political and generate resistance.

Recommendation: Designate co-leaders. With multiple stakeholders representing multiple functions, having a single accountable leader for people to rally around is often unrealistic. Appointing two leaders of significant stature in the company — what we sometimes call "two in a box" leadership — can enforce accountability and encourage collaboration on all fronts.

One way we have seen this work with clients is to ensure that every initiative has two executive sponsors who directly report to the CEO or another senior executive — often one who is responsible for a given process, and one who is a direct customer or supplier of that process, with strong vested interests. At a software company looking to improve the installation process, the head of operations and the head of R&D were assigned to act as the executive sponsors of a work stream.

To the extent possible, the executive sponsors populated the teams with staffers from different functions who brought in varying perspectives because of their disparate expertise and knowledge. Next, the company began hosting formal events, such as workshops, and informal events, such as happy hours, to help everyone come together as one team working collectively for the good of the company.

Challenge: Leaders can't reach consensus.

Symptom: Conflicts are inevitable, but with the establishment of new governance models, teams, and structures, the path to resolution is also uncharted territory. And although we often recommend having two leaders, their equal stature can result in a standoff.

Recommendation: Clarify who has the final decision-making authority. In some instances, you can deliberately create a situation where two people have the decision-making authority and must jointly make the final decision. In such cases, you need to make certain the right data is being brought to the table and is transparent to both parties, to ensure that the disagreement is not a result of one party's data that the other might dispute.

Sometimes, however, the decision-making authority will have to go to a third party — someone more senior in the organization, or someone who is not directly involved but serves as a tiebreaker. This should be someone with a proven track record and broad reputation for being neutral and objective, driven by the facts, and able to fend off what is good for just one function or part of the organization in favor of what is good for the enterprise or the cross-functional initiative. With one of our clients, the finance function was positioned as the tiebreaker because of its influence in the organization — a common situation for the finance function in most industries. Ideally, the parties should be judicious about what disputes they bring to a third party, a more senior person, or a governing body.

Conclusion

Whether done in anticipation of competitive threats or as a response, adjusting to market disruptions is often a high-stakes proposition for organizations. Failing to break down silos and disrupt the status quo is riskier. By leveraging the seven best practices described here, leaders can improve collaboration, communication, and trust between their teams and create a more effective path to growth and profitability during times of significant change. And even after the most significant changes have occurred, the process of breaking down silos will have made an organization more flexible and agile for the future. Silos may remain, but they are less likely to be rigid obstacles if a company has approached transformation this way.

Related reading

"The Bureaucracy Measurement Index: A systematic way for companies to assess the burden of red tape," Strategy&, June 2016

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