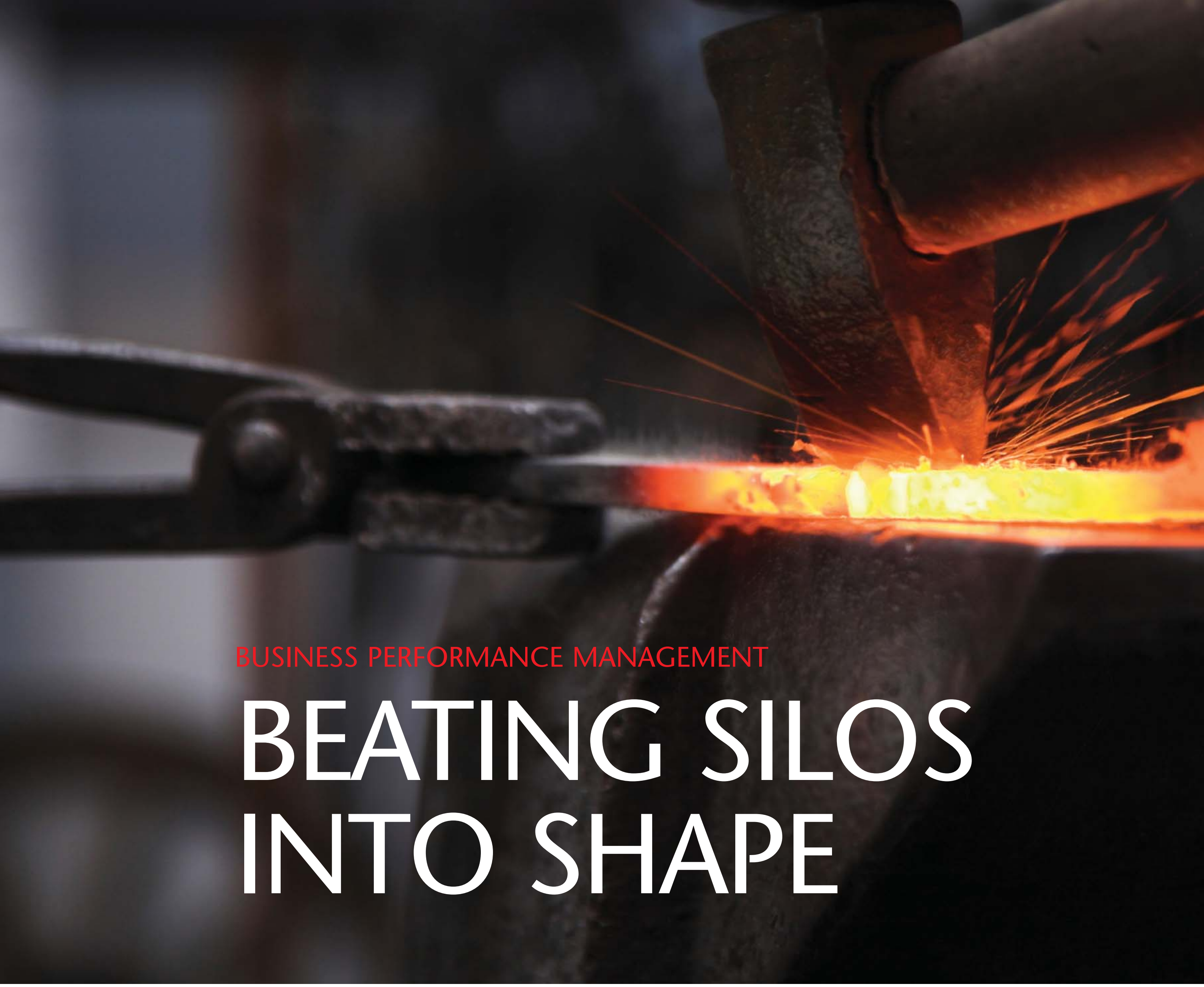

BUSINESS PERFORMANCE MANAGEMENT

BEATING SILOS INTO SHAPE

FEATURES

Silos – and how to eliminate them – present a perennial management problem. Below, Professor Sir Andrew Likierman explains how performance measurement can help get rid of these potential saboteurs.

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Silos… most organisations seem to have them. Many of us moan about them and feel we should break them down. They are extremely resistant to our efforts. And no sooner have we had some small success than they infuriatingly reappear.

Yet it is not surprising that the problem of silos – those divisions inside organisations which inhibit the organisation as a whole from achieving its objectives – is so widespread. As soon as there is devolved responsibility through decentralisation, there will be a temptation for those running one part of the organisation to promote their own part, even when that might be at the expense of the organisation as a whole. And the temptation is even greater when backed up by financial incentives based on how much we achieve for our part of the organisation. Indeed, 'silo mentality' is a very rational response to certain kinds of incentive.

> ‘By focusing on subsidiaries, divisions or other decentralised units, rather than the whole organisation, the silo problem looks as if it is self-inflicted’

PERFORMANCE MEASURES SEEN AS A MAIN CAUSE

Performance measures themselves are often seen as one of the main causes of silo mentality – only one because there are others linked to such age-old problems such as managing complexity through disaggregation and trading off specialisation and coordination. But when the focus of performance measurement is on subsidiaries, divisions or other decentralised units, rather than the whole organisation, the silo problem looks as if it is self-inflicted. And finance is often implicated by being seen to have devised the wrong kinds of measures.

Problems of this kind are certainly not confined to the UK, or to certain industries, and can be identified with some of the best-managed organisations. In the US, the pharmaceutical giant Johnson & Johnson at one stage had no fewer than 13 of the group’s own companies selling to hospitals. In Japan, Sanyo was not atypical in expressing concern that its divisions operated as separate fiefdoms that did not communicate.

The reaction to silo problems has usually been to focus on getting decision-taking back to the centre. But that brings complaints about bloated bureaucracies and slow decision-taking. After a while, it is often back to decentralisation… and those silos again. The last century’s most extreme example of this seesaw was the former Soviet Union, where planners switched the economy from centralised to decentralised management and back over many decades in a vain, and ultimately fruitless, attempt to find a way to run the economy efficiently.

Are silos always bad? Let’s be careful here. The word ‘silo’ is itself negative. ‘Managers empowered through devolved responsibility’ arguably describes the same set of circumstances. And ‘breaking down silos’ (another value-loaded term) can result in disempowered managers and imprecise goals. Internal transfer pricing directly promotes silos in the form of individual profit centres. Getting rid of these may well help on silos, but may also remove important elements of transparency and personal accountability. When GlaxoSmithKline split its research and development into a number of centres of excellence, it was to break down what was seen as a central bureaucracy, and to get the benefits of flexibility and team-building. The reorganisation acknowledged – indeed, welcomed – tensions created in competition between the units.

TAKING ACTION – A SUMMARY

Silos cannot be broken down by improving the use of performance measures alone – organisational structures, culture and management behaviour are all involved. But these are ways in which performance measures can be part of the solution, not part of the problem.

1. Improve the budgeting framework

To do so, set the budget across administrative boundaries eg:
- align the budget to the customer;
- reflect cross-silo projects, events or processes;
- use contribution, not profit.

2. Use appropriate measures

For example adopt:
- cross-function measures;
- end-to-end measures;
- balanced scorecards.

3. Improve the control and internal reporting processes

Ways of doing this include:
- being flexible in budgetary control;
- through silo-swapping, by changing the control focus;
- reporting to the board on cross-silo initiatives.

4. Strengthen personal incentives

For instance by:
- tying personal incentives to the success of the whole organisation;
- linking incentives to evidence of co-operation;
- bringing together managers for knowledge sharing and mutual learning;
- reinforcing the message from the top, during induction and as part of annual appraisal.

‘A budget based on contribution reinforces the role of the corporate centre and a company-wide, rather than divisional, perspective’

FOUR WAYS OF GRAPPLING WITH SILOS

But that still leaves the majority of organisations grappling with silo problems. Set out in this article (and summarised in the box on page 7 ‘Taking action – a summary’) are four ways to do so.

1. Improve the budgeting framework

Just as budgets can reinforce silos, so they can be framed to encourage cross-silo working. One approach is to align the budget to the customer rather than the services which supply the customer or administrative units.

Another way of using the budgets is to ensure that they fully reflect any cross-silo projects, events or processes.

On a more limited basis, the focus of budget responsibility can be contribution rather than profit. An example is using a single budget for functions such as finance or marketing which were previously treated as part of divisional budgets. Moving budgets such as finance and marketing into the centre turns divisions into contribution centres rather than profit centres. A budget based on contribution reinforces the role of the corporate centre and a company-wide, rather than divisional, perspective.

2. Incorporate appropriate measures

When responsibility is decentralised, measures are generally designed to accentuate the performance of the subsidiary, the division or the unit. Performance is not profitability but subsidiary profitability, not margin but divisional margin. To overcome the problem, measures need to reflect what is wanted as cross-silo behaviour.

The most straightforward way is to find cross-function measures. At GE, such a measure was used to make sure the interests of sales and marketing were aligned. The sales pool, to which both commit, was known as the ‘the number’ and was based on integrated metrics.

The GE example shows that improved measures do not need to involve organisational change. Tetra Pak uses measures that focus end-to-end on the customer. The company commented, “Our new scope of measurement is ‘from order to performance’ – meaning the time from when the customer places the order until it is installed and up and running according to guaranteed performance criteria that we sold them.”

Procter & Gamble (P&G) moved to managing the ultimate result through focus on the supply chain to the customer. Indeed, they made the link to customer interests in a highly original way. As the company explained “We seek to reduce overall supply chain time by one third. What is unusual about this metric is that it is not an internal P&G measure of supply chain time but rather spans from our suppliers through to our retailers. In other words the reductions might not even occur within the walls of P&G.”

A cross-silo scorecard can be used to bring together appropriate measures. At DuPont Engineering Polymers, the scorecard was constructed round five strategic themes that cut across units, regions and functions, highlighted corporate priorities and made it easier to understand why resources were allocated. The procurement team at Aetna, the US health and benefits provider used a scorecard to help counter silo effects in IT procurement by linking corporate and personal measures.

3. Improve the control and internal reporting processes

One way in which the control process can contribute to breaking down silos is to use flexibility in the way budgetary control is exercised. The US office supplies chain Staples found that silo-based cost management meant that functional success could be at the expense of the firm as a whole. Their response was to have a policy of allowing functional managers to exceed their budget limits in order to provide investments in improved service for the customer that benefited the whole firm.

A more radical solution is ‘silo swapping’. This happened at the property management company Jones Lang LaSalle, which changed from service-based units of control to those that were customer-based. These were then treated as profit centres in their own right, including rudimentary client-based profit and loss accounts. Another example is provided by the advertising firm WPP’s Group M, which shifted the way it controlled performance of its service to Ford from medium, agency and brand to a structure of ‘project partners’ with shared objectives and measures. This connected planners to buyers and stopped the traditional infighting for revenue. However, care has to be taken that the new cross-silo measures don’t create even bigger problems by creating silos of their own; as, for example, when customer relations management (CRM) becomes separate from everything else – a danger experienced by some using CRM techniques according to IBM*.

To reinforce the changes, reports to the board should include separate information on initiatives designed to minimise the effects of silos. The information should include quantitative measures

* Lager M (2005) ‘Breaking down silos’, *Customer Relationship Management* July pp 48-52

‘The most logical way to promote cross-silo working is to tie personal incentives to the success of the whole organisation, rather than the silo – but there are limits to this approach’

supplemented by qualitative analysis to identify and manage any tensions.

Many organisations have introduced board reporting on projects precisely because they cross silo boundaries. The reasoning here is much the same as for identifying the project teams – to put the spotlight on elements which cross boundaries and which would otherwise be lost to sight when basing control on administrative units.

4. Strengthen personal incentives

In most organisations, financial incentives and promotion are based on individual performance and linked to performance of the manager’s own unit or business. Little or no credit is given to helping the organisation as a whole achieve its objectives. Indeed the incentives may be exactly the reverse.

The most logical way to promote cross-silo working is to tie personal incentives to the success of the whole organisation, rather than the silo, for example through share price-based incentives. But there are limits to this approach. Such incentives are best restricted to the very top of the organisation, since there is otherwise only a weak link to individual performance. They are also more about aligning shareholder and employee interests than about providing incentives.

A more direct approach is to link incentives to evidence of the results of co-operation. Cisco has used a web-based survey of overall customer satisfaction, with bonuses tied directly to customer satisfaction data, so employees are encouraged to co-operate across internal boundaries. At Enterprise Rent-A-Car, the car-rental company, promotion for managers has been tied to the customer service level of the branch team, not the individual, using an Enterprise Service Quality Index in which customers are asked to rate a branch.

At BP, peer groups were created in order to bring together managers for knowledge sharing and mutual learning. The example is of particular interest because the peer groups were reinforced by performance targets – after discussion, each peer group was expected to agree clear collective targets which peer group members were jointly committed to delivering.

The incentives can be powerfully reinforced by clear messages from the top. British American Tobacco Industries announced “a new way of doing things round here” as a way of signalling the change to its supply change management targets. At Southwest Airlines, job descriptions include helping colleagues, and the way jobs are specified incorporates the requirement for flexibility across traditional boundaries. At Staples the message about exceeding budget limits was reinforced by open appreciation of those who, while failing on the cost measures for their own budgets, nevertheless delivered substantially more profit in shared measures.

More subtle incentives can be used to reinforce the message from the top, for example by demonstrating the ethos during induction and in-company training. This can be used to show the complexities but also the reasons for bridging silos. It also provides the opportunity to show senior management responses to common dilemmas in doing so.

On a more regular basis, meetings with senior management can be used to discuss problems in operating a silo-breaking system or progress on cross-silo projects. This is powerfully reinforced through personal feedback at appraisal time, where managers can be helped to strike an appropriate balance in what they do and reduce the risk of dysfunctional behaviour.

Conclusions

Combining the strengths of a unified organisation while maintaining clear lines of accountability has always been one of those magic combinations which marks out a well-run organisation. Performance measures can – and should – be used as part of the solution, rather than being one of the causes of the problem.