Making Silos Work for Your Organization

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Silos are a defining characteristic of organizations of all sizes, even in businesses that naturally operate as fluid networks. For example, management consulting firms are known for organizing around temporary project teams, but they also have formal expertise silos (often called practices) and fixed regional structures.

Of course, we often hear about the negative side effects of silos: Boundaries may lead to insular mindsets that inhibit sharing or collaboration between verticals, or worse, they could lead to finger-pointing and turf wars. The incitement to "bust" or "break down" silos appears frequently both in practitioner and scholarly journals.

But if silos are really such a bad thing, why then do they persist? Silos, or verticals, exist for three good reasons:

To aggregate expertise. They provide the focus and critical mass required to develop expertise on an ongoing basis.

To assign accountability. They provide boundaries and hierarchy that make it possible to assign accountability. Responsibilities are clearly delineated, objectives are well defined, resources are allocated firmly, and decisions are made and communicated quickly.

To provide a sense of identity. They create stability and allow for the development of collective behavioral norms and ways of working. These, in turn, provide a sense of identity, security, psychological safety, and predictability for the people who belong to the silo.

As verticals serve a clear purpose – especially in today's turbulent environment – we would like to mount a defense. Yes, verticals have undesirable side effects, but the solution is not to dismantle them. To preserve the strengths of the inescapable verticals while minimizing their side effects, organizations should do two things: build bridges between verticals, and institute checks and balances.

Building Bridges

The topic of building bridges between verticals has been well covered already elsewhere. Researchers André de Waal, Michael Weaver, Tammy Day, and Beatrice van der Heijden have identified four examples of how companies build bridges:

Values. A company's corporate values statement codifies the behavior that is expected from employees, and can serve as an effective compass for all. By including "one-company" behavior in its corporate values, a company signals that people should think and act beyond the boundaries of their verticals. It is no surprise that "collaboration" figures eminently in studies about frequently cited corporate values.

Operating model. People within a vertical know by routine how they should go about their daily work. But they may feel less secure and be reluctant to collaborate with people in other verticals. Such collaboration can be facilitated by hardwiring the interfaces between the verticals: Defining clear procedures (for example for approvals, consultation, and communication across boundaries) and providing an enabling infrastructure (for example, a common IT platform). Responsibility models, such as RACI, PACSI and others, can help.

Community and people. When building bridges, “softwiring” is as important as hardwiring. Companies must create opportunities for people from different verticals to get to know each other’s capabilities and interests, for example, through joint training programs, cross-functional innovation initiatives, and company-wide expert networks. Once familiarity is established, people will connect more easily whenever a concrete need for collaboration arises. Likewise, companies must pay attention to networking skills when recruiting people, designing training programs, considering sideways career moves, and measuring and rewarding performance.

Leadership. The effectiveness of both hardwiring and softwiring depends on the company’s leaders. They should have the skills and incentives to collaborate, for example by having performance indicators that measure the desired behaviors. They should demonstrate collaborative behavior themselves, for example, by showing loyalty to the joint decisions made in the management team.

As the above list shows, bridges by and large call upon the enlightened benevolence of people in different verticals. That may or may not work: While managers may genuinely acknowledge the benefits of collaboration, they still compete with one another for resources, senior management attention and power.

This is where checks and balances enter the picture: They enable companies to minimize the side-effects of verticals more forcefully than bridges do.

Checks and Balances

Let’s first explain what we mean by checks and balances. A company’s corporate objectives and key performance indicators (KPIs) reflect upper management and stakeholder expectations for revenues, profits, cash generation, ESG goals, etc. These are then translated into vertical-specific objectives and KPIs that should be clear, motivational, and actionable. That exercise, however, is complicated by two phenomena:

Imperfect knowledge. Managers of vertical A often have to make decisions on the basis also of knowledge that relates to matters in vertical B. But since their knowledge of vertical B is imperfect, they are bound to omit things and make mistakes. For example, at one power company we worked with, the business development team has to make assumptions about the evolution of maintenance costs over the lifecycle of the plant. While the best knowledge of those costs surely is within the maintenance department, we found that business development – out of ignorance, lack of time, or for other reasons – didn't inquire systematically with maintenance.

Partial optimization. Managers of vertical A make choices to optimize their vertical's performance. Unfortunately, it may be the case that their choices are detrimental to the company's overall performance, either directly (because the corporate KPIs and the vertical's KPIs don't perfectly align) or indirectly (by affecting vertical B's performance negatively). For example, at the power company, the business development team decided to hire technical staff within its own vertical, as opposed to working with the corporate engineering team, thus reducing the latter's scale and overall performance. Or business development occasionally used less experienced contractors, which led to hidden supervision costs down the road.

Checks and balances can mitigate these effects. Checks identify critical omissions, mistakes and other lapses that a vertical may have made as a result of its imperfect knowledge of the subject matter. Balances act as circuit breakers when partial optimization threatens to damage the system in its entirety. The following offer examples of practical ways of instituting checks and balances:

Separate functions. Transferring a function from one vertical to another changes its hierarchical reporting line and KPIs, so that it is less constrained to do a fully objective job. For example, the power company's commercial-legal function was carved out from business development and attached to corporate legal to ensure that all legal aspects of a bid were duly considered.

Matrixed positions. A wisely deployed matrix helps establish balance so companies can change the reporting structures of certain roles. For example, you could turn the role of the manager in charge of a function within vertical A into a matrix position — that is, make the manager also report to a supervisor within vertical B. Traditional corporate support functions (such as HR, finance, and legal) can play an important role in defining, rolling out, and supporting compliance of cross-vertical standards, policies and methods — in particular when the managers in charge of those functions are matrixed to the verticals and their corporate function. For example, the power company we worked with assigned its commercial-technical manager to both business development and corporate engineering.

Governance. Assign critical decisions requiring a cross-vertical purview to an existing or new cross-verticals body. For example, the power company instituted a new investment committee to review commercial tenders. Introduce thresholds to escalate approvals for decisions to an existing higher-level body as a function of their business impact and risks. If needed, make additional provisions such as veto rights or golden vote procedures.

Three lines model. From a control perspective vertical managers are the so-called first line: They have the primary responsibility to achieve the objectives assigned to their vertical and manage the concomitant risks. But specific second-line functions (such as internal control, compliance, cybersecurity, sustainability, and risk) can provide assistance with managing risks, including the risk of having an insufficiently enterprise-wide perspective. Third-line functions (internal audit) provide additional checks and balances across verticals.

Intervention tools. Institute ad hoc interventions using specific tools. For example, the capital projects industry uses a so-called assumptions book to ensure anticipation, explicitness, and transparency across verticals. Peer reviews by people from other verticals, shared "lessons learned" sessions or third-party audits are other examples.

The boundaryless organization is a chimera. Verticals exist for good reasons: to aggregate expertise, assign accountability, and provide a sense of identity. To temper the attendant insular mindsets and behaviors, companies should build bridges between verticals and institute checks and balances carefully.

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