Making collaboration across functions a reality

Fast-changing global markets put a premium on simplifying processes radically and breaking through silos.

by Ruben Schaubroeck, Felicita Holsztejn Tarczewski, and Rob Theunissen

Companies have long struggled to break down silos and boost cross-functional collaboration—but the challenge is getting more acute. The speed of market change requires a more rapid adaptation of products and services, while customers increasingly expect an organization to present them with a single face. Even well-established multinationals routinely fail to manage operations end to end.[1] The result: interactions with customers are sluggish; complex, customized products are hard to create on time and on budget; and blocked lines of communication make new sales and distribution channels difficult to navigate.

The basic principles for improving performance—imposing stretch targets from the center, empowering cross-functional teams, standardizing processes, tightening up execution—are mostly familiar. But making these things happen is a different matter. In many companies, ownership of processes and information is fragmented and zealously guarded, roles are designed around parochial requirements, and the resulting internal complexity hinders sorely needed cross-business collaboration. What's more, in our experience, companies that apply traditional solutions (such as lean

---

[1] Pascal Visée, "The globally effective enterprise," *McKinsey Quarterly*, April 2015, mckinsey.com.

and business-process reengineering) either exhaust their managers with efforts to rework every process across business units or, by contrast, focus too narrowly *within* functions.

Our observations of 25 companies in a wide range of industries in Europe, Asia, and North America have led us to conclude that perspiration is as important as inspiration in addressing these challenges. Here's the story of how two companies launched new approaches successfully. One needed to focus narrowly to fix a critical process that compromised its core business. The other, swamped by the complexity of its processes, required a broad-based transformation.

RESETTING TARGETS

Executives at a communications-services company were initially puzzled by feedback showing that only 65 percent of its customers got a working connection when they first attempted to use a new premium fiber-optic product. After all, the functions responsible for the various parts of the process—the sales, back-office, operations, and logistics teams—had received scores of more than 90 percent in an earlier survey to assess their ability to "get things right the first time."

On closer inspection, executives discovered that field engineers, under pressure to meet new orders, had cut down on the time they spent with customers during installation, prompting a flood of requests for help to call centers. Back-office staff, meanwhile, were struggling to cope with incomplete and often incorrect orders submitted by the sales team. More fundamentally, collaboration was weak and incentives were misaligned. Sales and marketing, for example, rarely discussed how they could work with field engineers (or vice versa) to address problems. Meeting the needs of customers wasn't included in individual or functional performance targets.

The company responded by setting several breakthrough targets aimed at uniting different teams and pushing them beyond their usual work practices and patterns. One target, for the sales and field-engineering teams, was to halve the number of requests for help to the call center following new installations.

At the same time, the company established new cross-functional teams charged with controlling the installation process from initial order to after-

An end-to-end operating model rests on three fundamentals.

| | Stretch goals | Define strategic targets at the group level. Aim for breakthrough performance that no individual function can achieve. Make cross-functional teams accountable for performance. |

Stretch goals

Define strategic targets at the group level.

Aim for breakthrough performance that no individual function can achieve.

Make cross-functional teams accountable for performance.

Radical simplicity

Simplify and standardize the entire operating model, including job descriptions, capability definitions, and cultural values.

Start with the end-to-end processes, to make changes that promote speed, agility, and efficiency.

A retooled culture

Ensure organizational and cultural change to keep a laser focus on collaboration and ensure high levels of execution.

Invest in leadership capabilities to sustain reform.

sales service. As a result, teams that traditionally had separate workflows and little shared responsibility were forced out of their comfort zones. The cross-functional representatives convened every week to review how well they did on a set of cross-functional key performance indicators and to generate further ideas for improvement. These meetings provided an opportunity to choose the high-payoff areas for execution—it was clear, for instance, that engineers should spend additional time in the field educating customers (at their premises) about successful connection procedures. Senior leaders reinforced accountability by assigning a strong manager to coordinate the process end to end.

The impact of this cross-functional collaboration has been tangible: first-time-right delivery has increased to over 80 percent (from 65 percent), customer satisfaction is up, and the number of requests for help to the call center during the first six weeks after installation dropped by one-third, with a commensurate reduction in costs. The leadership concluded that focusing on the way a single process broke down across functions, rather than following the initial impulse to have each of them address a range of process issues, generated a better solution, with far less stress on management resources.

RETHINKING PROCESSES AND ROLES

After steady performance declines in key business areas, the reconstituted board and new CEO of a global industrial company realized that internal complexity was hampering its reputation for innovation. Sixty businesses, each with its own P&L, often devised or maintained their own fairly similar processes, sometimes even lauded internally as marks of innovation. "We were like the UN without translators," one executive noted, "with different language and terminology describing nearly every process." In one division, half of the job titles in a commercial function were unique to a single person, making it hard to share information and thwarting potential economies of scale and the transfer of skills across businesses units. Different ones often swarmed clients with different and uncoordinated approaches; for example, each sales team pursued customers with separate promotional materials and financing arrangements. Atomized processes led to fragmented IT architectures, which allowed only a limited sharing of production or customer data.

The company's leaders concluded that squeezing marginal improvements out of thousands of processes wouldn't achieve their goals. Their response was to launch a multiyear business transformation built on two levels of a tightly specified architecture. One was bottom-up, grounded in an end-to-end view of markets and customers, the other a top-down redesign of the company's operating model (exhibit).

Rewiring expectations

The company started by identifying a few hundred combinations of global businesses and local markets: matrix-like operational units known as business-market combinations. The executives in charge of each of them co-owned P&Ls and had free rein to overturn conventional ways of working and forge cross-functional and cross-business combinations. They also set stretch goals that no individual function or business could meet on its own. These included achieving a number-one market position, reaching

new segments in emerging markets, embracing new business models, and opening new sales channels.

A group of transformation leaders was created to fight cultural resistance and help connect teams end to end. Monthly reviews by top executives tagged lagging business-market combinations requiring extra attention. One of the business units in need of change manufactured lower-tech products. It had long operated in an oligopoly market with high margins and sluggish multiyear technology cycles but now faced threats both from chip-based offerings with six-month technology churns and from more efficient competitors, some in China, offering better-priced products.

A business-market combination took the lead in redesigning its value chain end to end. Early on, it agreed to move new products from sourcing to retail shelves in 50 days rather than the usual lead time of up to 300 days. This radical shift in tempo forced the company to plan more collaboratively with retailers, to introduce platform-based product designs that encouraged input across business units, and to redesign regional supply chains to keep pace with the changing components.

Within 18 months, this business-market combination turned around its performance—from heavy losses to a number-one market position, with healthy margins. Company leaders noted that few of the changes were fundamentally new in concept; it was the mind-set and behavioral shifts that had enabled broader collaboration and made the real difference. They also concluded that they could accelerate cultural change by investing in leadership capabilities rooted in transparency and regular feedback. This overcame the impulse of many managers to sidestep any changes that might lead to conflict.

Revolutionizing processes

Without more standardized processes, however, the innumerable variations in operating models across the company's many businesses and geographical markets would hamper collaboration between the new cross-functional and cross-business teams. This would continue to stymie innovation, constrain cross-business sales, frustrate efforts to achieve scale economies in IT, and inhibit the sharing of information and skills. Team leaders, including some of those initially most skeptical about change, had a year to simplify processes. They began by defining seven value chains that created and delivered value to customers in truly distinctive ways. These value chains served as the operational platforms for manufactured products, large projects, two distinct software business models, and three broadly different service

businesses. By identifying what really mattered to customers, the company consolidated more than 80 value-chain designations.

For each designation, the team leaders identified cross-business processes across the company that were truly distinctive, typically about 10 percent of the total. They allowed variations only in processes that were needed to serve specific customer segments or to satisfy regulatory requirements. The hundreds of others were slotted into standardized process templates that could be supported by readily available IT. A new and relatively concise process lexicon[2] replaced a massively complex compendium that hindered cooperation—for example, by including dozens of business-planning definitions that prevented units from sharing forecasts. Standardization also led to vastly simplified roles (reducing them to just a handful of roles for each function), as well as to shared performance metrics and capability frameworks.

The changes have had a striking impact on the company's morale, ways of working, and performance. Multiple sales teams in a region, for instance, with a transparent view into each others' order books, can now negotiate deals collaboratively with customers across a range of products. The greater transparency has enabled health-services businesses in one part of the group to learn from the large-project capabilities of manufacturing-oriented units. Consumer-products businesses have been able to share speed-to-market insights with other units. In IT, a consolidation of approaches to enterprise resource planning has expanded opportunities to share data and develop more robust analytics. Meanwhile, to remain agile, functional teams from different units coalesce and disband as demand and business conditions shift.

As in most transformations, pockets of resistance took time to unblock. In one business, sales managers pushed back when asked to open their book of potential clients to colleagues in other units, arguing that critical intelligence would leak to competitors. In reality, core competitive information was well protected, and when the list was opened, several business lines came together to win a big contract to serve a major new customer. By making senior managers owners of simplified process repositories, the company hopes to keep complexity from creeping back at the grass roots.

---

[2] The company now has a total of 340 processes, which can be described by a straightforward vocabulary of 6,000 individual tasks.

Overall, however, the leaders have been struck by how cultural change takes hold once proof of the gains from transparency and collaboration become tangible. They point particularly to the way functional "ambassadors" outlined the benefits of standardization, so that a multitude of variations on a commercial process for forecasting sales and managing leads could be replaced by just one. These ambassadors, with their strong knowledge of how to standardize processes, have taken on a second mandate: collaborating with peers from other functions to link processes end to end. New measures of accountability, and end-to-end performance targets (for functional leaders) tied to them, have served to bring teams together.

————————

While markets remain fluid and organizational change is hard, executives across a wide range of companies and industries must expect silos to continue obstructing joint action among functions. But they can head off the problem before it overwhelms them if they establish the kind of targets, end-to-end accountability, process standardization, and execution-oriented, collaborative culture the two companies described here did. ⓠ

Ruben Schaubroeck is a principal in McKinsey's Antwerp office; **Rob Theunissen** is a principal in the Amsterdam office, where **Felicita Holsztejn Tarczewski** is an associate principal.