

Article 38 – Cross-functional workgroups

Jim Collins calls it the “tyranny of either/or”. A colleague of mine calls it the “age of AWANIO – As Well As, Not Instead Of. But whichever phrase is used, it highlights two characteristics of business in the 21st century.

The first is that we live in an age where features of products or organisations, that were thought to be mutually incompatible, now exist side-by-side. From high fibre white bread and small luxury cars to organisations that are both large and flexible. “Who says elephants can’t dance?” was the title that Lou Gerstner’s gave to his account of the recreation of IBM, for which he was responsible.

The second characteristic that AWANIO and the tyranny of either/or encapsulate is that the optimum solution to problems rarely – if ever – lies at either end of the spectrum of possible remedies.

Decentralisation versus centralisation, functions versus processes, 100% commission based pay versus 100% fixed salary – the optimum is never either/or - but it is likely to be more of one than the other.

One of the major issues facing large organisations is how to re-structure to overcome the problem of organisational “silos”. Organisational silos are the end result of functional organisations carried to extremes. Ricardo Semler gave a classic description of his own company’s silo orientation in his book “Maverick”.

“SEMCO’s structure was what business school professors call a functional system. That meant that the production managers at plants reported to the production director at our headquarters; the sales people answered to the marketing director; the administrative officers to the finance director; and so on. It sounds orderly, but anyone who has worked in a diversified, multi-plant company knows that a high percentage of decisions made under this long distance arrangement are just plain wrong, and take too long as well. It is a feudal system, isolating engineering from sales and sales from finance and generating solutions and strategies that serve one department at the expense of another.”

The irony is that when companies are formed, they develop naturally into cross-functional workgroups. The company takes on a sales manager, a finance manager, an operations manager and an administration manager each focusing on a particular function. But they operate as a cross-functional workgroup. They meet together, they all understand the company objectives and their part in achieving them. The problems start when the job gets too big for one sales manager or one administration manager. More people are taken on who naturally respond to the managers of their particular function. Then the fiefdoms start to emerge and the turf wars start.

The company doesn’t have to be that big for the impact of silos on both effectiveness and efficiency to become apparent. I’ve recently had some dealings with a \$50 million per annum company that has developed exactly as I have described above and is now moving towards a cross-functional organisation. Its business can be divided into three market sectors so each one of these is being formed into a Strategic Business Unit. As an SBU, it has its own management structure, its own customers, suppliers and competitors, its own resources and its own business plans. It’s also a profit centre.

However the CEO of this company also realised that no purpose would be served by each SBU having its own IT group, its own admin group etc. So a fourth cross-functional workgroup has been formed called Central Services to provide the SBU's with the services that are best kept centralised. Central Services' customers are internal ones – the three SBU's.

My experience is that large organisations, whilst appreciating the need to move away from a functional structure, often end up with a matrix structure where the organisation has both a vertical and a horizontal component. The mistake they make – and I'm being generous in calling it a mistake – is that the old functional organisation is still depicted as the vertical silo and the new cross-functional organisation as the horizontal strata. By this subterfuge, the managers of the old functional organisation retain their control over their fiefdoms and the cross-functional workgroups are hobbled before they start.

Matrix organisations are sometimes the only practical structure but if they are to achieve their design objectives, the levers of power must be transferred to the heads of the cross-functional workgroups or the SBU's. It's the heads of the cross-functional workgroups that must set budgets, direct the activities of workgroup members and be responsible for hiring and firing.

Now that's easy to say but it takes a lot of commitment and courage to make it happen in a traditional functional organisation. The functional heads won't give up their power and influence willingly or voluntarily. It needs to be taken from them.

As AWANIO and the tyranny of either/or suggest, a 100% functional or 100% cross-functional structure is never the optimum solution. I'm reminded of the English historian Thomas Macaulay who wrote of a particular government that it "thought much of convenience and little of symmetry" and "never to remove an anomaly simply because it is an anomaly". So for example, there might be very sound reasons why functional workgroups continue to exist even in the most rabidly cross-functional organisation. Perhaps it's the IT section or accounts payable or central research. If it functions better the way it is, leave it alone but make sure that all the members of the workgroup know who their internal customers are and their needs that must be satisfied.

Getting the organisational structure right is fundamental to achieving organisational goals. It is also the most difficult thing to achieve as often those who have most to gain collectively from the change also have the most, as individuals, to lose.

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June 2007