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When functional silos narrowly focus on just their slice of the business – without considering the effects of their decisions on other areas of the supply chain – company performance suffers. That's not to say functional specialization is all bad: increased specialization throughout the 20th Century helped create a wide range of affordable consumer products. The problem is the times have changed, but the thinking has not. The dominant business model still rests on the assumption that companies perform best when each function or department simply does its job. Hire the best talent for each group and focus them on just those tasks assigned to their unit. The logic is simple – but entirely wrong for today's dynamic market environment. The "dark side" of specialization emerges when (1) activities and priorities in one area become disconnected from other parts of the company, and (2) functional areas lose visibility on how they contribute value to end customers. Over time, a strictly siloed approach creates the mindset that anything happening outside the business unit is a potential threat, managers lose the willingness and ability to work across functional boundaries, and any gains produced by specialization are quickly eroded by costly disconnects between functions and with customers.

Supply chain management emerged out of a recognition that in dynamic market environments company performance depends – not on greater specialization – but greater integration across functions (and firms) in the value creation process. Integration gives companies the flexibility to continually align internal operations with changes in the market environment through ongoing engagement across various parts of the supply chain. Research has shown that integrating across functional areas enables companies to cut costs, increase customer satisfaction, and be more responsive to changes in the competitive environment. These benefits have caught the attention of top management: a recent PwC survey found that 86% of CEOs identified working across functional boundaries as important. However, the concept of integration remains poorly defined. Managers use a wide range of terms – cooperation, working together, interaction, and information exchange – when talking about integration. This lack of definitional clarity leads to substantial confusion over

Figure 1: How Well Integrated Is Your Company Along The Following Dimensions

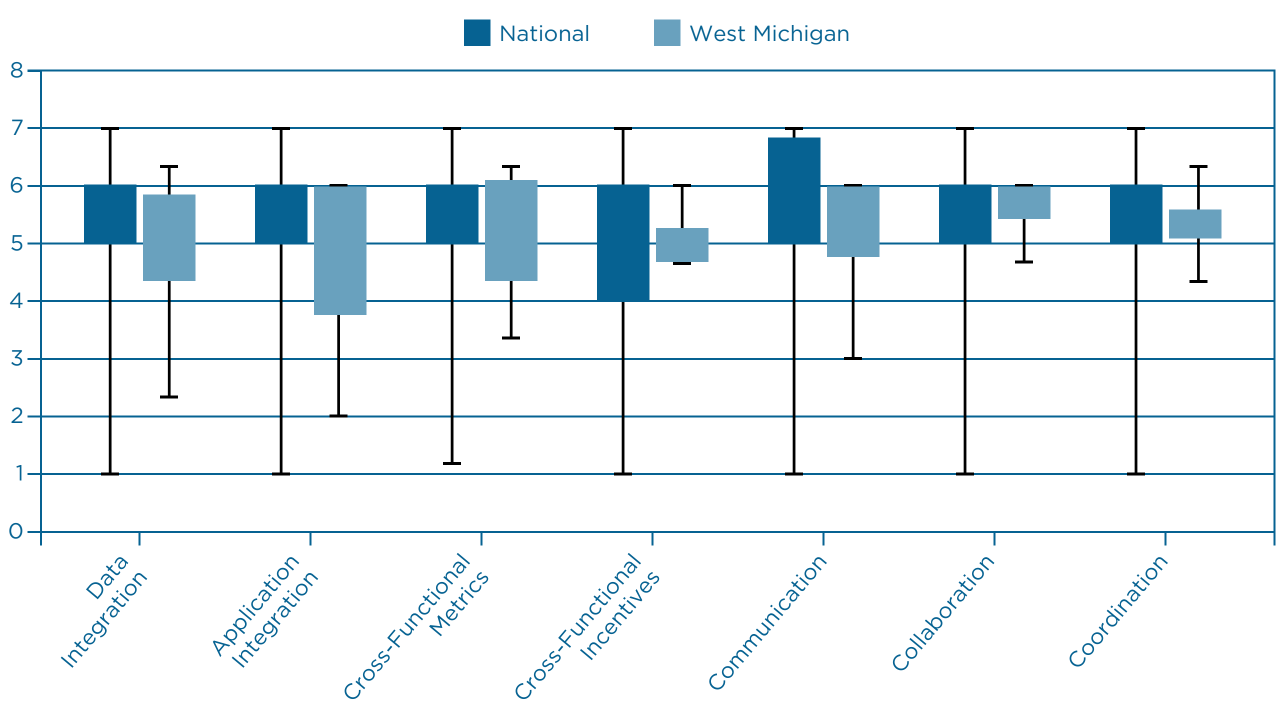
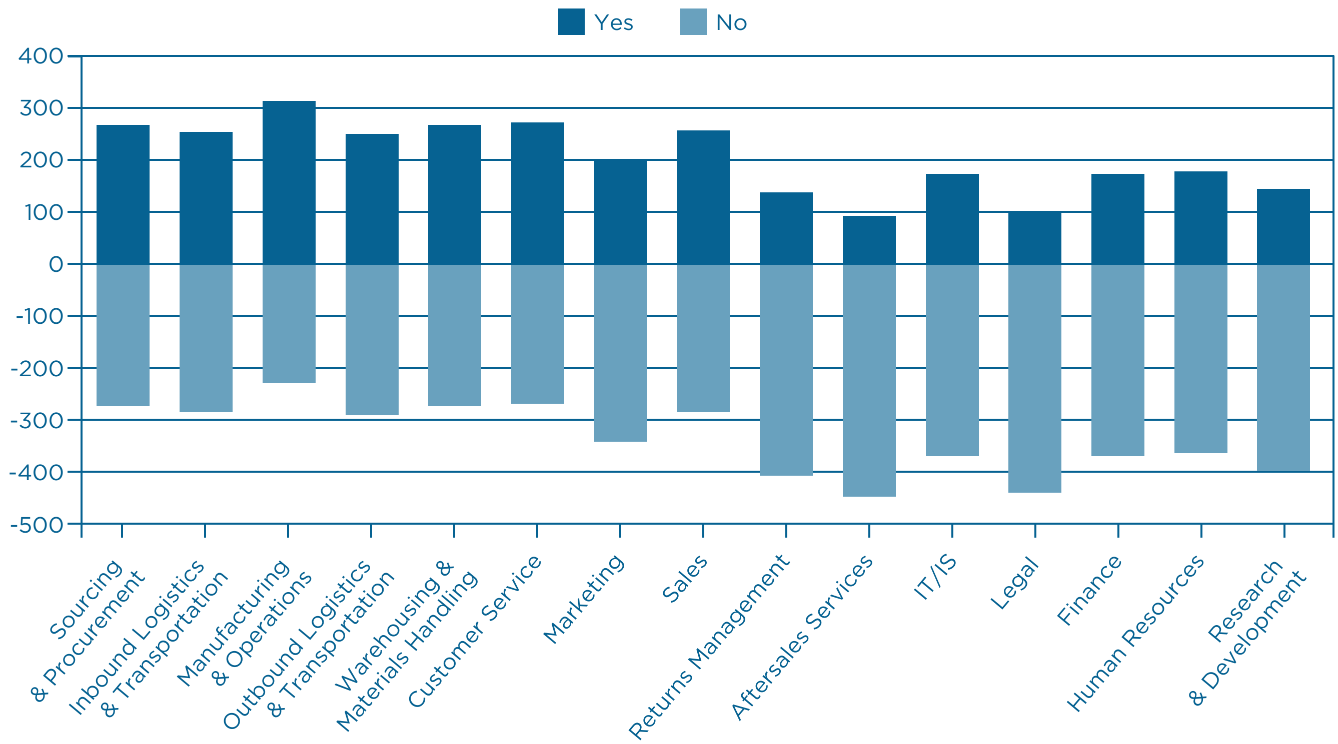


Figure 2: The Following Areas Are Represented In My Organization's Formal Supply Chain Group



what integration is and what companies need to be focused on in order to realize integration's performance benefits.

The research presented here was undertaken to help define integration and identify specific steps companies can take to improve integration in their own organization. First, the research team conducted an extensive survey of 539 U.S. companies. Then, as a follow-up to the national survey, the research team surveyed a panel of experts – individuals who are deeply engaged in the West Michigan business community and with the Seidman College of Business – to get their perspectives on the question of integration in West Michigan companies. A comparison of results is depicted in Figure 1.

Based on the national survey, the research team determined that integration has three component parts:

- Collaboration – Defining common goals and objectives
- Coordination – Managing activities across functional boundaries to optimize overall business processes
- Communication – Sharing information in ways that support collective action and decision-making

The national survey team also revealed several specific steps companies can take to enhance integration in their organization. These steps included:

- Creating a supply chain management department responsible for strategic management of activities across purchasing, operations, manufacturing, warehousing, and logistics
- Investing in databases that allow for consistent, company-wide data storage and retrieval
- Investing in software that provides real-time communication across supply chain applications and other internal planning and execution applications
- Developing cross-functional metrics that focus on the quality and continuous improvement of value creation processes
- Instituting cross-functional incentives that reward performance based on how well people meet cross-functional goals

The national sample suggested mixed results regarding the extent to which companies have achieved integration (measured in terms of collaboration, coordination, and communication). In particular, there was substantial variation in terms of how well companies communicate information across functional areas in support of collective decision-making and action. The national survey also revealed that although most companies have a formally defined supply chain management department, there was substantial variation in terms of which functional areas were included in that department. Figure 2 depicts the functional areas that tend to be included in formal supply chain departments. Finally, the national survey suggests room for improvement when it comes to incentivizing cross-functional goal performance.

Perspectives on West Michigan businesses from our panel of experts tracked fairly closely to national averages – with a few stand outs. Overall, the panel rated West Michigan companies as performing similar to national averages when it came to achieving integration through collaboration, coordination, and communication. However, the expert panel indicated a much wider range among West Michigan companies, suggesting that at least some companies in the area have more work to do in terms of getting on par with national averages. The biggest standout, however, was in investments made by West Michigan companies in the IT architecture and software that support data quality and real-time, company-wide communication. This gap in IT architecture and software was specifically commented on by experts in open remarks. As one expert put it, West Michigan businesses have done a good job putting together cross-functional teams but have lagged behind in data collaboration across supply chain partners. Another expert suggested that West Michigan companies must become more real-time through the development of data analytic tools such as dashboards.

Overall, this research confirms that aligning internal supply chain operations remains a critical challenge for companies. Across the board, participants expressed the need to knock down traditional functional silos to create integrated supply chain departments focused on overall company performance. But achieving integration require companies to be clear on what integration means and then to target specific areas of change in their organization. Most importantly, though, companies cannot become complacent. At its core, the transition from siloed management to integrated value creation is motivated by need for organizational flexibility in the face of dynamic markets. Integration itself must, therefore, be a process of continually aligning who, what, where, when, and how individuals representing the various parts of the supply chain engage to create value. ■

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