Escaping the silo effect

A new book argues that internal divisions pose very real risks for businesses – including private equity.

Gillian Tett, US managing editor of the Financial Times, is telling a cautionary tale, using Japanese conglomerate Sony as an example. She cites the audience how some of them had Sony Walkmans as children or teenagers. She attributes to them, and “wouldn’t imagine a world without it” when the time grew up.

But, as Payne’s comments and these examples suggest, the real problem with specialisation is not the presence of specialists themselves but a lack of communication between them. Tett acknowledges that “we need to have specialists in the twenty-first century to do great work in the face of extremely complex and ever-shifting delivery of data.” One of her key examples of “silo-busting” organisation is hedge fund Blue Mountain, which prospered not by replacing its team with more specialist with generalists, but by encouraging them to share information and work together. “Breaking people into small groups with specialist skills is one of the more effective ways to produce a professional service,” Tett says, “but effort is needed to make sure they communicate effectively and so that people can learn from each other.”

Private equity firms should remember, if they head down the new utopian path, that “silo-busting” is not a cure-all. “It pays if people can periodically step back from their discipline and ask how their work interacts with other disciplines.”

At Livebridge, the potential silo effects – greater institutionalisation and greater cash costs by forming a stronger, collaborative culture. Approaching remuneration and deal making for its part, Sony is based on the principle of “silo-busting” organisation at Livebridge and Blue Mountain: “The idea is that you don’t have to be a specialist, but you have to be able to communicate effectively.”

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Dr. Mike Colvin, managing partner of Livebridge, increased specialisation and other types of formalisation is inevitable as the industry continues to mature and grow. “It’s possible to make money as a private equity firm without being institutionalised, but it’s hardly necessary,” he says. He adds that “to grow your business, your people have to be able to communicate effectively with each other.”

The lesson to be learned from Sony and the other case studies used in her book is applicable to organisations across the business world, says Tett. She is speaking at Second Home, an innovative office building in Shoreditch that describes itself as “a place where entrepreneurs and creative businesses come together, in the pursuit of great work.” With its potential co-working spaces, promotion of collaborative projects between different teams, and communal lunches, Second Home has ‘brought into the idea that getting rid of silos can bring business success.

It appears, however, that private equity is moving in the opposite direction. In recent decades, an industry that was once known as a niche, free-wheeling and flexible source of capital has grown massively. This has brought with it increasing institutionalisation and formalisation of functions and roles. So how can private equity escape the silo effect?

1. MAKE TEAM BOUNDARIES FLUID

“It pays to keep the boundaries of teams and silos as thin as you can,” Tett says. Good ways to do this include offering programmes and developing spaces and projects where people in different working groups can meet and work together.

2. SET UP big rewards

“When employees are rewarded for the benefit of their own group perform, and when groups are competing with each other internally, they are unlikely to collaborate. If two brothers are running a family business, or open plan offices it’s unlikely,” she says.

3. SHARE INCOME EFFECTIVELY

It’s important to cut out middle managers to free everyone up in an organisation, but to help everyone understand that information, what Tett terms “information translation”, must be shared. “We have to work much more closely between specialists and others, so more value can be taken out of the organisation, and to share the rewards.”

4. CONSIDER NEW CLASSIFICATION SYSTEMS

“Companies can be programmed to manage information in different ways and that can make different ways of thinking, but one of the most effective ways to do this is to get rid of the silos and change the organisation for the better.”

5. USE TECHNOLOGY

“Information technology is a very powerful tool, and it can be used to create more effective ways of working. But it can also be used to create more efficient ways of working.”

Back at Second Home, where Tett gives her talk, there are plans to open a new floor, a property of which will be flooded to create a water garden around which workers can mingle, and to make the building model to include an “experiential” element, where modern can become available by allowing people to walk in and test out different technologies and different ways of working.

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5 WAYS TO ESCAPE SILOS
GILLIAN TETT’S ADVICE FOR BUSINESSES THAT WANT TO AVOID THE DAMAGING EFFECTS OF SILOS.

SHARED REWARDS

For Wolf Kottler, managing partner of Livebridge, increased specialisation and other types of formalisation is inevitable as the industry continues to mature and grow. “It’s possible to make money as a private equity firm without being institutionalised, but it’s hardly necessary,” he says. He adds that “to grow your business, your people have to be able to communicate effectively with each other.”

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Ann David Evans, managing director at consulting firm Blue Bridge, says, “It’s like a mutual fund, and the investors are the limited partners.”

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