SALES AND OPERATION INTEGRATION: THE ROLE OF COLLABORATION AND ALIGNMENT

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ABSTRACT

In this paper we focus on the collaboration and alignment between the Sales and Operations teams in organizations. Although the potential benefits of collaboration and alignment between sales and operations are significant, such initiatives often meet with resistance because they place an extra burden on individuals to go beyond their normal comfort levels. Drawing on a burgeoning stream of academic literature that is focusing on sales and marketing, integration, we propose and empirically test a model of sales-operation collaboration and alignment. Basing ourselves on a survey that was conducted across three continents, we find that organizations that place emphasis on sales-operation collaboration by streamlining organizational structures and processes are more likely to have aligned sales-operation teams that demonstrate higher levels of conflict resolution while contributing to the organizational performance. Some limitations of the study along with some future research suggestions are made.

INTRODUCTION

In today's hypercompetitive marketplace, firms are moving away from selling traditional product bundles towards and focusing more on providing solutions to their customers (Tuli et. al 2007). Gulati (2010) suggests that for firms to be more customer centric, they will have to focus on busting traditional functional silos existing within the organization and seek more internal collaboration and co-operation between the various departments. Internal collaboration is almost universally viewed as good for an organization. Leaders routinely challenge employees to tear down silos, transcend boundaries, and work together in cross-functional teams. Although the potential benefits of collaboration are significant, such initiatives often meet with resistance because they place an extra burden on individuals. In fact, collaboration can just as easily undermine performance, if e.g. you are promoting cross-unit collaboration for collaboration's sake (Hansen 2009). While anecdotal evidence suggests that cross-functional collaborations helps organization become more successful in delivering customer solutions (Kumar 2004), academic research in this domain is still limited. However, in the domain of marketing, there is a burgeoning stream of research that focuses on the relationship between marketing and sales (Guenzi and Troilo 2006). While these are useful first steps, more research needs to focus on the collaboration between customer facing functions and more internal facing functions within an organization.

RESEARCH OBJECTIVES

In this paper we focus on the interconnection between the more customer facing sales unit that has traditionally been associated with understanding and fulfilling customer needs and the more internally oriented operations unit (incl. supply chain) associated with delivering the products/solutions to meet customer specifications. While it makes intuitive sense that both the sales team and the operations teams should work together to ensure delivery of customer oriented solutions, reality on the ground suggests otherwise. Structurally within an organization, sales and operations are viewed as distinct functional silos with separate responsibilities and KPIs. However, in most organizations that strive towards providing customer solutions, there is no alignment between the responsibilities and KPIs of these separate silos, thereby resulting in no cross-functional synergies. This usually results in either sales teams overpromising their customers or operations teams under-delivering on the promises made to the customer. This lack of alignment between sales and operations ends up not only creating dissatisfaction amongst customers, but also ends up hurting corporate performance. However, our experience suggests that organizations that strive towards achieving better sales and operations alignment see substantial improvement in their financial performance. In these organizations, the explicit goal of Sales and Operations alignment should be to maximize profit, rather than cost minimization or revenue maximization (Grimson and Pyke 2007). Thus, in keeping with the literature focusing on sales and marketing interface, we conducted a study to identify factors that could help better alignment between sales and operations departments, thereby enhancing the joint performance and overall contributions of these two functions.

Hypotheses Development

Basing ourselves on the conceptual model by Grymson and Pyke (2007), we identified a process model as portrayed in Figure 1 to help understand the impact of sales and operations alignment on the performance of the firm. In our model we identify the steps taken by an organization to better foster collaboration between sales and operations teams as a key independent variable. We label this variable as sales-operation (SOP) co-ordination. SOP co-ordination refers to the efforts taken by an organization to better co-ordinate the activities between sales and operations towards achieving common objectives.

Gulati (2010) suggests that co-ordination initiatives by organizations could include formal structures and processes in place to facilitate contact between sales and operations. Changing the organizational structure to bust traditional silos is likely to foster better communication between the sales and operations teams, thereby leading to more aligned approaches towards their customers. In this paper we refer to alignment as propensity of the sales and operations teams to work together towards a common goal. Thus:

H1: Higher the levels of SOP Co-ordination, higher the levels of SOP Alignment.

As was pointed above, in organizations that have a traditional silo oriented approach towards sales and operations, there is likely to be conflict as a result of differing priorities and KPIs between the sales and operations teams. However if organizations focus on busting silos by trying to foster better co-ordination between the departments, this is likely to result in better communication between sales and operations, thereby resulting in better conflict resolution. Additionally, if organizations tend to formalize processes this is likely to bring the sales and operations to work together towards a common goal. Thus:

H2: Higher the levels of SOP Co-ordination, higher the levels of conflict resolution.

If organizations are better able to align the activities of their sales and operations, this is likely to result in a) sales making promises to the customers that can be delivered by the operations teams, better forecasting by salespeople resulting in efficient inventory management by operations, and b) flexibility in operations aimed at helping salespeople better meet their customer requirements, while managing the costs to serve the customer. In short, better SOP Alignment is likely to result in an organization's ability to better need customer requirements while keeping control of their costs, thus resulting in better organizational performance. Thus

H3: Higher the levels of SOP alignment, higher the organizational performance.

We suggest that when sales and operations are better able to resolve their issues, they can better focus their attention on meeting customer needs while keeping the costs under control. Previous studies also indicate that conflict management has a direct, positive relation to perceived performance (Tekleab et al. 2009). Thus:

H4: Higher the levels of conflict resolution, higher the organizational performance

METHODS

All the variables in our study were operationalized based on existing scales. The items used in the questionnaire were based on existing scales and due to space constraints, will not be mentioned here. However, they can be made available upon request.. The data was collected by means of an online questionnaire that was administered across executives in three continents. We empirically study the extent, to which the Sales and Operations departments are aligned; we investigate whether this is related with its team viability and conflict resolution between both departments; and we find out whether this can be linked with performance results.

RESULTS

We obtained $N = 92$ usable responses. Among our respondents, 40 (43.5%) were active in the sales department, 31 (33.7%) in operations, and 21 (22.8%) in other departments. The geographic distribution was as follows: 60.6% located in Europe/Turkey/Russia, 7.0% in the USA, 31.0% in Asia, and 1.4% in Latin-America.

We verified convergent and discriminant validity of the constructs. Note that we specify performance as a second order construct with two first order factors: internal performance and market performance (the latter dominated the performance factor in that it had a higher loading, but we decided to keep the internal performance factor for completeness).

We specified and tested the Structural Equation Model depicted in Figure 1 using the ML estimator in AMOS 18.0 with bootstrap estimates (200 samples) for the standard errors of the estimates. Starting from a model that included the direct effect of organizational collaboration on performance, we tested for full mediation of this effect by restricting the regression weight to zero. As this resulted in a non-significant deterioration of model fit ($chi^2(1) = 3.19$, $p = .074$), we specified the final model with full mediation of the effect of organizational collaboration on performance through alignment and conflict. The model fitted the data acceptably well ($chi^2(129) = 169.04$, $p = .010$; TLI = .931; CFI = .942; RMSEA = .058; SRMR = .066). The structural parameter estimates are shown in Table 1.

The results show that organizational collaboration has a direct positive effect on alignment and a direct negative effect on conflict. Alignment has a positive effect on performance. Conflict, however, does not significantly affect performance. This implies that the positive effect of organizational collaboration on performance is mediated via alignment but not conflict. Nevertheless, conflict reduction may be a worthwhile goal in and of itself even though it does not necessarily impact performance.

DISCUSSION

As more and more organization move towards providing customer solutions as a way to differentiate themselves, they have to ensure that their internal departments strive towards working together to meet customer needs. Building on previous work that has mainly focused on marketing and sales integration, we came up with a process model aimed at addressing the importance of Sales-operation alignment in organization towards ensuring organizational performance. In particular we identified the steps taken by organizations to strengthen the collaboration between cross-functional teams is key to have better alignment between sales and operations. This alignment in turn is likely to have an impact on both the internal and external performance of the firm. However, while better collaboration between departments does reduce the conflict between sales and operations, conflict resolution by itself does not lead to better organizational performance. While this was a counter-intuitive finding, we think that this result could be due to the potential mediating of sales-operation alignment. While we did not explicitly hypothesize this relationship, future research should consider this path.

A limitation of the current study is the use of data in which the dependent and independent variable are measured by means of the same questionnaire and the same respondent. We have good indications however, that common method variance is not a plausible alternative explanation of our findings. First, inspection of the eigen values clearly shows the presence of multiple components in the data (rather than one dominant method factor). Second, the item loadings show a clear and meaningful pattern, even for reversed items (as in the conflict scale). Third, the direct effects of organizational collaboration and conflict on performance were nonsignificant; this suggests that the findings are not the consequence of an indiscriminate common cause like common method variance.

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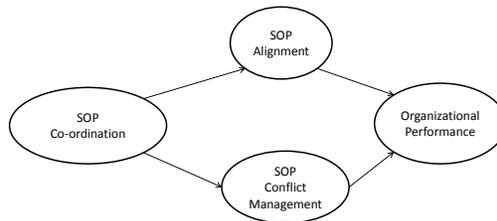**Figure 1: process model stipulating the impact of sales and operations alignment on the performance of the firm**

Table 1: Standardized parameter estimates

DV	IV	B	LO	UP	p
Conflict	Organizational collaboration	-0.448	-0.655	-0.202	< .01
Alignment	Organizational collaboration	0.504	0.261	0.69	< .01
Performance	Organizational collaboration	0.404	0.171	0.698	< .01
Performance	Conflict	0.106	-0.166	0.596	0.453
Performance	Alignment	0.894	0.601	1.354	< .01

DV = dependent variable; IV = independent variable; B = Total standardized effect; LO = lower boundary of the 95% bootstrap confidence interval; UP = upper boundary of the 95% bootstrap confidence interval