

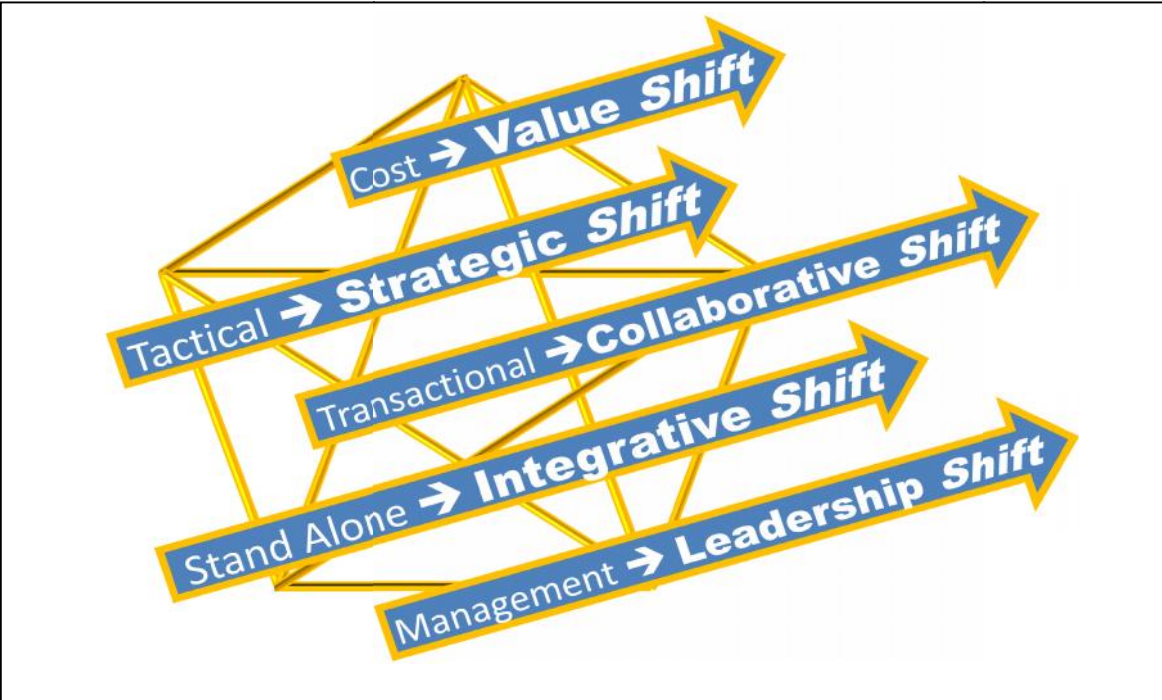
WHITE PAPER

Strategic Value Chain Leadership

The Next Generation for Supply Chain Management and the Five Shifts

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The Next Generation and the Five Shifts

Overview

Great changes are afoot in the Supply Chain Management world. As a profession, SCM emerged over twenty years ago in the 1990s when the fields of procurement and logistics integrated. Now we are on the doorstep of an even more powerful set of integrative and evolutionary shifts. We call these the “Five Shifts.” The Five Shifts are not independent, but highly inter-related and inter-connected – a network of transformative changes in thinking, processes, and skills that are destined to create a bold new future for those Supply Chain managers willing to progress to the next level.

This White Paper explores and outlines the “Five Shifts,” relates them to three stages of Supply Chain professionalism as one progresses from manager to director to executive, and then suggests some key training areas for future professional development. To assist in understanding the Five Shifts, we have used the Hays “DNA of a Supply Chain Profession” report, excerpting quotes to illustrate our points,¹ and to assist in future SCM Professional Development.

HAYS REPORT FINDINGS -- Excerpt

As supply chain and procurement professionals move up the career ladder, they will find opportunities to become a change leader within their company. Combining their business knowledge, interpersonal skills, and strategic planning abilities will truly impact overall results and their ability to move up in the organization.

As organizations increasingly recognize the strategic value of the procurement and supply chain role, leaders are being asked to add value beyond the day-to-day operations. For supply chain and procurement professionals to fulfill these expectations, they need to be able to secure buy-in from senior leadership, line managers and others. Change management becomes a core competency as employers look for leaders with a vision, who can implement and execute a plan from end-to-end that can take the organization to the next level.

From DNA of a Supply Chain/Procurement Leader

¹ Quotes in Sidebars linked to the text are taken from Hays Report, the DNA of a Supply Chain/Procurement Professional, 2015; www.Hays.ca/DNAProcurement

Why Supply Chain Management has failed to “Get a Seat at the Table”

The question of “Why has Supply Chain Management failed to be acknowledged as a bona fide profession by senior executives?” has been argued and debated for over twenty years. We have written a separate White Paper addressing the issue of Getting a Seat at the Table in detail. In a number of ways this White Paper extends both that issue and the future direction of the profession itself.

Only a very few companies have actually gained supply chain prominence,² and even fewer have graduated a supply chain executive to the Chief Executive Officer role. Why have only a limited number of companies, like Toyota, Honda, Apple, and P&G, given supply chain a position of influence in the Executive Suite? What makes the difference? After all, supply is often responsible for 50-70% of corporate expenses.

Some of the answer resides in history. In the mid 1990s, about twenty five years ago, Supply Chain Management emerged from the union of Procurement and Logistics. At the time this union was a major shift in understanding that improved both operations and efficiency. During this period, quality was also a major theme in business, which naturally became embedded in the theme of Supply Chain Management. These three themes still stand as the hallmark of SCM today. There is nothing “wrong” with SCM’s mission. And this is why there is a problem; it’s what’s “missing” that has left SCM high and dry – not embraced by the C-Suite and not poised for the future.

SCM focuses primarily on *operational efficiency* – buying good quality at a low cost and delivering it to internal customers, primarily in operations, expeditiously.

Several very prestigious universities turn out fine middle managers who understand operational (tactical) efficiency in supply chains, who then perform quite well at their tasks, often minimizing human interaction by use of the internet (transactional) to gain efficiency, performing reliably and predictably in their expected roles. The large majority of SCM professionals are trained this way and do what their education tells them. In other words SCM produces excellent *transactional tacticians* who manage cost, fulfillment, and quality quite well.

While important to the efficient management of a company, the current level of engagement is insufficient to elevate SCM professionals into executive prominence. There is much more to the creation of value, and new horizons to explore.

² Gartner’s Supply Chain Mastery award, for being in the top 25 in 5 of the last 7 years as been given only to Apple and P&G.

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The Five Shifts

A small proportion of SCM professionals have discovered some of the “missing” dimensions and *shifted their thinking, policies, and programs* dramatically from the norm of Supply Chain management. The shifts can be described in five ways:

1. Cost → Value Shift
2. Tactical → Strategic Shift
3. Transactional → Collaborative Shift
4. Management → Leadership Shift
5. Stand Alone → Integrative Shift

These five shifts should not be thought of independently, but as a highly inter-related and inter-connected network of shifts in thinking, processes, and skills that are destined to create a bold new future for those Supply Chain managers willing to progress to the next level. Each is connected to the others, producing value as each reinforces and supports the other. We will discuss each of these shifts in some detail, then outline their implications to professional development.

1. Cost → Value Shift

Cost is the Default Pattern

From its roots in Procurement, the Supply Chain Manager has been charged with cost control in the procurement process. Within the corporation, financial and operations managers have all come to rely on SCM to ensure they obtain the best price possible for goods and services received from outside sources.

Is this enough? Is cost management the best way to buy? Over a decade ago, many companies engaged in ventures to use internet auctions as the optimum method of procurement. For the most part, such transactional methods have failed to fulfill their promise.

Underneath the cost issue is really a much bigger issue – the proverbial “elephant in the room” that no one really wants to talk about: how do you really get a handle on the issue of “Value?” This becomes even more important when linked to the strategic shift from standalone companies to real creation of value by each member of a Value Chain (see **Tactical to Strategic Shift** and **Standalone to Integrated Shift.**) The reality is: when we can’t wrap our heads around *value*, everything defaults to *cost*, and when this happens, the procurement process is unwittingly diminished.³ An important aspect of this shift is breaking the commonly held perception that supply chain is strictly a “cost centre,” not a “value creator,” nor a “generator of competitive advantage,” a perception that must also shift.

From Hays Report – DNA of a Supply Chain Leader

If you turn the clock back 10 years the central tenet was “I have an internal customer, how do get you what you need?” Now we’re really driven by a deeper business need with Greater emphasis and expectations will be placed onto roles within supply chain to realize cost savings, drive value and efficiencies and realize value for money.” --Derrick Cheung VP, Strategic Sourcing & Real Estate TransLink

It has taken [me] nearly three years to be seen as wearing an executive hat contributing to the whole consumer value chain and business drivers, not as a functional optimizer of Supply Chain. You are still functionally connected but the real value in the role comes from being a transformational leader connecting the value chain of the kind of skills displayed in engineering/ finance such as advanced problem solving programs, data modeling and skills with a financial base so take the time to build both your business and your technical capability. There is no straight line track to the Supply Chain Head role. -- Greg Christopher, Senior Vice President, Supply Chain Operations Nestle Canada

³ It is for this reason we wrote the companion White Paper on *Value Maximization*, which provides more detail on some of the ideas presented in this section.

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Value is Paramount:

For those who've developed a more refined understanding of value and migrated to higher executive levels, they understand that, even in industries where the end-product is a commodity and lowest cost of production is essential, *Maximizing Value Creation* is an excellent method of reducing cost. (Value Creation is a very different breed from Value Exchange, which is highly transactional, and has been the historic centuries-old foundation of trade-based commerce relying on vendor relationships. see Figure 1)

**Strategic Leaders have a fine-tuned understanding of the
Variants & Options for Value Maximization
(excerpted from our White Paper on Value Maximization – see the *Value Stairway*)**

- **Value Creation** – the transformation, design, or integration of something from one state (i.e. raw materials) into something different (i.e. steel ingot) or putting components together in a useful manner, such as:
 - Value *Transformation* -- taking materials and changing them into something new with more value, such as a manufacturer, with the highest productivity and lowest level of non-value added
 - Value *Innovation* – creating something new or different that adds value either to the *transformation* or *integration* process or the customer's perception of value
 - Value *Integration* -- putting something together from components where the whole is greater than the sum of the parts (such as a designer or fabricator or building contractor),
 - Value *Sharing & Expanding* – enabled in Collaborative Systems which then generates *synergistic* impacts on all members of the chain,
- **Value Exchange** -- trading a product or service for money, such as a wholesaler or a simple buy of a non-strategic purchase, a “Fair Deal,” a “win-win” for both parties. (the parts are valued differently by different buyers – value differential)
 - Value *Trading* – exchange of goods or services for money or barter, based on different perceived value
 - Value *Reaping* – investors/shareholders receiving cash in return for the maximization of value creation.
 - Value *Transfer* -- moving product to a location where major additional value can be added (like an oil pipeline to a refinery)
 - Value *Extraction* – removing something of value from a larger body of material that has little value in unextracted form, such as in mining or forestry (often also involves value *transformation*)
 - Value *Division* – purchasing a company and splitting it up, selling off the assets piecemeal -- piecing out for the value of the parts (the parts are greater than the sum of the whole).

Figure 1: Examples of Options for Value Creation and Value Exchange

Value Creators see cost from a strategic perspective that both *creates value* and *generates competitive advantage* in the entire Value Chain. (see Figure 2: End to End Battle of Value Chains)

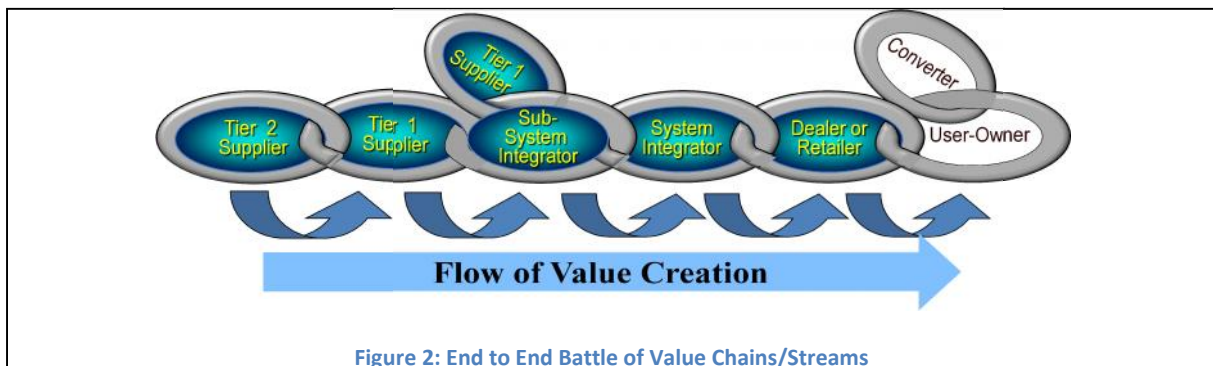


Figure 2: End to End Battle of Value Chains/Streams

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2. Tactical → Strategic Shift

Strategic Competitive Advantage

Senior executives who have graduated to the higher echelons see the game of business through both Strategic and Operational perspectives, understanding that central to success is the generation of competitive advantage -- required at every step, end to end (E2E) in the chain. (see Figure 2)

Thus they envision generating strategic advantage from the *Battle of Value Chains*. They aim at profit, but don't focus solely upon it, but rather the underpinnings of profit generation -- *Maximizing Value Created* -- from which real competitive advantage is derived and which ultimately translates into money/profit generated.

Successful leaders move Supply Chain Management from back-office functions to build strategic value that makes strong contributions to customer value, bottom-line profits, trustworthy brand reputations, prudent risk/cost avoidance, and productivity up and down the chain.

The aim of strategy is to transform vision and strategic assets into *value* that generates competitive advantage. Value is measured across a wide range, including, but not limited to better, less expensive, faster, safer, more accurate, more powerful, more productive, user friendly, etc.

In the commodity arena, such as oil, while the final product may not be highly differentiated, the value chain members can contribute important incremental value advantages at every step that leads up to the final product.

While many competitors perceive that lower costs means outsourcing to foreign low-cost

"Supply chain management is critical to securing an organization's competitive advantage in the marketplace. The strength and resilience of its supply chain network is what allows it to compete."

-- Derrick Cheung, VP, Strategic Sourcing & Real Estate, TransLink

"You need to be able to plan, organize and execute a strategy for what your team can contribute to the overall goals of the business." -- Austin Noronha, Director of Strategic Procurement, McMaster University

"We are a chain of many businesses and I can't say enough that you are not measured by what you do in one functional area. If one area fails, we all fail. If you want to be successful you need to make sure each other are accountable and that we all succeed in the end." -- Melinda Mui, VP, Supply Chain, HSSBC

Businesses are seeing SCM as a strategic business partner rather than just a transactional support role. -- Erin Geldard Chief Procurement Officer and Real Estate Cogeco

"The biggest asset is being a strategic thinker who can understand the big picture. When you make a decision it's not just for your department but for the whole company. How is what you're doing today affecting that bigger picture and what can you do to improve overall operations or results? Having that strategic approach will impact your department, career, and company in a very positive way." -- Denise Sweeney, Director of Purchasing, Hunter Amenities

"Ensure that your procurement decisions align with the business priorities, instead of being ad hoc based on in-the-moment demands. Shifting from a reactive to a proactive organization is a key contributor to adding value to an organization". -- Taras Korec, NVP of Supply Chain

"80 per cent of employers surveyed believe that it is important that their organization think more strategically about supply chain management as a profession contributing to corporate efficiencies and competitiveness Core knowledge and function-specific skills are no longer sufficient for developing leadership in SCM. Modern professionals in SCM must possess broader management skills including leadership, negotiation, stakeholder engagement, collaboration, professionalism and communication among their core competencies to ensure a successful career." -- Cheryl Paradowski, President & CEO SCMA

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countries, this perception of cost is often very deceptive. More sophisticated companies have mastered the understanding that lowest Total Cost of Ownership in the Value Chain is often derived from suppliers working interactively and collaborative to produce the highest level of Value Creation (see Figure 1). Suppliers being local is often a major advantage because they can collaborate to innovate better than those who operate at a distance, and are more likely to engage transactionally.

Strategic suppliers see their mission job very holistically, End-to-End (E2), as the Battle of Value Chains – the companies in the chain from initial supply to the End User (large customer, retailer, or consumer) that produce the very strongest value at every step of the value chain is most likely to win the competitive battle. This holistic view produces the most value, which translates into the strongest market share, the most satisfied customers, the best use of capital, and ultimately the highest profit margins. A value chain emphasis drives not just an emphasis on supply chains, but on marketing & sales impacts, innovation flows, and the rich multi-dimensional elements of value creation.

A strategic view of supply embraces not just traditional supply functions such as procurement, quality, and logistics, but also:

- how *innovation* flows through the chain to the customer,
- how *non-value-added* work is exorcised from the chain,
- what other *competitors* are doing to ensure competitiveness,
- what *emerging customer needs* will need to be fulfilled,
- how well *internal* users integrate, and
- how much *collaboration* occurs up and down the entire Value Chain.

Strategic executives *benchmark* their level of success with others both inside and outside their industry; always seeking the pro-active competitive edge. Competitive metrics guide their quest for continuous improvement.

Being in front of the big issues means more time to weigh different options, form alliances, and build better internal teamwork, gaining credibility necessary to be a strategic business partner in the C-Suite.

These preceding characteristics contribute highly to why the next stage in both professional development and the evolution of the profession itself is more aptly called “Strategic Value Chain Leadership.”

Provide solutions to meet organizational goals

The top three traits that supply chain and procurement leaders possess are being responsible, proactive, and goal oriented. Together, these traits paint a picture of accountable, forward-thinking leaders focused on achieving business objectives. These same leaders say their biggest weakness is procrastination, which reinforces the lesson that a successful procurement team needs to be proactive, not reactive.

Providing solutions to organizational goals is the second most important skill for leaders in this function, and when selling their own skills on their resume, function leaders include problem solver (89%), analytical (74%), innovative (69%) and proactive (58%). Top supply chain and procurement teams are not just meeting the needs of individual business units, but aligning procurement objectives with overall business goals - helping drive

– Source: Hays Report: DNA of Supply Chain/Procurement Leader

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3. Transactional → Collaborative Shift

Managing People Not Things

The fundamental focus of this shift is to move *away* from treating people as remote objects and replaceable parts, but instead *towards* creative innovators, teammates, alliance partners, and joint problem solvers.

In many ways, for a large number of SCM professionals, the most difficult shift is this collaborative nature of the leadership function. Many SCM professionals, having roots in the logistics or procurement side of the business, have spent their early careers in “managing things,” which is quite different from “managing people.”

It is not coincidental that many of the best Strategic Value Chain Leaders have backgrounds with experience in multiple fields, different cultures from foreign assignments, and often speak more than one language.

“I think there are two sides to procurement, which makes it an interesting function to work in. On one hand you need very strong finance and math knowledge, and at the same time your communication skills and your influencing skills need to be proficient. It requires the use of both sides of the brain.”
–Julia Formosa, P.Eng., Director, Corporate Purchasing, Parmalat Canada Inc.

“It’s very important that you can relate to people and be able to build trust with them. It’s very easy for no-one to really want procurement because you can be seen as a barrier to getting things done. If you can understand what needs to be changed from a process and policy point of view, involve people in the discussion so they can see how procurement can make life easier for them then you have really achieved something.”
–Austin Noronha, Director of Strategic Procurement, McMaster University

Progressing to a leadership role requires more than just business knowledge and technical skills. People management is ranked as the most important skill a supply chain/ procurement professional must have in the mid-level of their career. They are required to build and maintain relationships with a variety of stakeholders including team members, vendors, peers and senior leaders. Communication skills top the list of hiring requirements as those in the function must listen as well as communicate their solutions. Managing people and relationships, both internally and externally, is crucial. This skill set contributes to problem resolution, which is the core task for supply chain and procurement. Finding a solution that fits the situation, budget, and organizational requirements is a daily balancing act.

– Source: Hay Report, DNA of the Supply Chain/Procurement Leader.

Collaborative Value Creation

The creation of value (or more accurately: *co-creation*), both inside the company and externally at the interface between customers and suppliers is impossible to achieve in *adversarial* relationships, extremely difficult in *transactional* relationships, and highly facilitated in *collaborative* relationships marked by high trust, and seeing strategic suppliers as “business partners,” not “vendors.” (see Figure 3). As value creation is normally done in teams, the process is highly interactive, and cross-functional, thus high degrees of trust are required, which facilitates collaborative innovation, value sharing, and ultimately value expansion.

The fundamentals of the role are about collaboration, so your ability to empathize needs to be extraordinary. Not just talking to other professionals in the business about supply chain but understanding processes from their point of view is essential so you know what they are really saying. Being able to read people and understanding the psychology of change leadership is also a vital skill combined with creativity and an abundance of common sense.– Dipesh Pattni, Director of Procurement, Niagara Parks Commission

“We look for the right attitude, thinking outside the box... to be more innovative. How can we work with less? How can we work smarter? We need people with those kind of eyes and that kind of thinking.”– Melinda Mui, VP, Supply Chain, HSSBC

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Collaborative Negotiations

In *transactional* procurement, the negotiations process can become very testy, often distrustful, and contract management may be filled with legalistic protections which do not further interests of either party (see Figure 3).

In *collaborative* negotiations the parties spend time aligning their needs and requirements, building cross-functional teams and inter-company alliances, define value parameters and value propositions clearly, create trusting relationships based on fairness and ethics, and often share risks and rewards. This cannot be accomplished in either a *transactional* or *adversarial* environment.

Team and Alliance Leadership

By their nature, internal cross functional teams and external inter-organizational alliances must be collaborative in order to produce results. The new era Value Chain Leader must have a deep understanding the key factors of success in high performance teams and alliances. Among the most important facets of team and alliance leadership are:

- *Communications -- Speaking, Listening, Questioning*
- *Human Behavior & Culture's Impact on Results*
- *Building Trust & Leading High Performance Teams*
- *Cross-Functional Teams & Cross-Boundary Alliances*
- *Creative Inquiry & Joint Problem Solving/Innovation*
- *Value Maximization & Lean Value Chains*
- *Complex Project Leadership & New Initiatives*
- *Collaborative Negotiations (Beyond Win-Win)*

The Road to the C-Suite

As the Hays Report astutely observed: “an increasingly important part of the function at all levels is establishing relationships with C-Suite and senior executives.....through earning trust from not only your team but the leadership of the organizationNearly one third of supply chain and procurement leaders today found the most difficult level to be promoted was at the senior manager to director level. Advancing in a relatively young functional area such as procurement and supply chain requires

Comparing Collaborative versus Adversarial Treatment of U.S. Suppliers

“The Big Three [U.S. automakers] set annual cost-reduction targets [for the parts they purchase]. To realize those targets, they’ll do anything. [They’ve unleashed] a reign of terror, and it gets worse every year. You can’t trust anyone [in those companies].” —*Director, interior systems supplier to Ford, GM, and Chrysler, October 1999*

“Honda is a demanding customer, but it is loyal to us. [American] automakers have us work on drawings, ask other suppliers to bid on them, and give the job to the lowest bidder. Honda never does that.” —*CEO, industrial fasteners supplier to Ford, GM, Chrysler, and Honda, April 2002*

“In my opinion, [Ford] seems to send its people to ‘hate school’ so that they learn how to hate suppliers. The company is extremely confrontational. After dealing with Ford, I decided not to buy its cars.” —*Senior executive, supplier to Ford, October 2002*

“Toyota helped us dramatically improve our production system. We started by making one component, and as we improved, [Toyota] rewarded us with orders for more components. Toyota is our best customer.” —*Senior executive, supplier to Ford, GM, Chrysler, and Toyota, July 2001*

Bottom Line: In the 5 year period from 2004 to 2008 the Detroit Big Three collectively lost \$100 billion, while Honda and Toyota were enormously profitable and grew in market share. Why? One reason was that innovation flowed into the Japanese manufacturers from their American suppliers, while they withheld it from the Big Three.

Figure 3: Comparing Collaborative & Adversarial Relations

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individuals to be proactivethrough building relationships....earning a stronger profile with senior leaders, which will help in moving up the corporate ladder.”

Managing Complexity

Value Chains are, by their very nature, highly complex organizational systems; new initiatives within them are likewise complex with many inter-connections and inter-faces. These breakdown under stress and are best managed by collaborative relationship.

Collaboration is Profitable

The best companies understand that collaboration has massive benefits, particularly to those suppliers in the Value Chain that are strategic (mission centric) and important (mission critical). Additionally, collaboration has proven the very best way to manage complexity, speed, and systems integration. Target costing also requires multiple suppliers contributing ideas to attain continuous cost reductions.

Strategic suppliers are seen as “business partners,” who have unique skills and competencies that are essential to the creation of the whole product. Partners are considered essential members of the “team” or “alliance.”

Collaboration and trust facilitates joint problem solving, understanding Total Cost of Ownership, achieving mutual Target Costing objectives, and removal of Non-Value Added work that occurs between companies. The Hays Report cited: “Problem resolution and finding organizational solutions make up two of the top three traits required for success at management and senior management level roles. The ability to find solutions that fit specific situations, budgets, and complicated factors such as scalability, changing timeframes, or different regional needs is crucial.”

Making the shift from transactional interaction to collaborative relationships is fundamental to the evolution from being a manager to becoming a leader. While some leaders choose an authoritarian style, and others are more direction/mission oriented, the master of the collaborative relationships always has the full range of styles and methods to fall back upon as circumstances dictate.

“[Collaboration] is critical. In a business the size of Nestle having a relationships with supply chain heads and other functional heads across so many countries enables the global flow of goods, and also the sharing of best practices and successes to learn from. It’s also important externally that we are adding value to the communities in which we operate. Networking or collaborating with peer companies, suppliers and customer is crucial if we truly believe in a consumer driven value chain. Gone are the days when you can do it alone without partners. Therefore talking to like type and non-like type businesses - even competitors - is increasingly important.” -- Greg Christopher , Senior Vice President, Supply Chain Operations Nestle Canada

“It’s all about people; the ability to build relationships. You can teach the technical side of procurement to anyone, but you need to have strong interpersonal skills and the ability to build intentional relationships with partners.” --Michelle Palmer-Novakovic, Director of Supply Services, City of Kitchener

“This whole function is about talking to people, building relationships, finding solutions. If you can’t communicate across a range of levels and roles, from colleagues and supervisors to suppliers and vendors, then you will never reach top roles. In my job it’s sometimes difficult to make time but you have to nurture relationships.... to gain a better understanding of everybody’s needs which enables you to make a more strategic decision. I also think that being ethical and transparent is crucial.” -- Monica Mendoza Director, Procurement Ubisoft

“The number one -- the biggest concern for me when I’m hiring and your biggest asset in the job -- is learning to manage people. Focus on earning respect. You can have authority as a manager but if you earn respect -- which starts with respecting others and communicating effectively -- then people will choose to follow you.” --Glenn Welsh, VP Operations Western Region -- Canada & USA, Metro Logistics Supply Chain Group

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4. Management → Leadership Shift

The difference between “management” and “leadership” is not subtle, but it seldom is addressed succinctly enough, even by business schools. Thus it’s unclear to managers moving up the career ladder and the strategic evolutionary ladder.⁴

- *Management* is focused on day-to-day tactical efficiency. It is driven by core *processes* to which best practices are attached. It is an essential and critical function in any business. By its nature, systems are standardized, and changes are generally incremental. Because of the inter-connected nature of different business functions (operations, design, supply, marketing, etc.), large scale change is seldom made – small adjustments enable the entire system to readjust without cataclysm.
- *Leadership*, on the other hand, is focused on long-term, strategic impact. It is driven by a series of key *principles* that require deep levels of sound judgment, coordination of effort, integration of ideals and innovations, alignment of vision and values, trusting relationships, and superb communication skills, among many other qualities. Launching any new initiative, project, or changing strategic direction is primarily a leadership, not management, function. This is especially important when *extending the Value Chain impact End-to-End (E2E)* with the aim to attain substantial competitive advantage when measured against other rivals (the “Battle of Value Chains”), where each member of Value Chain is expected to be better than their competitors by a measureable margin -- *Maximizing Value Supremacy*.

“I think the biggest challenge is always around change management. Whether you’re transforming a business or just trying to get a team to perform at a different level, it takes not only vision but the ability to motivate and inspire people, and a strategic planning skill set to set out the objectives and actions for success.”

--Peter Conrod, Global Head of Procurement, Royal Bank of Canada

“In the last decade the supply chain function has moved from supporting the business to driving the business. In general, complacency within an existing culture is an impediment to continuous improvement. As an organization, to remain competitive and, in particular, for the supply chain team to be effective, it needs to pursue better ways to do business, whether that is partnering with suppliers, looking to industry leading practices, investing within to develop capabilities or collaborating with internal customers on joint initiatives. Change management is critical. Changing behaviours is not always easy – various stakeholders need to be aligned and supported, from your own team to internal customers and supplier partners. It is vital to get an understanding of how each organization works, what each one accepts, how they measure success. Change management is really a combination of all the skills listed above – technical understanding, relationship management and business acumen. -- Derrick Cheung VP, Strategic Sourcing & Real Estate TransLink

Both great *leadership* and great *management* are required to operate a great business or successfully create the trio of: Great Value, Cost Reduction, and Competitive Advantage in Value Chains.

⁴ Author’s Note: Many of the Supply Chain Professionals quoted in this section use the term “Change Management.” While this term is commonly expressed to refer to large scale improvement programs, we believe the term is ill-advised for these reasons: *First*, having asked thousands of attendees in our workshops about the word “change,” the large majority in Canada and the U.S. state that “change” connotes both good and bad change, and, for the most part their experience with change has been negative. *Second*, it should be evident as we make the distinction between “management” and “leadership” that organizational transformation is primarily a *leadership* function. For this reason, we choose terms such as “leadership,” “championing,” “innovation,” “improvement,” “realignment,” value creation,” “generating competitive advantage,” and “organizational transformation.”

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For many SCM professionals, the leadership shift is particularly difficult, especially if they have not made the shifts from *cost to value*, from *transaction to collaboration*, and from *tactics to strategy* – these are underpinnings of the new leader that can create a bold new future for their company and its Value Chain.

Leadership Aims at Dramatic Improvement

Strategic Value Chain Leaders install new systems to Maximize Value Creation while building long-term supply relationships to ensure capital investment in people, plant, and technologies, building the most durable, flexible, and powerful value chains. They ensure that trusting relationships enable adaptability, innovation, problem solving, integration, and collaboration at all stages of value creation, stimulating value expansion and multiplication to all stakeholders, including customers, employees, suppliers and shareholders. They are constantly benchmarking and communicating progress to sustain their edge.

Proactive Engagement

Leaders are always thinking of the future: the next state, the next generation, the next innovation, how to avoid a breakdown, the next new denouement of value in the eyes of the customer, the best way to motivate people, the adaptation of an idea from another industry, and the best way to encourage people to improve continuously.

Aligning Vision & Value

Ensuring all members, internally and externally, understand the direction and value to be created, that people are trained to produce at the highest levels, and the measures and rewards of each organization are aligned to the vision and value to be created by the value chain.

Creating Trust & Building Teamwork/Alliances

The *culture* of the Value Chain is vital to be sure all members are tuned into the collaboration, trust-building, sharing of ideas, and working together as Business/Alliance Partners to generate mutual competitive advantage. This also applies to cross-boundary integration, removal of barriers, working with constraints, and ensuring actions that benefit the whole, not just one member.

Leading Organizational Transformation

(See Author’s Footnote on prior page) As the SCM professional progresses in their career, they traditionally move from *Manager* to *Director* to *Vice President (Executive)*. This progression carries the responsibility of being able to raise significantly the company’s level of operational performance (revenue and profit) and strategic performance (competitive advantage). To accomplish this, the organization’s mind-sets, performance processes, language, skill sets, rewards systems, and measures of success must simultaneously shift – it is a cultural shift – changing the organization’s “operating system.” At this level, the Strategic Value Chain Leader is assured a “seat at the table” in the C-Suite.

Six Steps to Transformation

- Step 1: Compelling Rationale
- Step 2: Build a United Leadership Team
- Step 3: Design a Clear Vision, Value & Strategic Pathway
- Step 4: Create Repeatable Rapid Results
- Step 5: Reduce Risk & Resistance to Change
- Step 6: ReAlign Organization to New Standard

When properly engaged, these preceding four shifts set the stage for a dramatic, even revolutionary shift in the structure of business and commerce – value networks that delivery value rapidly and efficiency, morphing and transforming to adapt agilely to changing conditions, technologies, and customer needs.

Strategic Value Chain Leadership

5. Stand Alone → Integrative Shift

Historically, companies have stood alone and independent, managing their external relationships somewhat *transactionally* in an attempt to control their destinies. This works well until a competitor comes along that understands the strategic “Battle of Value Chains,” just as the auto industry experienced when the Japanese went head to head with Detroit’s Big Three. (see Figure 3)

Because *collaboration* is the unquestionably the best method to address complexity, speed, value creation, and unobstructed value flow through the

chain, as Value Chains become more collaboratively interconnected, linked together tightly with multi-partner strategic alliances, the supply and customer relationships are becoming more integrated, operating more like a *stream or a network than a chain*. (see Figure 4)

The beginnings of this shift will occur as two professions –

Supply Chain and Strategic Alliances – evolve and mature to embrace the idea the end-to-end (E2E) competitive advantages and implement them more effectively. It requires a mastery of the prior four shifts, plus capabilities to integrate effectively across corporate boundaries. The first to master this shift in their industry segments will reap large rewards, just as the Japanese auto manufacturers did in the North American market.

Initiating this last of the five shifts – from Stand Alone → Integrated is perhaps the most difficult, but the most rewarding of all. It first requires better *internal* integration – better teamwork, cross-functional alignment, better communication, better trust, better understanding of value creation, and deeper understanding of competitive advantage at all levels. Mastery of the prior four shifts sets the stage for how this last shift will be triggered.

“As the supply chain/procurement profession continues to evolve, leaders are being asked to step into the role of strategic partner. This requires moving beyond influencing the company from within their department, to implementing organizational change at an executive level, drawing on their project execution and business alignment experience. Strategic planning is rated as the most important skill a supply chain and procurement leader must have. As the business world becomes increasingly competitive and complex, supply chain and procurement professionals are the best positioned and prepared to lead their company into the future with better policies, processes and practices.”
– From the Hays Report:

From Value Chains to Value Networks

TIGHT LINKAGES & ALIGNMENTS

- Strategic Alliances & Teamwork
- Joint Controls & Feedback Loops
- Competitive Benchmarking
- Collaborative Innovation
- Trusting Relationships
- Systems Integration
- Common Governance
- Best Practice Sharing
- Common Standards
- Rapid Value Flow

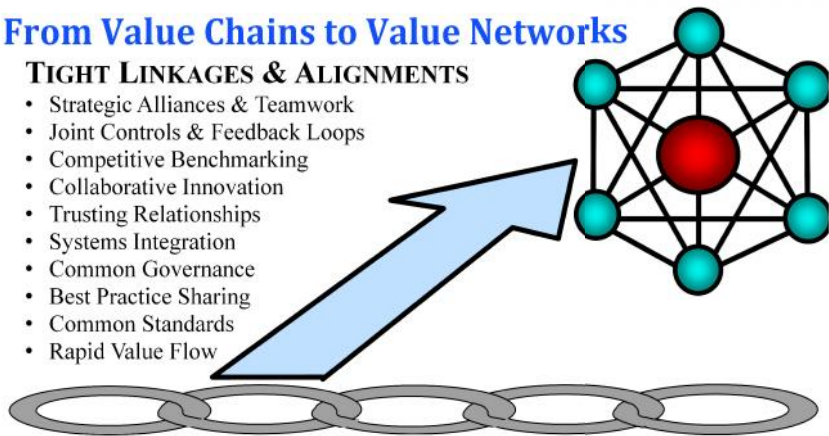


Figure 4: From Value Chains to Interconnected Networks

“As an organization, to remain competitive and, in particular, for the supply chain team to be effective, it needs to pursue better ways to do business, whether that is partnering with suppliers, looking to industry leading practices, investing within to develop capabilities or collaborating with internal customers on joint initiatives. ... Supply chain management is critical to securing an organization’s competitive advantage in the marketplace. The strength and resilience of its supply chain network is what allows it to compete. There is inherent value a supply chain team brings by being able to integrate across the value chain – internal customers, suppliers, support functions, service providers and customers to bring together different perspectives.” -- Derrick Cheung VP, Strategic Sourcing & Real Estate TransLink

The Next Generation and the Five Shifts

External integration – gaining alignment across an entire value chain – usually requires one player to assume the role of systems integrator. This is often a large player with the power to cause the contributing members of the chain to get into alignment and assume best practices in the creation of value and the elimination of non-value added work. Sometimes a new competitor comes into the picture with a new business model, as many of the ebusinesses demonstrate today.

Organizational Design Issues

Attaining the full-scale value chain integration is not out of the realm of possibility; it has been achieved in the auto industry by some companies. It cannot be achieved transactionally, as Boeing's difficulties with the introduction of the *Dreamliner* proved. However, for any company with a visionary leader that aspires to shift the rules of the game for their industry segment, there are numerous examples of successful formation of integrated creation and delivery of value. Many of these exist in Alberta today, including successful examples of lean supply chains, value streaming, and collaborative construction projects. The Strategic Alliance profession abounds with examples and best practices.

What is yet to be determined is who will have *the courage, vision, and commitment* to put such strategies in place.

"By its very nature procurement is involved in the whole business so it's crucial that you can find out who all the stakeholders are across the organization to make inroads with them. When I first joined the University I made it my business to go and meet and listen to teams across the organization because if I didn't understand them and their functions then I couldn't find solutions that worked for them. -- Austin Noronha, Director of Strategic Procurement, McMaster University

"It is critical to have broad business knowledge so you fully understand how our profession impacts the organization. Know what drives each business function, then take any opportunity to learn from these branches of the business. They are your clients and to succeed in supply chain you need to understand what is important to them, and how you can really make a difference in their work. With that depth of understanding you can deliver and exceed their expectations." Carlos Gonzalez, Head of Corporate Procurement, West Fraser Mills Ltd

"People problems, organizational design, servicing customer – processes that are broken - that's what I really focus on. " --Taras Korec, National Vice President of Supply Chain, Parmalat Canada Inc.

"The impact of procurement has a cascading effect on other areas of the business. There are numerous interdependencies If you don't understand how these functions interact at every level you could end up making a deal that is not helpful to the business or worse, put the business in a liability and risk situation." -- Justin Petkau Director, Procurement and Supply Chain Management, Midstream Division Tervita Corporation

FROM HAYS REPORT – DNA of a Supply Chain/Procurement Leader

More than any other function, supply chain and procurement [should be] integrated throughout every aspect and level of a company. From working with external suppliers and vendors, to internal clients in finance, production, IT and executive roles, supply chain and procurement leaders must have a breadth and depth of business acumen that crosses silos and breaks down barriers.

The profession is taking on an increasingly strategic role....Supply chain and procurement leaders say relationship management skills are crucial, with communication, stakeholder relations, and problem resolution making up the central tenets of the function. As the profession becomes increasingly strategic instead of transactional, career progression requires proven change management abilities, influential leadership, and being seen as a strategic partner.

Strategic Value Chain Leadership

Summary

The Supply Chain Management profession is poised for a major shift in thinking and performance.

Seizing the moment is a matter of leadership.

Visionary leaders will take advantage of the ideas put forth herein and move the profession to a higher level.

With the Oil & Gas industry in crisis at this moment, others will say this is not the time -- the profession needs to focus on survival.

The times of greatest evolutionary change in the last 250 years came when either a critical mass of new thinking coalesced that produced revolutions in science and social systems, or when a war forced new technologies and organizational systems to be enacted to overcome the enemy.

We urge leaders to seize the moment, use the crisis to shift the rules of the game, and set a bold new future in motion.