



Supply Chain Leadership in **Tough** Times

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What do Gandhi, Winston Churchill, FDR, Deng Xiao Ping, Bismarck, and Abraham Lincoln have in common? Despite the differences in times, places and circumstances, each of these took a large and divided group of people staring despondently into an abyss and — with gritty determination, inspiration and pragmatism — steered them to relative safety and prosperity. These were true leaders for tough times.

No doubt, we are in tough times now, and tough times call for a different style of leadership. Why? To quote one of our dear departed teachers, Capt. Rewari, our navigation instructor in our Merchant Navy Officer's course: "When the sea is calm and you

are in vast open ocean with little traffic even your girl friend and my wife (both untrained navigators) can navigate a super tanker with very little training. But I am preparing you for the times where your skills will be truly tested, such as the treacherously narrow waters of straits in a tropical squall with shipping density of nearly 100 ships per square mile, and perhaps pirates chasing you."

To find the way forward, we have to first briefly examine the dilemma currently faced by businesses — large and small. On one hand, in the absence of credit, all but most essential demand is drying up. On the other, customers are becoming even more demanding. While margins are slipping, economies of scale and scope are eroding, surplus of production and inventory capacity is growing, and the workforce is insecure and resigned.

First, let us look at key ways in which supply chains are 'mutating' in the current economic climate:



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Stifled monetary flows: out of the three flows that constitute supply chains, perhaps the monetary flow is most vital. Current estimates of global trade finance shortfall by WTO range between US\$100bn and \$300bn. As the liquidity crisis bites, international trade grinds to a halt. Cargo piles up at unlikely locations, shipping services are severely disrupted and all finely tuned supply chain planning and scheduling is out of the window. While the current legal mess will take many years to sift through, we suspect this will leave a permanent mark on global supply chains. Akin to permanently constricted blood vessels from a high cholesterol diet — this will expose future global supply chains to frequent threats of systemic seizure, lowering the velocity of trade, and perhaps increasing the transactional burden.

Continual price discovery: what is the price of shipping a container from China to the US today? How about \$100 + CAF/BAF! How much will it be tomorrow? Who knows! Prices for most traded goods are at their most volatile in living memory. In fact, with overcapacity in global production capabilities in most industries, inventories piling up, and varying propensity to price at marginal cost, it is no longer easy to ascertain what is a 'good' price to pay, even for a short-term contract. We believe this on-going price discovery will accentuate as the global economic crisis plays out. A stable price regime will only emerge on the other side of the crisis and in the meantime procurement directors, purchasing managers and buying offices face a thankless task akin to picking a number out of a hat and praying that their organisations will make money at that purchase price.

Potential market failures: why did Circuit City have to file for bankruptcy a few months ago? Market failure is the condition where despite sufficient demand and supply, the market does not clear at any price because of many reasons including disparate expectations on both sides and political meddling. Add to this the instances where supply chain 'partners' are reluctant to trade with each other due to doubts about each others' solvency (suspected prime reason in Circuit City's case). Implications for the supply chain managers are many fold. Multi-sourcing will stand the single vendor strategies of the past two decades on their heads; supply chain risk management takes a completely new dimension, and business strategy starts dictating horizontal and vertical integration at the same time — both difficult to execute in times of credit crunch.

Just-in-Case supply chains: the past three decades have seen a continuous march towards Just-in-Time (JIT). Even in countries where conditions were widely different from Japan, experts — academics, consultants and headquarters — admonished managers to shun Just-in-Case (JIC) and move towards JIT. Looks like the time has come for JIC to take its revenge. Why? With growing uncertainty about your suppliers, your bankers, your shippers, your logistics service providers, and countless others cogs in the supply mechanism that makes it possible for materials to arrive at your door in a pre-coordinated manner, you would want to keep buffer for any of them defaulting on their promise at any time. Does that mean all supply chain planning, scheduling and co-ordination is going to be worthless going forward. No, but it will become a lot more complex.

While the above looks very doom and gloom, it is really not any more different than the navigational equivalent of maneuvering a laden super tanker through Malacca Strait. Human ingenuity, tenacity and will have always triumphed over the most insurmountable barriers. This brings us to our key question — what is the way forward?

We believe that the two things that mark the way out of the dilemma faced by corporations today are leadership and supply chains. Why? Even in the best of times, leadership is seen as a key differentiating factor among top performing corporations and their less effective peers. All research (e.g. Sobel, Collins etc.) points out that in tough times the need for good leadership becomes the main, if not the only, differentiating factor.

Supply chains, on the other hand, have a different role to play. For the first time in human history end-to-end supply chain management has become a possibility. But the supply chains of the future will be very different to the static, uni-dimensional supply chains of the past. Corporations looking for a way out of the difficulties created by the economic crisis would do well to focus on their supply chain leadership capabilities. With this in mind, we believe the following key attributes will separate the true supply chain leaders from the pretenders.

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1. Hard hitting communication: not surprisingly, on top of our list is an ability to concisely sum up the situation, formulate a plan and articulate it credibly. Flowery language, hedging the bets and muddled thinking have no room in this situation. Supply chain leaders who cannot sum up the situation concisely to their executive peers and boards, or who cannot articulate a credible plan concisely, will eventually be responsible for downfall of their entire corporation.

2. Disciplined execution: research by Sobel (Sobel, Robert (1972). *The Age of Giant Corporations: A Microeconomic History of American Business, 1914–1970*) revealed that only the companies who ran the tightest ships (e.g. General Motors under Sloan) came out on the other side of the depression in a better condition that they entered it. This is no surprise. Tough talk is nothing if it is not followed up with determined action. As the inevitable roadblocks emerge on the planned journey towards goals, effective supply chain leaders have to use every persuasive technique in the book to get through the roadblocks.

3. Thriving on chaos: as the credit crunch hits, market structures are stressed, and prices become woolly, an ability to understand, live with, and thrive on chaos will become paramount. What does this ability to thrive in chaos mean? It entails the ability to keep one's head despite unexpected disruptions to keep the organisation moving towards the worthy, credible short-term and long-term goals — despite small and big 'shocks'. Whether it is a single customer delivery, or manufacturing footprint rationalisation, or reconfiguration of supply arrangement to suit a new market reality — it is important not to lose sight of worthy supply chain goals in face of the chaos.

4. Strategic mindset: facing chaos on a daily basis shortens people's attention span to an extent where they lose an ability to formulate a strategic intent and go after it. We believe that this ability distinguishes the true leaders from everybody else who faces chaos in the same environment. How do we define a strategic mindset? An ability to simultaneously see what is, and, what could be; an ability to simultaneously see several viewpoints and decide how they can all be right and which one to use for the goal; an ability to simultaneously see and understand the situation from various levels of granularity. While this can be taught in the business schools, we believe the best practitioners in the art of strategic mindset are self-educated.

5. Tenacity and resourcefulness: tenacity can best be explained by paraphrasing Churchill "Never give in, never give in, never, never, never, never — in nothing, great or small, large or petty — never give in except to convictions of honour and good sense."

The economists truly believe that resources are limited, but true leaders find ways to garner resources magically out of thin air when none appear to be at hand. They can then fully use their powers, persuasion, and all other means at their disposal to 'release' resources and energy towards goals. This ability to prospect for diamonds during a mudslide is perhaps the biggest distinguishing factor of leaders.



Two important questions are still outstanding. The first of these is why technical supply chain skills have not figured so far in the discussion. We believe by now they are a ticket to entry and not as important as the attributes listed above. In addition, their usefulness will erode as new techniques will need to be developed from scratch and they can be brought in on demand.

Second, are such supply chain leaders born or trained? In other words can you take a mediocre performer in your organisation and by spending money on training convert him into a true supply chain leader for the tough times. We believe the answer is no. How about someone with leadership potential? Probably — but there your guess is as good as ours.

What is the key takeaway from all of the above? It is that there is still a small window of opportunity to correct hiring mistakes of the boom time. If you have promoted or recruited personnel in supply chain leadership roles who would not be entirely appropriate for the tough times, make a quick decision on retain or retrain. And do not use an outdated model of supply chain leadership to make those decisions. The road map has changed — the attributes that were important in the boom time are not as critical anymore. The new ones above are far more critical now and owning them could well be key to the survival of your organisation in a few years time. 