

**gSupply 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 in the face of an abyss and - with gritty determination, inspiration and pragmatism - steered them to relative safety and prosperity. These were the true leaders for the tough times.

No doubt, these are tough times. Reactions are quite predictable. Economists are debating whether this is technically a recession or a depression. Politicians are debating which groups of people deserve their largest largesse. Populations are moving from denial towards anger. Meanwhile Business People are wondering who will survive and how. In this article, rather than focus too much on technical definition of the economic situation, or on public psychology, or on politics of the band-aid handouts, we will focus on way out of business peoples' dilemma. In doing so, we will try to look well beyond the simplistic two-by-two matrices and banal three-arrow-diagrams traditionally used by management consultants everywhere.

Tough times call for different style of leadership. Why? - We will quote one of our dear departed teachers to illustrate the point. Capt. Rewari, our navigation instructor in Merchant Navy Officer's course used to remind us before every training session "when the sea is calm and 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 – e.g. in treacherously narrow waters of Malacca 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. Suddenly, even the well heeled are warily watching their dollars (and Yen, Yuan, Euros, Pounds and Rupees) lest they get caught without liquidity. But they are in minority. The majority is already facing a liquidity crunch – as debts are called in, expenses, overtimes and allowances are cancelled, and in some cases, jobs are lost. On the other hand customers are becoming even more demanding. While the margins are slipping, economies of scale and scope are eroding, surplus of production and inventory capacities is growing and the work-force is insecure and resigned. And this is only the first wave of the financial tsunami. Some analysts expect the second wave to be a lot more destructive.

So what has Supply Chain Management got to do with all this? We will come to that in a minute when we examine what we believe is the way out of the current dilemma. But first let us see how Supply Chains are 'mutating' as a result of the current economic climate. While a detailed examination of this topic is deferred to our article in the next issue of this magazine – we outline 4 prime DNA mutations in the Global Supply Chains that can likely result from the GFC (Global Financial Crisis):

1. **Stifled Monetary Flows**: Out of the three flows that constitute the Supply Chains, perhaps the monetary flow is the most vital. The adage goes money is the life blood of commerce. As the liquidity crisis bites, banks stop honouring each others' Letters of Credits, the international trade grinds to a halt. Cargo stock piles 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 the Global Supply Chains. Akin to permanently constricted blood vessels from a high cholesterol diet – this will expose the future Global Supply Chains to frequent threats of systemic seizure, lowering the velocity of trade and perhaps increasing the transactional burden. We will discuss the full implications of this in the detailed article.
2. **Continual Price Discovery**: Prices are starting to creep down again after the boom. In fact, with overcapacity in global production capabilities in most industries, inventories piling up, and varying propensity to price at marginal costs it is no longer easy to ascertain what is a 'good' price to pay - even for a short term contract, let alone for longer term contracts. We believe this on-going price discovery will accentuate as the GFC turns into a GEC (global economic crisis) and plays out over course of time. A stable price regime will only emerge on the other side of the crisis, perhaps after significant time has elapsed. While some consumers (such as those in Brazil, Argentina, Mexico, Indonesia) are used to gyrating prices, most other consumers will take time to adjust their consumption behaviour. Meanwhile, procurement directors, purchasing managers and buying offices face a thankless task akin to picking a number out of a hat and praying that their organizations will make money at that purchase price. We will discuss the full implications of the price discovery dilemma facing supply chain practitioners in the detailed article.
3. **Potential Market Failures**: This 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 side, and, political meddling. It is estimated that one of the key reasons for food shortages during the great depression was market failures rather than drought or lack of growing capacity. Add to this the instances where supply chain 'partners' are reluctant to trade with each other due to doubts about each others' solvency (a recent case that comes to mind in this regard is the US retailer chain Circuit City which recently filed for bankruptcy due to this reason). Implications for the supply chain managers are many fold. Multi-sourcing will stand the single vendor strategies of last two decades on their heads. Supply Chain Risk Management takes a completely new dimension. Business strategy starts dictating horizontal and vertical integration at the same time – both difficult to execute in the times of a credit crunch. We will explore these impacts in a more detailed article.
4. **Just-in-case Supply Chains**: Last three decades were 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. So does that mean all supply chain planning, scheduling and co-ordination is going to be worthless going forward. No, it is just going to become a lot more complex. Complexity that will be far beyond the capacity of any of the current supply chain planning software or tools to resolve. Human dimension is once again going to become paramount, but this time in adjunct to the best supply chain planning tools.

While the above looks like a veritable sketch of a doom and gloom scenario, it is really not any more different than navigational equivalent of maneuvering a laden super tanker through Malacca Strait when compared to the conditions we enjoyed over the last decade or so.

Human ingenuity, will and tenacity have always triumphed over the most insurmountable barriers. In comparison with some of the more extrinsic shocks such as tsunamis or droughts, the current situation is rather more tame and ‘self-created’. This brings us to the 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; hence the title of this article. Why so? Even in best of the 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 paramount, 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 over the last 20-30 years. The rules of competition have changed for ever after that. We no longer hunt alone. Only those who learn to organize themselves in symbiotic co-opetitive relations with others will compete effectively in future. However, Supply Chains of future will be very different that the static, uni-dimensional supply chains of the past. Corporations looking for a way out of the dilemma would do well to focus on their Supply Chain Leadership capabilities.

Otto von Bismarck said ‘A really great man is known by three signs... generosity in the design, humanity in the execution, moderation in success.’ So, what are some of the key attributes of Supply Chain Leadership for tough times? We believe following 5 key attributes will separate the true supply chain leaders from the pretenders.

1. **Hard Hitting Communication**: Not surprisingly, on top of our list was an ability to concisely sum up the situation, formulate a plan and articulate it credibly. Whether it is ‘I have a dream’ speech of Martin Luther King, or the legendary wartime speeches of Sir Winston Churchill, tough times call for leaders who do not shy away from tough talk. Flowery, waffley language, hedging the bets and muddled thinking has 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 much 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 the goals, effective supply chain leaders have to use every persuasive technique in the book to get through the roadblocks. Setting up a well oiled supply chain planning and control mechanism (a 21<sup>st</sup> century equivalent of the famous structure General Motors set up during the great depression) would go a long way towards providing an ability to run a tight ship through the storm. A background in having personally faced serious adversity and triumphed it in past would have provided the leader with a crucible to fashion the character necessary for disciplined execution.
  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. Given the probability that every body from America to Zimbabwe might end up in the same basket in the current political climate, an experience of successfully leading in basket cases of a few decades ago such as Argentina, Brazil, China, India, Russia etc is probably much more valuable now that the experience in straight forward predictable business environments of the western world. What does this ability to thrive on Chaos mean? It entails ability to keep ones head despite unexpected disruptions. To keep the organization 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 rationalization, 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 as them. While it will be impossible to persuade a Laxmi Mittal, a Li ka Shing, a Carlos Slim to take a role in supply chain leadership in your company, numerous budding aspirants will gladly be available. 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 level of granularity – right from a helicopter view to a dungeon view. 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 honor and good sense.”

On the other hand resourcefulness is a trait developed by experience. The economists truly believe that resources are limited. (Perhaps that is why few economists ever become successful leaders.) True leaders find ways to garner resources magically out of thin air when none appear to be at hand. And they fully use their powers, persuasion, and all other means at their disposal to ‘release’ resources and energy towards the goals. This ability to prospect for diamonds during a mudslide is perhaps the biggest distinguishing factor of leaders.

In an academic study of the attributes and their causal relationship with supply chain success, each of above five attributes described above will probably fill a book and still be inconclusive. Fortunately, this article is aimed at practical business leaders concerned with results rather than bullet-proof theses.

Two important questions, though, are still outstanding. Firstly why technical supply chain skills did not figure in this discussion? We believe by now they are a ticket to entry, are not as important as the attributes listed above, their usefulness will erode as new techniques will need to be developed from scratch and they can be brought in on demand.

Secondly, are such supply chain leaders born or trained? In other words can you take a mediocre performer in your organization 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. Another quote from Malcolm Stevenson Forbes would perhaps summarise aptly - ‘Ability will never catch up with the demand for it.’