SCGuideStar™

A Special Report by the SCGuideStar team for SCOPE 2016 Participants

Thought Leaders:
Pat McLagan
Roddy Martin

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SPECIAL REPORT

Supply Chain Transformation

The Results of a special SCGuideStar™ Diagnostic Survey

Supply chains across industries face dramatic changes as they shift from a business operating model based on inside-out and "push" supply chains to an outside-in model that is end-to-end and market-driven. Success in making this shift requires attention to leadership and organization changes as well as continual evolution and change in the supply chain itself.

With this big picture of supply chain transformation as a backdrop, 85 participants in the SCOPE Spring 2016 Conference responded to 5 questionnaire items drawn from a comprehensive SCGuideStar™ diagnostic instrument[1] focused on leadership and transformation in the supply chain. The responses were then the focus of a SCOPE session presented by ***Roddy Martin***: Independent Supply Chain Thought Leader, formerly AMR, Gartner, Accenture and currently working with Zinata in the Life Sciences Industry; ***Pat McLagan***, leadership and transformation expert; ***Don Wirth***, formerly head of Global Supply Chain, DuPont.

The following is a special report designed to share the conclusions of the diagnostic more broadly and to stimulate thinking about your supply chain as part of a dynamic, maturing, and transforming network. As you review this report, think about where your supply chain and its leaders are on your transformation journey.

Background: Supply Chain on the Move

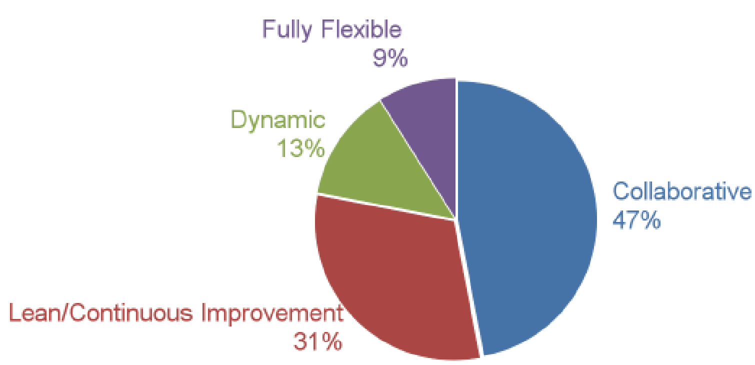
Supply chain transformation presents a complex "change" challenge, for you cannot approach it from one point of view only. You need multiple diagnostic lenses in order to see what is happening and to strategize the best way forward. In order to guide supply chain leaders through this complexity, the SCGuideStar team, drawing on comprehensive research and thought leadership in supply chain and organization/leadership transformation, honed five lenses for the transformational leader to look through in order to see deeply into what is happening within his/her business. When these perspectives are explored and then integrated, they *guide* the way to successful transformation.

The special SCOPE questionnaire drew one item from each of five analysis categories explored in the comprehensive SCGuideStar™ diagnostic questionnaire. While these few questions can only be directional signals, the answers do provide an interesting glimpse of what is happening across supply chains as they grapple with their performance and transformation challenges.*

1. The Customer. Customers are the key context for making leadership and transformation decisions related the new outside-in value network. But not all customers are equal: the demand-driven value network is designed to meet segmented customer's specific needs with reliable and predictable product supply and relationships.
2. Organization Maturity. Businesses pass through 6 maturity stages. These maturity levels draw on specific kinds of capabilities and define what it is possible for the organization to do and accomplish.
3. Leadership. The leadership function aligns the supply chain with its environment. It ensures that the overall organization design and support systems maximize both stability and change for success across all aspects of the end-to-end business.
4. Dynamic Capabilities. Increasingly, businesses must ensure agility, innovation, flexibility and other qualities that make them nimble and responsive in complex and uncertain global environments. These dynamic capabilities often run into resistance from more traditional cultures, but they are critical for everyone to develop.
5. Supply Chain/Business Integration. The systems, processes, people, technologies and data within the supply chain must be aligned, synchronized and integrated across the operating business. This ensures that the transformation is holistically led across the business and supply network as a whole.

The following sections present the data and thought leader commentary from the special SCOPE version of the *SCGuideStar*™ Diagnostic. Please think about your supply chain and business as you read through the responses and comments.

Customer Relationships

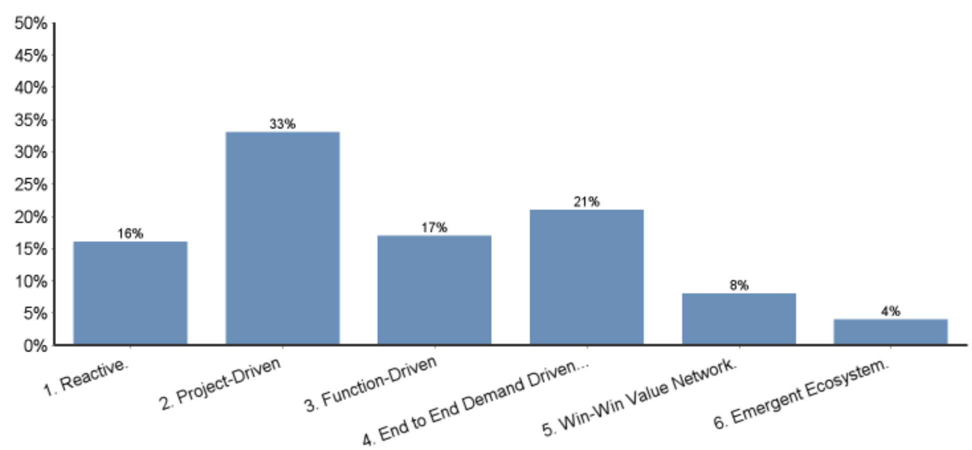


We asked respondents to tell us which category of customers is currently their main focus. 48% said their main relationships were "Collaborative" (loyal customers expecting close relationships as well as quality and service), and 32% chose "Lean/Continuous Improvement" as their primary relationship (customers buying on price not relationships). Far fewer chose "Dynamic" or "Fully Flexible." We wonder if the lower percentages for these are because of customer characteristics and needs or because the organization is not at a maturity level to adequately meet more flexible/dynamic requirements. As you can expect based on the generally low level of maturity described in the next section, very few customer relationships may be characterized as flexible and dynamic simply because the business does not yet have more advanced capabilities developed to a point where they are ingrained in the capabilities of the business. As the product value chain and product launches become more important, expect to see a higher proportion of these agility segments in the customer base.

The maturity stages described in the next section may also influence the meaning of "Collaborative" in responses. Does collaboration mean real win-win (requires stage 4 or greater maturity) or does it mean customers on top, dictating their needs?

A large contingent of the audience indicated that lean and continuous improvement dominated the basis of the customer relationship. This is probably because competitiveness, costs, and cost effectiveness dictate customer facing priorities in the supply chain.

Maturity Stage



Maturity of Metrics and Rewards. *All organizations mature their capabilities over time. There are many dimensions of maturity. One is reflected in metrics. Each vertical bar in the chart above, from left to right, indicates each successive level of maturity. The percentage of respondents who identified their own Supply Chain organizations at each level are indicated.*

There are many design elements that define an organization's stage of maturity – and businesses generally (unless they can be designed from scratch and draw on vast resources) must move through all the maturity stages in a sequential flow – building important capabilities as they go.

For the SCOPE survey, we picked one of many practices associated with maturity: Metrics and Rewards. Rewards focused on fixing problems are considered "Reactive." Rewards primarily for completing defined projects are "Project-Driven." If functional or programmatic, then "Function-Driven." If customer-focused, then "End-to-End Demand Driven Value Chain." If win-win for everyone in the value network, then "Win-win Value Network." If focused on the entirety of direct and indirect stakeholders, then "Emergent Ecosystem."

Responses clearly place the dominant level of supply chain maturity at level 2, "Project-Driven" and level 3, "Function-Driven," with significant portion of the audience still operating in a "Reactive" mode. This is consistent with our experience and reflects the operations/engineering/ task orientation of supply chain teams in the industry.

What the short-survey data do not reflect is our observation that many organizations are having a difficult time moving past levels 1,2, and 3 into 4 and beyond. Reactive, Project-Driven and Function-Driven maturity, capabilities, strategies and mental models persist. We think it is safe to say that most businesses are "stuck" in silo thinking and focused on supply chain cost and performance improvement projects. This is happening primarily because business leaders are not orchestrating and building the capacity to transform to new operating business and supply chain models. The new end-to-end demand- and market-driven mental model (stage 4 and above) is not yet well established in the strategic leadership processes of most businesses.

In addition, we have observed that the IT culture, investments and infrastructure are holding the business back from building end-to-end process capabilities. In order to transform – to move to higher maturity stages – businesses must leverage customer and segmentation data and insights to plan and drive supply. In the dominantly transactional data environment that most companies have in place, this is a difficult "jump" for most leaders and businesses. But progress and survival require attention to moving along the maturity curve into more demand-driven and networked ways of operating.

It is vital for any organization to take an objective and hard look at its actual maturity level and to chart an evolutionary and transformational course. In today's complex and uncertain global environment, no organization can remain stuck in a stage and survive.

Transformational Leadership

Everyone knows that leadership is a critical success factor for any supply chain and business. But how do leaders add value in changing environments? Our diagnostic process examines leadership effectiveness by looking at the conditions that signal the presence of great leadership. In this short version of our *SCGuideStar*™ Diagnostic, we looked at three broad areas of leadership contribution. Ratings of 1 or 2 indicate a competitive weakness. A "3" rating means "similar to competitors," and 4 or 5 indicate strengths. Here is what we can conclude from the responses:

1. *Purpose, strategy and culture are a good match for the environment*. This was the strongest of the three leadership contribution areas, with 62% saying this area is stronger than the competition, and 8% seeing this as a competitive weakness. We have observed that in many companies, strategy is a bit ahead of execution capability, so the relatively higher rating here is not a surprise.

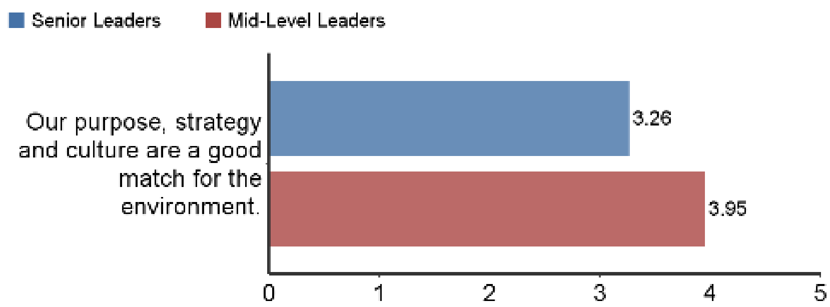
2. *The organization's design (systems, processes, technology, core skills, etc.) enables us to achieve our goals*. This important area of leadership contribution was the weakest of the three, with 39% rating their organization designs as strengths, and 24% as weaknesses. There is not a strong vision of the organization having the structural and resource capability to deliver on strategy, although many do feel that there is relatively good carrying capacity.

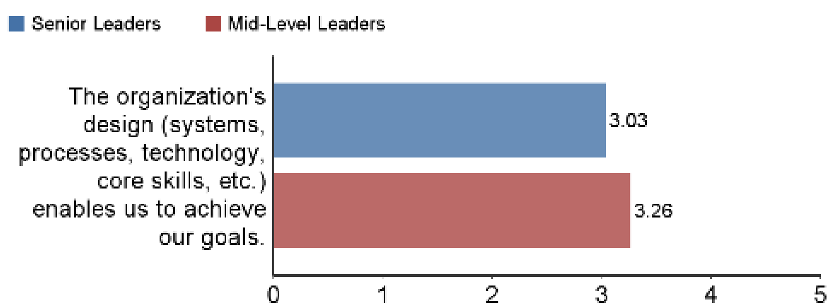
3. *We excel in how we manage, align, and support people and follow through on goals*. 43% of respondents see strengths here, with 24% rating it weak. This area is about as strong as the "organization design" above, but not as strong as the strategy – perhaps indicating that people see a slight mismatch between intentions and follow-through capabilities.

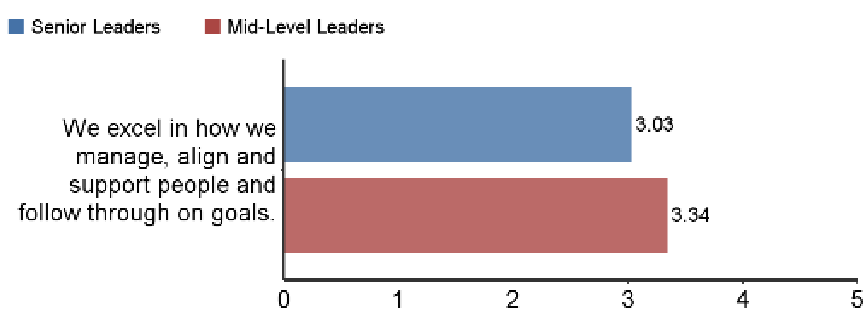
Question	A major weakness	A weakness	At parity with the competition	A strength	A major strength	Response	Average Value
Our purpose, strategy and culture are a good match for the environment.	2.74%	5.48%	30.14%	45.21%	16.44%	73	3.67
The organization's design (systems, processes, technology, core skills, etc.) enables us to achieve our goals.	4.48%	20.90%	35.82%	31.34%	7.46%	67	3.16
We excel in how we manage, align and support people and follow through on goals.	5.88%	19.12%	32.35%	33.82%	8.82%	68	3.21

Transformational Leadership. *People in formal leadership roles must create three broad conditions that ensure the organization is greater than the sum of its parts. The chart below shows the extent to which each of these conditions were identified as sources of competitive advantage by SCOPE participants.*

Given the rate of disruption and change surrounding supply chains today, we think that many strategies and cultures are really not suited for what lies ahead. Therefore, we wonder if the response to these questions relate to the more inside-out cultures or reflect real strengths in the emerging and morphing end-to-end, demand-driven supply chain world.







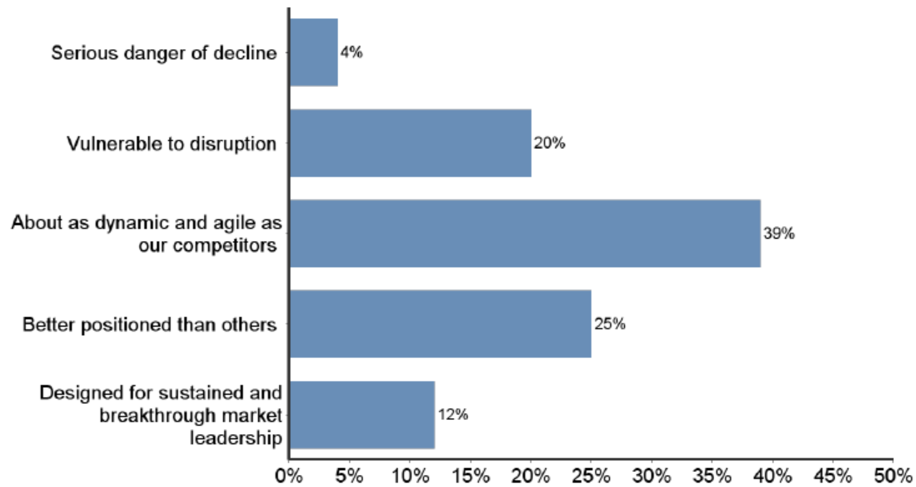
Transformational Leadership. *Note that among respondents from the SCOPE conference, senior leaders tended to rate their supply chain organizations lower than did mid-level managers. Senior leaders included C-level executive and those who report directly to the C-level.*

Although the group, on average, rate their leadership capabilities similar to competitors, senior and middle leaders vary somewhat in their views. The more senior leaders consistently rate all three areas lower than middle leaders. They see more deficiency areas and may face some difficulties mobilizing the rest of the leadership function to perform and transform.

Of course, senior leaders have a broader perspective on performance, seeing a more holistic view across all functions and into the end to end business and reality. Middle leaders are more likely to have a function and project perspective.

The differences between senior and middle leaders also make us wonder if senior leaders are sharing and involving mid-level leaders in transformational leadership and performance improvement conversations

Dynamic Capabilities



Dynamic Capabilities. *We live in an era of accelerating change and complexity. The chart above shows how SCOPE participants rated the extent to which their business as a whole is presently equipped for sustainable competitiveness in the future.*

Today's change-challenged supply chains and businesses cannot rely on tried and true traditional business models and methods (e.g., command and control, cascading organization chart, job-description defined boundaries). Today's organizations need to function more like living systems – like networks, ecosystems. The question we chose to ask from among the many on the larger SCGuideStar™ Diagnostic was a generic one that asked respondents to make a single generalization about their agility/dynamism. "We live in an era of accelerating change and complexity. To what extent is your business as a whole positioned and equipped for sustainable competitiveness as you move into the future?"

Again, the responses clustered around the center: 39% said that they are generally "as dynamic and agile as our competitors." 24% were concerned that they were in serious danger of or vulnerable to disruption or decline. 37% felt better positioned or designed for breakthrough success.

When we compare these ratings with those on Maturity Stage and Leadership, in particular, we are concerned. How can 37% be well-positioned for the future, while most respondents have not yet shifted to "end-to-end demand driven" or higher maturity levels. To understand the data better, we asked ourselves, "Do higher maturity levels correlate with higher dynamism scores?" The answer for the SCOPE respondents is "yes: 52% of the Maturity level 4,5,6 respondents vs. 30% of the level 1,2,3 respondents rated their business as "positioned to respond to change or shape their market." Undoubtedly there are supply chains that have reached high levels of maturity, dynamism and transformational leadership. However, based on our own experience with supply chains around the world, we think the ratings in this short survey are skewed to the high end. The only way to really tell is to examine more factors than the few we were able to assess in this short survey, and dig deeper into the businesses themselves to point out and better understand discrepancies.

Supply Chain/Business Integration

As the supply chain incorporates more of what is contained in the end-to-end demand driven value chain and extends to the larger stakeholder network and ecosystem, it becomes much more entwined with every aspect of the business. To see how advanced this integration process is, we asked one of many questions from our larger *SCGuideStar*™ diagnostic process: "What functions participate in the development of supply chain strategy?" You can see the full list of responses in Appendix A.

Here are the highlights:

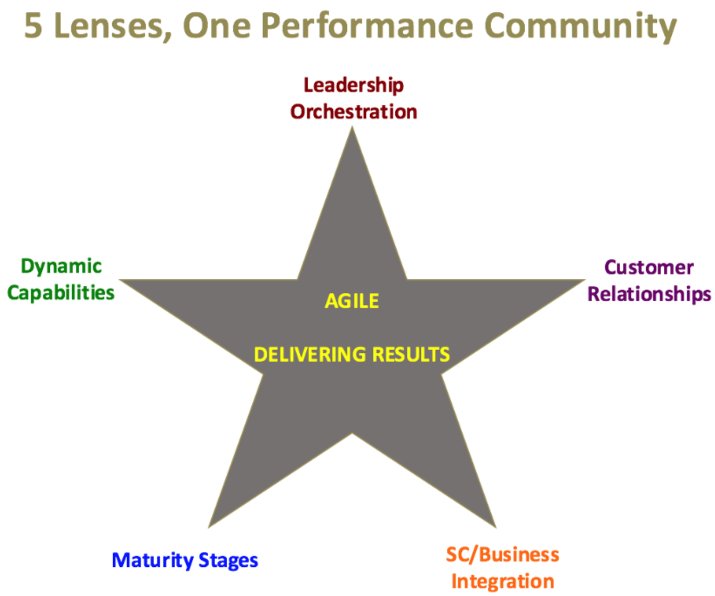
- The more traditional supply chain functions are most likely to participate in developing supply chain strategy.
  - Supply Chain Planning
  - Procurement
  - Logistics
  - IT
- The least likely participants are those most associated with innovation and agility
  - Engineering
  - Product R&D
  - HR and Training
  - External/Contract manufacturing

We were very surprised that HR/Training was mentioned so infrequently. Talent is one of the biggest areas of concern in supply chains today. However, senior leaders were more likely to include HR/Training in planning than were mid-level leaders.

Conclusion and Way Forward

Supply Chains are shaping the business of the future, and, in the process, are facing major leadership and transformation challenges. Leaders need to approach these challenges armed with a variety of insight-producing perspectives and drawing on the best thought leadership as well as their own experience and continually developing insight and wisdom. We suggest that decisions about how to evolve and transform the supply chain must draw on insights from 5 perspectives on the supply chain and the business it is part of: 1) customer relationships, 2) maturity stage, 3) transformational leadership, 4) dynamic capabilities, 5) supply chain/business integration. One perspective or point of view is not enough, for the supply network is a living and continually evolving system. Leaders must triangulate from multiple points of view in order to understand the supply network and appreciate the various options available to enhance and transform it.

The SCOPE Leadership and Transformation questionnaire, drawn from the larger *SCGuideStar*™ diagnostic process provides interesting insights about where the supply chain change leadership challenges and opportunities are. Hopefully reading about the results has provided useful lenses for you to examine where your own supply chain is on its transformation journey. And that you will commit to continuing your own development as a transformational force for the customers you serve and the supply networks you are part of and helping to evolve.



For information about the full SCGuideStar diagnosis, analysis, and planning process contact the SCGuideStar team at **info@scguidestar.com**

THE SCGuideStar Report Team

Roddy Martin is an independent supply chain thought leader, and former analyst and leader in AMR Research, Gartner, and Accenture, and currently with Zinata. He has worked extensively with supply chain leaders across business sectors and is a sought after strategist, advisor and speaker.

Pat McLagan has worked extensively on large scale changes and developed leaders in NASA, GE, SABMiller, Schneider Electric, and many other organizations worldwide, including extensive work in South Africa. She is the author of *Change Is Everybody's Business, The Age of Participation,* and *The Shadow Side of Power: Lessons for Leaders*. She has appeared on Supply Chain panels in the US and globally.

Mark Rhodes' expertise is in organization design and strategy. He has worked across sectors, including in technology, finance, health care, and manufacturing. He teaches organizational behavior at Furman University and is involved with Harvard's Innovation Laboratory.

Appendix

"What functions participate in the development of supply chain strategy? Select all that apply.

Choice	Senior Leaders	Mid-Level Leaders	Total
Supply Chain Planning	79%	82%	161%
Procurement	79%	82%	161%
Logistics	79%	68%	148%
IT	62%	55%	117%
Sales/Marketing	66%	50%	116%
Finance	69%	45%	114%
Continuous Improvement	41%	58%	99%
Manufacturing	34%	53%	87%
Quality	41%	45%	86%
Engineering	17%	42%	59%
Product R&D	28%	32%	59%
Human Resources and Training	31%	21%	52%
External/Contract manufacturing	21%	21%	42%