

## **Supply Chain Confidence? (A PI Q and A)**

The following is an interesting question I received from a Master of Science (M.Sc.) Business Technologies student who is working on her thesis "Measuring Confidence in Supply Chain Management System: An empirical approach."

### **Reader Question:**

My name is Diana Esparza, M.Sc. Electronic Business Technologies full time student at the University of Ottawa. Currently, I am working on my thesis proposal "Measuring Confidence in Supply Chain Management System: An empirical approach". Although, Supply chain practitioners concur that confidence is an indispensable element that enables enterprises to maximize customer value and diminish operating costs, no academic research has been conducted. Hence, the purpose of my research is to provide enterprises with a standard methodology that measures the level of confidence within the supply chain management system. I want to develop a model that weight reliability within the supply chain since it can assist companies in gaining or enhancing supply chain operational excellence by building an efficient and cost effective supply chain.

For the purpose of the research, I have defined supply chain confidence as an expectation shared by an enterprise with its internal and external business partners. This expectation is based on a trust and/or control ability to achieve overall supply chain performance.

I want to tackle this area since I consider that confidence plays an important role within the supply chain system since it enables companies to attain their supply chain's goals and objectives. Confidence is a critical modifier in influencing supply chain performance. Indeed, it is proven that companies who achieve a greater level of confidence within their supply chain management system are more likely to perform better.

Confidence is also seen as an optimization of a decision-making process since it determines if the company's expectations of doing something will play a critical part in whether or not it achieves its objectives. Gaining confidence in the supply chain allows an organization to meet its core business by making the right decisions, at the right moment.

The hypotheses formulated in my research intend to prove the following:

- Albeit confidence is seen as a perceptible variable, metrics to weight the confidence within a supply chain management system can be developed.
  
- Confidence relies on six sources (visibility, collaboration, compliance, experience and knowledge, maturity and risk) to achieve operational excellence.

Just hoping that you can provide me with feedback, as a supply chain practitioner I am sure you can help me to gain more insight. Could you please answer the following questions?

1. How would you define supply chain confidence?
  
2. How SC Confidence differs from SC Trust?
  
3. Is confidence difficult to quantify due to its complex, intangible and long-term oriented nature?
  
4. Can metrics be developed to measure the degree of confidence within the supply chain system?
  
5. Does lack of confidence in a supply chain lead to actions that could increase risk exposure?

6. Can an organization increase confidence and hence improve overall performance by tackling elements such as visibility, control, collaboration, compliance, experience and knowledge, maturity and risk within the supply chain system?

7. Does lack of confidence impede a company to be responsive to market changes?

Thank you so much for taking the time to read. Your comments will be appreciated.

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### [My Response:](#)

Thank you for the submission of your question(s) regarding supply chain confidence Diana.

Before I respond to your direct questions, it is important to gain some historical perspective in terms of the evolution of the supply practice.

To begin, supply chain or purchasing (which for many is the key element of the transactional chain), has long been considered an adjunct of the finance department, viewed largely as a functional versus strategic role. An important difference it should be noted, that extends beyond mere semantics. For it is at this foundational level that the seeds of what you would likely refer to as a lack of "confidence" are sown.

It is also the primary reasons that between 75% and 85% of all supply chain/e-procurement initiatives worldwide fail to achieve the expected results.

### Collaboration Before "Confidence"

While you have identified collaboration as one of the "six sources" upon which confidence relies, experience has taught us that it is actually the reverse. Confidence is one of the key elements (or sources) of a collaborative environment. And collaboration begins with effective communication.

In an excerpt (see below) from one of my most recent white papers titled *Talent Attraction and Retention in a Global Economy*, I highlight the importance of effective communication.

"Like a politician stumping for votes, proclamations by senior executives (and many industry pundits) that "people" and "not technology" are what is "important" rarely translates from the realm of oratory pontification into meaningful real-world application.

This is due in large part to the fact that outside of the framework of political correctness, communication as Bill McAneny offered in his book *Frankenstein's Manager – Leadership's Missing Links* is actually a desire and not a skill. A skill that is in short supply according to his findings. In fact, second only to the ubiquitous lack of people skills complaint, ineffective communication said McAneny is the most common charge leveled at an organization's leadership."

Unfortunately Diana the majority of organizations as McAneny pointed out, lack the necessary desire to communicate and therefore proactively engage key stakeholders both within and external to its supply practice. Until this

changes, your efforts to quantify confidence will hold very little real-world relevancy, as collaboration through effective communication leads to understanding. Understanding of diverse stakeholder interests and objectives in turn leads to the development of a shared vision from which confidence is a natural progression.

I would refer you to Jim Collins' book Good to Great as required reading, paying particular attention to his discussion highlighting the differences between the Doom Loop and Flywheel concepts.

To gain a more in depth understanding of the current collaborative challenges that are indigenous to supply chain practices, I will also refer you to two articles I have written on the subject (see URL links below) including an overview of a CPO Roundtable that was hosted by CPO Agenda.

Procurement's expanding role and the executive of the future August 3, 2007  
<http://procureinsights.wordpress.com/2007/08/03/procurement%E2%80%99s-expanding-role-and-the-executive-of-the-future/>

How leadership repeatedly under-mines their most valuable procurement asset November 20, 2007  
<http://procureinsights.wordpress.com/2007/11/20/how-leadership-repeatedly-under-mines-their-most-valuable-procurement-asset/>

It is within the context of the above that I will answer your specific questions.

1. How would you define supply chain confidence?

Supply chain confidence as you call it is based on the ability to engage and understand the diverse and seemingly disparate objectives of key stakeholders within an enterprise's practice.

For example, in a recent article titled "Few CFOs view procurement affecting competitiveness," a study found that of the 11.9% of savings claimed by purchasing, the finance department only booked 3.2%. Besides representing a difference of 73%, this disparity in achieved savings signifies a tremendous disconnect between key stakeholders. Unless this chasm of misunderstanding is bridged, your ability to quantify and define a "collective confidence" will be virtually impossible.

## 2. How SC Confidence differs from SC Trust?

As is the case with the song love and marriage, (I am probably giving away my age here), confidence and trust are synonymous. You can't have one without the other.

However, confidence is the stepping-stone upon which trust is built. Specifically, if one has confidence in the collaborative process employed by say a supply chain initiative's champions, they will ultimately have trust that a collectively beneficial result will be achieved.

## 3. Is confidence difficult to quantify due to its complex, intangible and long-term oriented nature?

In his reminiscences about his college days, Bill Cosby talked about his girlfriend who happened to be a philosophy major. As a student of "athletics" nee sports scholarship, he summed up the academic differences between the two courses when he referred to the philosophically motivated question "why is there air?"

His girlfriend's class spent countless hours and days attempting to "quantify" the meaning of air. Bill's athletically oriented class however answered the

question within a matter of seconds with the simple observation that air exists to “fill basketballs, footballs, volleyballs etc.”

Oversimplified, most definitely. True, without question.

The fact remains that confidence is reflected in usage. For example, the success (ergo confidence) demonstrated in the Commonwealth of Virginia’s eVA program speaks volumes.

In 2001, the first full year in which eVA had been in place, less than 1% of the total “identified” spend was processed through the program. (Identified spend, which represented those purchases for which eVA was likely to generate savings, accounted for approximately \$3.5 billion of the Commonwealth’s total \$5 billion expenditure that year.)

In 2007 80% to 90% of the total identified spend was processed through the eVA initiative.

During this same period, the Commonwealth’s active supply base grew from 20,000 to 34,000. Note the reference to “active” supply base.

Compare this with the Government of Canada’s Way Forward misadventure. Launched at relatively the same point in time in 2001, the Way Forward undertaking continues to languish in a state of perpetual stagnation accentuated by a complete absence of a collaborative imperative. (Note: this is why collaboration is the anchor as opposed to confidence.)

4. Can metrics be developed to measure the degree of confidence within the supply chain system?

(See Answer in Question 3)

5. Does lack of confidence in a supply chain lead to actions that could increase risk exposure?

There are several areas of risk within a supply chain practice. From the operational perspective, one has to look no further than the Veterans Health Administrations' two failed initiatives.

Centered first on a JD Edwards and then Oracle platform (in which the implementation period spanned seven years), the failure of the latter initiative had serious consequences in that supply chain breakdowns resulted in the Bay Pines VHA Hospital having to cancel critical surgical procedures due to a lack of supplies.

From a financial perspective, and with both programs ultimately being abandoned as abject failures, the VHA had to write off approximately \$650 million.

Needless to say, the fallout from the above referenced efforts resulted in a complete lack of faith (re confidence) in the visionary competency of the VHA leadership. This of course has seriously undermined the progress of the new initiatives that have been recently introduced.

6. Can an organization increase confidence and hence improve overall performance by tackling elements such as visibility, control, collaboration, compliance, experience and knowledge, maturity and risk within the supply chain system?

In and of themselves, the elements of visibility, compliance, knowledge and maturity et al are actually the result of an effective collaborative effort.

In the absence of a “true” collaborative process involving key stakeholders, these attributes will remain elusive to the collective enterprise.

7. Does lack of confidence impede a company to be responsive to market changes?

Once again, a lack of confidence as you call it is directly linked to the effectiveness of an organization’s communication channels and the desire to collaborate.

For example, how an organization views the role of its procurement department differs from one company to the next. This in turn determines amongst other things market responsiveness.

One panelist from the CPO Roundtable made the following observation when asked about the greatest constraint a CPO faces: “the context, history and the culture of the company is important. Take a specific category as an example. I moved to Nestle from a company where procurement was heavily involved in any new capital expenditure project right from the start. Now I find myself in a situation where we have very limited involvement to actually influence the buying decision.”

In your opinion Diana, does the above referenced scenario build confidence, or does it undermine it? Will senior management’s lack of engagement with a key stakeholder (such as the CPO) improve or hinder market responsiveness?

In closing Diana, before you can “quantify” or measure the level of confidence within an organization in terms of its impact on a variety of metrics including influence and outcome, you have to first understand and quantify the individual and collective objectives of the diverse stakeholders both within and external to the enterprise itself.

The most effective way to accomplish this is through a collaborative effort in which an agent-based versus a traditional equation-based model is used. And it is in this area that the more technical aspects of your questions (including the utilization of advanced algorithms and the establishment of effective parameter attributes) are addressed.