

English Translation

The following is the first in a series of articles where we summarize the theories and experiences of Dr John Gattorna, one of the most prestigious specialists and investigators in the global field of Supply Chain Management. His most recent book “*Living Supply Chains*” has caused a revolution in the global community of Supply Chain Management for addressing in a scientific way, the critical theme: People.

Here is a summary of the Chapter 1; enjoy.

The modern concept of supply chains (SCM) is not only about Technology, Storage and Distribution, Transport and Planning. The modern concept of SCM includes the dynamic combination of the Processes, Functions, Activities, Relationships, behaviours, attitudes and flows as well as the combination of products, services, information and financial transactions executed between primary producers and final consumers.

The complexity of SCM

If we accept this more liberal definition of the SCM all enterprises have supply chains running through them. They can be manufacturing businesses, Public Services, Government, etc. all involving multiple supply chains. Indeed, supply chains are omnipresent. Very often companies contain literally 100's of supply chains immersed in and running through them, similar in many ways to the human central nervous system. This complexity has led to two key problems:

1. Many people are in denial about the presence of the supply chains in their enterprise.. They can only see the activity or functionality of one part, so they do not recognize the true degree of complexity. Complexity makes the supply chain invisible.
2. Even if they recognize the inherent complexity, they approach it in inappropriate ways, thinking they can solve everything with technology and improved processes only.

The invisibility of the supply chain can be very damaging for the enterprise, but having visibility and being satisfied with wrong solutions can also be fatal.

In particular, if you are a service organization, it may be that all the companies in your sector suffer from this ‘supply chain blindness’. These service companies seem to think that because their products are intangible, the principles of supply chain do not apply, and this is an error.

What do you think is the principal ingredient of SCM? The technology, transport, or something else? Supply chains could appear to be uncontrollable and complex but these are in fact living systems propelled by humans and conducted by humans.

In 2003 Harvard Business Review convened an elite group of experts to discuss the evolution of SCM, and one of their conclusions was that even after many years of improvement in processes and the application of sophisticated technical solutions, the objective of agile and flexible chains continues to be difficult to attain. Maybe *it is that people are getting in the way? Indeed.* But what we are interested in is not why they are getting in the way, but how they are driving the chains like some new form of life.

To manage today's supply chains involves understanding the interaction between human conduct and behaviour, information technology and infrastructure. Unfortunately this is the antithesis of what is actually happening in businesses.. *How can we solve operational problems without first recognizing that the principal conductor of products and services is across people chains?*

The enterprises that focus successfully on SCM first focus on examining and improving their interior alignment, and then align their relationship with clients and suppliers. In the internal alignment we find two important principles, internal cultural capacity and cross-functional leadership. In the alignment with clients and suppliers, the key is knowledge of customer buying behaviors and the strategic workings of collaboration.

INTERNAL FORCES OF DARKNESS

Strategy is nothing more than a series of *intentions*, written down in a document at a point in time, which acts as a bridge between the enterprise and the marketplace. Until these intentions are brought to life through actions, there will be little difference between good strategy and bad..

An ordinary strategy well implemented is better than brilliant strategy poorly executed. From experience 40% to 60% of the original intentions, strategies and plans of action are dissipated or never come to fruition. Some of this is due in part to the influence of government, or competitive activity that dramatically interrupts the chains, but the vast majority fail because of internal cultural resistance to change the *status quo*. The 'forces of darkness' can undermine good strategies due to the fact that each person in the chain may have different and often conflicting values and visions of the future.

ORGANIZING FOR SCM

Two factors have been impediments to the development of the SCM philosophy.

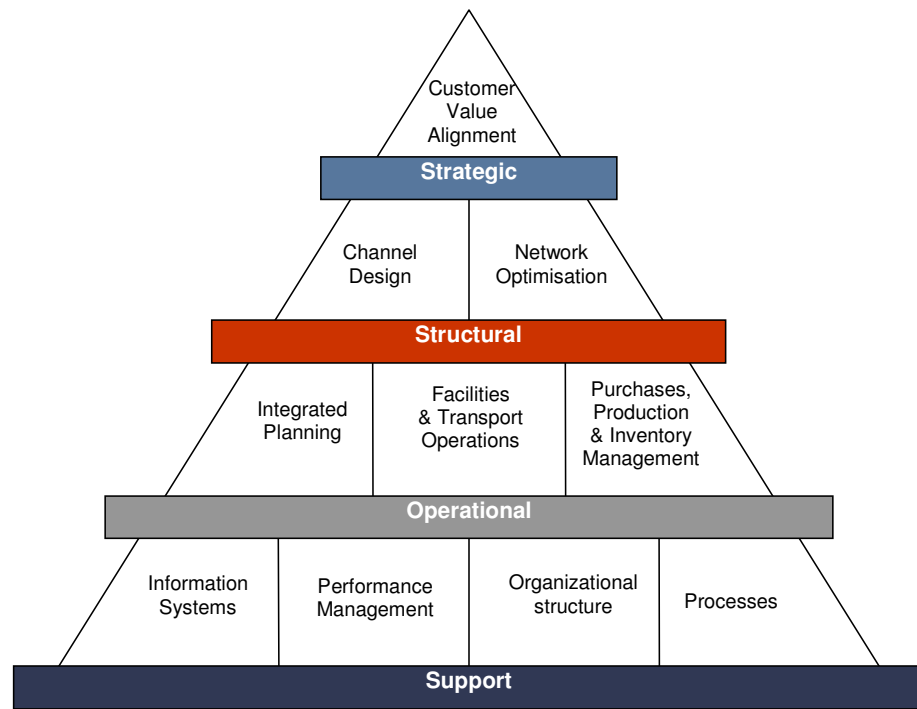
The first is the confusion with respect to terminology. Many still believe that SCM is synonymous with logistics and in some cases SCM is even confused with the implementation of some software. This problem in one way or another is being fixed by improved education; but unfortunately in many developing countries confusion persists.

The second impediment is the functional mentality that still predominates the organizational structure of many enterprises.

Most companies still cling to rigid functional structures that create silos within them. This is a very antiquated form of organizing people, especially as outside markets are rapidly fragmenting. This makes the degree of 'alignment' between the organization and its markets get progressively worse. The four principles for designing more effective organization structures proposed by Lowell Bryan and Claudia Joyce, suggest creating dynamic co-existent structures that mirror the buying behaviours of customer segments found in the marketplace. This means that you have to have a portfolio of cross-functional dynamic structures that can be applied to different client buying behaviours as required.

Successful organizations will be the ones that have such a portfolio of cross-functional structures reflecting client buying behaviours. Zara, the Spanish fashion retailer, has done this very well. They form work teams by product category such as children's clothing, involving personnel drawn from design, logistics, production, sales operations and marketing functions. The result is a 'cluster' that can respond in real time to changes in consumers preferences, globally. Such customer-focused configurations are an essential component of the modern high-performance supply chains.

To reach a new understanding of how to design and operate supply chains, we must go further than the definitions of "Logistics" articulated by academics, consultants and practitioners during the 90s. Even with the advances in information technology and the development of ERP systems (Enterprise Resource Planning) which supposedly are designed to integrate internally across the flow of information, this still is a mirage. Why? Nobody during all this period has been able to confront the true hindrance to seamless integration, hence continuing adoption of the organizational structures based on functions. Such structures put people to work in a straight-jacket environment with very little possibility of alignment with customers. In the following figure we can see the organizational pyramid proposed by Gattorna, the tip of the iceberg being total alignment of the organization with customer's buying values.

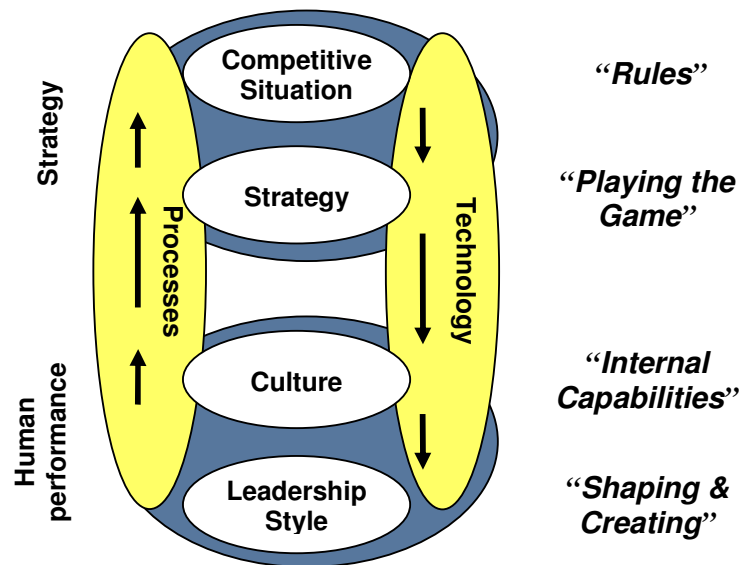


Organizational Pyramid

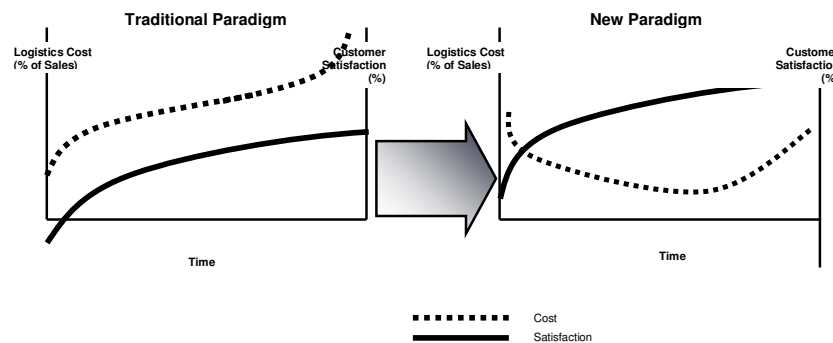
Nevertheless, many enterprises continue to work in this style. It wasn't until the mid-1990s when the internet arrived as a means of communication that things advanced significantly. The convergence of the internet and the development of new software applications cleared many of the obstacles in the way of external and internal integration. This operationalized the supply chain concept for the first time. However, we still do not fully understand the role played by the "People Factor" in all of this.

'Alignment' is not a new idea; it actually occurs in nature. The 'V' formation that wild geese form when flying allows them to fly great distances, due to the aerodynamic effect of their organization. Aligning supply chains is a new concept that applies to the whole organization, not just to supply chains and its processes. That's why we have coined the term 'dynamic *alignment*', because it works under changing conditions, and for the first time it gives us the opportunity to design and operate chains that remain ahead of our clients as their needs evolve over time.

In the figure below we see the dynamic *alignment* model proposed by J. Gattorna



The *dynamic alignment* model proposed by Gattorna, breaks the traditional thought that suggests that when you increase the level of service, corresponding cost increase faster; not necessarily so if resources are ultimately re-allocated to better align with the buying behaviours of the customers. Having a clear understanding of the implications of improving the alignment between supply chains and the marketplace, can lead to improved service at a lower cost as depicted in the following figure. This is the ‘Holy Grail’ that we are all seeking.



Source: (Gattorna 2003)