

JOURNAL OF SUPPLY EXCELLENCE

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Welcome to this third volume of the **EIPM Journal of Supply Excellence**.

This year, EIPM is expanding its footprint with open enrolment certification programs in Europe, China, South Africa, Mexico, Brazil, India, USA, and soon in the United Arab Emirates. Furthermore, we are innovating with our Global Executive MBA. In 2015, it will integrate an innovative international learning experience where teams from Asia and Europe will work together on the leadership of strategic collaborations. It will feature a purchasing concentration where participants will solve real life problems proposed by Executive sponsors. This concentration will be open to some selected Executives too. The program will also offer flexibility for students to take modules in different locations.

This year's journal provides us with a great occasion to look at familiar Purchasing and Supply Chain issues from a different perspective.

Anne Touboullic and Helen Walker ask a fascinating question, how Supply Chain actors make sense of sustainability? It appears that politics and emotions play key roles in stakeholder engagement and in the dynamic of change. For their research on sense making, the two authors received this year's Best Paper award at Ipsera, the leading network for purchasing research.

In another article, Lisa Ellram and Wendy Tate bring a fresh perspective on the risk associated with low cost country sourcing. Equipped with factor market rivalry theory and a series of case studies, they show that sourcing location decisions need to pay specific attention to factors that initially appeared as non-critical. They suggest an interesting set of leading indicators that everyone involved in global sourcing should monitor.

Ecosystem Excellence was the theme of the latest EIPM Annual Conference. In this edition we share learnings from this event, focusing on key questions buyers can use to leverage the power of business ecosystems. Studying who competes with whom within the supply market should be complemented by questions such as : who innovates with whom? Which actors have common agendas? Which collaborations should we pay attention to?

This year issue features an interview with Arjan Van Weele, in which he builds a compelling case for change for purchasing and supply management professionals. He challenges the focus on short-term performance and calls for daring actions. He offers a different take on capitalism, sustainability, innovation and outsourcing.

Christian Kaemmerlen shares the lessons learned from recent EIPM-Peter Kraljic Awards winners. Their best practices gain in maturity and show a continuous adaptation of the profession to business challenges. It is clear that the trendsetters not only strengthen their approaches, but also deploy them systematically. You are left wondering if the gap between leaders and followers is not widening.

A survey conducted by Bernard Arrateig shows indeed that the legacy of cost reduction is still here, even if it also shows that new forces are gaining ground. He analyses four dimensions of leadership that form the key to success in the sourcing function. One of these key leadership dimensions is further investigated by Hervé Legenvre who shares four things buyers need to know about innovation.

EIPM will initiate in the coming months research and knowledge sharing activities on value creation; it is time to measure the progress of the profession on this important topic. This is the reason why EIPM will establish an observatory that will proceed with surveys every two years.

Enjoy the reading!

Looking forward to our future exchanges.

Bernard Gracia

EIPM Dean and Director

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<i>Editorial.....</i>	<i>P 3</i>
<i>Making sense of sustainable supply chains</i>	<i>P 6</i>
<i>Factor Market Rivalry: A New Perspective for the Location Decision</i>	<i>P 12</i>
<i>Ecosystem Excellence</i>	<i>P 20</i>
<i>An interview with Dr. Arjan van Weele</i>	<i>P 24</i>
<i>The fourth edition of the EIPM-Peter Kraljic Awards</i>	<i>P 28</i>
<i>Leadership practices applied to the sourcing function.....</i>	<i>P 32</i>
<i>Innovation : what buyers should know</i>	<i>P 36</i>



MAKING SENSE OF SUSTAINABLE SUPPLY CHAINS

By Anne Touboullic & Helen Walker



JOURNAL OF SUPPLY EXCELLENCE

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Helen Walker is Professor of Operations and Supply Management, Cardiff Business School, UK. She specializes in the fields of sustainable supply chain management, public procurement, and supply strategy. Helen advises organisations and government policy groups on sustainable procurement, and is Vice President of IPSERA.

This paper explores how various supply chain actors make sense of sustainability. We use sensemaking theory to analyse findings from a qualitative participative study. It is argued that through sensemaking and sensegiving, stakeholders co-create the change for sustainability. We show that stakeholders' perceptions of sustainability are varied. Multiple individual and collective mechanisms are used to deal with and work through ambiguity spurred

by the implementation of sustainability in the SC. Conflict and tension between SC stakeholders emanate as key inter-organisational sensemaking process for sustainability. This article draws on the paper that we presented at the 2013 IPSERA conference in Nantes: Touboullic, A. & Walker, H. 2013. Sensemaking in sustainable supply chains: Exploring inter-organisational processes and meanings through stakeholders' perspectives.

Introduction

Sustainability has become a topical issue for businesses but it remains a rather broad term with multiple definitions. Managers are facing the challenge of how to integrate sustainable development objectives within and outside their companies' boundaries.

The integration of sustainability goals in the supply chains (SC) is a particularly critical dimension to long-term business viability (Seuring, Sarkis, Muller, & Rao, 2008) and companies have adopted a variety of strategies to address sustainability issues in this context (e.g. environmental and social auditing, collaborative product development, etc.).

Previous research has shown that sustainable SCs are shaped by the actions of individuals (Gold, Seuring, & Beske, 2010), showing the relevance of investigating how the way in which individual actors make sense of sustainability influences the implementation of sustainable SCM. In this research we try to understand how individuals in supply chains interpret sustainability and how these

different views impact the advancement of the social and environmental agenda.

This paper has three objectives:

1. Understand how SC stakeholders interpret the change needed for sustainability.
2. Explore the interplay between interpersonal communication, action and emotion in making sense of sustainability.
3. Show the ways in which the different meanings and sensemaking processes affect the development and implementation of sustainability practices in the SC.

By adopting a sensemaking approach we offer novel insights into sustainable SCM. We move beyond traditional focal firm and macro approaches to focus on the interactions and role of the different actors involved in SSCs. Our findings can be helpful to practicing managers addressing the critical issue of developing successful relationships for sustainability.



Framing the problem: sensemaking and sustainability

Sensemaking theory is rooted in the work of Karl Weick (Weick, 1995, 2001; Weick, Sutcliffe, & Obstfeld, 2005). The core tenet of sensemaking is the social construction of meaning (Berger & Luckmann, 1966).

This view emphasises that there is no one single reality, and that micro interactions and communications between individuals are critical in creating, legitimating and sustaining organisational realities (Allard-Poesi, 2005; Weick, 2012).

Adopting a sensemaking approach is recognising the pivotal role that individual actors play in the shaping and enactment of organisational activities. Sensemaking provides a dynamic rather than static view of organisations (Basu & Palazzo, 2008; Maitlis, 2005).

Corporate sustainability is strongly connected to the concept of organisational change (Doppelt, 2003; Dunphy, Griffiths, & Bunn, 2007). The metaphor of sustainability as a "journey" as well as the notion of sustainable development, both allude to the idea of the transformation of business to respond to new expectations and imperatives (Gladwin, Kennelly, & Krause, 1995; Milne, Kearins, & Walton, 2006). However there is no consensus on the definition of corporate sustainability, which is often used interchangeably with corporate social responsibility (CSR).

Corporate initiatives in this domain have multiplied in recent years, showing that organisations have attempted to operationalise the concept and to change their practices (Mohrman & Worley, 2010).

Despite the contested nature and change orientation of corporate sustainability, a relatively small number of studies have adopted sensemaking theory (Klostermann & Cramer, 2007).

Many studies have focused on the content of corporate sustainability initiatives rather than viewing the implementation of sustainability through a process perspective (Basu & Palazzo, 2008). The latter can be helpful in exploring how such a multi-faceted concept is translated into practice. In the context of a SC, sensemaking happens in the relationship between organisations as well as within the organisations themselves and therefore involves a large group of stakeholders.

The relationships between these stakeholders provides a platform for collaborative sensemaking where problems of understanding can be addressed (Vlaar, Van den Bosch, & Volberda, 2006). Researching sensemaking for sustainability at the SC level is therefore highly relevant to understand how to go beyond isolated organisational efforts and address complex systemic sustainability challenges.

We seek to understand how SC stakeholders co-create the change for sustainability by engaging in sensemaking.

Research context and approach

We have conducted this study in collaboration with a multinational company (MNC) in the food and drinks sector between January 2011 and January 2013.

The research investigates the relationships between the MNC and its small agricultural suppliers in the UK around the implementation of sustainability initiatives. The MNC has put sustainability at the top of its agenda in recent years. In particular, since 2010, the change towards more sustainable practices has been translated into ambitious targets around carbon reduction and the management of natural resources more generally.

In the UK, the company has engaged in a variety of projects to address its sustainability risks and impacts and predominantly focuses on agriculture and farming, which represent the biggest environmental and social challenges outside its boundaries.

An important aspect of the company's approach relies on their relationships with their agricultural suppliers across the country. They have prioritised work on sustainability with producers of the primary component of their key UK brand.

The supply base for this crop is organised around groups of suppliers, ranging from small to medium enterprises. Collaboration with NGOs and consultants is an important part of the approach they have adopted to drive sustainability in the SC.

We have collected information about the implementation of sustainability between the SC actors through a variety of methods.

We aimed to understand and capture different types and spaces of social interactions (Dunford & Jones, 2000) as well as reveal both individual and collective sensemaking processes. We conducted semi-structured interviews with people from various functions within the multinational company, suppliers, collaborating companies, consultants and NGO representatives.

We also held a series of workshops with the suppliers and employees of the MNC, and participated in various meetings. In total, we have gathered the perspectives of 43 informants.

We have analysed the information in three stages:

- Stage 1 consisted in identifying meanings of sustainability for the 3 main stakeholder groups (MNC, Suppliers and External). We used content analysis to reveal terms appearing more frequently in definitions. The findings served to create word clouds, which were used in the participative workshops to foster discussion around meanings of sustainability.
- Stage 2 was about identifying processes of sustainability

sensemaking by considering communication, action and emotions.

- Stage 3 linked the findings of stages 1 and 2 to show how stakeholders' meanings and interactions have impacted on SSCM in terms of content (issues addressed, nature of sustainability projects) and process (how it is implemented, power dynamics and level of engagement).

Commonalities and differences in understandings of sustainability

Interestingly SC stakeholders' understandings of sustainability may be more similar than they seem to believe.

Through the interviews we captured not only what sustainability meant to each of them but also reflections about how they perceived others' conception of sustainability. When comparing the various stakeholders' definitions of sustainability, it is possible to notice that they shared some aspects, which are presented in Table 1.

The most frequent terms associated with sustainability by stakeholders are "way", "thing", "think" and "make".

The terms "better" and "right" are also featured in the list in the second most frequent category. The vagueness and generic nature of these terms show that sustainability is not interpreted in a precise manner but nonetheless represents an imperative.

Table 1. Common aspects of stakeholders' meanings of sustainability

Aspects of sustainability definitions	Illustrative quotes	Nb of stakeholders
Environmental and economic resources	"It is about making better use of our resources"	43
Future generations	"Our responsibilities towards the way we operate in the world, respecting future generations and trying to make sure we don't consume things that are not ours"	38
Inescapable future	"(...) Part of the global way that things are changing"	30
Time balance	"It is about balancing the short-term and the long term"	27

Looking more specifically at the 3 stakeholder groups nonetheless shows some differences in interpretations of sustainability as shown in Table 2.

Table 2. Difference in stakeholders' meanings of sustainability

Aspects of sustainability definitions	Description
MNC	<ul style="list-style-type: none"> • Business case for sustainability • Concept related to new conception of business around environmental and social responsibilities • Normative dimension of sustainability definitions - "the right thing to do"
Suppliers	<ul style="list-style-type: none"> • Sustainability as integral to their way of working - "sustainability is the nature of my business" • Concept associated primarily with natural resources exploitation and farming • No reference to social aspects of sustainability (e.g. health and safety, treatment of workers) • Strong interconnection between environmental and economic sustainability.
External	<ul style="list-style-type: none"> • Diverse group (consultants, NGOs, researchers) but sustainability intrinsically attached to purpose and nature of their role • Reference to accepted frameworks (e.g. 3BL, Brundtland definition) • Deep personal dimension revealing commitment to their role - "making a difference"

Many suppliers expressed their doubts about the honesty of the MNC's views and commitments. Some referred to their interpretation and engagement as a "commercial bandwagon". In contrast, from the MNC stakeholders' perspective, the suppliers' understanding of sustainability is rather limited and disparate. One stakeholder told us "they are those who get it and those who don't get it". Both sides hold rather strong impressions about each other's lack of understanding of what sustainability "truly" means. There is an apparent lack of open discussion about meanings of sustainability.

Making sense of sustainability through communication and action

In our study communication and interaction around sustainability remains very formal and sporadic. It seems to be an added dimension to the usual relationship between the SC actors, who primarily focus on traditional relationship aspects such as prices, quality, etc. For example, contract negotiations are critical moments of the relationships and from the evidence we gathered, it appears that sustainability



is never discussed as part of these negotiations but is simply framed as additional clauses or requirements within the contracts. This is an indication of one-way communication, which is supported by the language used at meeting between the suppliers and the MNC. In one of the meetings, the expression “push for sustainability” was coined and one supplier described sustainability as “something we are forced to use because it’s fashionable”.

Some suppliers actually referred to the “dictatorial” way in which practices were changing. Looking at the different sustainability projects that have been implemented in recent years, it is possible to notice an emphasis on “carbon” and “measurement”. Several suppliers noted their difficulty to understand the notion of carbon measurement and relate it to sustainability.

Consultants seem to act as communication facilitators between the MNC and the suppliers because they help explain the jargon and technical terms. Suppliers tend to discard the term “sustainability” itself and refer to elements individually (“do what makes business sense”, the “natural capital”). Arguably, sustainability sensemaking is also perceivable through objects (i.e. tangibles) in the SC. It is plausible to refer here to the example of sustainability as a contract clause and to the various tools that have been adopted to supporting the advancement of the sustainability strategy. These have been developed and implemented unilaterally without inputs from the suppliers and primarily rely on external expertise.

Overall, there seem to exist a dominant voice in the language that has been used to implement sustainability initiatives between the SC stakeholders. Conflict, tension and resistance have emerged as primary themes related to sustainability sensemaking in the SC context. Success stories told by the MNC stakeholders contrasted deeply with the negative picture that was painted by the suppliers focussing on the difficult aspects and moments of misunderstanding

and miscommunication. The resistance exhibited by the suppliers and the rather assertive attitude of the MNC stakeholders seem anchored in the way their relationships have evolved in the last decade.

Addressing the sustainability agenda has meant that suppliers are required to provide large amounts of data that can contribute to establish a benchmark for sustainability projects. The MNC stakeholders talked about the difficulty to obtain the data and ensure it was accurate. They explained the problem as partly related to the growers’ lack of knowledge about the tools used to build sustainability measurements and partly to their reluctance to engage. On the other hand, the negative perceptions held by the suppliers compromises the possibility to discuss sustainability more openly and to reach a common ground. Yet, through the interviews and the workshops, all stakeholders said they had high expectations from their relationship to advance the sustainability agenda and hoped they will be able to work through their divergence.

Emotional aspects of sustainability sensemaking

Participants - including us as researchers - hold strong feelings about the topic itself, about their positions (change in responsibility, ability to deal with issues, etc.) and about the nature and evolution of the relationships with the other stakeholders. Emotions transpired in every stage of the research and form an integral part of the way stakeholders make sense of sustainability. We have attempted to classify the emotions identified through this collaborative study according to how positive or negative they appeared. This is obviously a simplistic division but we felt it enabled us to encompass a broad range of emotions encountered and felt. Nostalgia, which was felt primarily by the suppliers, could not however be put in any of the categories. Table 3 provides some examples of these emotions.

Table 3. Emotional aspects of sustainability sensemaking

	<i>Emotions</i>	<i>Illustrative quotes</i>
Negative	<i>Frustration</i>	<p>“I am feeling totally misunderstood.”</p> <p>“More carrot rather than stick would be quite nice.”</p>
	<i>Worry & Fear</i>	<p>“It’s a scary business to be in because of the amount of risk that we take.”</p> <p>“To be fair sustainability and reducing your carbon footprint, a lot of this is to do with investment to be honest (...) And the dilemma for us is to be able to find the amount of capital.”</p>
Neutral	<i>Nostalgia</i>	<p>“And don’t get me wrong I’m not living in the dark ages, but we used to do contracts around a bottle of wine, sitting down somewhere and we would chat... Your word was your word and we would say right okay we will do this.”</p>
Positive	<i>Excitement</i>	<p>“When sustainability suddenly became a big part of my job, everything changed and I no longer felt like I wanted to retire. I am very excited about this.”</p> <p>“It’s been great fun. I thoroughly enjoyed it and it’s been an education.”</p>
	<i>Pride</i>	<p>“I think naturally most people want to look after the environment and I think as farmers we have done that really rather well for generations really. I think the British countryside is pretty good.”</p>

Conclusion

In this study the MNC stakeholders represent a dominant voice and it has affected the way in which sustainability has been approached and implemented with the other SC actors. Power and emotions have emerged as key aspects of sustainability sensemaking in a SC context.

In terms of power, inter-organisational sustainability sensemaking definitions (and hence practices) of sustainability may be buyer-driven (Boons & Mendoza, 2010). In this case meanings can be seen as imposed rather than negotiated and it becomes difficult for the different actors to come to a shared view of how to approach the sustainability agenda. It may actually seem easier to use existing imbalanced relationship structures to drive sustainability in the SC rather than try and work to develop shared meanings because this may be synonym with confrontation, increased anxiety and more uncertainty.

The importance of emotions in sustainability sensemaking is clear but most of the time underestimated as sustainability tends to be framed within a traditional hard business discourse.

Our study has revealed the importance of the interplay between the organisational and individual level of sensemaking for sustainability. At an organisational level, large corporations may be seen as imposing sustainability strategy upon smaller firms (Lee & Klassen, 2008).

However, when considering the individual level, synergies can be found related to personal values and motivations to engage in sustainability. Understanding both organisational and individual sensemaking can help address possible conflicts and resistance and create buy-in and engagement (Angus-Leppan, Benn, & Young, 2010).

Overall, we have found that sustainability is a very political and emotional issue. In recent years, the emphasis has been on providing economic justifications to the corporate engagement in sustainability (i.e. building the business case) but little has been done to explore the social mechanisms at play in driving sustainability in practice. Stakeholders' engagement is a major concern for managers working to advance the social and environmental agenda of their companies. Persistent tension and the inability to accommodate the plurality of views are the most important factors that slow down the successful achievement of sustainability goals.

Understanding and taking into account the values and feelings held by individuals can help overcome resistance and define a more consistent approach to sustainability challenges.

This work has implications for understanding the dynamics of change efforts for sustainability in supply chains. Making sense of sustainability in SCs may be enabled through both formal (negotiation, contracting) and informal means.

In addition, managers must remain aware of the issue of empowerment of stakeholders to created animated sensemaking processes, and of the value of engaging in constructive dialogue rather than trying to avoid conflict and tensions altogether. ■



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FACTOR MARKET RIVALRY: A NEW PERSPECTIVE FOR THE LOCATION DECISION

By Lisa M. Ellram & Wendy Tate

JOURNAL OF SUPPLY EXCELLENCE



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This paper introduces the theory of factor market rivalry (FMR) and applies it to manufacturing and sourcing location decisions. FMR focuses on inputs that are not rare, valuable, inimitable and non-substitutable (non-VRIN factors).

As a result, these assets are often not given much attention in risk assessment and location decisions. Yet, when companies locate manufacturing in low-cost countries, it is often based

on the assumption of the continued abundance of low-cost, non-VRIN factors. If demand for these resources increases significantly or the resources become difficult to obtain, the decision may no longer be attractive.

This paper gives some examples of FMR, and provides some warning signs and recommendations for organizations to safeguard themselves more fully from the risks of FMR.

Introduction

While some organizations have manufactured goods in different countries in order to enjoy the comparative advantages offered by those countries for centuries, in the 1990s, this phenomenon grew very quickly due to the advent of greatly improved information technologies and more reliable and affordable transportation. This phenomenon also spread to services, including software development, customer service and accounting. Whereas some of the shifting of operations is due to pursuit of better quality, most of the push has been the result of chasing low cost labor and other resources (Economist 2013a).

Examples of this phenomenon abound. The value of services exported from India to the United States went from around \$2 billion in 2003 to about \$18.6 billion in 2013 (BEA 2013a). The growth followed a similar pattern in Western Europe. The services that are exported from these countries are primarily related to management consulting, back office operations, research and development and computer services (U.S. Department of Commerce 2010). However, as demand for these types of services has grown, so have costs and labor turnover. For example, the total

costs of software engineers in India used to be about 20% of those in the U.S. and Western Europe, today they are closer to 60-70%, and narrowing quickly (Economist 2013). Indian salaries have been rising more than anywhere else in the world. Predictions of increases in the 12% to 15% range are expected to continue (Wharton 2011).

Rising labor costs and shortages of skilled labor are creating significant issues for buyers in both the service and goods producing industries. Finding a supplier that has the appropriate personnel is becoming more challenging and also more expensive. In one service example in India, an entire floor of call center employees was enticed to move to a different organization for merely an additional \$.25 per hour (Tate, Ellram, Brown 2009).

However, the constraint on the goods producing portion of India's economy is the relatively old infrastructure. For example, the ports are of significant concern in India. Approximately 95 percent of the country's trade by volume and 68 percent in terms of value is being transported by sea (PTI 2012).

The inefficiency of port operations drives significant resource constraint in this area. The government is working to generate the funds necessary for improvement (PTI



2012), however the process is time consuming and resource intensive. Also, there is a lack of a clear and united Government vision that will help the country take the major steps needed for improvement or make the investment that is necessary (Sertus 2013).

While the lack of infrastructure in India made it clearly a poor choice for most manufacturers, China did some early investments in infrastructure that allowed it to become the destination of choice for global outsourcing of manufacturing. The problem is that Chinese wages for qualified production employees rose by about 20% per year between 2005 and 2011 (Zhang et al, 2013).

Given the total cost of shipping, inventory, and risk associated with the longer lead times and less developed infrastructures, the total cost differential between China and western economies is significantly less than it once was. The differential has been declining particularly in cities, where minimum wages are more than double that of some rural areas. In addition, China's current 5-year plan has minimum wages increasing about 13% per year. National average monthly wages have increased by around 350% between 2002 and 2011, from around 1000 yuan per month to 3500. (China Labour Bulletin 2013).

As a result of these rapid cost increases, foreign direct investment in China by other Asian countries, the E.U. and the U.S. is declining, and moving to other places such as Thailand (which grew 63% in 2012) and Indonesia (up 27% in the first nine months of 2012), and some to Vietnam, the most developed of the countries but currently suffering from high inflation (WSJ 2013; Zhang et. al 2013). In addition, countries such as Vietnam are also located closer to their E.U. customers, helping to reduce long lead times and other risks.

China has been heavily investing in infrastructure in the last decade, easing some of the congestion and physical resource constraints. However, because of increasing costs and shortages of trained labor, land and rent costs, organizations are moving businesses to inland China (Sertus 2013).

The government of China is trying to balance the economy and to spread economic wealth to a greater proportion of Chinese citizens (Sertus 2013). Many companies are taking advantage of the incentives offered to move business inland. This shift appears to be occurring with a lack of awareness of the availability of less strategic resources, such as transportation.

The shift is relatively sudden and has increased delays and transportation costs due to movement of manufacturing away from the coastal areas to less-developed transportation networks in inland China.

The Chinese government is furiously trying to meet these demands by investing in infrastructure. The implication is that as organizations become aware of growing competition and demand for resources in geographical

operating regions, they should also assess the impact on non - VRIN resources such as semi-skilled labor and logistics capacity, and develop plans for addressing potential resource constraints.

Current external environmental scanning of the competitive landscape focuses primarily on firms that compete in customer markets (Barney 1991) or for strategic resources (Kraljic 1983). Factor rivals from different industries are often overlooked, until there is a factor resource shortage. For example, the incumbent firms using rail in the U.S. that were affected by new entrants to their market were caught by surprise.

Better scanning of market issues can allow firms to plan alternative logistical solutions or perhaps grow in different markets, where they are not experiencing constraints. It is this situation – rivalry for non-VRIN resources, particularly those that are non-competitors – that factor market rivalry theory (FMR) addresses. *(This is the only aspect of FMR examined in this paper, as it is the least examined and most closely related to SCM. For a more complete explanation of FMR, see Markman, Gianiodis and. Buchholtz, 2009 and Ellram, Tate and Feitzinger, 2013.)*

Recurring problems of increased competition for FMR types resources

Most companies are well aware of who their direct competitors are in product markets. However, except for scarce or very valuable resources, few organizations pay much attention to firms that buy the same production and service inputs that they do.

Table 1 provides a summary of characteristics of inputs considered "valuable, rare, inimitable, and non-substitutable or VRIN, in nature (Barney 1991), versus those that are considered to be fairly ubiquitous.

Table 1: Characteristics of Inputs: Strategic and Ubiquitous

Characteristic	VRIN	Ubiquitous input
Cost or value relative to end product or service	Valuable- High	Relatively low
Availability	Rare	Widely available
Ability to imitate	Inimitable; cannot be copied	Can be duplicated
Availability of substitutes	Non-substitutable today	Definitely alternate sources of supply; perhaps multiple types of resources can accomplish the same goal



An example of a strategic input would be the glass that Apple uses for screens. Over time, replacements may be found, but today it is considered inimitable.

An example of a ubiquitous input would be low-skilled manufacturing labor in China in the early or mid-2000s. There seemed to be as much available labor as any company needed, so companies who were outsourcing their manufacturing to China did not view availability of labor as a critical issue worthy of assessment (Tate, Ellram, Schoenherr; Petersen 2014).

However, as time has shown us again and again, those inputs that were once considered by many as ubiquitous, can become major areas of service failure or cost increases due to “surprises” related to their availability.

Take the example of freight transportation; there have been many instances where containers, drivers, or ship or air cargo space became scarce due to unexpected demand surges or other pressures (Ellram, Tate, and Feitzinger 2013).

Firms that move their production to a lower labor cost region frequently enjoy low labor costs at the expense of longer, more variable and costly transportation pipelines to the end customer.

Although transportation and the associated infrastructure are perceived as having sufficient capacity, asset intensive resources are necessary to move products from the supplier in the lower labor cost region to the customer.

The potential impact of transportation is often overlooked because, “few shippers first grasp the holistic approach to transportation management.

They understand the components, but they don't know how transportation management fits into the performance of the entire organization” (Albright and Lo 2009).

In today's global environment, multiple production and distribution tiers create increasingly higher levels of uncertainty.

Effective logistics coordination remains critical to manage and match supply and demand. Yet unless a firm is a transportation service provider, logistics and transportation functions are viewed as merely essential rather than strategic.

In situations where logistics is viewed as a source of competitive advantage, as in the case of Amazon.com or even United Parcel Service (UPS) or TNT Logistics, it is because of the application of knowledge or information, not due simply assets or capacity.

This type of knowledge-based resource, often referred to as organizational routine, may create sustained performance differences among firms (Knott 2003). However, such routines are often imitable, as is seen in Target's mimicking of Walmart's distribution practices (Conlin 2009).

From a resource-based view, the substitutable nature of transportation resources and the readily available market makes transportation resources in themselves unlikely to become an important source of sustainable competitive advantage.

Nonetheless, when a shortage of transportation resources occurs, depending on the root cause, the cost and time frame required to address the shortage can vary considerably, and severely impact the competitiveness of products in a certain region. Failures in the transport infrastructure from whatever cause, can cripple the supply chain.

Failures that occur as demand for transportation increases without a commensurate increase in supply are of interest here. One of the challenges associated with transportation capacity is that, depending on the cause of the shortage, the strain on the system may take years to fix, and may involve millions, if not billions of dollars of infrastructure upgrades.

In 2007 and early 2008, global ocean freight capacity was in short supply and selling at a premium on many lanes, particularly from China to the United States and to various European ports (RITA 2010).

A number of companies, including Maersk, NYK, MCS, and Hapag-Lloyd placed orders for huge freight liners, and were told that the lead times to receive these would be up to six years, even though the usual lead-time was about one year.

As the global economy contracted, by the end of September 2009, an estimated 548 container vessels with a carrying capacity of 1.3 million 20-foot equivalent units (TEUs) were idled at seaports worldwide as a result of the decline in global demand for containership services (AXS-Alphaliner 2009a).

Many of these ships ordered at the peak of the economic cycle began coming on-line in 2012 and 2013. Because global trade has not recovered versus the rosy forecast at the time the ships were ordered, there is now a huge excess capacity of ocean freight.

Shippers, carriers, and facility operators in the United States and around the world have been forced to contract their freight operations in response to reduced trade volumes.

Just as it takes time to increase logistics infrastructure capacity, it takes time to contract.

There is little doubt that logistics companies throughout the world are assessing the situation and proceeding cautiously with future expansion plans.

Some ships have been dry-docked, and freight prices are continuing to decline.

Some additional examples of the types of shortages associated with logistics as a result of FMR are included in Table 2 below.



Table 2: Framework for Logistics Factor-Market Rivalry

	Short Term < 1 year	Long Term > 1 year
Political Infrastructure	Shanghai Landing Rights	Major Technology Upgrades to U.S. Ports, Shanghai Landing Rights
Political and Physical Infrastructure	Longshoreman Strike (Los Angeles)	Vietnam, U.S., and India Ports, Addition of Controlled access Roadways in China, Widening of the Panama Canal; Keystone pipeline
Physical Infrastructure	U.S. Truck Driver Availability, Short-term Cargo Shifts from Water to Air in Vietnam Due to Seasonal Shortages	U.S. Rail Capacity, Runway Additions in Pudong, Yangsheng Seaport Complex

The issues in Table 2 have a variety of causes that create unexpected supply shortages in these seemingly ubiquitous assets.

Table 3 provides some insight into those causes. Political issues include legal interpretations regarding resource access, labor dissention, war, terrorism and how land is allocated or used.

Physical issues include resource capacity, resource compatibility (such as different size rail gauge), and lack of resources (such as skilled labor).

TABLE 3: Issues Creating Shortages of Logistics Service Capacity

Primarily Political	Primarily Physical
Land Use Issues	Shortages of Physical Capacity: trucks, rail, cargo planes, other
Landing Rights	Shortages of airport gates
Strikes and Labor Unrest	Shortages of ports with the right capabilities (technology, size, equipment)
Wars or Terrorist Attacks	Lack of skilled labor
Environmental Protection	
Taxes	

Many of the logistics bottleneck problems stem from a combination of political and physical infrastructure problems.

While physical infrastructure problems can often be resolved over time within construction constraints, political barriers are of variable duration.

Market failures associated with air cargo capacity in China and port capacity in Vietnam emerged because new market entrants failed to recognize the growth competing demands for the same services among non-competing firms and industries.

The addition of new manufacturing tremendously strained the logistics systems. In Vietnam, building capacity to meet demand was delayed for reasons within the political and physical infrastructure.

In the case of ports, adding significant capacity required a minimum of four years to construct a new port. In China, the need to add more capacity for cargo planes was entangled with the politics of landing rights allocation.

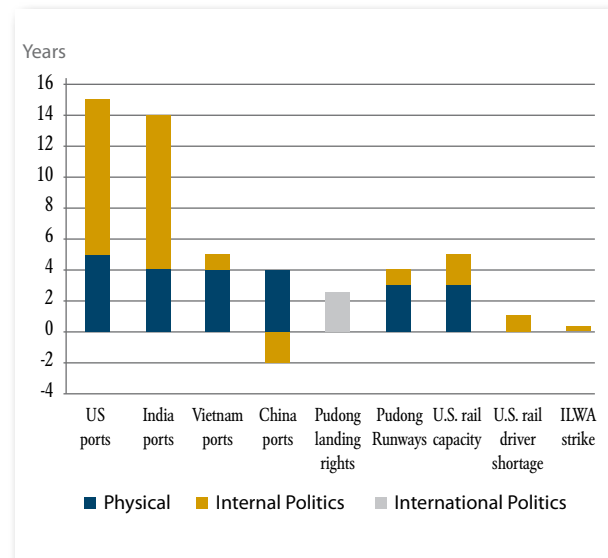
As Figure 1 shows, physical infrastructure issues are often compounded by the political climate, which can slow the resolution of factor-market rivalry.

The length of time needed to resolve infrastructure issues is relatively fixed and can be determined.

However, political problems are less predictable and may be solved quickly as in the ILWA strike/lockout or they may have indefinite resolution times as is the case with U.S. and Indian ports.

There has been an awareness of the issues surrounding U.S. port problems associated with capacity constraints and lack automation for well over ten years with limited resolution.

FIGURE 1: Logistics bottleneck resolution time





Problems with current decision-making and relationship with supply management

The continuing, and perhaps even increasing global emphasis on low prices places a great amount of pressure on organizations to develop low cost supply chains.

Supply chain professionals in operations, purchasing and logistics face a great deal of top management pressure to move to low cost regions, as top management learns about competitor's low cost and other industries saving money by moving to low cost markets.

In the 1990s, the primary driver was the pursuit of low labor cost regions. These low labor cost regions were also frequently associated with lower costs in areas such as employee benefits, environmental, health and safety compliance, and operating overhead.

Today, in addition to pursuing low production costs, there is also a drive to have a presence in these emerging regions that have large, developing customer markets, and represent the next frontier for increased revenue.

While the increased customer market potential has a longer time horizon, there is a short term focus when it comes to assessing the longevity of low labor and operating costs. Further, total cost and scenario assessment typically don't explore non-VRIN resources.

Yet, as history shows, it is the shortage of the non-VRIN resources that often creates the greatest risk, because they are the least well planned for.

For example, in the mid 2000's increasing labor costs in regions near ports and less favorable tax treatment influenced some furniture manufacturers to move from China to Vietnam, where port space appeared plentiful and growing.

Yet other non-competing industries had the same idea at around the same time (toys, electronics), creating massive congestion in the ports and roadways, driving up transportation costs and warehousing costs and creating a bottleneck in ship unloading capacity, severe increasing prices - when price increases in China were the exact issue that drove these companies to Vietnam (Ellram et al, 2013). Both automobile (like Chrysler) and computer manufacturers (FoxConn and Hewlett Packard) have shifted manufacturing from coastal China to inland China because of increasing cost and scarcity issues in labor and transportation (Sertus 2013).

How to improve decision-making in the location decision

One primary way to improve decision making with regard to these factor market resource issues is to take a more holistic perspective in understanding the viability of a

certain location and how long you need to operate there to get adequate return to justify that location.

The potential risk of FMR could be treated like any other business risk. Table 4 below lists some of the leading indicators of potential FMR.

Risk mitigation plans can be put in place in order to be better prepared to respond. First, the important, but non-VRIN potential resources that could be at risk due to FMR should be identified.

These could include resources such as transportation availability for one or more modes, port delays and availability of appropriate equipment, and the other items listed on the right side of Table 3 above.

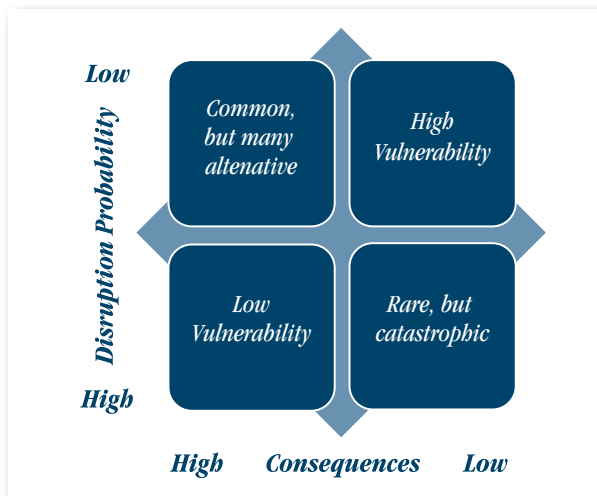
The risks associated with these factors should then be classified according to their disruption probability and consequences, as shown in the sample in Figure 2.

The classification should be reviewed periodically, and whenever there is an actual or a potential disruption such as severe weather, government policy changes, and other issues listed in Table 4.

TABLE 4: Leading indicators of factor market rivalry

General Warning Signs	Warning Signs Related to Logistics Capacity
<i>Government statistics support double digit export growth in that region</i>	<i>Significant manufacturing capacity is being added in the area</i>
<i>Prices are increasing in the region</i>	<i>Roads are being built</i>
<i>Wages are increasing in the region</i>	<i>Logistics resources that your organization is using have no excess capacity</i>
<i>Business flights are being added in the region</i>	<i>Industries that are entering the area will likely use similar transportation modes</i>
<i>Your suppliers mention new customers in other industries</i>	<i>Capacity in the potential problem area is fixed over a certain time period</i>
<i>Excess capacity of productive resources is limited</i>	
<i>Inexpensive land is readily available</i>	

FIGURE 2: Factor Market Rivalry Risk matrix



An interesting phenomenon that has potential FMR implications is that of the reshoring initiative in the U.S. During the last Presidential election one major platform was to “bring jobs back to the United States”. There were a number of incentives offered for organizations to establish manufacturing locations in the United States. Recent research (Ellram, et al 2013) showed that companies were moving, but the U.S. infrastructure was not being developed to support the movement. During the initial period of movement, this was not a problem because many facilities that had been abandoned were available, and there was excess labor and transportation capacity due to the global recession. However, more recently, there have been reports of:

- Rent on buildings increasing and diminished availability.
- Serious shortage of truck drivers to move the products between locations.
- Decaying road and bridge infrastructure
- Delays at ports since upgrades and expansions progress is extremely slow in that area (Charleston, S.C. is an exception).
- Port worker strikes that threaten the flow of raw materials into these manufacturing facilities.
- Constraints on availability of specialized equipment required for some industries, such as automobile manufacturing – car carriers and ocean equipment are difficult to access during the peak seasons and prices increase significantly.
- Lack of appropriately “skilled” manufacturing workforce because the competency was lost during the offshoring phase and the jobs were not considered a “good” career path after receiving a college education. Business schools are not focused on training for these manufacturing jobs.

Thus, there is the potential for a variety of types of factor market rivalry in the U.S., particularly in the areas in and around Memphis, TN and Louisville, KY. Some companies, such as Zappos and Amazon, choose to locate their major distribution centers near UPS major hub in Louisville, KY, or

Fed-Ex hub near Memphis. These cities have been termed “areotropolises” to describe cities whose economies are built largely around airports (Economist, 2013b). While this appears to have created an advantage for these firms thus far, it is not a sustainable competitive advantage in itself, because at this point, other firms could replicate this and also move nearby. In fact, if a large number of distributors that need similar types of labor do decide to relocate into these cities, it is likely that there will be factor market rivalry for all types of distribution facilities, land, labor and transportation--- including trucks, planes, and landing space. If these types of shortages occur, overcoming them will require both significant investments in physical infrastructure and political maneuvering to overcome. Such shortages will not be resolved overnight.

How can Supply Management take a longer term perspective?

Considering a longer term perspective in location decisions is essential in order to remain viable and stay ahead of the competition. As indicated in Table 4, there are specific items that we can look for - general warning signs and specific signs related to logistics. An increasing number of organizations are focusing on improving their risk management and assessment. Benchmarking leading organizations is a good starting point to understand the different types of tools and assessments used to help identify and mitigate risk. While the external benchmarking is being performed, the organization should also be identifying and prioritizing the risks that they face.

The identified risk factors need to be ranked according to relevance to the company. Areas of improvement are then classified, and the risk factors then categorized and prioritized. Figure 3 is an example of this type of classification.

Figure 3: Prioritization of Risk Factors





Sensitivity analysis of these key issues, such as transportation availability and airport capacity should be part of the risk assessment prior to entering a market, and periodically as the external and internal operating environments change. For example, if an organization is considering moving its manufacturing or logistics operations to the Memphis or Louisville area so its customers can enjoy next-day delivery, they should consider the following issue related to VRIN assets:

- Are the airports currently near capacity? How much growth could they handle with the current infrastructure?
- Are there any plans for expansion of facilities? When and how firm are they? What if it is late?
- How is traffic congestion in and around the airports?
- What is the industrial rental or building cost in the area?
- What is the unemployment rate and labor skill profile in the area?
- Based on leading FMR indicators, does it appear that the economy is growing?

Considering not only the “expected” outcomes, but also worst and best case scenarios can alert supply management to potential areas of severe impact risk, and areas where the probability of a risk occurrence actually much higher than originally anticipated.

An example of this is in Table 5, relative to considering locating near either UPS or FedEx hubs, and how a number of disruptions in these areas may impact a company.

As this analysis illustrates, the current risk levels associated with FMR are quite low.

However, the consequences will be very high if these shortages occur. In the case of infrastructure related shortages, they will likely take years to overcome.

Thus, it is essential to monitor the environment for these risks, because they can be very damaging should they occur. An examination of the historical movement of firms to low cost countries shows that the moves in and out follow very similar patterns. If anything, the rate of change is

TABLE 5: Potential FMR Disruption Risk for Aerotropolis

Distribution Risks/Disruptions : Inbound or Outbound	Current Risk	Consequences if unavailable
Infrastructure Unavailability		
Roads	Low	High
Rails	Low	High
Ports	Low	Medium
Landing Space	Low	High
Air Capacity / Availability	Low	High
Assets - Lack of Capacity		
Containers	Low	Medium
Trucks	Low	High
Rail cars	Low	High
Ships	Low	High
Airplanes	Low	High
Labor Unrest / Unavailability		
Local qualified labor	Medium	High
Truck drivers	Medium	High
Rail operators	Low	High
Longshoremen	Medium	High
Qualified airport personnel	Low	High
Pilots	Low	High
Cargo damage / Theft / Tampering		
Physical damage	Low	Low
Theft and other security problems	Low	Low
Tacking the damage	Low	Low
Environmental controls (e.g temperature, humidity)	Low	Low



accelerating. As supply managers, we should learn from these past experiences, and watch for signs that rapid change is underway making a location less attractive before we even move to a particular region. When we are already in a region, we must watch for and be aware of shifts, and have plans in place to mitigate potential risks—whether these are alternate sources or manufacturing locations in other regions, long-term contracts to ensure availability, or turnkey operations that can be shut down and moved very quickly and efficiently. This pattern of chasing low-cost labor and associated resources reflects the cyclical nature of business and the economy.

What is supply management's role in helping to better manage the risk of FMR conditions?

As supply chain management in general and supply management in particular play a more active role in organizational and supply chain management risk assessment, incorporating the often overlooked non-VRIN resources into the risk assessment is an important contribution.

In addition, it appears clear that given the intensity of global competition and the ongoing focus of low cost, the pursuit of low cost countries for manufacturing and sourcing will not end any time soon.

So one approach that firms can take is to balance their portfolios—combine manufacturing and sourcing from low cost regions with manufacturing and sourcing in more stable regions.

It appears that many organizations are beginning to do that now, with the surge of near shoring and homeshoring that is constantly in the news.

It is clear that supply management can play a strategic role by helping the organization to avoid and better plan for the often overlooked risks associated with non-VRIN assets.

This can be a source of temporary competitive advantage—to be prepared when others in the industry are not.

Playing a critical role in preserving supply chain continuity when other organizations are not can be a critical factor in further elevating the status of supply management in the organization ■

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Ecosystem Excellence



The purchasing profession is moving from a focus on Supply markets to Ecosystems. Ecosystems are dynamic webs of interdependent companies and organisations that rely on each other for success. As part of an ecosystem, you might find for instance tier X suppliers, start-ups, new service providers, competitors, complementors, clients, influencers or NGO's. From a purchasing standpoint, this urges to look beyond immediate situations of dependence and competition within the supply chain to pay attention to valuable relationships, collaborations and innovation opportunities.

When we think in terms of Supply markets or Supplier base the main focus is on answering the question “Who competes with Whom?”. We try to eliminate situation of immediate dependence to avoid paying a high price, we look at opportunities to increase our bargaining power, we aim at reducing transaction costs.

**Who competes
with whom?**



**Focus on
price and cost**

When we start looking at supply networks and ecosystem, we look beyond the immediate suppliers and the intensity of competitive rivalry amongst them. We start to take into account other players working around them, we look at the nature and quality of relationships within the ecosystem and we explore how this can lead to innovation and help build new competitive advantages.

**Who Innovates
with whom?**



**The next
competitive
advantage**

Ecosystem Excellence means finding the right balance between managing dependencies close to you in the chain and leveraging valuable relationships in the ecosystem.



CO6 for good CO2

Competition

- *Who competes with whom?
Today, tomorrow?*

Constraints

- *Where are the main constraints
across the ecosystem?*

Co-dependence

- *Who depends on whom? Who could
end up depending on another player?*

Common interest

- *Which players
have common interests?*

Common agenda

- *Where do we see common agendas
emerging across the ecosystem?*

Collaboration

- *Where are we seeing effective collaboration?
Today and tomorrow?*



Co-value creation

- *Who competes with whom?
Today, tomorrow?*

Common success

- *Who competes with whom?
Today, tomorrow?*

Getting started with Ecosystem Excellence

Ecosystem
outreach

External
collaboration

Internal
collaboration

Seamless
execution



To start with ecosystem excellence, a simple exercise can help.

As a team, you can look at your main strengths and weaknesses relating to:

- *Your ability to implement key actions and deliver results*
- *Your ability to work effectively in cross functional groups*
- *Your ability to establish effective collaborations with suppliers*
- *Your ability to reach and engage key players beyond existing suppliers*

This simple exercise can help you to reflect on the current and future capabilities you need in order to move toward Ecosystem Excellence.



AN INTERVIEW

WITH DR. ARJAN VAN WEELE

JOURNAL OF SUPPLY EXCELLENCE



Dr Arjan van Weele holds the NEVI-Chair of Purchasing and Supply Management at Eindhoven University of Technology 1, Faculty of Technology Management, Department Organization Science and Marketing (OSM). Next, he serves as an independent boardroom consultant on procurement governance and strategy to many international companies. Over the last 20 years he has published over 100 articles and 15 books on business strategy and organization, including purchasing and supply chain management

EIPM: For quite some time we hear that purchasing and supply management as a management discipline is getting more strategic. In your view and experience, having been exposed to many companies, why is this happening?

Dr. Arjan van Weele: We have seen purchasing and supply management develop from an operational function to an activity that makes a difference in companies. This is due to the tremendous change in our industrial landscape. With the fierce international competition, companies have increasingly focused their attention, efforts and investments on what they could do best. Therefore they have outsourced activities that specialist suppliers could do better. It started with manufacturing activities, first with components and later with complete modules or sub systems. Then followed services and white collar activities.

Forexample: call-centers, software development, maintenance of software application have been outsourced to countries where labor is cheaper than in Europe. As a consequence, companies have become much more dependent on their suppliers, not only for their operational performance, but also for innovation and for service delivery to customers. For instance, a company like UPS, which delivers thousands of parcels everyday to customers of its clients, has a critical impact on the customer experience of the clients that they work for. Companies have become more dependent on outside suppliers, because third-party spend has increased. And a strategic question for business today is "how do you actually manage that third-party spend?"

EIPM: To what extent do purchasing executives still consider cost cutting their prime concern. What is the chance that they change their cost paradigm to a value driven paradigm?

Dr. Arjan van Weele: With the tremendous impact of procurement decision making comes a great responsibility. You can only spend the money once and cost reduction

remains the core paradigm in most procurement organisations these days. The reason for that is what we call Shareholder Value thinking at the top. The board of many companies is expected to produce financial results. When third-party spend makes up to 70% of the total cost, it's easy: procurement needs to deliver and to contribute to the company's financial results. And therefore cost reduction is and will be paramount on every purchasing agenda.

This is confirmed in a recent survey by Pricewaterhouse-Coopers. Personally, I don't like this outcome at all, because driving cost out of your supply chain automatically leads to reduced quality. And in many industries, suppliers' margins are eroding, and this leads to bad services as well. A single focus on cost reduction sets a vicious circle into motion.

In The Netherlands industries such as: cleaning services, contract catering, personnel transport, temporary labour, are extensively pressured by buyers who have squeezed out the entire margins of these companies. This leads to situations where people are not even paid the minimal wages. And this is giving procurement people a very bad reputation.

EIPM: In the eighties total quality management was the big focus. We have lost touch with what we learned at that time.

Dr. Arjan van Weele: Absolutely! However we need to make a difference between purchasing direct and indirect materials and services. For direct materials and components, quality remains something you cannot debate. But my observations relate more particularly to indirect purchasing spend, where assessing quality can be more complex. And here I haven't seen many cases where procurement professionals are kept responsible for the quality of the services delivered by their suppliers. In this respect there is a big difference between managing direct purchasing spend and indirect purchasing spend.



EIPM: What about complexity, outsourcing has been a way to reduce complexity for some companies? But have they really gotten rid of it?

Dr. Arjan van Weele: Companies, through outsourcing were indeed able to reduce their internal complexity, but they increased dramatically their external complexity. We have built vast and complex global supply chains and now we are barely able to manage them.

Many examples of this exist in the retail industry, the fashion industry, the electronics industry or the construction industry. With so many suppliers around, it becomes impossible for one particular company to manage all of them properly. Especially as these suppliers primarily are selected based on the lowest price. In some instances, the company reputation ends up being damaged as low cost suppliers use child labour, or operate in facilities that would be closed if they were part of our European society. The recent catastrophe in Bangladesh is an example of this. A textile manufacturing company collapsed due to bad infrastructure, 1100 people were killed in one day. Take also the suicides at Foxconn two years ago, where employees jumped from the companies' buildings to kill themselves due to unacceptable working conditions. Look also at the enormous damage done in some areas of China by the waste disposal industry; most of our electronic components after their end of life are shipped to China to be disassembled, leading to terrible environmental and social consequences.

This really puts the question whether we as a professional community are still on the right track, and what the suitable route for purchasing is. With this expanding role of purchasing comes a tremendous responsibility. And it is about time that purchasing professionals take that responsibility seriously. I think we are just at the beginning of this issue.

EIPM: You were mentioning the impact on the society and the environment. There is a strong focus on compliance plans. Are they effective?

Dr. Arjan van Weele: They are totally ineffective. Predominantly, lip service is being paid to the subject. First of all, when driving sustainability in supplier relationships, buyers don't take all of their suppliers into consideration. Secondly, when audited, sustainability audits are performed by external consultants hired to do the job, so the buyers can have their hands free for their daily duties.

This is not a way for companies to engage with sustainability in their supply chain relationships. They wait for the reports from external auditors and then they ask "should we do something about it or not?" "Should we ask for corrective actions?" But they do not engage actively with the suppliers themselves.

And I consider this personal engagement as a necessary step for driving sustainability in supply chain relationships. Buyers need to engage actively and communicate personally

with suppliers, they have to reach out to these companies in order to understand what they are really doing. But very few do.

This explains why, although compliance programs are in place, some suppliers still cause problems and do not meet sustainability requirements. With all due respect, it is easy to make a good impression on auditing companies; they do not have sufficient in-depth expertise in the business they audit.

EIPM: Do you have examples?

Dr. Arjan van Weele: I was in a Chinese factory that was ISO9002 qualified. It also had completed recently a sustainability audit. It had a spraying facility where cabinets were being sprayed with paint and there was a watershed, a water curtain that was used to catch the spray. The plant manager said that the water was fed into a reservoir and then filtered. But when I was strolling around and I looked where the water went, it was going right into the river. When you see this you ask yourself the question: "how is it possible that such a company got an ISO qualification and a sustainability qualification?". You need to be there and actually walk around by yourself in order to see and take actions.

EIPM: This is a strong call for change. Purchasing departments often have the support of CFO. But what about the people that are driving the business? The business units managers, the product managers... They must be part of the equation?

Dr. Arjan van Weele: They certainly are part of the equation but the procurement agenda is rather simple. It is driven by the board of management, not by the business unit managers. Purchasing professionals are expected to reduce cost and to drive category strategies that are not fully aligned with the individual business' needs. This is visible when you look at the degree to which corporate contracts are being complied to by these individual businesses. Most business units don't want to use them. And it takes quite some convincing and discussion to make them do so.

Category strategies generally insufficiently support the business unit strategies. The business could benefit more from suppliers by accessing their new ideas for innovation and product development, by leveraging their business improvement opportunities, rather than focusing solely on leveraging volumes to drive prices down..

Of course I should not generalize here. There is nothing wrong with establishing these kind of agreements for straight commodities, raw materials and energy. But as soon as you get into specialist services or high tech components, it's a different game. You shouldn't do that.

EIPM: A lot of people keep saying "if only we had a CPO at the top level of the board..." Is that really a great idea?

Dr. Arjan van Weele: It wouldn't change much because mostly we have CPOs who just do what the board tells



them to do. And what I see is very little engagement at the CPO level, where people stand up and say “listen, it is ok for me to go one step further and reduce cost in this particular area, but in other areas I won't do it because we are now cutting into the flesh of our suppliers; we should initiate a different strategy, we should invest in our suppliers and we should bring them to a higher level of quality or productivity”. There are very few companies that do that. And we know how to do it. I mean, we have books such as the ones written about the Toyota Production System.

We have excellent books describing Honda production and purchasing practices. And other examples of Japanese companies. But if you look for it you can find excellent examples also in Europe. In Germany you'll find examples such as BMW, Porsche or Mercedes Benz, who invest in supplier relationships, bringing suppliers to a higher level of expertise. But European examples are too few. All of these companies look for the long term, for long term value creation, whereas most of the companies that I know and that I've worked for are only there for the short term financial returns. And as long as that is the overarching paradigm, i.e. that we should stick to delivering on short term expectations, there's little hope for procurement.

EIPM: So, do we have to wait for a new style of capitalism to emerge? Or can we start acting anyway?

Dr. Arjan van Weele: Certainly there's a new type of capitalism around the corner. And that's the type of capitalism that Michael Porter had described in his famous HBR (Harvard Business Review) article on “Creating Shared Value”.

This new capitalism is driven by social media. Social media will lead to a situation where we'll have full supply chain transparency. And there will be no company that can escape from it. Being a responsible company is going to be a pre-requisite in order to be able to survive in the long term. Even for Apple and Shell this will be important. Having a nice brand, such as Apple, or having a permit from the government to drill for oil at the North Pole is not sufficient anymore. You also need a permit from the general public, and the public will only give that to Shell when it is confident that Shell will do a good job there.

If Shell is not able to get that message across and if Shell is not able to convince the greater public, Shell will face very difficult times. Having the technology is not enough, having the permits from the government is not enough; you should also have the acceptance of the wider public. In Nigeria, clearly Shell is a victim of some infringements and some sabotage. However, they have failed to communicate this to the broader public and now Shell has to take the blame for it. These companies need to open up and be more responsive to public requests for information on how they actually operate. The new capitalist paradigm will be

based not on shareholder value, but on stakeholder value creation. Companies will need to provide superior customer value and superior society value, and, if they are able to generate both, this will translate in the long term on greater shareholder value.

However, if they focus solely on shareholder value this will be at the detriment of customer value and societal value, and such companies will be taken care of by society. So it's a matter of time. This will change the landscape of procurement dramatically. Because then it will open up possibilities for procurement directors and managers to drive sustainable and responsible practices in their supply chain. I like it very much that we have social media in place that will consistently review in the years to come irregularities of companies and supply chains. And we should use that information to improve our supply chains.

EIPM: How should procurement organization evolve in this context?

Dr. Arjan van Weele: In a large corporation you have different business units with different markets, and different degrees of maturity. As a result the centralization of procurement will come to an end. We will only have centralized and standardized order-to-pay solutions, purchasing processes and its management. Procurement will move much closer to business. If they fail to do that and keep their centralized position, I think that will be short-lived.

EIPM: What about innovation?

Dr. Arjan van Weele: Well, look at the car you drive. Take your Automatic Transmission or Continuous Variable Transmission. This technology comes from specialist suppliers. If you look at your navigation system, it's TomTom. If you look at, say, your climate and air conditioning, it's coming from specialist suppliers. If you look at all the smart systems and the sensors that are everywhere in a car, they all come from specialist suppliers.

Today, car manufacturers can be only as innovative as their suppliers are. And the whole idea is to capture that innovative potential from suppliers. But you can't do that if you have a short-term relationship with your suppliers and if you are not investing in collaborative relationships. Collaboration in the automotive business is called “tough love” – it's very tough, because the targets that you need to meet are harsh. So as an automotive Company you need to work side-by-side, with suppliers to reach these targets, to produce a car that is consistent in quality, that has good reliability and good fuel efficiency. In the electronics industry we see less of this. Tapping into the innovative potential of suppliers is still a big challenge for these companies.

They suffer from the images of the past, the shadow of the past. When suppliers were beaten and confronted with



e-auctions; when they had to reduce their price every year. It was making it impossible for them to invest in new technology and R&D. And it makes them more reluctant now to share their best ideas with such customers. They do not trust them. These companies have to catch up. There's still a lot of work to be done to rebuild the necessary confidence and trust that is necessary to develop this kind of innovative relationships.

EIPM: We are increasingly talking about Ecosystem. Is it just like a new label or something new?

Dr. Arjan van Weele: What we see over time, is a change of paradigms, a massive paradigm shift. Let me discuss a few of these paradigms and how they shifted over time. The first paradigm we had was what I called the dyadic paradigm. We looked at relationships as dyads i.e. sets of two: we have the buyer, and the seller, and everything happens in that relationship. Then we changed our paradigm from dyadic to a Supply Chain paradigm: we realized that behind our suppliers there are other suppliers that are crucial to feed them with good products. Next, we changed this paradigm to the Value Chain perspective. The reasoning behind that was that we, as a manufacturer, are in the same boat with our suppliers. Both we and our suppliers jointly need to serve our customers better. It is not just us!

Our suppliers should help us to become more competitive and deliver better value propositions to our customers. At that time I thought that we were done and that before I would retire nothing else would change. But now we see the next paradigm coming, and that's the circular economy paradigm: today the way we engineer products and build them is decisive for taking them apart and reusing or recycling them when the end of life comes. Reusing and recycling materials will gain in significance as there is a limit to worldwide material availability.

Very few companies have recognized that. Today we should build a generation of products that can be recycled, and taken apart without shipping them to low cost countries, where people suffer from diseases due to pollution. I hope that the press will jump in and that social media will circulate these scandals. Because the more this will happen, the more the process of growing the circular economy will be sped up. Here again procurement people will be on the front line. They should challenge engineers to come up with designs that enable taking these products apart in an easy manner when it comes to the end of the life cycle. We will have to deal with increasing scarcity and we need to recycle products to be able to meet the requirements of our future generations. We don't have any other choice.

EIPM: Well, a "burning platform" is rising! What would be the three things you would say to someone entering into the purchasing profession? What would be your three pieces of advice or words of wisdom?

Dr. Arjan van Weele: First of all, there's not a single activity in your company where you can make a bigger difference than in the purchasing or supply function. There is so much to be done!

Secondly, there is no other function where you're going to learn so much, but learning will come the hard way, because you will be disappointed in the speed with which you will be able to drive ideas through. And the third is that this is a function where, apart from really contributing to your company's objectives, you can change the world. You can change the world! Just by implementing sustainability practices in your purchasing operations and in your supplier relationships, you can do a much better job for your company and for the world around us. There's not a single function that has that impact and opportunity.

So, therefore, we need people who are motivated, who are talented and who are determined to change the function, the world and their companies'.

EIPM: And for academics? How can they help in the future?

Dr. Arjan van Weele: We've come a long way by creating the Tool Box for Purchasing. We have now over Fifty tools that you can use to boost purchasing practices. Everything that needs to be known about how to drive professional purchasing can be known today by anyone. 30 years ago this was a totally different picture.

What we need to do now, as academics, is to engage much more with business managers and with society.

We have to do research which brings much more alignment between purchasing operations, business management and societal needs.

We need to enlarge the community, it is too small today.

We need to reach out to management disciplines and engage with them ■

THE FOURTH EDITION OF THE EIPM-PETER KRALJIC AWARDS

By Christian Kaemmerlen



JOURNAL OF SUPPLY EXCELLENCE

Christian Kaemmerlen has graduated as Engineer from Arts et Métiers ParisTech in 1970, and from Université de CAEN Droits et Sciences Economiques in 1973. He started his career as a Consultant at AT Kearney and Bossard Consultants, and joined Texas Instruments France, where he held several senior positions in the Supply Chain and Logistics before he became member of TI World-Wide Procurement and Logistics Leadership team and Texas Instruments Europe Procurement Director. He lately joined EIPM to develop its maturity assessment tool for the organisations, and is the project manager for the Annual EIPM Peter Kraljic Awards.

The fourth edition of the EIPM-Peter Kraljic Awards was celebrated on Thursday, the 12th of December 2013 in Archamps, France.

These Awards recognise Purchasing organisations across the world for their outstanding practices and for modelling the way forward. The winners are elected by a jury chaired by Dr. Peter Kraljic and composed of industry leaders and purchasing experts as the outcome of a very detailed and fact based process. Companies are evaluated using the EIPM Maturity Assessment Tool -based on the EFQM Business Excellence Model-, followed by on-site audits for the finalists.

This year's ceremony was highlighted again with the presence of Dr. Peter Kraljic, Honorary President of the EIPM Award Jury, and Mr. Jean-Philippe Collin, CPO Sanofi (2012 Organisation of the Year Winner). They announced the winners and presented the trophies.

The opening speech of the evening was given by Mr. Bernard Gracia, EIPM Dean & Director, underlining that purchasing is not only "about cutting costs" but most importantly about their ability to "create Value" for their companies. Dr. Kraljic delivered a speech congratulating the participants for their efforts and contribution to the increasingly strategic role of Purchasing, as he believes this kind of initiative contributes to the visibility and external recognition Procurement Organisations deserve.

This year's winners are:

Change Leadership, Organisation, People and Process: EADS CASSIDIAN.

(Since January 1 2014, the company, one division of the Airbus Group, has been renamed Airbus Defence and Space). The young EADS Cassidian Supply Management organisation is perceived as a partner that adds value to the

business thanks to continuous focus on leadership, change management, the development of people, supported by sound processes, supplier lifecycle management, multifunctional commodity teams, robust risk management and compliance practices.

Value Creation - Extended Enterprise: BEKAERT.

Bekaert Purchasing clearly goes beyond the traditional supplier relationships and building the Bekaert Extended Enterprise. Very consciously and systematically it is involving suppliers to in developing new solutions to improve the bottom-line and to grow the top-line.

Purchasing Value Creation - Innovative Business Model: VODAFONE OneSCM.

One Supply Chain Management is Vodafone's strategic procurement centre of expertise. Through its supply chain financing programme and serving partner markets and other third parties it aims to turn SCM into a profit centre. This original set-up is supported by high performance and cost effective processes.

The Organisation of the Year: ERICSSON Sourcing BNET.

The BNET sourcing organization is recognized as a value adding partner of the business.

A continuous focus on shared strategies, the systematic development of collaborative relationships with suppliers, R&D centric category teams, a best in class risk management logic focused on time to recovery and sound people management.

A strong level of confidence exists within Ericsson that sourcing delivers today the right service and value to the business.



Over the past 4 years Best Practices in Procurement have gained maturity

It has been forever that purchasing organisations have been looking for ways to identify world-class practices and benchmark their processes against the best-known ones, in their search for higher efficiency and value creation for their companies.

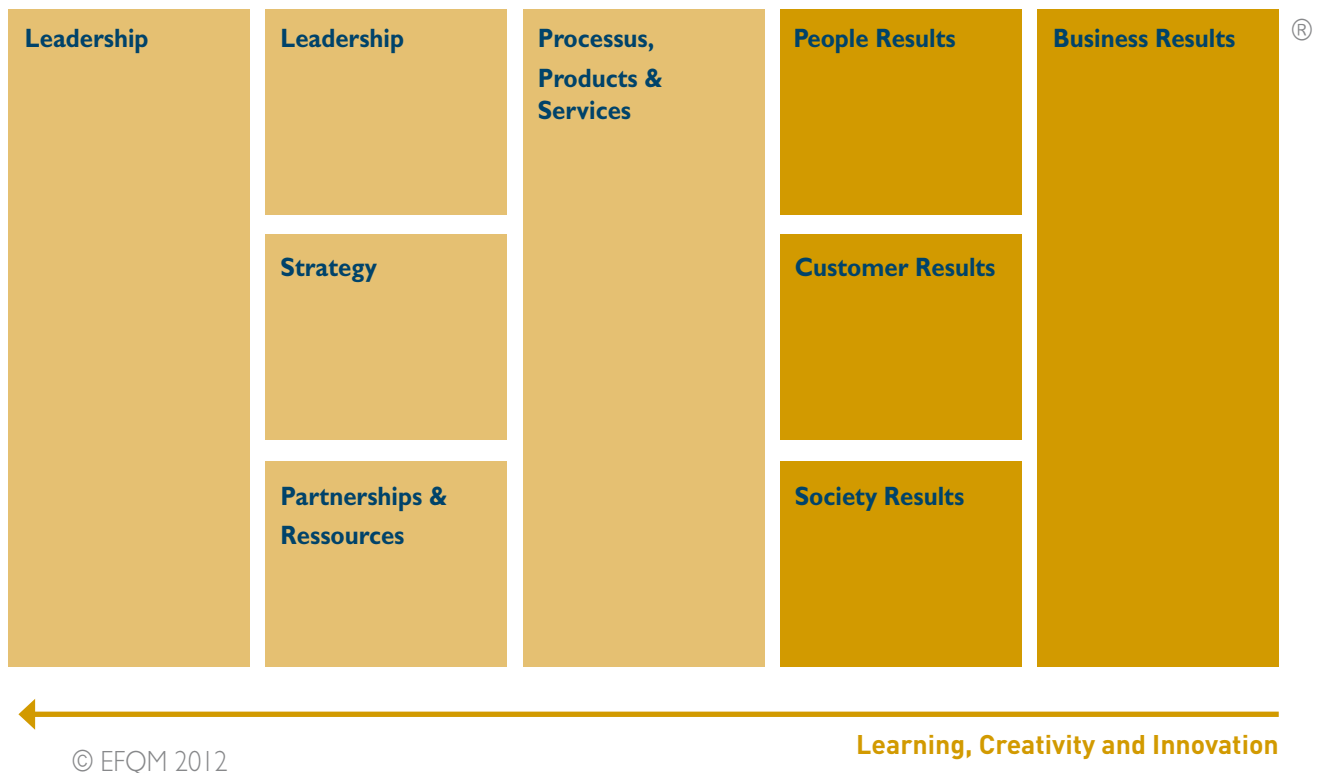
EIPM launched its web-based tool to close that gap and

allow such companies not only to compare themselves against each other but also help them understand their strengths and areas where they have opportunities to improve.

The maturity assessment tool is structured on the proven and constantly updated EFQM Business Excellence Model. Organisations measure themselves against the nine criteria of the model.

Enablers

Results



Over the past years EIPM could identify the most efficient practices and has noticed the evolutions of some for even higher maturity and benefits for their adopters. The EIPM Peter Kraljic annual Award process is giving a unique opportunity to EIPM to measure the progressions year on year.

The most progresses have been achieved in the area of interaction with the stakeholders and alignment between their respective strategies.

Few years ago purchasing organisations used to guess the expectations of their internal users and perceived savings as being the paramount measure of their satisfaction. Only few had a process in place to collect their internal partner needs and were engaging validation steps to ensure their priorities, goals and targets were fully supportive of the business requirements. Nowadays some purchasing

organisations are enabling the mutual creation of value between their business units and their strategic suppliers. They facilitate new types of relationships based on trust and complementarity of competencies, and pulling a creative synergy out of it. Finally making the concept of extended enterprise becoming a reality.

This approach requires the fundamentals of leadership, strategy and supplier relationship management to be in place to deliver good results.

Innovation is another area where significant changes took place recently: from being the exclusive ground of the company research and development department to becoming an activity in which suppliers are offered the opportunity to bring their contributions. Sometimes they bring an idea or a solution that they have developed



independently. More often the innovation is generated by joint efforts, trying to solve some unmet needs expressed by a business unit and relayed to the supplier market by the purchasing organisations through appropriate process and tools.

Risk Management is also maturing pretty quickly boosted by the recent, multiple and unprecedented disasters that have hurt entire industries due to the unique specialisation of the impacted area.

Companies no longer only look at the financial performance of their suppliers but systematically consider several other aspects, with some even precisely plotting all their suppliers on maps, being with this able to quickly size the possible impact of a freshly announced disaster.

All have clear policies in place to assess, report, review, monitor risks and a definite position about risk mitigations.

Great companies introduced 'positive' sustainability as part of their strategies long time ago and have been leading initiatives to spread those values across the planet; on the other hand highly visible companies have been caught infringing the basic values of human rights and decent labour conditions.

Such extreme situations have given impetus to purchasing organisations which are now including very specific objectives related to the various sustainability aspects they can impact in their contractual relationships with their suppliers, but also when dealing with the society.

It is no longer just complying with an increasing number of rules and regulations but by making strong commitments, confirmed by actions: will it be to preserve resources, or just to ensure that the conditions they negotiate with their business partners are fair and balanced and can support positive development of all.

As invisible contributor, information is taking a growing strategic role in the ability for Purchasing organisation to identify opportunities for strategic differentiations and the shaping of new solutions. As a minimum it involves having the tools and the discipline to collect the appropriate piece of information and analysing it with the right expert understanding of its contextual meaning.

In a growing number of cases, more advanced, it is about creating new information by sharing knowledge and expertise between companies.

Here again not a program that can be just dictated by management, but a project that capitalises on real sound practices of relationship between companies and partners whether business, universities, NGO or even competitors businesses.

When combined under the same roof those practices are requesting companies to evolve in a new environment, prone to the development of more joint capabilities, more innovation, more robust and repeatable value creation.

If many companies have understood the new direction to follow, only few have developed all the necessary enablers and achieved yet the first enhanced results out of the new approach.

For sure the trendsetters will further strengthen their approach and more systematically deploy the practices across a wider range of their activities.

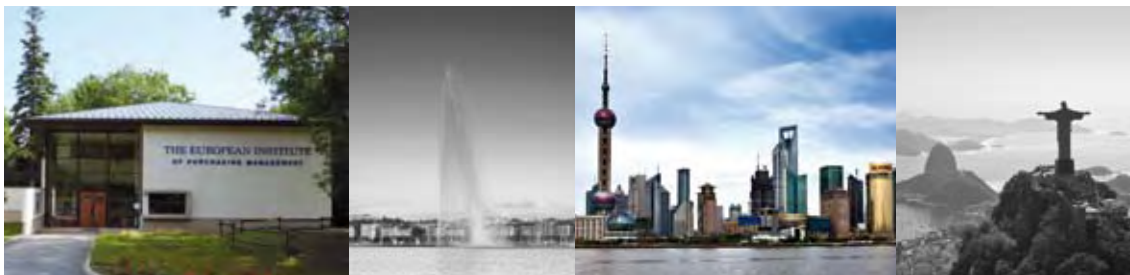
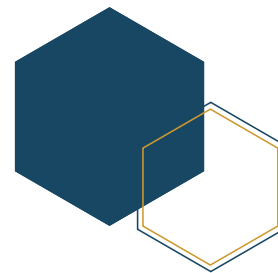
Through workshops, its educational programs and a variety of other events through the world, EIPM will facilitate the sharing by the companies of their good practices and fulfil its ambition of promoting the role and importance of Purchasing ■

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LEADERSHIP PRACTICES APPLIED TO THE SOURCING FUNCTION

By Bernard Arrateig



JOURNAL OF SUPPLY EXCELLENCE

Bernard Arrateig is an expert in elaborating vision for the sourcing function and in crafting and delivering category strategies. He is a strong believer that purchasing should be positioned as a recognized contributor to the company strategy. He has developed a strong experience in leadership and breakthrough project management at UPM and in other context. He decided to share this experience as a trainer for EIPM and for INSA Rouen.

Hypotheses

What sourcing leadership can learn from business leadership

According to a 2008 McKinsey study, 37% of the performance of sourcing department performance is explained by the mind-set and aspirations of its people.

Therefore if you are in a leadership position in sourcing, you have a vital role to play to develop these.

As we will see, the key dimensions of leadership have not yet been equally developed within the Sourcing function.

The legacy of cost reduction has been preventing sourcing from opening new avenues

The legacy of cost reduction has often prevented sourcing leaders from exploring new avenues to boost the quality of relationship of their people with their stakeholders: business, operations, supply chain and last but not least, with suppliers. It is time to explore the new leadership patterns and to pave the way for their implementation.

Leadership definition

The four dimensions of leadership

Leadership is based on four key dimensions. The first relates to the **vision** and aims at offering a shared direction to all stakeholders. This enables to better position the sourcing department within the company and to communicate a consistent message across the board. The second dimension relates to **innovation** which supports the development of the business and operating models and helps the company to differentiate from its competition. A business model outlines how the company generates its revenue while the operating model describes how it produces and delivers outstanding services to customers.

People development is the third dimension; it nurtures the competences required to run operations efficiently and to execute the strategy.

Key activities and the search for excellence is the fourth leadership dimension. Purchasing people tend to take for granted that they know how to analyse a market, or how to build a sourcing strategy. However they should constantly search for new ways of doing things to yield better value.

The questionnaire used for the present study covers the above four leadership dimensions.

Questions related to the vision focus on:

- Value proposition for stakeholders,
- Motivational effects on procurement people.

The stakeholder's value proposition covers all the activities that generate added value for the stakeholders. It includes cost savings, profitability, competitive advantage, differentiation and risk management, among others.

33% of sourcing departments were including business success contribution and competitive advantage which were proof that purchasing legacy got some breaches

Questions related to innovation include:

- How innovation is channelled,
- How innovation is encouraged,
- How innovation is monitored along the purchasing process.

Questions related people development include:

- Consistency between the procurement strategy and people competences,
- The capability to attract and retain talents.

Questions related to key activities and the quest for excellence include:

- Resource dedication towards achieving excellence,
- External connections that support achieving excellence.

Test the hypotheses

A questionnaire was developed to explore how sourcing Executives lead their function. It is a tool that allows to assess the current situation and a survey that looks at four dimensions:

- How leaders craft and share visions?
- How innovation is managed?
- How key capabilities are developed?
- How key purchasing activities are continuously improved?

Each dimension evaluated by respondents includes 5 to 12 activities. Evaluation was done using a 5-grade scale. 5 meaning that the respondent saw significant achievement, while 0 is meaning that the activity had been overlooked.

79 sourcing departments were invited to respond. 41 sent their assessment back, representing 5 industry clusters: Paper & Packaging; Chemistry; Manufacturing & Electronics; Energy & Transport; Construction & Business to Consumer.

The results provided a benchmark of the respondent's leadership practices against the full panel and their industry peers. It gave sourcing leaders a chance to reflect on their own activities, and offered new improvement ideas.

From a research standpoint, this survey helped to build a network of Purchasing Executives and to better understand the Purchasing leadership landscape.

41 sourcing departments responded

All of them unveiled their mission and vision.

- 67% of the surveyed sourcing departments have a vision that relates to cost reduction. This includes "cost reduction", "materials optimization", "sourcing efficiency", and highlights the cost killing legacy within the purchasing DNA.
- However 33% of the responses include some references to the contribution of purchasing to business success. This shows that a breach is emerging in the legacy.

Vision will deliver	
Business performance	25%
TCO savings / quality	22%
Sourcing development	20%
Other cost related	17%
Sourcing as a valuable partner	8%
Supplier's performance	8%

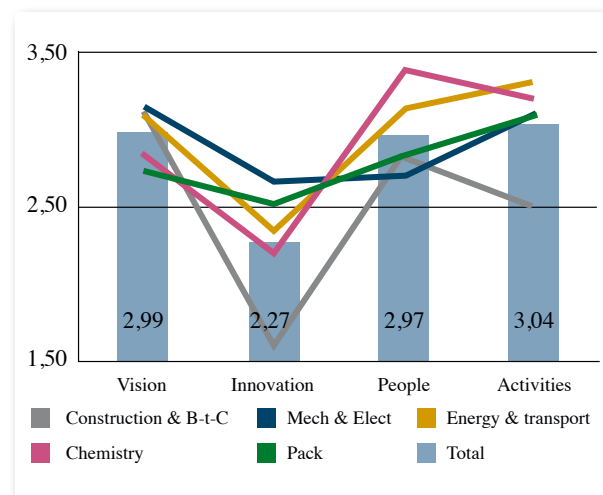
However there is sometimes a confusion between strategic goals, (like people development or purchasing centralization), and the mission itself, which should depict the raison d'être of the purchasing function (which is to create value for stakeholders).

The vision is complementing the mission and is a statement about where the department wants to be within the next three to five years. Here again, we see a similar pattern between the cost reduction legacy and the contribution to business value creation. It is difficult to highlight a trend but sentences such as "from supply to business value chain contributor" is undoubtedly a good transition towards a modern purchasing vision.

The assessment of leadership activities

The average score across the four dimensions, is 2,81. Room for improvement exists.

While vision and people development received higher grades, innovation was clearly neglected by sourcing departments. Key activities are well described on papers, but their implementation relies on few key people and is rarely systematically managed.



The graph displays the average mark per industry cluster and per dimension. Chemicals and Energy companies have the highest scores. In addition these two clusters have their mission and vision oriented towards value contribution. The sourcing departments that were capable to move beyond the cost reduction legacy are the most advanced in terms of leadership practices.

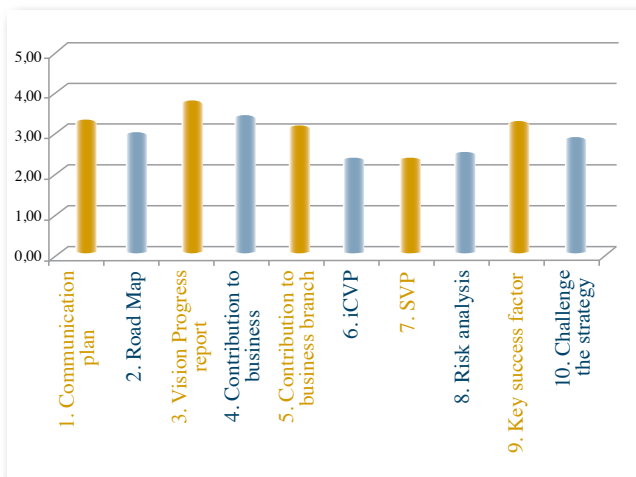
When we analyse deeper the **vision** dimension, with a score of 2,99 we see that the formalization of the value proposition for stakeholders is rated rather low, while the connection with the business is quite strong. Creating joint targets with internal customers is a great winning card that sourcing departments can use.

The strategic road map and the vision progress report are other signs of closer cooperation. These two documents are frequently established and therefore demonstrate a strong commitment of the sourcing management to drive the progress of the purchasing function. However

defining and using a value proposition for internal clients and suppliers is still a new practice. The value proposition is one of the tools that business leaders can use to ensure that their organization is entirely aligned with the stakeholder needs. The main idea is to go beyond the prejudices and to genuinely listen to the client, in order to enable an adapted response.

The poor results on risk management emphasize that stakeholder value proposition could be strengthened. Addressing with stakeholders, on a regular basis, a list of risks, with their possible consequences, their likelihood to occur and related mitigation plans, is demonstrating an enhanced procurement professionalism, and above all, it is cementing the trust for further cooperation.

Vision; Creating value to stakeholders ?



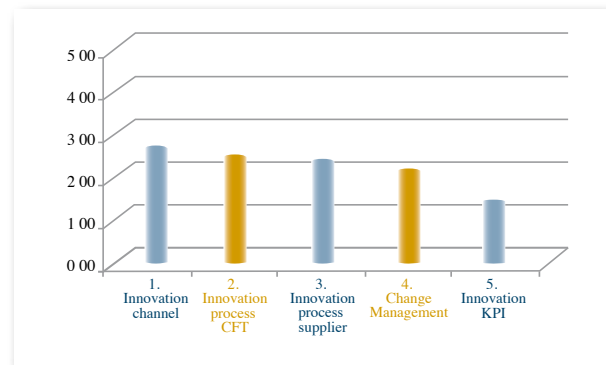
Innovation management, with a total score just above 2, is a call for action.

The tools that help generate reductions in total cost of ownership are not properly implemented and deployed. Innovation also covers change management, meaning accepting other's ideas. Leaders should encourage members of their crew to listen to and have empathy with colleagues and other business partners. Innovation should be supported by behaviour rules and a team spirit that favour shared goal.

Procurement people have three main levers to generate savings; challenging the demand, creating competition and managing supplier relationships. Innovation should fuel to challenging the demand and managing suppliers.

This highlights the importance of innovation and the need for sourcing leaders to instil a culture of innovation. Encouraging and collecting ideas is paramount. Innovation techniques can be used within cross-functional teams and with suppliers to generate new ideas. Introducing new ways of working should be emphasized as a method to improve the organisation while giving it a culture of flexibility and agility. In the current world where demand is versatile, the flexibility of the sourcing team is a real asset.

Innovation; do we need more attention?



Regarding **people development**, the good news come from the alignment of the procurement strategy and the people development skills.

The score, close to 3 is definitely showing a real concern about the need to enhance people skills. Yet another strength is evidenced in the assessment of people behaviour and their mind-set. Behaviour means social skills, building relationships with colleagues, subordinates and boss. When a department starts assessing the "how to be" of their people, it is a very good sign that the company doesn't see only the "R" of the HR acronym, but people mind-set and aspirations as well. People matter.

However few things could be treated differently, and among them, coaching skills. The journey towards excellence requires effective change management, with new techniques, new systems and new organisations paving the way forward.

One of the ingredients against people resistance to change is coaching skills. The changes can't be just imposed brutally, they have to be explained and related to the whole picture.

Managers with good coaching skills will be more comfortable and successful with this process. The employee value proposition has a rather low score and should be seen as an essential part of the people strategy.

The goal is to attract, hire, develop and retain people. It has to be supported by meaningful job descriptions, an explicit culture of excellence, shared decision making principles, accountability, clear reward and recognition process.

One of the leaders' roles is to build the platform where people will find their motivation. Therefore the "vision buy-in" is crucial. Let's imagine that some team members are fundamentally against the vision. Here we are not talking about some people who could challenge some of the strategic goals or the way the key performance indicators are built, but talking about people who are against the direction.

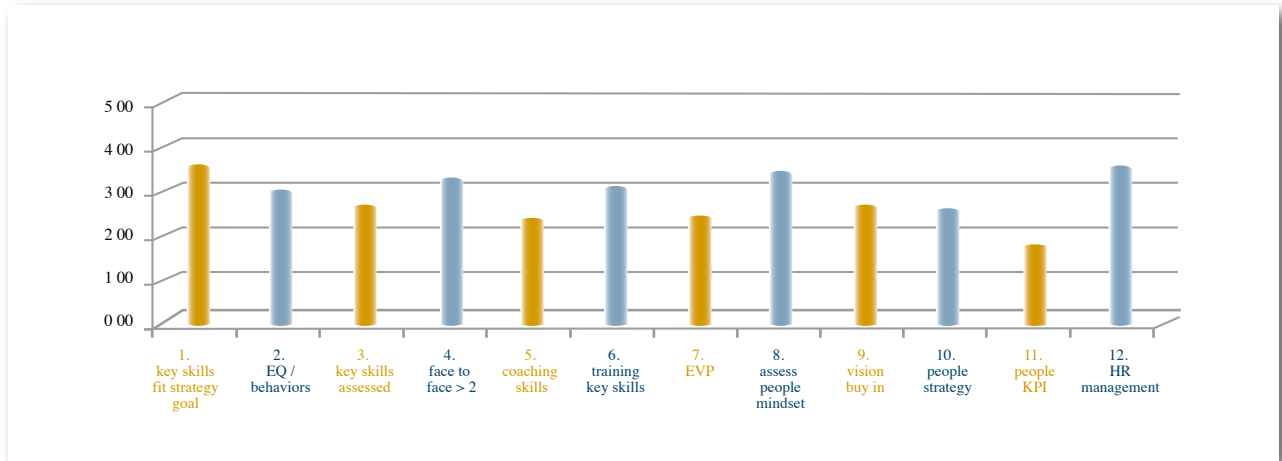
If a critical mass of people is not willing to embrace the vision, it is a serious warning for the purchasing management team that either the content of the strategy



Key performance indicators must be implemented to track the good execution of the people strategy. If your goal is to attract, develop and retain people, indicators related to

profiles of new entrants or absenteeism or job rotation within and outside the function would be components of an efficient dashboard.

People key capabilities; Good but?



or the communication should be revisited.

The **key activities** section of the survey with an overall score of 3,04 pinpoints the poor attention procurement departments are paying to the development of their processes.

A strong point is the formalization of the current practices, and their ownership. This tends to be systematically done and is a good basis for robust quality assurance.

Unfortunately the survey also shows that the search of continuous improvement is not commonplace. How do we improve a purchasing process? How do we bring differentiation in our supply chains? How to lead outstanding negotiations?

All these questions and many others should be on the agenda of sourcing leaders who need to define where they are and where they want to be. It is a great opportunity to serve as a benchmark to measure progress.

Improvement scope has to expand beyond the base purchasing process. Systems and software for instance might require specific attention too.

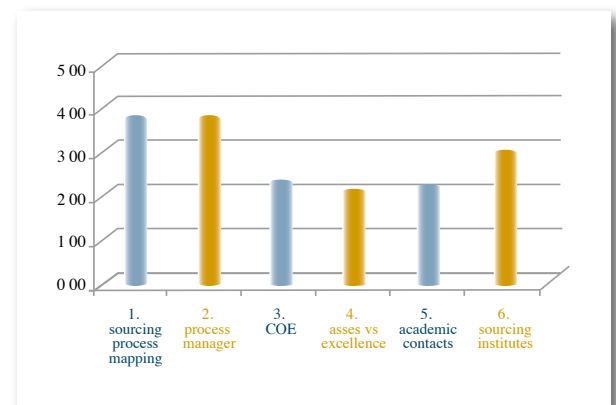
Ensuring you have good and reliable data about spent, supplier performance, lead time... is not an administrative burden, it is a critical step toward great performance.

Robust supplier and supply data need to be put into a common system. Consistency across the different branches or divisions is certainly another point to pay attention to.

Learning from external sources is very valuable. Good leaders should build connections with the outside world to find new ideas from outside the company.

Universities, consultants, sourcing associations or institutes can be useful sources of inspiration for continuous improvements.

Develop key activities; progress in action



Conclusions

The observed legacy role of cost killer for the sourcing function is still very valid. Even though many aspects like people development or strategy execution are now getting a reasonable score.

Innovation management and key activities development are still far from being at the right priority level in most sourcing organisations. What we can learn from the business leadership practices, is how they build their value proposition for their main stakeholders, such as customers or employees. This alignment with the top management activities will deliver an image of stronger professionalism, while helping sourcing heads to earn their business partner's trust. People matter. Change management and people vision buy-in could be the two areas to develop and assess. Middle management coaching skills could be a key success factor; to make it really happen ■

INNOVATION : WHAT BUYERS SHOULD KNOW

By Hervé Legenvre



JOURNAL OF SUPPLY EXCELLENCE

Hervé Legenvre is currently the EIPM MBA Director. From 2000 to 2010, he was EFQM Director. He headed the European Excellence Award, EFQM training activities and facilitated numerous benchmarking projects. He oversaw the development of the most recent version of the EFQM Excellence Model, a framework used by more than 30000 organizations to assess their performance and develop their strategy. He authored the book on innovation "An History of Inventors, the Anglo Saxon Trail".

Innovation...

4 things buyers need to know

Whereas most buyers are mainly concerned about Costs and On-Time Delivery issues, one should also take into account one's role as a positive change agent within the company, linking together internal operations and the outside world represented by the suppliers.

Suppliers are a source of new ideas and can contribute to creating distinctive performance, differentiation and competitive advantages.

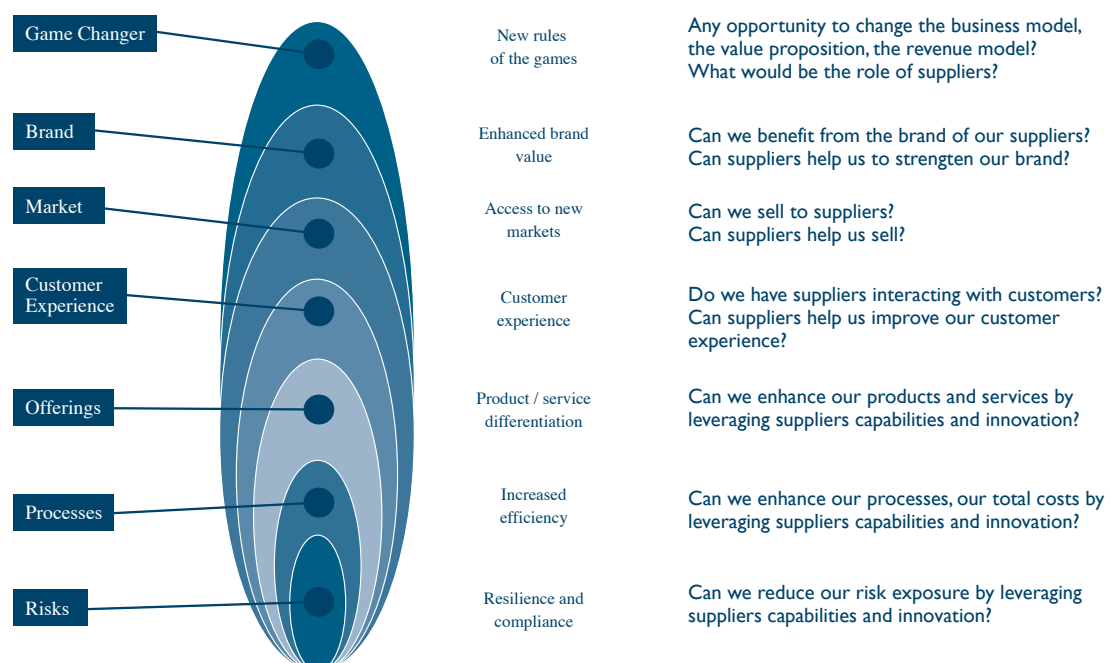
The present article explores 4 things buyers need to know about innovation.

What is innovation?

Innovation is often defined as the implementation of a new or significantly improved product or service, however reaching an agreement on what is new or significantly improved in a specific industry can be a daunting task.

Subjective opinions tend to battle hard when the word innovation is around. Furthermore, innovation does not need to be about products or services... it can be about processes, distribution channels, new modes of organization, customer experience, brands or business models, etc. The following diagram can help you to ask some of the right questions when it comes to exploring the different types of innovation that can come from existing or potential suppliers.

How can supplier help to create and capture value





Looking beyond the obvious

Often buyers tend to believe that innovation comes from collaboration with suppliers. This is often true for incremental innovation, where you continuously try to improve the performance and cost of what you buy.

However when you look at fundamental innovation, where a radical change is taking place in terms of performance or market structure, this can come from new suppliers who simply have an interest in starting to serve your industry.

Also there is an implicit assumption that innovation will come from one company, but sometimes it is worth looking at encouraging suppliers to work together, or creating a consortium of suppliers across a few categories that could come up with new concepts.

Too often when buyers are performing market analysis, they tend to focus on the main existing competitors in their supply market and on the few new entrants that could help lower cost.

An innovation mindset calls for a different approach, instead of asking who competes with whom, you need to ask who is innovating with whom?

This can take you well beyond the usual market suspects. It will often lead you to spot opportunities related to substitution, tier 2 suppliers and the emergence of new industry players.

Understanding who innovates with whom, is like opening a small window to the future... You might not have full vision, but still, this is an opportunity to look ahead and capture useful market hints.

In search of unmet needs

If you ask a supplier "if you have innovative ideas or something new, feel free to share this with us, it is unlikely that you will get a truly innovative contribution. At best, you could be presented with the solutions your supplier has recently developed for another industry, or for competition.

People often believe that innovation comes from blue sky ideas... but this is a legend... even when luck plays a role in innovation, it comes with a lot of work... "Luck only favors the prepared mind" as the French microbiologist Pasteur said. In fact innovation comes from people trying to solve problems or to overcome constraints ...

So the best thing you can do to stimulate suppliers to innovate for you is to start sharing unmet needs with them.

An unmet need is a problem or a constraint you have identified as critical for the business.

Looking for unmet needs rarely starts with asking stakeholders and customers their expectations. It is better to:

- Observe them closely,
- Search for reasons that prevent them from making radical changes happen,
- Spot their pain points.

This also calls for a good understanding of:

- the current challenge the business is facing,
- the differentiation strategies other teams are working on,
- and the performance drivers that help you compete on the market.

When you find what looks like an unmet need you can qualify it by answering the following questions

- What is the problem? The desired outcome?
- Who (which individual in the case) is responsible for solving the problem and making a decision?
- Is solving this problem in line with the strategy?
- Where is the money? (The value generated by the solution)
- When does the problem need to be solved?
- How will we measure success?
- How did we try to solve this? What have others tried?

So, before starting go and visit your key suppliers to ask them for a couple of brilliant ideas... make sure you have done your homework!

That you have looked beyond the obvious and identified potential new sources of ideas and developments and that you have a few unmet needs that will help you to start the conversation...

Innovation day: GO! But be ready!

When innovation and value creation reach the top of the agenda "Let's do an Innovation day!" often sounds like a magic answer. However this is not an end in itself; an Innovation day needs to be properly integrated into a wider process. Innovation needs should be known in advance, potential sources of innovation within the ecosystem should be regularly monitored.

Strategies to become a customer of choice should be implemented or ready to be activated. Your IP strategies should be clear, as fighting for IP is not always the best solution to access innovation.

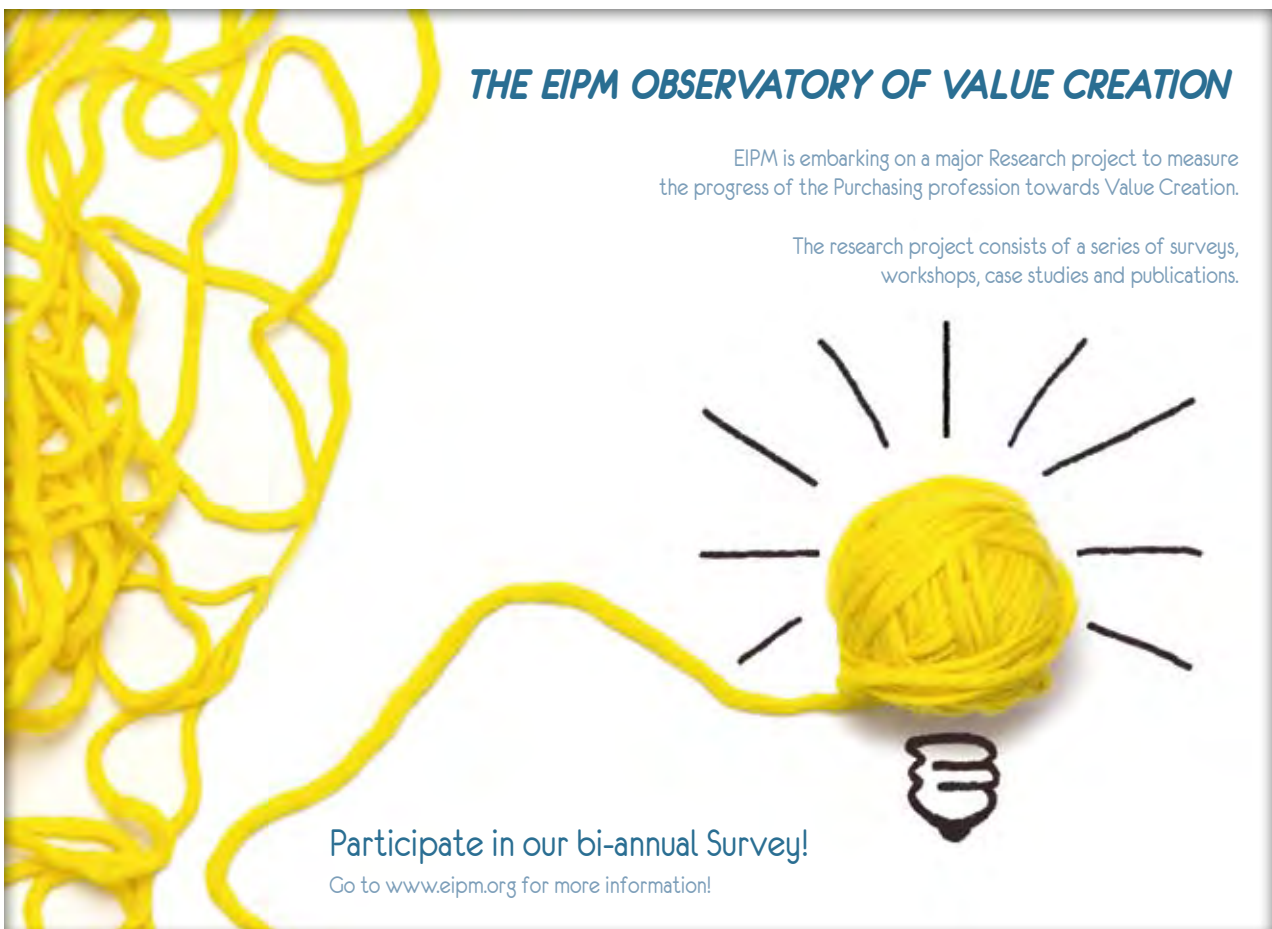
Valuable Innovation days can serve different purposes: They can focus on sharing trends and roadmaps, on aligning strategies, on spotting new ideas, on initiating

projects, on progressing projects or on building the right individual connections that will be instrumental to generate innovation.

They can be a one-to-one session where an in depth exchange can take place between the key actors from the two companies; they can be sessions that bring suppliers from different categories together to break inter-company barriers and silo thinking; they can be large group

sessions organised as an exhibition that stimulates creative networking.

Many techniques can be used during Innovation days, this includes scenario thinking, roadmapping, ideation techniques, rapid prototyping, value engineering, lean or supply chain walks. In other words Innovation days are here to serve a purpose and should be designed carefully and accordingly followed up ■



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