GLOBALIZATION: A SMARTER SUPPLY CHAIN FOR THE FUTURE

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INTRODUCTION  Globalization is a strategic imperative that is recognized as critical for growth and performance sustainability. For the first time in human history, everything is connected. When everything is connected, work moves ... the work of business and the work of technology. Work flows to the places where it will be done best — that is, most efficiently and with the highest quality.

Achieving such a model offers significant opportunities and challenges. This is complex. Add to that the fluctuating global economy of recent years and future uncertainty, and the picture is even more complex. Executives must transform these challenges into opportunity that result in delivering stakeholder value. Supply chain executives, in particular, play a key role in the globally integrated enterprise as they re-think key aspects of their business: who is producing the goods and services for the company, and where is this done?

To address this topic, CAPS Research and IBM recently co-sponsored a Critical Issues Partnership program, “Globalization: A Smarter Supply Chain for the Future.” This report is the output from that event. It summarizes the main points and discussions that took place among approximately 30 supply chain executives from large, multinational firms.

WHAT IS GLOBALIZATION?  A globally integrated company is an enterprise that shapes its strategy, management, and operations in a truly global way. It locates its operations and functions anywhere in the world based on the right cost, the right skills, and the right business environment. It aligns supply chain efforts for worldwide value delivery. And it integrates those operations horizontally and globally.
Globalization is akin to mentally breaking apart the supply chain, examining the pieces, determining the optimum origin and flow of those pieces “from cradle to grave,” and then putting those pieces back together again into an ever-expanding network. Globalization provides visibility, that can lead to supply chain synergies, that can bring value to the enterprise. In essence, globalization can help create a “smarter” supply chain. It puts supply chain executives in the role of “solutions” providers rather than commodity and services buyers.

While such a comprehensive, robust view of an entire enterprise sounds attractive, it’s also easy to understand why evolving or transforming to a global model can be tenuous, particularly if current operations are successful — albeit as a “multi-national” rather than “global” model.

In some instances, existing areas of operation, even working in silos, are conducting satisfactory business that is needed to deliver value to their region or upstream line. They’re working within their current parameters to a) be profitable; b) use the optimum sources; c) develop suppliers; d) deliver product/service; and e) deliver value to the customer. Without a broader understanding or incentive, a person in a European office, reporting to a vice president of the European business unit, is not overly concerned with whether a division in the United States is currently profitable, or how supply chain actions in Europe may or may not impact U.S. profitability.

In other cases, there could be a philosophy to “produce as close to the customer as possible” to simplify logistics, be responsive, and be attuned to the market. Many firms have long operated, successfully, with each region having self-accountability. They’ve established supply bases, channels of distribution, and local relationships that “work.” It can also be advantageous to claim that a firm’s supply activities are feeding into local economies as sales are capitalizing on them as well.

In these examples — where current operations are relatively smooth — the benefits of evolving to add global oversight might not be readily embraced. However, the opportunity cost is missing out on the synergies that are available with a broader strategy in place.

With so many contributing factors, it can be difficult, if not impossible, to dictate a single, ideal global model. Rather than specify what globalization is, it’s more telling to say what it is not. Globalization is not a cookie-cutter approach. It doesn't always mean buying from a centralized location for global requirements. It can be hybrid and have many different “looks” depending on the firm’s situation. Determining the appropriate balance of centralized control and leverage with local autonomy and knowledge is one of the largest challenges associated with managing a smarter global supply chain.
Furthermore, each firm approaches globalization with a different history of experience and capabilities in this area. For some, having a few sourcing categories with global oversight is a great stride. Others may have several aspects of operations that are aligned across the globe, for goods, materials, services, and business processes. No matter where firms are in terms of maturity, it’s fair to say that globalization is a hot topic that is garnering consideration and activity for today’s leading firms.

**THE GLOBALIZATION CHALLENGE**  When asked to identify their greatest challenges related to implementing or achieving a global enterprise, executives respond with a variety of answers, ranging from strategic to day-to-day tactical concerns. The issues can be segmented into internal/organizational matters; supplier or supply chain topics; and external/broader areas.

**Internal and Organizational Issues**

- **Structure:** What is the optimum organizational structure to leverage spend, optimize resources, and realize local value, utilize local knowledge, and meet local customer requirements? How does a structure evolve while making incremental changes toward a more global operation?

- **Change management:** How do you meet the day-to-day challenges of managing the supply chain, while also striving to make a transformational change to operate “globally”? How do you transform an organization’s culture and process from “multi-national” to truly “global”?

- **Collaboration:** How will teams and units best collaborate and share across regions, time zones, and international culture differences?

- **Communication:** How do you manage and facilitate communication regarding inflation, indexes, trends, and other vital information that commodity and supply managers in various regions need?

- **Talent and career paths:** What processes and practices should be in place to obtain, retain, and/or appropriately rotate talent throughout the organization? What career paths are optimal for upward mobility and employee retention? How do we facilitate experiential learnings?

- **Offshoring/onshoring strategies:** How will a globalization effort affect an offshoring/onshoring strategy? How do you incorporate these strategy decisions into the globalization process, including re-evaluating current practices? How do you leverage current economic value zones while diligently considering emerging areas of potential value?
**Supplier and Supply Chain Issues**

**Supplier capability:** How much do you invest in and develop suppliers? To what degree do you allow them to manage their own destiny?

**Supply continuity:** How do you assess and mitigate supply risk?

**Supplier performance:** How do you conduct supplier performance management across geographies? What standards are applicable on a global basis and how do you account for regional differences? How do you reconcile measurements on a global basis for comparison purposes?

**Ethical concerns:** How do you best vet local, regional suppliers? What resources are available to do so? What standards are applicable across geographies? Are you or should you be responsible for activities of sub-tier suppliers?

**Mature markets versus growing markets:** How will you assess and operate in mature markets versus growing markets? How do you ensure you’re providing appropriate development/improvement measures to maintain supply capabilities in developed areas?

**“Green” global supply chains:** How do you manage a global supply chain for “green” products, including the role you play in managing discarded/recycling materials? Where does the supply chain end?

**Collaboration:** How will you best share and communicate with suppliers across regions, time zones, and international culture differences?

**Market and Broader Issues**

**Political issues:** How do you monitor the impact of political issues in various regions? What actions do you take as a result? What processes should you put in place to manage and mitigate risk?

**Natural resources/demand:** What impact will these elements have on decisions, operations, and pricing?

**Export/control laws:** With particular regard to technology transfer, what processes are in place to ensure compliance with these laws? What controls are in place with regard to subcontractors?

**What’s next?** What processes do you have in place to assess “the next” developing region? How do you investigate opportunities for investment, operations, and resources?
Obviously, the challenges involved with globalization efforts are numerous. The key elements addressed in this Report are:

- Balancing the benefits of leveraged, centralized, global control with the benefits of local, regionalized autonomy responsiveness
- Managing talent for a global model

A brief discussion of others issues and a case study example from IBM are also included.

**WALKING THE FINE LINE: BALANCING CENTRALIZED CONTROL WITH LOCAL AUTONOMY**

As mentioned above, determining the appropriate balance of centralized control and leverage with local autonomy and knowledge is one of the largest challenges associated with managing a smarter global supply chain.

True globalization entails having a structure to walk this fine line. The structure will enable the firm to optimize its entire complement of resources and knowledge in various parts of the world for the benefit of the whole enterprise. If there is a decisive division between, for example, North America business and other international business, with no common accountability until the CEO level, it can be difficult to establish synergy deep within the supply chain functions. A better alternative might require that a particular commodity or product line has a truly global platform, with one person responsible for the P&L across all areas. There is a structure to set strategy, leverage resources, and establish compliance expectations worldwide.

Another common structure includes a global sourcing team that acts as a support function to region-specific sourcing teams, product/line groups, or business units. Competency, cost, or market analysis will help dictate which commodities (products or services) are sourced through the global team and which are handled by the regional team. Sometimes, a global sourcing team doesn’t directly buy or source anything itself, but serves as an enabler or liaison between regional teams. In many firms evolving to a more sophisticated globalization process, this may be the first step toward a more comprehensive model, and “using” the global team as a resource might even be voluntary until credibility is established.

It’s important to note that a global team, depending on its specific charter, may or may not have its own cost savings goals; often, it’s assisting a business unit attain strategic goals, perhaps even helping them surpass anticipated savings by the value and knowledge they add. However, the effectiveness of global teams goes beyond short-term cost savings; they play a strategic role in establishing best practices and developing alternate sources of supply that will reap longer-term competitive advantage.
They may be charged with sharing information among the regions, locating alternative sources of supply through existing suppliers, or sharing best practice processes from one region’s experience to another. Is there a supplier in Southeast Asia (currently supplying to Europe) that might also be a source for South American operations when the incumbent South American supplier has a shortage? Can the global team leverage the enterprises global presence for the most favorable contract terms?

For many, the strategic sourcing process can incorporate deliberate steps where decisions regarding global options are made. One firm calls it a “localization phase.” It’s similar to any phase gate review where a “go/no go” decision might be made about material requirements, costs, risk, or other factors traditionally considered during sourcing.

The scale of operations, the nature of the goods/services, and the industry will all impact the model. Furthermore, the more global and far-reaching your operations or markets are, the more players you might have involved in the mix of your supply chain, raising the level of complexity even more.

For example, one consumer food products firm manufacturers an item that primarily sells through grocery stores. However, in some parts of the world, there are also retail outlets specifically for that product. As such, in those regions, there is an entire capital equipment supply chain component that doesn’t come into play for other regions of the world. In another instance, a company sources and manufacturers a product in North America in a “traditional” fashion, but in one region of the world, the same product is produced through a joint venture with another manufacturer in the same industry. There, some of the sourcing steps are completed by the partner. These unique situations can be born out of acquisitions or a variety of historical relationships; sometimes they just “work” for the company and globalization efforts must adapt.

**Championing the Effort and Delivering Results**

With any major initiative, there are always change management issues, and globalization is no exception. In some cases, it’s convincing an executive team up the chain of command that a strategy change is necessary. However, even if a top management or supply chain group may have determined the overall strategy and ideal structure for globalization, it is the specific individuals working in affected areas who must carry out the strategy. Everyone must be on board with the vision and execution plan.

Here are some thoughts on implementing such a profound change:
“I found the best way to articulate the promise of a new strategy was to tell people ‘Your service level will be as good or better than today; your price will be as good or better than today.’ Of course, I had to believe that myself in order to know we’d delivery. But those assurances go a long way in helping people embrace a new idea.”

“Remember, most of these people you’re trying to influence [to adopt a new model] have never really seen the spend data that would make the global strategy case so clear. This applies to business units AND often executives, so showing it to them can then turn into the executive support you need.”

“For us, it was a bit of a leap of faith. We wanted to build the global capability in our firm and just had to trust that the savings would be there once we capitalized on synergies; it has worked.”

A global strategy is not synonymous with complete centralized control. The best companies realize that there are opportunities where local decisions, using local suppliers will bring the greatest value.

The executive sponsorship mentioned above is vital. For those organizations that employ corporate mandates, the sponsorship is necessary to establish the appropriate controls over activities, purchase authorizations, budgets, reimbursables, etc. As mentioned before, however, a global strategy is not synonymous with complete centralized control. But there may be controls in place to determine which areas allow for local decisions and which should follow a broader supply chain process. The best companies realize that there are opportunities where local decisions, using local suppliers will bring the greatest value.

If a company’s culture traditionally doesn’t employ mandates, the executive sponsorship is perhaps even more important — it will help articulate the vision to the businesses, help them understand how alignment will benefit them. It takes a true leader to work with key stakeholders, gain buy in, build the case, and get the doors open for a specializing supply chain group to effect change.

With regard to the “front lines,” those who feel that they’ve implemented a global strategy successfully say that communication is key for letting individual employees know what to expect and how, specifically, they will be impacted. It’s also important to assure people that they will not be set up to fail in a new position or process. If new skills or a learning curve is required, that development time must be considered and included in the transformation process.

When IBM’s supply chain group began its globalization journey (see page 17 for the full story), it aligned with one of the corporate key strategic goals of becoming the premier globally integrated enterprise. A set of key metrics were established covering resources, processes, and tools, and a robust management system was put in place to track progress. Recognizing the importance of communications, a series of podcasts...
and Webcasts were deployed from the executive team to explain the objectives and educate employees on their role in this transformation. Employee surveys were used to track employees’ knowledge of globalization.

Sometimes it’s a matter of perceptions; one company cited resistance from its marketing division when it learned some materials were going to be sourced from China. The company was committed to all safety standards being met, as with any other purchase, but the stigma associated with China after numerous stories in the news media had taken its toll.

Often, it will take small steps or an incremental journey (particularly in those situations without a corporate mandate) to fully embrace the full benefits of a globalization model. Here is one example: a consumer food products company had manufacturing plants in Mexico, the United States, and Australia, all for the same product, to deliver to those respective regions. The newly implemented global sourcing team was able to secure a value-added contract for packaging at the U.S. plant with an Asian supplier. The Mexico plant approached the sourcing team to help identify savings opportunities, and the sourcing team suggested consolidating the packaging contract to include the Mexico client, for even more savings for both locations. The sourcing group then approached the Australian plant to explain the benefits already being realized by the United States and Mexico locations; soon after they were onboard and reaped the benefits as well. In this instance, the upshot was that Australia didn’t feel as though it was forced into the agreement, by either other plant or the sourcing team; the potential savings was the true motivating factor. It would not be uncommon in this scenario for the Australian team to then deliberately examine which other commodities might benefit from a global strategy. This scenario is a typical example of a company moving forward in a positive direction on its globalization journey.

GLOBAL TALENT MANAGEMENT: SECURING THE RIGHT RESOURCES IN THE RIGHT LOCATIONS Finding, developing, and retaining the appropriate talent resources is a vital component for any globalization strategy. Even with an ideal globalization or model in place, success will only come when a company secures the right people to execute that model. Supply chain executives find that it’s a slightly different equation than what they’ve dealt with before if operations have primarily been based out of a single location in the home country.

Many companies began investigating other regions of the world for sourcing, distribution, or contract manufacturing by sending individuals or teams on regular visits. That turned into an ex-pat model as in-country offices and operations were established. Gradually, the goal has become to seek out local talent, not only to minimize costs, but to benefit from
their inherent knowledge of the area. Finding qualified candidates — particularly for more strategic activities — has been challenging. Furthermore, with so many firms flocking to the same regions to capitalize on value opportunities, there’s a great deal of competition chasing after the same human resources, so retention is an issue.

The following are examples of common experiences:

• “I rarely get the talent I’m looking for when I advertise for subcontractors.”
• “I can find some skilled sourcers, but it’s difficult to find anyone with good category management skills — the advanced stuff.”
• “I have more luck filling positions internationally if they’re come from other companies.”
• “You have to be patient to find a good fit for your requirements. I might need someone in a unique location that is bilingual to support operations in a different region. You must be prepared to wait; the search could be lengthy and after finding and hiring, they might not be able to start for several months.”

Money can be a great motivator for prospective hires, but understanding and committing to an appropriate salary is also a challenge. To secure talent, many supply chain executives expect to pay a premium. However, trying to convince a vice president or the human resources group to sign off on it can be difficult if they’re working off dated or over-generalized benchmarks.

Complicating matters further, many regions face an aging population, or given industries (aerospace is an example) have an aging workforce and face large talent gaps due to pending retirements.

In addition to monetary compensation, firms strive to find what motivates employee retention. Examine the cultural norms for a given region. Is it the status of a particular title that will motivate/retain people? In areas with the strictest competition, some admit to using a scheduled series of job title “increases” during an employee’s initial tenure. What can be done with regard to the work environment or office space that is appealing to an employee’s sense of worth? These aspects vary largely by region and culture.

Rotational assignments throughout the company give employees a better understanding of overall enterprise mission and structure, in addition to expanding their skill set. Such activities can be expensive, but the cost should be thought of as an investment, rather than an expense. It’s also important to have a solid, long-term strategy in place for rotations or talent exchanges. You want to be sure that as you’re moving people in and
out of locations and units that there is inertia to keep the model adding value for both
the units and the employee. Processes should be in place for efficient training and
integration at each step.

Depending on a firm’s specific global organization structure, supply chain personnel
may be under a corporate umbrella or assigned within regional, line, or business units.
In the units, they may reside side-by-side with technical staff or engineers, often acting
as a project manager to ensure supply chain processes proceed. In other instances, a
global supply chain support team serves as an upstream arm to liaison with various
procurement or supply groups within regions or business units. At one firm, these are
senior executives whose responsibility it is to reduce complexity; they’re funded out of
a corporate budget and typically have a limited tenure in that assignment (e.g., three to
five years).

Thoughts on Global Talent
Linda Cantwell, of IBM’s Global Supply team, and Vice President Client Services Procurement
at IBM, attended the CAPS Research Critical Issues Partnership event and offered some
strategic, thoughtful insights related to talent development for globalization:

There will always be a need for strategic and technical supply chain talent. As a company
embraces globalization, the ideal candidates — and all supply chain personnel — need to be
increasingly aware of the supply chain from an end-to-end perspective. It’s imperative to get a
firsthand view of all the various aspects of the supply chain and understand how they
interface. Where are the ripple effects of each action? What does a particular supply chain
initiative mean to procurement? How does it impact logistics? These concepts should
automatically be part of our mindset. Furthermore, now that we’ve recognized these
attributes, how are we training our people to recognize and develop this type of talent and
skill in populations around the world? Not everyone comes “up through the ranks,” so leaders
must always be open to searching for or recognizing talent that will add value to the supply
chain operation.

It’s also interesting to understand the role that technology plays with a global enterprise’s
talent pool. It enables people to work remotely all over the world, but at the same time it’s
impossible to grab a team for a quick five-minute meeting in your office. It will be intriguing to
see if the upcoming generation, who are more accustomed to working and communicating in
these less-traditional ways, work as effectively — or perhaps even more so — in such a tech-
rich environment.
Working as a Virtual Team

Accommodating a range of time zones, work hours, locations, and accessibility is one of the most tangible challenges mentioned for those working in global teams or with a global network. One company described one of its tactical teams located in India, that specifically supported a U.S. unit. The company realized that a high turnover rate in the India team was directly linked to the “off” hours that team was required to keep to maintain communications with the United States. For anyone crossing time zones, real-time communications, meetings, and collaborative projects take extra coordination. Here are some of the common tactics firms have employed.

Share the burden. Don’t always make the same individual/office be online or on the phone during late or early hours. If it’s someone in China working with someone in North America, make half of the meetings during normal business hours for each person.

Scrutinize what must be accomplished in a real-time meeting and what could possibly be handled through e-mail or other applications. If meetings are required, make the time productive. Set a tight agenda that will cover items as efficiently as possible, without wasted minutes.

Communicate about options and don’t assume you know a colleague’s optimum schedule. One firm on the U.S. East Coast thought it was doing its Chinese counterparts a favor by scheduling a meeting at 6 p.m., China time, assuming it required the people “to only stay in the office a little bit late.” However, it turns out that the people in China would actual prefer to take the call at 10 p.m. local time, at least enabling them to get home, have dinner, see their family, and resume working afterward. The later time actually favored the U.S. team as well.

Some supply organizations have just firmly set parameters with the business units about specifics times of availability, because it became obvious that there was burn-out from working at odd hours. If the constraints become an issue with the business units, supply is prepared to escalate the concern up the ranks and come to resolution.

Finally, remember to be flexible where possible. The technology that enables worldwide collaboration and a 24/7 work cycle also allows employees the freedom to work remotely and on alternative schedules if need be. IBM has a generous flexible work options. There are cost benefits for the firm, but it’s also quite a perk for employees to have options for work hours, locations, and accessibility.
A note about social networking: It remains to be seen how some of the emerging social networking tools will play a role in virtual communications. Many of the current executives have had limited use with it, but realize that the upcoming generation may be more apt to incorporate the applications for access to international colleagues.

OTHER ISSUES Beyond organizational structure and talent management, there are a variety of other issues impacting supply chain organizations as they embark upon or refine globalization efforts. These include:

- Environmental/sustainability
- Ethics
- Laws and regulations

Environmental/Sustainability Environmental issues and sustainability concerns are a major factor in many organizations’ globalization initiatives. Many would say it’s challenging to undertake the most robust environmental measures even for a single location in a single region where you’re well versed in business practices. Counter that with a wide global network of supply partners, in far-reaching locations where standards and norms are unfamiliar, and firms understand that it will be a long process to achieve sustainability “excellence.” However, most are cognizant of the issues and working — albeit sometimes in small steps — to be effective in this field. Environmental and sustainability activities include those internal to an organization and those done in conjunction with supply partners.

At the enterprise level, many have processes that include steps where supply chain teams must justify why a particular decision was made (e.g., materials used), if a more “green” option was available.

Sometimes there is an internal conflict of interest. For products that a firm manufactures on its own, there could be tight controls and “green” standards. Items produced through contract manufacturers in lower cost regions do not have the same standards, but that feeds into the reason why they’re lower cost. So a firm has to ask itself where its priorities lie. Certainly, there are many cases where a company has chosen a higher-cost component based on its environmental characteristics, because it’s part of overall sustainability goals and the company feels “it’s the right thing to do.”
Taking these issues a step further, firms are incorporating environmental aspects into contract negotiations, such as requiring suppliers to indicate how they’re processes or products will impact the carbon footprint, stipulating “credit” for using recycled materials, or charging them with continuous improvement challenges that will reduce energy consumption. Some firms are taking it a step further by requiring first-tier suppliers to cascade these requirements to the tier-two suppliers. Additionally, firms are requiring this information to be publically disclosed.

Oftentimes a firm feels obligated to advance its own sustainability efforts and practices before projecting similar expectations and standards on others in its supply chain. In other words, they try to get their “own house” in order first.

On the downstream side of the supply chain, there are concerns for how materials and elements are recycled, repurposed, or disposed of. For example, one manufacturer realized that each time a new model of its technology equipment is issued, it’s often going to be replacing an existing product at the customer’s site. Knowing there will be legacy parts available, is there a way for the supply chain team to provide incentive for the customer to return them and have them used in new manufacturing? Eventually, can new products be designed that knowingly incorporate these materials? One firm has found that by sorting its scrap materials and selling them back to the supplier, they’re getting a better economic return than if they handed it over for recycling.

Environmental issues will likely continue to be a concern and opportunity for many firms. Technology and scientific advances may enable more robust activities upstream to original sources of goods and materials, and downstream throughout a reuse, recycle, or disposal process. As one executive put it, however, there are limitations: “Ultimately, everything consumed is either grown or extracted, and you can’t have a contractual relationship with what comes out of the ground.”

Ethics
In the area of ethics, there are vast gray areas and no easy answers. Many multinational firms have ethical codes of conduct for their operations and employees. Many incorporate a supplier code of conduct into contracts. Still, however, acceptable practices vary so much among regions that it’s difficult to interpret and monitor. Is it a considered a violation of child labor laws if a small farmer in a remote area employs his family, including kids, to work the farm? What wages are considered “fair” with such economic discrepancies among regions of the world?
There are organizations such as Sedex (www.sedex.org.uk), a non-profit organization that employs a knowledge management system for its member companies to share supplier ethical data. These services could help streamline efforts to gauge ethical behavior because a supplier is able to register/certify at a central depository rather than individually with each of its customers.

**Laws and Regulations**

Operating in foreign countries or with foreign partners can mean abiding by laws and regulations of those countries, or U.S. laws related to foreign business transactions. For example, for some countries, the ability to market and sell to its peoples comes tied to regulations about how much must be purchased or invested into the country on a reciprocal basis.

The United States has some of the strictest export laws related to the transfer of technology. One might not associate the supply side of the business with exports, but consider any situation where items leave the United States to go suppliers for contract manufacturing, design, assembly, and the like. “Items” can be include: software or technology, clothing, building materials, circuit boards, automotive parts, blue prints, design plans, retail software packages, and technical information.

ITAR (International Traffic Arms Regulations) is a set of U.S. government regulations that control the export and import of certain defense-related articles and services. It is of particular relevance to those in the defense and aerospace field, but even materials that are commercial in nature without an obvious military use are subject to U.S. Export Administration Regulations (EAR). Even items going from the United States to a wholly owned U.S. subsidiary in another country may be subject to the regulations. You may be responsible for any exports of your items by a subcontractor as well. Tight controls, contract management, site visits, and audits can all help mitigate this risk, but it’s a tremendously complex and difficult aspect of global business.

With such great scrutiny given to the details and multiple laws and regulations compounding the process, some executives wonder if, at some point, it’s actually worth it to share materials/intellectual property with suppliers at all. Obviously, a critical partner in this area is a firm’s legal team, particularly if it is primarily responsible for overall security issues. Again, there are no simple solutions to these multi-layered aspects of globalization.
WHAT’S NEXT? Even though some firms are just beginning globalization efforts, many are already asking “what’s next?” in terms of regions to consider for investment or how models will change to adapt to markets and new technology.

China has certainly been considered a “low-cost” country in the recent past, with many multi-national firms sourcing and manufacturing there to take advantage of abundant labor and low wages. That is beginning to change with increased demand in the area. However, as the infrastructure there matures and supply chain talent develops, China is still considered a high-value opportunity by many. Locating operations so close to the world’s largest market opportunity is still very attractive.

What regions are still emerging? Perhaps the largest untapped area is Africa. Obviously, a great deal of investment would be required before it is up to par with developed areas, but large, forward-thinking firms have begun to investigate. Some are starting with philanthropic efforts that expose them to the people and issues on the continent. Some have research and development activities on tap: going to the continent and teaching local populations about crops or agriculture. The idea is that perhaps one day such self-sustaining efforts could evolve into an export industry. Others are patiently waiting for the infrastructure and social/political environment to improve.

Technology is an overlying factor in the future as well. As it evolves, more and more data is available; quantity of information is not the issue. The challenge will be how to best leverage it effectively to help with critical decisions. For example, most firms have robust systems that track supplier activity, such as quality or delivery. Are there insights to be seen when you cross this information with various market conditions, financial metrics, or seasonal trends? Can you determine what factors contributed to a quality or delivery problem? Will you be able to anticipate a potential risk situation if that pattern begins to emerge again? Ideally, numerous “layers” of information will be examined wholly to see new patterns that help create a “smarter” supply chain.

Technology has the potential to enable more collaboration within organizations and with business and supply partners. It can bring the world’s people and business closer together and propel organizations’ strategic goals, but also has the potential to create transparencies that may make competition tougher.

Only time will tell how firms ultimately employ technology solutions along the globalization journey. But there is no doubt that supply chain organizations are uniquely positioned within the network to experience it all. Globalization is not an isolated
business process or exercise that firms will “do” before moving on the next big thing. It’s a mindset, philosophy, and model that — for many — is gradually becoming embedded in the best business practices.

CASE STUDY: IBM AND THE GLOBALLY INTEGRATED ENTERPRISE  IBM is a leading global provider of business services and information technology solutions. It has nearly 400,000 employees and operations in 170 countries worldwide. In 2009, IBM revenues were $95.8 billion (USD). IBM began its transformation to a globally integrated business more than four years ago, as it realized a corporate evolution was necessary in order to meet the imperatives of new technology and globalization. CEO Sam Palmisano described the emerging globally integrated enterprise (GIE) as a company that “fashions its strategy, its management, and its operations in pursuit of a new goal: the integration of production and value delivery worldwide.” This shift involves where companies produce things and who produces them — directly impacting IBM’s integrated supply chain (ISC) function.

IBM has three strategic goals: 1) focus on open technologies, high-value solutions; 2) delivery integration and innovation to clients; and 3) become premiere globally integrated enterprise.

IBM’s integrated supply chain has established an aggressive globalization strategy to enable it to become a premiere smarter supply chain. IBM’s integrated supply chain area is comprised of:

- Global operations
  - operation planning
- Global supply
  - procurement
  - engineering/manufacturing
  - logistics
- Customer fulfillment
  - customer fulfill
  - service management

The ISC strategic priorities are delivered through six key enablers and aligned with IBM’s strategic goals. The figure on page 17 shows this relationship.

When asked to identify what they thought were the biggest challenges or areas critical to meeting the strategic agenda, IBM referenced its Supply Chain Officer’s study (www-935.ibm.com/services/us/gbs/bus/html/gbs-csco-study.html). Supply chain officers identified the following: supply chain visibility, risk management, increasing
customer demands, cost containment, and globalization issues related to lead times, delivery, and quality. Addressing these challenges equates to enabling a smarter supply chain.

To that end, and to support the enterprise strategy, ISC created a globalization vision to enable improved client delivery and sustained productivity. The key elements include:

- A truly globally integrated enterprise is fluid, adaptable and comprised of communities of excellence (CoE). CoEs may be virtual, networked, or physical structures, which are time-zone independent and portable.
- They are strategically and optimally located around the world to deliver client value via horizontal integration across IBM, our partners, and our suppliers.
- This globally integrated enterprise leverages innovation and leadership as a catalyst to drive our employees, partners, and suppliers to a strategic commitment towards every clients’ success.

This vision encompasses the entire ISC organization, and the communities of excellence are a main focus. It boils down to a skill base that can deliver. As such, a current major focus is the acceleration of talent development around the world. Most
ISC executives are still located in the United States, although the anticipation is that a growing number will ultimately be in other geographies (one notable example being CPO John Paterson who sent a clear message when he moved to Hong Kong a few years ago).

Under the globalization model, there are procurement people assigned to different brands in various locations. They support those brands and are funded through procurement. In addition, there is a globally integrated support process. It’s an upstream arm that assists procurement, and is made up of senior executives in the brand organizations that connect with the business units. Part of their intent, during a specified tenure, e.g., three to five years, is to help reduce complexity. They are funded through the corporate budget.

The key performance indicators that IBM uses for the Globally Integrated Enterprise (GIE) reflect this focus on the talent base. These indicators clearly illustrate the priorities and activities that drive IBM’s push toward global excellence. They include but are not limited to:

- **A focus on resources.** IBM must have people in the right locations. It also needs the ability to move people in and out of or grow talent in various markets. A key component here is determining how many jobs are needed where.
- **A focus on leadership skills.** This involves delivering training electronically around the world and an extensive use of mentoring.
- **Empowerment/Clarity.** Oftentimes, companies put people in regions to add value, but then restrict them by forcing them to seek out authorization for spending or various activities. IBM’s goal has been to “lower the center of gravity” by empowering managers with more authority in their areas.
- **Skills Development.** IBM determined eight competencies required for future success, such as interpersonal communication skills and leadership skills. The competencies are not specific to the supply chain function, but rather are skills that serve a greater business acumen.
- **Global and standard process.** This applies to sourcing and operations.
- **Communications.** Consistent, clear communication of strategy and status.
- **Talent exchange.** Leaders have access to a talent database where they can quickly identify where employees have been (departments, geographies, etc.) and what experiences they’ve had. This enables exchanges that will be rich and rewarding to both the employee and the various units.
Executive sponsorship and an effective management system has given IBM strong momentum in its GIE efforts. Bi-weekly meetings of the core ISC GIE group (including Global Supply, Customer Fulfillment, Global Operations, Human Resources, and Finance) keep the team on track. Various other work sessions among the groups take place monthly, and senior executives are updated at a minimum on a quarterly basis.

IBM is committed to its GIE journey. The successes it has seen thus far in resource management, leadership/talent development, and communication/education bode well for its continued success. As plans to continue to develop its people, emerging markets, and its global processes — all in the name of a smarter supply chain.