

## Theory Z of Supplier Relationship Management

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### 92<sup>nd</sup> Annual International Supply Management Conference, May 2007

**Abstract.** Your Supply Chain can be a competitive weapon? ABSOLUTELY!!! However, the fundamental principles that guide the creation and management of supplier relationships must change!

If your organization continues to look at your supply chain as nothing but a supply base from which you must extract the annual pound of flesh of a few percentage points, you are probably conceding a tremendous competitive advantage to your competitors. Why? Because your suppliers are probably working with your competitors to help them gain a competitive advantage. The choice is simple for you as a supply chain/strategic sourcing professional. You can either lead your organization to extract significant value from your supply chain and convert it to a competitive advantage or you can continue to focus on getting the best contracts and SLA's while your competitors are stealing your lunch.

25 years ago Professor William Ouchi of the University of California did not have suppliers in mind when he proposed that American companies could meet the Japanese challenge by changing their organizations faulty assumptions about management and the workforce that had led to sub-optimal productivity. The relevant point here for us is that the assumptions we make about people drive our behavior towards them. You could even refer to this as a self fulfilling prophecy... Professor Ouchi revolutionized organizational theory by proposing Theory Z, a theory that workers were motivated by long-term employment, collective decision making, individual responsibility, evaluation and promotion, and the feeling that the company had holistic concern for them as an employee. We will similarly offer up our version of Theory Z but in a totally different context.

As both practitioners and consultants, we have observed a sub-optimal productivity level in the value created by supplier relationships. Fundamentally, buyers and sellers have entered into relationships with a predetermined set of assumptions and these assumptions drive the wrong behavior on both sides. When relationships begin and are managed in such an antagonistic manner, value is lost. We believe that most sourcing/supply chain professionals have the wrong end point in mind and therefore end up leaving a significant amount of unrealized value on the table. When the end point is the best contract supported by well defined SLAs, the behavior from both sides is defined and constrained by the contract.

The contract should be nothing but a step along the way to establishing mutual value creating relationships where both parties are focused on generating a significant amount of value for

each other. Some of the best value-creating activities for an organization are capable of being accomplished after the contract is signed by starting with a focus on a “Mutuality of Interest©”. Both sides, the supplier and buyer organizations, need to be cognizant of this “Mutuality of Interest” so that the benefits are realized from the beginning and throughout the relationship.

The most mature organizations have seen the benefits of this approach to Strategic Sourcing. There is a proactive push and fundamental change being made to foster development of the skills necessary to manage the activities essential to capturing the promised “Mutual” benefits and to identify additional “Mutual” benefits of a partnership between supplier and buyer organizations.

This session will leverage the many years of our industry and consulting experience, and client examples will provide new views and theories on ways to better create and manage supply relationships. It will define the problems that currently exist at organizations not getting maximum value out of their relationships and provide examples, characteristics and techniques for moving toward an organization focused on “Mutuality of Interest©”.

Randy Ellis, Chief Supply Chain Officer at FMC technologies, will present an actual case study of implementing this type of an approach. He will discuss how they have redefined the skills and competencies of their entire worldwide Strategic Sourcing/Supply Chain organization, how they are changing the thinking in the rest of their organization by running supply chain educational sessions and how they work with some key strategic suppliers to ensure that their supply chain is a key competitive advantage for them.

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