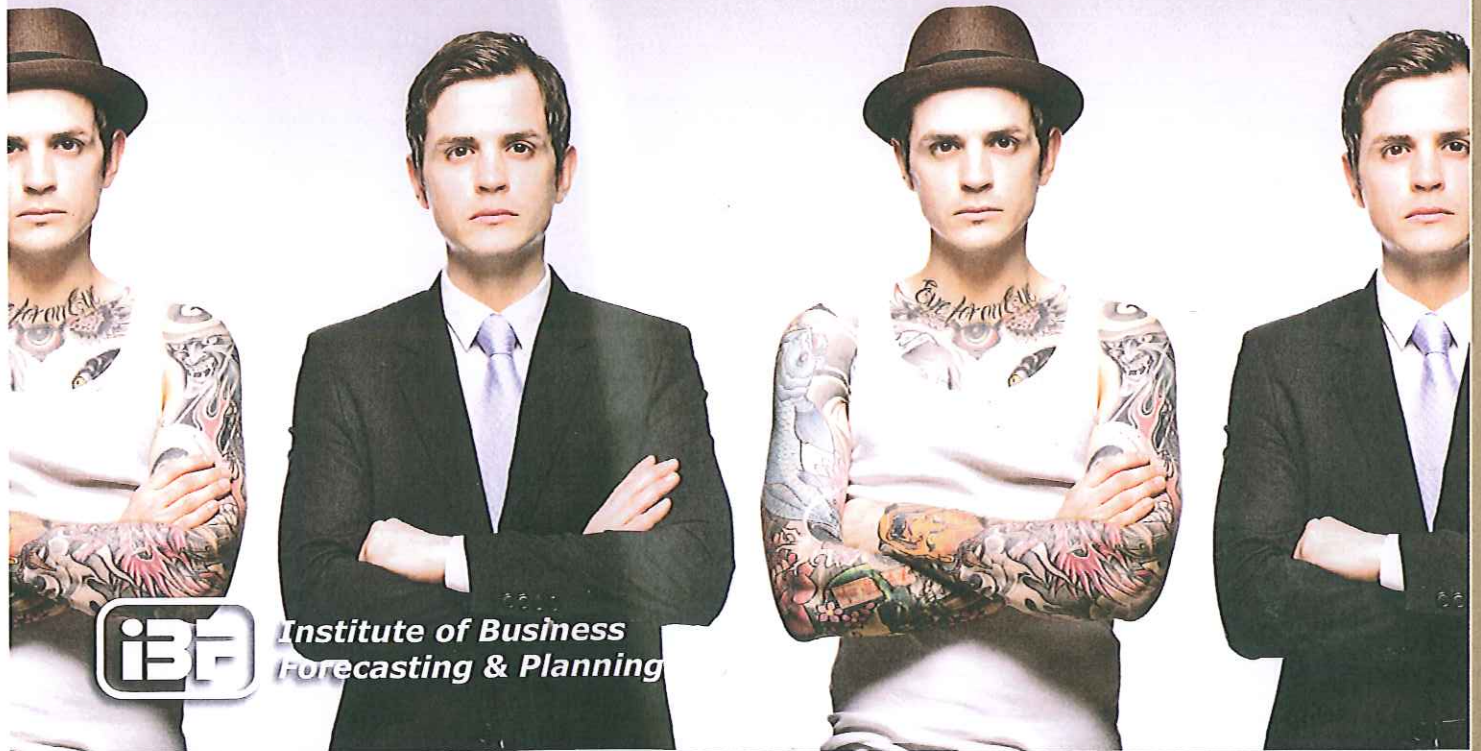


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By Niels Van Hove



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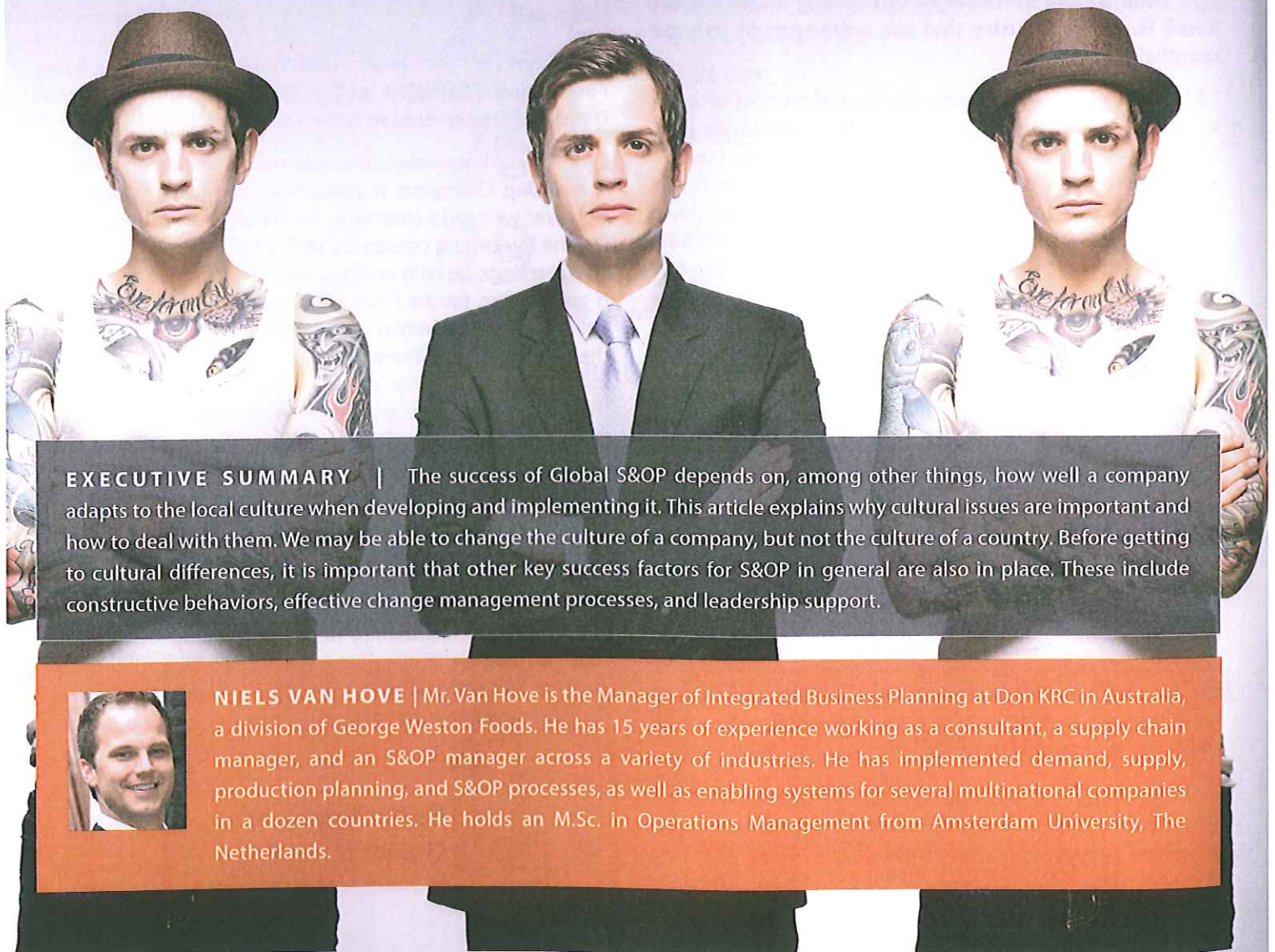
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EXECUTIVE SUMMARY | The success of Global S&OP depends on, among other things, how well a company adapts to the local culture when developing and implementing it. This article explains why cultural issues are important and how to deal with them. We may be able to change the culture of a company, but not the culture of a country. Before getting to cultural differences, it is important that other key success factors for S&OP in general are also in place. These include constructive behaviors, effective change management processes, and leadership support.



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Even though much has been written about how to deal with the process and technology of Global S&OP, not much has been said about the behavioral and cultural aspects of it. This article provides some thoughts on how to deal with behavioral and cultural challenges in implementing and sustaining an effective Global S&OP.

Globalization has made it necessary for companies to plan and operate not only across different regions within a country, but also outside the borders of the country of origin. This has impacted, among other

things, the Sales and Operations Planning (S&OP) process. The S&OP implementers now have to deal with geography-driven social and cultural differences in implementing and sustaining the process. In an

S&OP meeting, they have to pay attention to cultural issues to arrive at a consensus. The S&OP managers and senior leaders have to be aware of their own regional culture as well as the cultures of other regions in



which they operate.

According to Jim Collins and Jerry Porras in their book *Build to Last*, a company's culture is created from its core purpose and values. Core values are what the company stands for; the company has to stick to these values even if they result in a competitive disadvantage in certain situations. Well-defined, integrated, and truly embraced purpose and values drive the company behavior. In implementing S&OP, a company faces behavioral challenges. Long-embedded company behaviors might not necessarily be favorable to S&OP. A successful S&OP process requires cross-functional collaboration, but recent studies show that only 50% of people fully cooperate, and 30% behave selfishly. Ichak Adizes, in his book *Mastering Change*, argues that collaboration occurs when there is mutual respect, because collaboration is where people tend to learn from each other. Passionate leaders who know that there is an emotional component that drives a supportive and positive atmosphere can create a collaborative environment. Bob McDonald, CEO at P&G, believes that creating innovations merely for financial gain or competitive advantage are not enough. There must also be an emotional component that inspires people to come up with something new.

CONSTRUCTIVE BEHAVIORS

Based on the survey of 1 million managers and 12,000 organizations worldwide, Robert A. Cooke and J. Clayton Lafferty conclude that there are four main constructive behaviors that support effective management across geographical boundaries: Achievement, self-actualization, humanistic encouragement, and affiliation.

1. Achievement: People with this behavior have a tendency to set challenging yet realistic goals. They link outcomes to their efforts, not to chance. They also think ahead, plan, and explore alternatives before acting, and learn from their mistakes.

2. Self-Actualization: People with this behavior have a strong desire to learn and experience things. They are creative and realistic, and have a balanced concern for people and tasks.

3. Humanistic Encouragement: People with this behavior have an interest in the growth and development of others and are sensitive to others' needs. Further, they devote an extensive amount of their energy to coaching and counseling others. They are thoughtful and considerate, and provide others with support and encouragement.

4. Affiliation: People with this behavior have an interest in developing and sustaining good relationships with others. They share their thoughts and feelings, are friendly and cooperative, and make others feel a part of the team.

Companies with a culture that reveres these behaviors create a trusting and respectful environment where important behavioral S&OP principles (like open and honest communications, transparency, conflict resolution, cross-functional coaching, and continuous improvement) flourish. Without these behaviors, the company culture can be a roadblock to an effective S&OP process.

There are two ways that company culture directly impacts the S&OP process: First, by its change management process during and after S&OP implementation; and second, by its leadership support. In my online

survey, "S&OP pulse check II 2011," 142 participants from more than 30 countries indicated that the key roadblock to effective S&OP is lack of senior leadership support. It is the senior leadership that drives the company culture and can successfully lead the change management process during and after S&OP implementation.

LEADING AN S&OP CHANGE

During S&OP implementation, you and your company will go through a number of changes to make it happen: Change in processes, systems, and behavior of people. In his book *Good to Great*, author Jim Collins shows that "great" companies showed an average return of 6.9 times greater than the market. One feature of these companies is their leadership style. The key characteristics of what Collins describes as "Level 5 Leadership" are competence, chemistry, and character. Level 5 leaders set up their successors for success, give credit where credit is due, and take full responsibility when there is a failure. They put their best people on the biggest opportunity, not on the biggest problem. Another feature of these great companies is that change comes automatically to them because their people are self-motivated. Unfortunately, very few companies meet this criterion. A groundbreaking 1996 change study, "Leading Change," by John Kotter, concludes that only 30% of companies' change transformation is successful. A McKinsey study in 2009 also supports this conclusion.

If change doesn't come to you naturally in your organization, how can you determine in what change environment you're operating? In his book *Beyond the Wall of Resistance*,

Rick Maurer gives three levels at which people resist a change.

LEVEL 1

I don't get it. In S&OP application: There is too much involved, I don't understand.

LEVEL 2:

I don't like it. (This is an emotional reaction.) In S&OP application: This is based on fear. People are afraid that this change will cause them to lose face, status, control, maybe even their jobs.

LEVEL 3:

I don't like you. In S&OP application: Maybe they like you, but they don't have the trust and confidence in your S&OP leadership to make it work.

These levels of resistance can be present in every level of an organization. You cannot make every senior leader or stakeholder understand S&OP, like it, and/or like the leadership. As a leader of S&OP change, you have to understand the dynamics of your own change environment. Before you start the S&OP project, here are some tips.

1. Determine the Track Record of Change Management: Have an informal chat with S&OP stakeholders to determine how well past change programs went and how they view the changes that will result from S&OP. Has the company handled change well in the past? How did the last IT implementation or business process redesign go?

2. Understand Business Priorities: Does senior management provide the right focus and priorities? Check how many strategic projects are on the list in the boardroom. There should

be around four or five. If S&OP is not on the list, or if there are 30 different strategic projects, expect delay and lack of cooperation in your S&OP implementation.

3. Determine Commitment of Senior Leaders to S&OP: Have an informal chat with senior leaders to see if they understand and like the S&OP process. This will tell you whether or not they are committed.

4. Check How Senior Leaders Feel About the Necessary Prerequisites for S&OP: Ask senior leaders how they feel about transparency, conflict resolution, cross-functional coaching, and continuous improvement. Also, check how meetings are conducted, and whether or not there is cross-functional communication and collaboration.

5. Understand the Company Culture: To get a feel for the company culture, check whether there is a command-and-control environment. Find out if people are micromanaged, is feedback seen as a personal attack, and what is the level of trust among them. Also, check whether they hold too many meetings, information is often withheld, consensus or collaborative spirit is lacking, people are empowered, and cross-functional feedback is limited. Don't just go by the company brochure. Talk to as many key people as you can from all functional areas. Also, ask them about work relations with other functional areas.

Using these tips, you can assess the environment in which you have to lead S&OP change. If your organization has a good record of change management, that's great. If the company doesn't have a great track record, you can overcome it through good project management, hard work, education, and engagement sessions.

Change gets harder when you

discover Level 2 or Level 3 resistance, especially at the senior leadership level. This is likely the case when the following are true: There is a critical mass of senior leaders who do not support S&OP processes, the company culture is non-collaborative, the trust level is very low, and there is a command-and-control environment. In such a case, leading an S&OP change will be nearly impossible; you need to develop a partnership with senior leaders to change the company culture.

LEADING A SUSTAINABLE S&OP PROCESS

Once you've led the change and established a good foundation for S&OP, you want to sustain it, as well as put the organization on a path to continuous improvement. However, after the initial implementation there is a danger of going back to the way it was before. The initial excitement and novelty of S&OP may fade, and people may start focusing on new priorities. They may get a bit sluggish in believing in and adhering to the change process. According to a recent Gartner report, it takes up to 10 years to fully master S&OP. During that time, key management positions might change two or three times. Mergers and acquisitions may have resulted in new strategies and priorities. There are companies that had a very robust S&OP for some years but deteriorated after a merger.

S&OP LEADERSHIP QUADRANTS

As mentioned earlier, it is the senior leaders who drive the correct behaviors

and cultural environment for S&OP. They support S&OP in two ways—in the process and in the behavior. This leads to four types of S&OP leadership support as shown in Figure 1.

The leadership support can be active or inactive. An S&OP ignorer may quietly dislike the S&OP process or go one step further to actively influence people against it. On the other side of the spectrum, there are leaders who drive the S&OP process and behaviors, and/or actively use every opportunity to promote it.

1. S&OP Ignorers: Such leaders don't like the process, have different priorities, or just feel threatened by it. Instead, they may prefer a command-and-control management style, want to keep information within their functional silo, and/or even go to the extent to influence people to go their own way. Constructive feedback or coaching to improve it is not common among such leaders. Many of us have seen active S&OP ignorers in meetings—arms folded, shaking their head with every new slide, making negative comments about the content, and showing aggressive-defensive behavior when it comes to arriving at a consensus. If there is critical mass of leaders in this quadrant, S&OP is not likely to become an effective process. It will be almost impossible to establish a sustainable S&OP culture. Limit your focus and efforts in this quadrant.

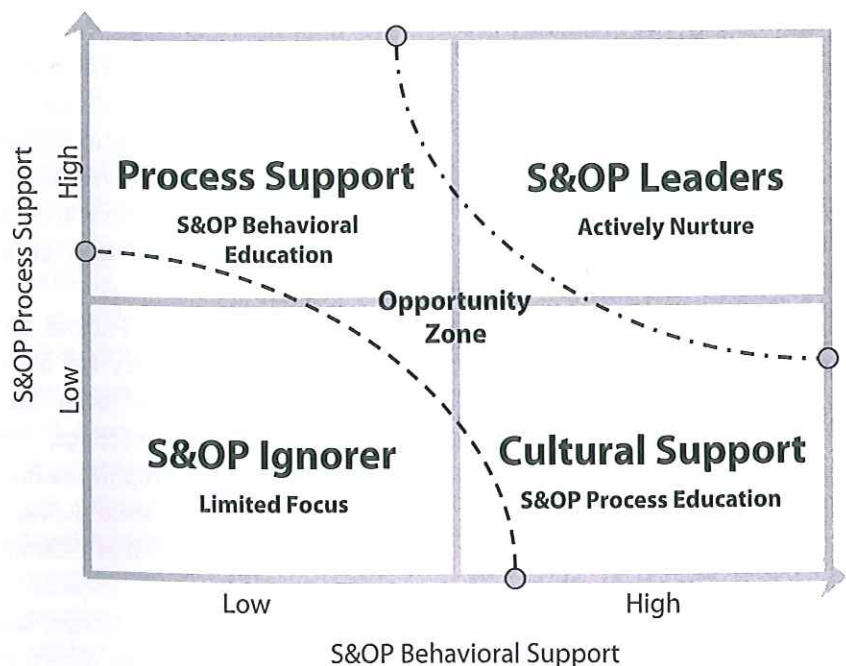
2. Process Supporters: This type of leader understands the importance of the S&OP process and what is expected of it, but doesn't always act on it. This type creates awareness, but not a sustainable S&OP culture. When I worked as a supply chain manager at a beverage company, I found such supporters. When I talked to the managing director, I was told

that he started this process. I initiated collaborative forecasting with two of the fifty countries the company was exporting to. With that, monthly forecast accuracy improved from 40% to 70% for these countries. However, after the demand-and-supply review, the information never came to the boardroom for decision-making. But when a new managing director came in who had experience with S&OP at his previous company, things changed. Within months, the company was running an effective S&OP process. The Sales team started participating in the collaborative forecasting process, Finance got involved, and high-level executives started participating in decision-making. The S&OP process supporters may be highly knowledgeable about S&OP and enabling technologies, but they will not be able to create a sustainable S&OP unless there is trust. Another example is when I worked in a food company and I met my S&OP manager

for the first time. He told me that I have his trust as long as I deliver on agreed-upon objectives. After telling me this, he set two weekly meetings—one on Tuesday to review results for the last week, and another on Thursday to discuss the working plan for the next week. We had talked about creating a trusting and respectful environment, but the behavior was exactly the opposite—distrustful and controlling. In that environment, S&OP may work but it will not be very effective or sustainable as long as the behavior does not change. With this type of leadership, S&OP stakeholders will be less engaged, information will not flow openly across functions, and cross-functional coaching and learning will not flourish. People will not go the extra mile to get things done. In this quadrant, there is an opportunity to move forward if we decide to focus on improving the S&OP culture.

3. Culture Supporters: Such leaders may not fully understand S&OP, but

Figure 1 | The S&OP Leadership Quadrant



they advocate and promote the right culture—openly sharing information, empowering people to do their jobs, and promoting learning across functions. One such leader was a CEO who had the task of merging two multi-billion dollar food companies. He told the staff of the company being acquired that the success of his current company was primarily due to its culture that does not foster aggressive assertiveness and passive-defensive behavior; instead, the firm promotes positive collaborative behavior. Within that culture, people collaborate and share their information better. They are also much more enthusiastic about the company and its brands. The CEO also said: "If you don't perform, but fit into our new culture, we have to ask you to leave. If you do perform well, but you don't fit into our new culture, we have to ask you to leave too." Although this CEO might not be aware of the S&OP process and the enabling technologies, his emphasis on the company culture forms a strong basis for S&OP to flourish. The companies in this quadrant should focus on S&OP education—what it is, and how and why it will take the company to the next level.

4. S&OP Leaders: This type of leader not only understands the S&OP process and the importance of the behavioral aspect, but also strongly supports them. They strongly promote cross-functional collaboration, transparency, and staying constructive even in a conflict situation. Furthermore, they take every opportunity to publicly support the S&OP process. Unfortunately, in almost 15 years of my S&OP experience, I came across only a handful of such leaders. If you have senior leaders in this quadrant, focus on further nurturing them in this area.

GETTING THE CRITICAL MASS RIGHT

At the start of your S&OP project, first map the senior leaders and key stakeholders to determine in which quadrant they fall, and develop the strategy accordingly. Creating the right culture for S&OP can take years, and needs executive support. Here are several ways that can help in moving the critical mass of leadership in the right direction:

1. Build Partnerships: Build partnerships with the supporters of S&OP, particularly at the executive level. Ask them to be more active in influencing others. The senior leaders can make it happen.

2. Align Visions: With support from the top leadership, try to align the S&OP vision with the company vision. Make sure S&OP principles of openness, transparency, and collaboration are linked to the company values.

3. Hire, Develop, Promote, or Let Go: If a business is committed that S&OP is the way to do business and S&OP behaviors are the key to success, it should be reflected in HR policies. This is about hiring, promoting, and developing employees who support and practice such behaviors. The ones who don't; let them go. This will ensure that the right people end up in critical S&OP positions.

4. Lead by Example: Practice what you preach. Build trust by asking for feedback on your own S&OP behavior. In team meetings, give examples of behavioral improvement and opportunities you discovered during the S&OP cycle. Be disciplined in sticking to meeting time and agendas, show passion for collaboration across functions, share your S&OP knowledge with others, and

stay constructive at all times.

5. Measure Performance and Communicate Wins and Opportunities:

Use surveys and audit reports to show progress as well as highlight areas that need improvement. Make a conscious attempt to show how the S&OP process has helped to improve business performance. It is important to communicate wins, no matter how small they are, to all stakeholders. This can be accomplished face to face and/or through other company communications channels. In the monthly S&OP meeting, wins and opportunities should also be discussed as a part of continuous improvement. Celebrate your wins!

LEADING S&OP ACROSS NATIONAL BOUNDARIES

Once a company starts crossing national borders, other complexities enter the S&OP equation. Cultural issues become even more significant; people in one geographic area prefer their culture to others. There is no right or wrong national culture, but it is important to understand preferences. It is also important to know that many leadership and business theories have been developed in the West under the assumption that they are universally applicable, which is not the case. The same holds for the S&OP process. National culture often plays a significant part in the way people think and behave. Research in this area shows that the best results can be achieved if the process is adapted to the local culture.

Each country preference has an impact on how leaders in different countries create a trusting and respectful environment. With that in

mind, we have to decide how to deal with the key S&OP behavioral issues like open and honest communication, transparency, conflict resolution, maintaining discipline, and coaching others. From my western perspective and experience, I will show what those differences are and how to deal with them.

1. Open and Honest Communication: In my 2011 S&OP pulse check, I found the key to success in S&OP comes from improvements in cross-functional communication. Communication in S&OP meetings needs to be open, transparent, and honest to bring all issues and information to the table. When working across geographies, leaders have to take into account how each culture prefers to communicate. In S&OP meetings, we have to ask and answer questions to arrive at a consensus. Generally, there are two ways that people in different cultures ask or respond to a question. For example, the American and Dutch cultures get directly to the point in asking as well as in answering a question. In other geographies (like Southern Europe, Asia, and Japan), people tend to circle around the point before asking or answering a question. One culture wants to get straight to the point but the other perceives that to be too direct, impersonal, and pushy. Such differences may stand in the way of making progress, thereby making the process less effective. The best way to work in such an environment is to keep in mind what is perceived to be best in the culture you are dealing with.

2. Conflict Resolution and Consensus: In a monthly S&OP meeting, we don't always agree across functions or business units, but we have to resolve conflicts to arrive at a consensus. When trying to reach

consensus in a cross-cultural environment, we have to keep in mind how different cultures prefer to resolve conflicts. In masculine or assertive countries like the United States, it is acceptable to resolve conflicts through an aggressive means and with a good fight: Let the best man win! In feminine countries like the Netherlands, Denmark, and Sweden, the preference is to resolve conflicts through negotiation and compromise. Furthermore, Southern European countries are more emotion driven in discussion, whereas Northern European countries tend to be more factual.

Example: As supply chain manager in a beverage company, I once received a letter from an American customer, signed by both the vice president of supply chain and a lawyer. I never had any issues with this customer before, but now the customer was threatening to take legal action because of one late delivery. My first reaction was: "Why didn't this guy just call me?" As stated before, in some countries, it is acceptable to resolve conflicts through such aggressive means; in others, it is better to resolve conflicts through negotiation and compromise. Threatening with legal action is not the preferred way to do business in these places.

3. Feedback: I like to end the S&OP meeting by gathering feedback on the meeting effectiveness, data availability, quality of decision-making, discipline in the meeting, or other criteria that impacted the meeting quality. I do this because I view it as an important part of the S&OP communication that helps to further improve the process. Direct feedback is typically better received in more individualistic cultures like those of Australia, the Netherlands, and the United States. In more collective

cultures like those of Asia and Southern Europe, giving and getting direct feedback can be difficult. People in these cultures do not want to insult the group or lose face by making a critical comment in front of their superiors. Their feedback is preferred in a one-on-one setting. Therefore, when leading a cross-cultural S&OP process, we have to understand the cultures involved and apply the most effective approach for gathering feedback there.

4. Discipline: Process and meeting discipline is very important for an effective S&OP process. Discipline is needed in many ways; for instance, gathering data in a timely manner, holding meetings, sticking to meeting agendas, etc. Which principle is correct here varies across geographies. Imagine jumping a queue in England—all hell would break loose. But if you don't protect your position in a queue in Italy, you'll never get served! For an English person, standing in an Italian queue would be horrible. Pedestrians in Switzerland don't cross at a red light, but in the Netherlands it happens all the time. Still, both countries show similar discipline in starting their meetings on time and sticking to their agenda. In Southern European countries like Spain and Italy, time is perceived differently. There, people are less likely to stick to the meeting time and agenda than in Northern European countries. Different cultures have different levels of discipline, which should be kept in mind while running an S&OP process.

5. Coaching for Improvement: In an environment where people trust each other, cross-functional coaching can be a powerful way to share knowledge, create shared interests, and collaborate. People are more likely to engage with peers, superiors, and subordinates across

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inventory positions. As can be seen in Exhibit 20, the impact on reducing error is significant both for slow- and fast-moving items.

For promoted items, Demand Sensing helps meet service levels goals, lowering extreme under-forecasting from 9% of promoted volume to just 3%. (See Exhibit 22) Given the heightened sensitivity and customer expectations around promotional activities, this might make the difference between a happy and disgruntled customer. It will almost certainly make happier supply chain professionals. Extreme over-forecasting is also cut by close to half, resulting in much less inventory.

The same improvements are evident even in new product forecasting. (See Exhibit 23) It is interesting to note that the degree of extreme under-forecasting is twice as high for new products as it is for promotion. *(info@ibf.org)*

Exhibit 22 | Volume Subject to Extreme Over- and Under-Forecasting When Items Are On Promotion, Off Promotion, and Never Promoted | Demand Sensing vs. Traditional Demand Planning Techniques | 2011

	Weekly Extreme Over-Forecasting			Weekly Extreme Under-Forecasting		
	Demand Planning	Demand Sensing	% Reduction (DS vs. DP)	Demand Planning	Demand Sensing	% Reduction (DS vs. DP)
On Promotion	21%	12%	-40%	9%	3%	-68%
Off Promotion	18%	9%	-50%	15%	5%	-68%
Never Promoted	18%	9%	-47%	15%	5%	-69%

Exhibit 23 | Volume Subject to Extreme Over- and Under-Forecasting for of New and Existing Items | Demand Sensing vs. Traditional Demand Planning Techniques | 2011

	Weekly Extreme Over-Forecasting			Weekly Extreme Under-Forecasting		
	Demand Planning	Demand Sensing	% Reduction (DS vs. DP)	Demand Planning	Demand Sensing	% Reduction (DS vs. DP)
New Items	29%	19%	-33%	20%	8%	-61%
Existing Items	17%	9%	-49%	13%	4%	-69%

(Note: For the detailed report on this study, visit terratechnology.com.)

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functional areas to provide their points of view on what is lacking and where the opportunities are. Subordinates and superiors are seen as equal, and thus are more likely to provide each other with feedback that is constructive and helpful. I have actually given well-received feedback on behavioral improvement opportunities to a superior and to a board member. This would have been unacceptable in Arabic and Asian cultures. A coach in Asia is not seen as an equal. He or she is seen as a respected elder or teacher. Asian collectivism and group thinking, on the other hand, make it easier to

have common collaborative goals and work as a team towards them. In individualistic cultures, personal or functional goals often get in the way of group goals. Therefore, coaching for improvement and managing common goals have to be approached differently in individualistic cultures than in collective cultures.

To summarize, culture plays an important role in the success of an S&OP process. We can change the company culture, but not a country's culture. Everybody must learn to adapt in order to have an effective Global S&OP process. In designing

a Global S&OP process, it should be structured globally, but implemented locally by taking into account local cultures. Educate the S&OP process designers and implementers about different cultures and how to reconcile them. Pay attention to local HR as well as to the S&OP stakeholders' feedback during and after meetings, and document it in a way so that improvement can be tracked. Make sure that local stakeholders know that the cultural aspect is part of the S&OP implementation, and continuous improvement is necessary for a sustained and robust S&OP. *(info@ibf.org)*