# Podcast Episode 5: Pat McLagan on Why Supply Chains Are at a Tipping Point



## Key Takeaways

- One important aspect of agility is the responding quickly to new signals in your environment. Another is having enough foresight to anticipate changes.
- Systems, processes, and teams should be designed with agility in mind.
- It’s time to revisit supply chain mental models and re-conceptualize the enterprise.

TraceLink’s Roddy Martin talks with supply chain transformation expert Pat McLagan on why supply chains are at a tipping point and why it’s past time for the mental models to change, in this episode of The Agile Supply Chain Podcast.

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**Roddy Martin**: Pat, welcome to the TraceLink supply chain thought leadership series. I can't tell you how pleased I am to have you in particular to interview. You and I go back a long way in terms of everything I learned about leading and

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managing change is Pat McLagan-style.

It's proven to be invaluable as the supply chain industry or as industries go into fundamentally transforming the way they work. Nothing could have been better in a strange way than the pandemic to throw a light on how broken supply chains really are.

What you've seen come to the fore is this word agility, that we saw way back in the early '90s. We saw it in the '80s, but it's come back in a different way.

One of the points and one of the reasons I'm so pleased to have you, and I'd like you to introduce yourself, is that agility, whilst it means people, process, technology, and leadership, there are a lot of soft elements.

I don't know anybody who is as well qualified as and experienced to talk about those soft aspects of leading and managing changes. How about introducing yourself?

**Pat McLagan**: Hi there, everyone. Roddy, it's really a pleasure to work with you. You're one of the best interviewers around and you've been around supply chain for ages. I have a lot of respect for the work you do and for how you think about these things. I'm glad to see you doing this series of recordings. It's great.

I have been working in the organization transformation field for many decades and I've been fortunate enough to be at the turning point in many industries. I've worked with NASA when it shifted from the moonshots to the shuttle.

I worked with GE when it was first bringing in automated manufacturing robotics and other things. I worked with the Defense Intelligence Agency after 9/11, when they were having to ramp up and look at intelligence in a different way.

I've worked with the banking systems across the world at the time of introducing the ATMs, which really transformed the banking industry.

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It's been a real learning experience, not to mention South Africa where I worked for 30 years with South African companies and helping them get ready for the end of an apartheid and prepare for the post-apartheid world. I've been a student of large-scale transformation. I watch for these tipping points.

The world, organizations, and certainly supply chains are at a tipping point. How you manage tipping points and make that shift from old ways to new ways and new mental models. That's what I'd like to really focus on when we're talking today because agile is not something that we just talk about. It's something that we have to make happen. I'm seeing evidence that there's a lot more talk than there is progress in this agility area. The people side is one way, is one source of unlocking it.

**Roddy**: That's well put. If I asked you, if I was the CEO of a company, and I had said to you, "Pat, tell me what you think agile is from the perspective of your experience in developing leaders, helping organizations structure differently, helping motivate people, and introducing performance." What do you think? What does agile mean to you in that sense?

**Pat**: Well, I would really like to see companies answer that question in a very practical way. When I think of agility, I think of two major domains. One is the ability to respond quickly to new signals in the environment, and I mean quickly.

The second part of it is to have a foresight to anticipate the changes that are coming and to have multiple directions that you can take depending on what happens. Now, for agility to exist in a company, your systems, your processes, your people, how you manage teams, your structures, all have to be designed that way.

What we have come from after years, since the early 1900s, is a paradigm of business that has focused on, what I call, the hard Ss—strategy, structure, systems—with the idea that you predetermine how people are going to behave,

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and then you control variability. I don't mean variability in product response. You control variability in people's behavior.

Now we're in an era where things are moving too fast for there to be top-down control and pre-designed control of behavior. One source of raising our capacity to be agile is to unleash the capacity in people to be able to respond in the appropriate ways in the moment wherever they are.

Think about this for a minute. People that are actually working everywhere in the organization, and mostly who are dealing with customers, who are working on the lines, who are running the equipment, who are driving the trucks, who are dealing with suppliers, dealing with customers— those people, every minute of every day, are in little mini decision points.

The question that I like to ask is, what are they deciding in those decision points? When there are trade-offs to make, when there are problems happening, when there are things that are going not as they planned, what are they doing? Because in those exception situations, if they're handling them well, that is a secret and the heart of being able to respond with agility.

Your people, now, as we move into the future are going to be our source of dealing with exceptions and of foresight. We've not, in the past, developed people to be able to play those roles very well. We've developed them to play a role that we tell them to play, but we haven't developed them to be able to play roles outside of that role.

It's like a seeing-eye dog. We train seeing-eye dogs. They train seeing-eye dogs to follow the orders first, and then they train them how to recognize exceptions. We have rarely focused on the management of exceptions. That's where, I think, in the future, the people's contribution to agility is going to be.

**Roddy**: That's a very useful setup, because I think two points you make, and I don't want to blame or take it out on IT. But I think when we automated people's

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behaviors or tried to automate people's behaviors, we thought, "Well, we're going to stick it in a big German or American ERP system, and we're going to force them to work in a certain way."

That's not agility, because you can't codify every single possible scenario in a system in a way that gives a person enough data, enough insight to make a smart trade-off decision. I think in a sense, codified IT hurt us badly, because yes, we may have integrated. Yes, we may have taken the perfect world and made it efficient through systems, but we disempowered people in that process.

I think it's caused confusion, and I think that's part of the problem that you're identifying, is leaders now resort to, "Well, what does the system tell us to do," rather than intuitively, based on our experience, how quickly can we respond, and what's the right response?

**Pat**: I think, and I don't want to get too conceptual here, but I think it's time to really look at the mental models. How do we conceptualize the enterprise? Up until now, we've conceptualized it as something we can tweak and manipulate.

If only we had perfect information—and by the way, technology's going to deliver perfect information, right? If only we had that, we could manipulate. We treat everything in the organization as an object, including people.

Step back. People are living, breathing capabilities within a living, breathing system. You're dealing with a living system. We need to start with a reconceptualization of what the organization is.

Think about what happens when you ask people to draw the enterprise. They usually draw an organization chart. That is a really good example of how they're thinking. They see the boxes and they see the hierarchy and that's how they think about the organization—their predominant mental model.

What if you think about it as a network? What if you think about it as an ecosystem

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where people have major roles to play, and they're all interacting to respond to the larger forces outside of them, and to keep an internal cohesion so that they can meet the needs of that system?

You need a different kind of mental model. One simple thing I think organization leaders can do is they can start to draw the enterprise in the way they would like people to think about it.

**Roddy**: You and I have worked a lot with individuals from Procter & Gamble. One of the things that Procter & Gamble, from the CEO level, were incredibly successful at doing is driving the business from the shopper and the shelf back into the supply system.

We're approaching that exact same mental model with healthcare. We're saying healthcare doesn't stop making millions of tablets and having 300 days' worth of inventory spread all over their shelf so that every patient can get a tablet. You're starting with an individual patient's needs, and that's a very new mental model for the organization.

I've taken leaders through a discussion that says something like, "well, yes, let's not think about the supply centrically, let's think about this patient-centrically." I got the response, "Yeah, I agree with you, but that's a really big jump to get our organizations to start thinking through."

You lived this in South Africa. What advice would you give a leader when you tell them, look, even though we're not going to be patient-centric tomorrow, you've got to start thinking about the business because the way people behave, the information they need, the tradeoffs they make, have got to be with the patient in mind or the shopper in mind in the consumer goods industry.

**Pat**: I would say that that is a new vision of how the organization needs to work in a new set of values. We've talked often about maturity and organization maturity, and how organizations are moving to try to be able to deal with the high maturity

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pressures that today's society and today's economies are requiring of us.

There is one jump in maturity, that is the most difficult jump, and that is when the organization can no longer meet the needs of their customers and their environment with the traditional top-down siloed way of operating. They have to.

What the supply chain and value networks require is that people shift their view horizontal, and that is a very difficult thing to do psychologically because there are relationship issues at stake like top boss-subordinate relationships which are dependency relationships, my allegiance to the silo, my unwillingness to speak up in the face of power.

My allegiance, as I said to the vertical organization when now you're telling me, I've got to have my sight set on the horizontal. When I'm in that moment of truth every day, and there's a pressure between what my silo wants and what the customer wants, what do I do?

We are living still in a world where the mental model is that organization chart. That is the toughest challenge that we have to face, and I call it crossing the great divide.

Because as soon as you say that you're going to cross that great divide to a more horizontal and interdependent way of operating, this doesn't mean you get rid of decision authorities and things like that.

It's just that people have to start acting with more sense of multiple priorities, and they have to be in every moment of every day making the right tradeoffs in favor of the values that you're talking about which are agility, customer quality.

I've done a number of surveys with large organizations looking at the results they're getting from external and internal standpoint. There's a pattern that's emerged that's very troubling to me across enterprises. I've probably done 30 or 35 organizations, including a very large supply chain organization. You and I have

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worked on these things together.

What keeps on coming out is the major weak areas across every organization—and I've never seen an exception—are the speed of decision making up and down, the speed of decision making horizontally, the ability to work easily and swiftly across silos, the speed with which vision transfers from one place to another. Aren't those the definitions of agility?

**Roddy**: That's the definition of supply chain.

**Pat**: Yeah.

**Roddy**: In fact, you and I both lived... I was certainly was very privileged to live with Greg Makhaya, who you also worked with. I'll never forget being called on to the met with a bunch of my peers at South African Breweries.

When he said, "Here's six beers that are bought on a liquor store. Why are the bottles scuffed, the labels are skewed, the full heights are different?" We said, "It didn't leave manufacturing like that." He said, "You didn't hear me. I went into a liquor store and I bought these beers. Why do they look like they did?"

When we went back and did the analysis, we found that there were many things that we could do in the business to prevent that happening at the shelf, and this is exactly what you're going to see in healthcare.

People who are six or seven elements upstream of a patient are going to say, "I don't know what the patient does with this." How do you expect me to understand how I do my job differently so that the patient is guaranteed an outcome, or the patient demand is going to be met?

In my opinion, this is going to be one of the biggest challenges for leaders, is to how to paint that picture. It doesn't matter how far you are upstream in the supply process, when we say patient-centric, you have to make it your duty, your interest,

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your challenge to understand what is it that the patient is expecting from me in my role.

That may mean I got break a few rules in my individual goals and responsibilities. If I stand up and say, "I did this because it was in the interest of the patient," you should be able to get away with it. We don't think like that in organizations.

**Pat**: I think you're onto a very important point. That is, we have to start trusting our people to be able to do the right thing. They're not going to do the right thing if they don't understand the big picture and what you're all trying to do.

Communication is going to become one of the most important things for leaders. I don't mean conducting town halls, doing one-way messaging. It's got to be a dialog, because you want inside of everybody's head in the case of healthcare. Who is that patient? What is that patient like? What happens when we're meeting the needs of patient? It should live in their bones and in their psychology.

I did some work some years ago with the head of one of the veterans' benefit affairs offices. He was one of the best leaders that I know, he got this idea. He said, "We are here to serve the veterans."

When he took over this office, he went into the office and he said, "This place is a mess." It says, we don't care about our job. It says, probably veterans are being lost here. It's not a pleasant place to be. It's not inviting to our veterans.

He transformed the whole place and did many things. He hung more than life-size versions of veterans throughout the building. He set up a museum with the front end of a helicopter with all sorts of things that he got from the veterans. He had a wonderful welcoming area for the customers, and everything turned around customer satisfaction.

Do you know what happened? Their numbers went up and they became the lead in the whole of the Veterans Benefits Administration.

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**Roddy**: Wow. That's what we're hoping to see. Now, you've had some input into the agile supply chain credo that we've built for TraceLink. That's really what we're doing. We're not saying it's anything about TraceLink or technology. We're saying the supply chain starts at the patient, and we all need to understand that mental model.

As we're thinking about our roles and responsibilities and metrics and processes and systems, let's make sure that we don't lose sight, at the end of the day, of the patient that is really the endpoint and the definition of success in the supply chain.

Because no matter how well you did in manufacturing, no matter how compliant and good the quality was, if the product didn't get to the patient when the patient needed it, then the patient died, then who cared about all the other things you did right? It's absolutely a waste of time.

**Pat**: There's a lot of retraining that has to happen too, because the way you lead and the way you follow in a hierarchical-thinking organization is different than the way you lead and follow in a networked, horizontal ecosystem organization, a supply chain.

You need to really think, what are we expecting of our people? Of course, today, we're expecting more self-management. We're expecting people to see the exceptions and to call them up right away, so they don't become catastrophes.

We're expecting them to work together in a way where as soon as a problem happens, they raise it. They don't hide it because they're afraid that if they expose a problem, they're going to suffer in some way.

There's a whole retooling of the mindset of people, because many people—not so much the younger people coming in but the people over, let's say, 35—we've trained people to be successful or moderately successful in dependent relationships.

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Now we're saying to them, "Look, you got to think. You got to stand up. You've got to be like that seeing-eye dog and disobey the rule of your owner in order to save him from falling in a pothole."

**Roddy**: If you were sitting in front of the COO, the COO, says, "Pat, this makes so much sense."

If you could give some advice to that COO/leadership member of the organization, what's the first thing that you think you've seen from leaders, people like a Nick Clayton who are real leaders in supply chain. What are the kinds of things that you've seen them do that have got them almost—I won't say immediate solutions—but immediately the traction starts, because that's really what you need?

**Pat**: This is what I firmly believe. You got to look at yourself and who you are, how you see the organization, how you view power and how you're going to use it, because everybody who is a COO of an organization has a lot of power. Somebody might say, "It's not so powerful as you think," but they are, because people attribute power to you, and you do have resource control.

I think taking some time to step back and say, "Who am I and what kind of leader do I want to be, and what kind of organization do I want to be a steward of," because it's a stewardship role. It's not a bossing role. I would say that, and then I would look very closely at the organization as a system.

I would say, "How are we doing on the people side, the system side? How do we envision technology and what it's going to enable us to do? What is digitization really going to mean in terms of how it's going to potentially transform our business? How do we organize all of these pieces of the organization design so they're working together and not against each other?"

I think we have to retrain people so that every time technology evolves, we should ask ourselves, what does this mean for people? How can we optimize people? How

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can we optimize their imagination, their exception-viewing, their checking us on our values, their foresight capability?

I don't see many companies building those capabilities. They're good at training in job tasks but terrible at training in the cognitive skills and the emotional skills and the willingness to step out there and speak up. That's what we have to be doing, or we're going to not be using some of the most important capabilities we have, and that's our people.

Think of an organization with 10,000, 20,000, 50,000, 100,000 people—the untapped energy that's there, how wild it can go if it's not aligned, and how amazing it could be if it was.

**Roddy**: That is so true. You really drive the point home. I think that when you take the opportunity away from people to think, you've codified their practices and their behaviors to such an extent that they become machines, it's extremely demotivating. Especially when you have to efficiently do the wrong things, because the system helped you efficiently do the wrong things.

I think there is still a mentality, unfortunately, in senior leaders that says, "I gave you a billion dollars to go an buy your IT system. Now, go and get it done. Call me when you're finished, and we'll figure out how we're going to use it in the business."

That has to fundamentally change. Though, I think in the new generation of software, certainly the software that we're creating and tracing where you have, like an Amazon platform where people are connected, they're sharing information, there's visibility.

You can start thinking about systems in a different way and you can start providing that visibility and that interconnectivity and the contextual information that people need to know in order to do their jobs better.

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**Pat**: Yeah, and if you look at what's happening in digitization, what's happening in technology is amazing. It's not going to stop. What if you, instead of just focusing on that and optimizing that, which is a whole lot easier than thinking about the software side, look at the whole system. Ask yourself, "How do we optimize all the parts of this system?"

What does this mean for people? It doesn't mean that they'll either be getting dumber or smarter. There's no middle ground.

**Roddy**: [laughs] Right.

**Pat**: Do you want to dummify...I don't even know if that's word, but do you want to dummify your people or do you want to say, "Hey, we've got the most amazing computer in the world. It's still in people's bodies." There's so much more that we can get from it. It's something that people are afraid to deal with because it feels like we can't control it very well.

**Roddy**: This has been really fantastic. I'm going to draw the attention of the audience here to a point you make. That is, we heard Maeve say that in one of the presentations. You and I both were with Maeve where she says, "The patient is me."

At the end of the day, when the CEO or the C-level leader of an organization starts by looking at themselves and realize that they in a sense epitomize the patient, and you have to build the business around how you're going to satisfy that patient's needs, you can then communicate, as you say, and galvanize the organization to use their innovation, their intelligence, their insight to drive the business. That's a very exciting way of looking at the future. What would you say to that comment?

**Pat**: It reminds me of some conversations I've had with executives, very high-level executives, COOs and chief executives, about their legacy. Often, there have been times when people have said to me, "I only have two more years left. There's really

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not much of a legacy. It's too late for me, but maybe for the next generation."

I say, "Wait a minute, you are right now at the peak of your power, the peak of your control or influence on resources. Now is the time, and these next two years, to really go for it. What do you want to leave behind?"

Now is the time because there's so much change happening. We have to help everyone, leaders and people at work, to transform themselves to be able to cope with what's ahead. So, we have a transformation agenda and we still have to run the business.

**Roddy**: Pat, this has been incredibly useful. Thank you very much.

I think, in what I'd hoped is that you would bring a perspective to agility that says, "You can have all the systems, all the technologies, all the codified best practices and benchmarks you want, but if the people and the system are not ready to internalize those capabilities and use them effectively in their day-to-day jobs and get them motivated and new mental models of why they're there, they're there to serve patients and customers."

You really brought that home. I really appreciate that. Thank you very, very much especially on my behalf. We've come a long way together. I think your message will certainly resonate with some IT leaders. Pat, thank you very, very much.

**Pat**: Thanks, Roddy, for the opportunity. All the best to TraceLink and everybody who listens to this podcast.

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