Podcast Episode 12: Omera Khan on the Upside and Downside of Supply Chain Risk

Key Takeaways

- Supply chain management needs to evolve to incorporate a risk management mindset.
- Resilience in a post-pandemic landscape is about absorbing and being energized by disruptions.
- Truly great supply chain companies don't just sense demand, they translate it.

Professor Omera Khan underscores the vital importance of supply chain risk management and the sometimes surprising upside of risk in this episode of The Agile Supply Chain Podcast.

Transcript:

Professor Omera Khan underscores the vital importance of supply chain risk management and the sometimes-surprising upside of risk this week on "The Agile Supply Chain Podcast" with Roddy Martin.

Roddy Martin: Professor Omera Khan, it's an absolute privilege to have you on this recorded thought leadership series that we've been building.

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Roddy: It's been really a privilege to interview, and introduce, and hear the perspectives of many of the world's supply chain leaders. This is like a giant book that we're creating with lots of 15, 20-minute chapters.

My experience with you goes back to the many paths that we've crossed at supply chain conferences where we've spoken about what's happening in supply chain, what's happening in healthcare. I've watched with interest as you've moved through the various institutions and now are leading risk management.

I think risk management in this whole pandemic scenario is a fascinating subject. We'll get on to that. How about you introducing yourself with a little bit about what's taken you to where you are today?

Omera Khan: Thank you, first of all, Roddy, for that really warm welcome. I feel it's a real privilege that you have invited me to join this thought leadership series. I'm really humbled that you've invited me to participate in this. When you said that the fascinating world of supply chain risk management, I can't agree with you more, Roddy.

It's an industry or an area that I've been working in now for the best part of 20 years of my professional career, and I'm still massively fascinated by it. I think that it's such a dynamic field of study. I enjoyed doing my PhD. That's really where I started.

I was at Manchester Business School in the UK and was very keen on understanding the challenges that we're facing the textile industry, having come from a family of textile manufacturers. I didn't actually start by considering that, "Oh, I'm going to do a PhD on supply chain risk management," because I think about this around 20 years ago.

We didn't really talk about supply chain risk management. What turned out to be was a thesis on supply chain risk management. It wasn't really something that I had planned, but it turned into that after doing four years of research and

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investigation into this.

Roddy: When the risk management people came into a supply chain meeting, everybody kept quiet because they were the intruders in the meeting. "What do they know about supply chain?" Today, you don't want to have a meeting without them.

Omera: Absolutely, Roddy. In fact, one of the key points that I made in my thesis was that we should no longer talk about supply chain management, but rather more supply chain risk management because for every decision that we make in our supply chains, we've got to take a consideration of the risks.

When I think about risks, I don't think just about the downside. I don't think only about the negative attributes. I actually also consider the upside of risk.

That was another argument I was making in my dissertation. If we really look back at the history of risk, you can take it all the way back to the days of gambling in the Arab world where you dare to take a chance, you dare to take a risk. Therefore, there's an upside to risk and a downside to risk.

For me, when we talk about supply chain risk management, supply chain risk management, for example, in the pharma industry, of course, we're talking a lot more about safety, patients, and regulators. There's a lot more talking about safety issues, around those things.

If we then look at it from the fashion sector, actually, taking risks with range choices and the next collection -- should it be leopard print or zebra print -- that's a risky decision that could bring significant gains. In that sense, I look at both upside and downside risk.

That's why I think that we should replace supply chain management with supply chain risk management because that's a true expression of what we're really referring to.

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I remember one of my first meetings when I had just joined Cranfield University, we were invited by a very big pharma company. When I went into this meeting, it was in the boardroom. We went around the table. We had been invited as the supply chain risk experts to potentially do a consultancy project.

When we were meeting all of the representatives, each and every one of them introduced themselves. "I'm Mr. Smith, and I'm from R&D. I'm so-and-so, and I'm from technical." Each of them said, "But I have nothing to do with supply chain risk management. But I'm here because I'm interested."

It was almost like as they were frightened to own up and say, "Hey. Ho. I'm the risk manager." In fact, at that time, for the entire company, there was only two risk managers. They were not even present in the meeting, not even in the form of Zoom or anything.

The challenge I saw there was, and I was really new -- just done a Ph.D. – was I don't know how you win and lose consultancy contracts, necessarily.

I remember when it came to my chance of introducing myself, and I said, "Hi, I'm Omera Khan, a research fellow at Cranfield University. I'm a research fellow in supply chain risk management, but actually, I don't know what the hell I'm doing here if none of you guys around the table -- if you don't feel comfortable talking about supply chain risk management."

The story goes, Roddy, I was given a slap on the wrist by my most senior colleague that, "Omera, that's how you do not do it."

I was trying to explain to her, how are we as consultants or the academic experts going to help in supply chain risk management thinking? How are we going to solve their issues and their challenges if they do not own up to the challenge themselves? If they don't actually embrace an accountability that supply chain risk management is even important?"

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Roddy: You know, Omera, I think that that's probably true of 90 percent of pharmaceutical companies and in fact, all companies.

Roddy: John Chambers, who used to be the CEO and chairman of Cisco, made a fascinating comment in "Fortune" magazine, where he said, "Why is it that these risk management strategies and business continuity plans are developed, and they sit in the bottom drawer? Then everybody scrambles when there's a disruption to take it out, dust it off, and figure out what's still relevant?"

Why are these risk management strategies and business continuity plans continuously live? There's a team that's continuously updating them. It's open. It's being used as the governance manual of the business, and it goes to exactly the point you've made.

Risk management is not something you slap on the side of a business when you suddenly see that there's a crisis coming. It's the way you make tradeoffs in the business. You make them against a risk management strategy.

I love the story, and I think it's not necessarily true of one company. It's probably true of 90 percent of the companies today.

Omera: I'm just fascinated by this, because many years after that, as a professor -- and I teach supply chain risk courses around the world to students all around the world, so you can even imagine the different cultural nuances, like I would say students in India, for example, I would say they seem a lot more entrepreneurial.

Maybe in the Nordics, when you're teaching there, they seem a little bit more risk-averse. That's just the cultural demographic that you sense. I've always mentioned this story to them, because it's just something that has stuck with me, because it was so early on in my career.

I always said to my students, "Gee, when I think about how amazing my career has been, I am so proud to hold the flag up and say, 'I do supply chain risk

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management,' I find it exciting, fascinating." Even post-COVID, if we look at where's a lot of the attention going, it's on supply chain risk managers and resilience.

As a professor who's educating a nation of future leaders of young people who are out there to get the future jobs and future positions, I'm hoping that I've made them a lot more comfortable in thinking, "Go out there and become the supply chain risk managers, because the world needs you. It's the backbone, I would say, of almost every business.

It's more than just managing day-to-day disruptions, Roddy. As a supply chain risk manager, you're protecting the DNA of the enterprise. We've talked a lot about agility in the past, and what does resilience mean?

I think that every supply chain risk manager should be striving for the resilience of the extended enterprise. The same goes for agility. We see a lot of companies use these phrases. "We are an agile organization." What does that really mean when we say "We're an agile organization"?

Are you really, truly an agile organization, as in, is it enterprise-wide agility? Because if it's within the dyad of a customer-buyer relationship and that's agile, well, you can't truly say you're an agile organization. What I think makes a truly agile organization is if the people in those organizations are also agile.

I think one of the biggest barriers that constricts, almost, agility in an organization is inertia to change. It's complacency.

If we really look at some of the winners, like the Amazons and the Jeff Bezos of the world, if you look at what characterizes them as truly resilient enterprises or agile organizations, is that it's very much linked to disrupters and disruptive innovators. That's a really big characteristic, I believe, going forward for true agility and true resilience.

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I think you can package that in with supply chain risk management. I don't think there is that much distinguishing what is supply chain risk management and what is resilience. Supply chain risk management is what we do to achieve resilience. Agility is what we strive for to achieve resilience.

These are almost the foundations of building what we call the temple of supply chain excellence. That's what we called that at Cranfield University.

Roddy: That's fantastic. You've seen me many times present the five-stage maturity model which I carry around all over the world. It's much more commonly used now, and when you say to somebody, stage two, they know what it means. Risk management is particularly true, or the journey of risk management is particularly relevant to that five-stage model.

Because in stage two, which is project-based improvement, there is a project called risk management. In stage four, which is end-to-end supply chain starting with a customer, risk management is actually embedded into the business operating model. It's not something separate. That's the challenge.

My question to you would be, as you advise, and write, do academic research, and discuss with C-level executives, do you think the appetite of the C-level team as a result of the pandemic has really increased towards understanding risk management better, making it much more pragmatically part of the business operating model?

Rather than something that you haul out of a drawer in an emergency and start reading.

Omera: I think it has improved. Now, I say supply chain risk management has come on the dining table, not even just the boardroom. A lot more people are aware of the ramifications of how interconnected our industries, our global supply chains are. We've had several notable disruptions over the last two decades.

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The ash cloud, 9/11, there has been many disrupters, but none quite like COVID-19. I don't mean to sound doom and gloom about this, but once we realize COVID-19, there will be another pandemic, there will be another ash cloud, there will be another disaster. I think that we are seeing change, Roddy.

Change is happening because I believe that when we now think about supply chain risk management and resilience, we are also thinking about sustainability. We had this sustainability angle bubbling up before COVID-19. We also had the Internet of Things, and AI, and all of these things bubbling up because these are all characteristics of Industry 4.0.

When we then got hit by COVID-19, it completely took us by surprise. It's taken businesses by surprise because this is not like the financial crisis, it's the lingering effect of the unknown that is forcing businesses to say, "OK, this is not something that requires a quick fix. We need to fundamentally change our business model. We need to fundamentally change the way that we're doing things."

Operating models of the past, which were built for an emergency fix, most CEOs are beginning to realize that that same response is not going to work here.

Roddy: You know what's fascinating if you look at the whole testing scenario, developing of tests and the execution of tests, which I call the Manhattan Project for the globe. It's not just one country, it's everybody has to get this testing right.

I mean, just think about the implications of not having accurate testing where you can get almost instantaneous results on businesses and their day-to-day operations. What if you are a Samsung with 10 buildings on a campus, or you are a pharmaceutical company in Geneva or in Zurich and you have 15 different buildings on your campus?

You can't even have people moving between those buildings because they may go out to a restaurant, come back in with the virus, and shut down a whole lab. This is not something that you can treat lightly. It's going to have to be built into

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practices. What do you do?

Here in the states, I'm already starting to see wristwatches that will detect to see how close you are to your peers in a working environment. The minute you get within the six-feet circle, it will alert you. Well, the next thing is you're going to be downloading coronavirus individuals into your watch. It says, "Well, steer clear of that person because they are coronavirus positive."

It's going to fundamentally change that way that we live our lives. Again, I don't want to, like you said, be the prophet of doom and gloom here, but what's the first step? I'm a chief supply chain officer. I've developed a risk management strategy because the investors said we had to have one.

The auditors looked at it every time they walked into the organization. I pulled it out of the bottom drawer, and I said, "Look, here it is, a big document. If we need it, we can call it."

What piece of advice would you give a chief supply chain officer and say, "Look, this is how you need to think about starting your risk management strategy as really the kernel of your supply chain strategy," to your own words?

Omera: What astonishes me still is how little businesses know their supply chains. The first step is that you need to know your supplies. You need to know your supply chain. You also need to know your customers. Fundamentally, what we really need to do is we need to unstick the supply chain.

You and I, Roddy, we've often talked about moving from this mind shift of inside-out and more towards outside-in. Over the years, whilst businesses have become brilliant at forecasting demand, they've been less sophisticated in, how do we actually translate that demand into an actual product offering?

Over the last couple of decades, there has been this really strong push on understanding demand portfolios. We've seen some great professors work on

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things of understanding demand patterns and how we can work those better, but there has been less sophistication on actually our supply complexity and understanding that.

First and foremost, as in base zero, and I don't want to sound patronizing in this, is understand your supply chain. End-to-end understand your supply chain.

We have the technologies in place now that can help us with visibility and transparency and all of those things, but fundamentally, the basics of knowing your supply chain first of all. Secondly, I believe it is about developing true resilience.

I think that over the years, I would say in my view, resilience is more than saying how do we continue to perform after a disruption?

I think true resilience in a post-pandemic world refers to a lot more. What true resilience in an enterprise will be is that, not how do we continue to perform when a disruption or a shock hits us, how do we absorb those shockwaves, and how do we get energized by those shockwaves?

We can take a leaf out of living sciences and biological systems. If we look at living systems and biological environments, they do really well with shockwaves. If they're hit by lightning or whatever, they absorb those energies for the greater good of the rest of the forest, for example.

If supply chains could start absorbing some of these shockwaves and disruption, but for bringing in that energy and for the better good of a much more shared equitable approach in the supply chain community, I think we will make some big strides in what true resilience should be.

Roddy: I have a great story for you. A really practical story. You live, on that side of the pond, and you know Nestle chocolates. It's part of that side of the world. Whereas here, Hershey chocolates are the side of the world.

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When Hershey went live on SAP, it was a disaster, and for four, five days, they were not shipping product. It wasn't moving. Nestle climbed in boots and all, and now you find Nestle chocolates all over the United States.

It started as a result of a company not being able to meet their commitments in the supply chain. I think that's exactly the point you make. There's going to be these really sharp vultures sitting around in the supply chain.

Like at Amazon, for example, and I'm not saying they're a vulture, but they're going to wait for people to trip and fall, and they're going to climb into that market and take it away from you if you're not resilient enough.

If you trip and fall, and you can't get up and keep running, someone's going to take it away from you.

Omera: Absolutely. The world is changing, Roddy, and I believe that we need a lot more innovative leadership. We need a lot more creative leadership to effectuate this change. You asked me what some of these first steps should be.

I think some parts of it is going back to the basics of doing business good, but it's also about understanding that the world is changing. It's rapid fire now. We live an increasingly fast-paced world, but we have some great technologies to help aid how fast we need to become.

It just requires a mind shift change. I'm not saying just in a simple way, I know these decisions and these changes do not happen overnight, but we have got to start somewhere. I think that the chief supply chain officers need to start looking at...The end goal is ultimately about striving for resilience.

Striving for resilience means that when the next COVID hits us, we know our supply base, but we also know our customers are strong enough, they're robust enough to withstand those shockwaves. These are lessons learned.

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There's still a lot of strength and lessons learned, but also, well, how do we absorb these shockwaves. That's what I was also trying to say before, was that resilience isn't just about carrying on, it's about learning.

It's about absorbing shockwaves. It's about energizing from them, and then pivoting our business if need be. It's about saying, "We are not necessarily set in some rigid system that we must do things a certain way."

That's what has been happening with supply chains, is that we invested in SAP, so now we must use it. We don't know what we're using it for. We don't know why it's good, but we've invested so much, so we must use it.

Roddy: Right.

Omera: It's shocking.

Roddy: It's diabolical, absolutely.

Omera: It's diabolical. Leaders think like that rather than, "Oh, there's a 22-year-old great social media guru who we can employ because he's so fast at analyzing the latest trends or whatever." These are the kind of shifts that we are seeing in a lot of the startups.

We're seeing it in B Corps. If we look at the rise of some of these startups by young 20-year-olds, or whatever, that tells you something about the attitude and the entrepreneurial spirit in the next generation, Roddy, that you and I haven't had those kind of abilities or the creative mindsets to be very exploratory in nature.

We've been taught a certain way. We've delivered a certain way, but if you look at this next generation of young people, who are going to become the future leaders, if you look at what some of these are doing, we can learn a lot of lessons from them.

People development and people investment is so fundamental here, and it's

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something that I think businesses pay less attention to. They focus on the technologies. They focus on the systems and the processes.

Which then they get so fixated on and they can't change them. People, people, people are fundamental.

Roddy: I fundamentally agree with you. In fact, I think the one way of looking at it -- as we start to close up -- one way of looking at it is the fantastic opportunity now of augmenting people capabilities with very fancy technology.

When you look at artificial intelligence and machine learning, it's a mindset. We can go and we can analyze data from our SAP or an ERP system to say we've got these records. We know what happened, how many times it happened.

How about getting into the augmented analytics? Where we're more predictive and we're learning all the time. As we close out, and you and I both know John Gattorna very well. I can remember when John first started talking about his demand-driven segmentation.

I watched supply chain people go all googly-eyed and vague. While, where on Earth would we start thinking about the set? It's not how we think about segmentation. I think the chickens are coming home to roost.

To make the point that you did, how can you do a risk management strategy without an outside and segmented look at all the various components and characteristics of demand? As John found, there's 18 different characteristics and archetypes of looking at what drives demand, how sophisticated can you get with demand forecast accuracy?

I think John's time is coming back, and we're going to be doing one of these interviews with John because I think outside segmentation to improve demand forecast accuracy is probably a really important step in a risk management strategy.

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Omera: Absolutely. I think you're speaking to the perfect person. That links to the point that we made earlier as well, Roddy, about it's not about getting the forecasting right, it's about translating that demand and making it into a value proposition.

If we look at some examples of the greats, like the Amazons and the Zaras and the Unilevers and the P&Gs of the world, we only have to look at the list of top 25 Gattornas. They don't just sense demand, they translate that demand upstream to their supply chain.

That's the point I was making earlier, that it's more important to get...The demand segmentation is a very critical part, and I think because of great works like Professor John Gattorna, who has done some good stuff here.

I think we've started improving our understanding on that area, but I think a lot more work is needed upstream because what we haven't done as a result of this learning journey is sorted out our supply complexity, our supply capacities, and the requirements that are needed there to match the 18 different characteristics and archetypes of the consumers.

Those examples that I've mentioned, I think they're good at putting the consumer at the heart of the supply chain. What they're also good at is predicting demand. You talked about this artificial intelligence, for example, now allow us with predictive analytic tools.

We're moving beyond sensing and translating demand to predicting demand as well. I think the future is looking fascinating. We have so many tools in our hands right now into how we want to shape our supply chains.

I do think it is time for a massive mindset change. We need to truly look at maybe redefining the concept of supply chain management and what supply chain is. As I mentioned earlier, it is about supply chain risk management, but more so, I think it's about resilient, sustainable supply chains.

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I think that every business out there needs to put the planet as the key focus, and we need to almost design it backwards from there, where consumers, where ecologies, governments, NGOs are all very much a vital part of our future economies basically.

Roddy: That's a fantastic note to end on. Professor Omera Khan, thank you. It's an absolute privilege to have you as one of the chapters in our big book of where supply chain has come from, where it is today and where it's going, and leaders like you. Thank you.

Omera: Thank you.

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