

## Skill-Building for Leadership: Two Routes to CPO and Beyond

Is a good leader a soft-spoken collegial sort who gently moves people toward a common goal? Or a hard-nosed task master who gets the job done at all costs? *Executive Agenda* recently spoke with two procurement executives about leadership. David Nelson, whose résumé includes TRW, Honda of America, Deere & Company and Delphi, and Maureen Corcoran from State Street discuss their careers, management styles and the evolution of the CPO.

An admittedly unscientific survey may lead to a breakthrough in spotting top-performing companies. The survey question: Does your CEO know the first name of your chief procurement officer? Companies whose CEOs and CPOs are on a first-name basis—a proxy for frequent communication—boast a sizeable advantage when it comes to



procurement. Indeed, they represent more than 95 percent of a sample of companies with first-quartile procurement performance. What about the companies in the other quartiles? Only about half have closely linked CEOs and CPOs.<sup>1</sup>

Though this insight may not move markets, it does capture the growing importance of the chief procurement officer's contribution to high-performing companies. It also prompts both

Today's CPOs need to master key skills from both paths to fulfill their mission of creating value beyond cost.

Indeed, the job description from a hypothetical company in search of a CPO shows how potent a mix of skills is required. This high-visibility person should be able to envision and execute global sourcing and procurement at best-practice levels, transforming procurement from transactional to truly strategic. This means acting as a catalyst for change, managing large-scale initiatives, complex teams and, of course, suppliers. At the same time, this person must fully understand the issues of a complex global business and have the credibility to consult to and influence business leaders. Language skills

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and cultural flexibility would be useful additions. The list goes on.

procurement and business leaders to ask, "Where will our company's future CPOs come from?" That is not the only question. Professionals are also deeply interested in where CPOs can go after serving in that position. Doors are opening based on the success of today's procurement leaders. Which doors will vary by person and by company. But the CPO is not a dead-end role. These leaders are well positioned to grow beyond procurement.

Generally speaking, CPOs (or their equivalent) follow either a functional or a business path into that role and into subsequent positions. The figure on page 42 illustrates how a range of entry points and skills converge at the CPO spot and branch out into future careers.

To gain a better understanding of how procurement leaders develop these skills and view the future challenges and trajectory of the role, we spoke with a representative of each career path. Dave Nelson, who followed the functional path, is a distinguished long-time supply chain and procurement leader, having held positions at TRW, Honda of America, Deere & Company and Delphi. Maureen Corcoran, executive vice president and chief purchasing officer of State Street, as well as the chief operating officer of its Basel II program, took the business route.

Although their career paths differ, they share two crucial traits: curiosity and ambition. Early

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<sup>1</sup> The analysis is based on an informal study of more than 20 CEOs who participated in A.T. Kearney's 2004 Assessment of Excellence in Procurement, and an additional 15 CPOs who participated in the 2007 study, *The Future of Supply Management*, conducted by A.T. Kearney, CAPS Research and the Institute for Supply Management. Entire study findings are available at [www.atkearney.com](http://www.atkearney.com).

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in his career, Mr. Nelson let his superiors know that he would go anywhere and do any new job in order to advance. Ms. Corcoran, whose background is in accounting, seized the opportunity to take on a new role every few years.

They gained not only job-specific knowledge but also multiple viewpoints of the business. And their careers delivered a key lesson: There is more than one way to tackle any function, particularly as the pace of change and globalization accelerates. In fact, the ability to think beyond “the way we’ve always done it”—and lead the corresponding change effort—may well be the hallmark of most successful C-level leaders.

### Functional Path: Becoming a True Expert

Dave Nelson is a highly decorated practitioner and a favorite mentor to rising procurement pros. Under his leadership, both Honda of America and Deere & Company won *Purchasing* magazine’s Medal of Professional Excellence.

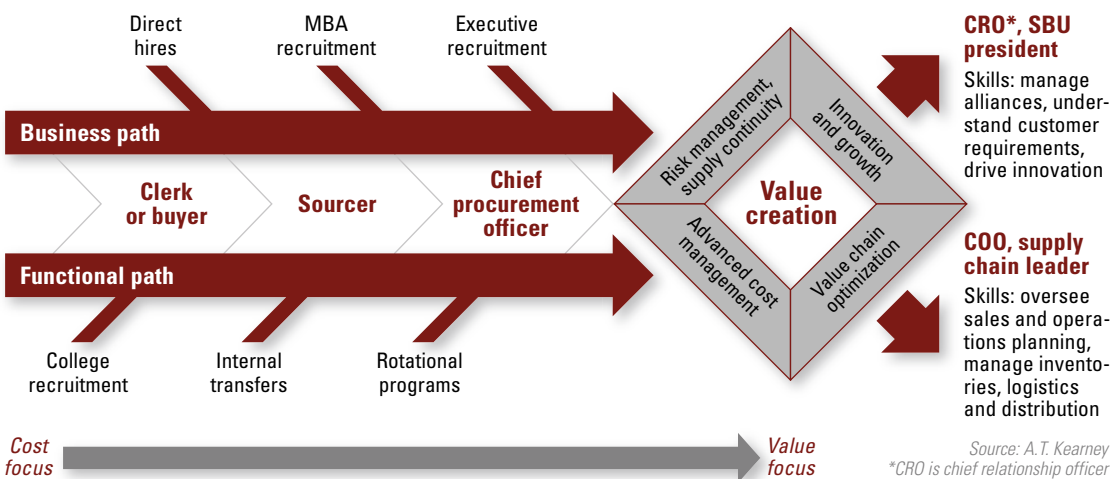
He is a member of the elite Shingo Prize Academy for Toyota Production System (TPS) expertise, and he holds the J. Shipman Gold Medal Award, the highest bestowed by the Institute for Supply Management (ISM).

Why is he a favored mentor? Mr. Nelson says, “I always hired a younger, smarter backup person so I’d be easy to promote.” As an ambitious young buyer, he noticed that many people were passed over for promotion because no one could assume their present job. He was determined that such a fate was not for him, and ever since then has developed strong successors.

Mr. Nelson’s career mirrors the evolution of procurement over the past half-century. Beginning by inspecting incoming steel deliveries for a small Midwestern company, he moved to quality control and dealt with vendors, customers and everyone in between. An impromptu conversation with the CEO led to his first purchasing job. “On Friday, I had 71 United Auto Workers people reporting to me. On Monday, I was a junior buyer,” he explains.

**FIGURE**

Two career paths into procurement (and beyond)



Then TRW bought the company. “An HR guy who was a nut about testing came down with an eight-hour test of everything from IQ to dexterity. Current employees could take it or not. I didn’t think I had anything to lose, so I took it. I must have done okay, because suddenly people who’d never noticed me started saying ‘good morning.’”

After 30 years and numerous roles at TRW, culminating as head of global purchasing for TRW Automotive, Mr. Nelson moved to Honda of America in 1987 as vice president of purchasing. There he found deep expertise and an approach that differed from U.S. standards both practically and philosophically—the Toyota Production System. This way of thinking and working is intended to apply across the enterprise, not only to production.

“A Japanese partner and I started the purchasing department at Honda of America. We hired 300 graduates from U.S. college procurement and engineering programs. Then we brought over 62 extraordinarily skilled Japanese who’d spent their whole lives in procurement to teach the new hires one-on-one. It was just like a master craftsman would teach an apprentice how to be a sculptor.

“They learned how to go into a prospective supplier’s stamping factory, for instance, and evaluate it top to bottom. They looked at the machines the supplier used, the raw materials, everything, and analyzed it in deep detail. They knew the supplier’s costs to the penny. Though the term hadn’t been coined yet, they were looking for lean manufacturing traits.

“With this knowledge, we’d agree on a target price with the supplier and create a long-

term relationship. For example, when new models were being designed, purchasing and engineering met with suppliers 12 to 18 months before production and worked together on the new parts. Note that purchasing and engineering were in the same room, always together.”

Interestingly, the customer—Honda—took the responsibility for bringing suppliers up to par. At the time, Honda purchased all its steel from Inland and sent an expert from Japan to work with Inland. He stayed for two and a half years. Not surprisingly, this approach turned the suppliers into experts as well. So everyone wanted to supply Honda.

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“We ran an ad for a stamping supplier and got more than 300 replies,” Mr. Nelson continues. “We boiled them down to 36 and then eight. The company sent the top execs from all eight to Japan to study the process and expectations of stamping for Honda. We divided the business among this group and brought them the tools from Japan.

“The Japanese and Koreans are still following this approach today—only doing it even better.”

After 10 years at Honda, where, in addition to drawing from the Japanese approach

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to procurement, Mr. Nelson brought U.S.-style best practices to the company, he led supply management at Deere & Company and later at Delphi. Though he has held significant posts in other functions, the supply management theme is dominant throughout his career.

### Business Path: Learning the Company Inside Out

If the accounting profession needs to advertise the value of a university degree in accounting, it could point to the career of Maureen Corcoran. After graduating, she spent seven years at Price Waterhouse. Following her interest in how companies work, she joined John Hancock Property and Casualty's internal audit group. Ms. Corcoran shifted gears once again and moved to State Street as a mutual fund client-service manager in 1989.

Since then, her career has included roles of increasing responsibility in operations management, sales and marketing, client consulting and strategy development. The move to procurement took place after she ran a strategic sourcing consulting project, and State Street needed a person to institutionalize the sourcing discipline after the consultants left.

"We had three choices," Ms. Corcoran explains. "We could hire someone who had done supply chain work at another company.

We could hire an ex-consultant. Or we could use an inside person to make the additional hires." State Street chose the third option and selected Ms. Corcoran for the post in 2003.

Initially she reported to the CIO, who was deeply interested in relationships with offshore providers. "Offshoring means lots of process to manage—everything from background checks on potential vendors to making stop and start decisions and of course controlling costs," she says.

Today Ms. Corcoran reports to the CFO. She oversees two-thirds of State Street's spend, covering the one-third devoted to IT and the one-third on "all else" that excludes real estate but includes contingent workers. "There is considerable opportunity in managing the whole contingent workforce of IT contractors, temporary workers and consultants. You need a rigorous process to mitigate risks, especially in IT for financial services where the security of proprietary data is critical."

As more companies consider outsourcing, CPOs are leading the charge. Companies have seen false starts or failures when functional organizations tried to put outsourcing in place and it didn't work out.

Traditionally, supply chain disciplines have been less prominent in financial services than in manufacturing companies. "A big change took place after 9/11," Ms. Corcoran says. "In this new world, the market stagnated

### Advice for the Ambitious

Based on their experience and viewpoints, what advice do Ms. Corcoran and Mr. Nelson have for future leaders?

- Grow your intrinsic value to the company by broadening your knowledge and skill set.

- Focus on outcomes. If you are not "moving the needle" and advancing the business, what should you be doing differently?
- Learn from the most successful business philosophies and practices. If procurement is

your chosen path, get involved with Japanese companies and learn on the job. For finance and marketing, U.S. companies and academic programs provide excellent training.

- Expect change.

and companies rethought how and where operations took place. Companies paid much more attention to the expense line—it was a big mindset change from the heyday of the '90s for financial services.”

There was a new interest in strategic sourcing and supply chain management to build the right global operating model while controlling costs and expenses. The industry saw contingent workers as a way to smooth out the bottom line and manage the peaks and valleys. “It was a challenge to put all this into effect—basically building a new function for a financial services company,” she adds.

“For this skill set to get full credit, I’d ditch the ‘procurement’ word and replace it with ‘sourcing,’” suggests Ms. Corcoran. “There’s less of the dusty file cabinet image that just isn’t true anymore.”

Whatever term is used, the CPO skill set features versatility. “Sourcing implies running projects and larger-scale initiatives, staying on top of multi-year efforts and getting results all along the way. We call this ‘keeping the trains running’ and companies value these skills highly,” Ms. Corcoran says. “CPOs know the enterprise and know how to execute, negotiate, manage and mitigate risk and do deals. This adds up to general business effectiveness that can be applied in many other situations.”

There is value to individuals filling these roles as well. Ms. Corcoran points out, “sourcing has positive organizational and financial results associated with the job. Not every role comes with that.”

## Moving On: Trajectories and Key Skills

With the onset of Sarbanes-Oxley and Basel II, risk management and compliance have become major concerns for boards of directors. They want assurance that companies know what is going on throughout the business globally,

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that good business practices are followed, and the right metrics are in place.

Accordingly, procurement and business leaders should not only understand the close relationship between supply chain efficiency and increased supply risk, but also have the tools to analyze, prioritize and act on risks. Becoming familiar with such tools is well worth the effort. Unmanaged risks can derail even the most meticulous market planning, as Sony found out when it lost \$420 million in the recall last year of computer battery packs manufactured or assembled in China. More recently, problems with adulterated ingredients, lead paint on toys and defective tires from China have hit the headlines.

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Once risks are identified, risk managers prioritize them according to their potential impact and probability of occurring, and develop appropriate mitigation plans. It can be tempting to stop when plans are complete. But risk managers should continue acting to implement preemptive plans, test responses, track and report progress, and adjust plans as the company and environment change. (*See a related article on risk management on page 32.*)

From his vantage point, what skills does Mr. Nelson see as critical? Along with the ability to draw conclusions from vast amounts of information, he ranks interpersonal skills highly. “Procurement people need to communicate intelligently with CEOs of their suppliers to convince them to do what they want. Rudeness is seldom the best way.”

But topping his list is collaborating with suppliers for competitive advantage. It may seem counterintuitive to expect gains from a “softer” approach to supplier negotiations. But there are lessons to be learned from the Japanese experience.

The recent Planning Perspectives study of supplier-automaker relations still places Japanese automakers far ahead of even the best U.S. counterparts. Scores from 350 to 500 indicate good to very good relations; 250 to 349, adequate; and below 250, very poor to poor. Toyota scored 415, up from 407 last year; Honda scored 380, up from 368; Nissan

fell from 300 to 289. No American automaker scored higher than 200.<sup>2</sup>

The financial performance of U.S. automakers is similarly bleak. Toyota’s market capitalization is greater than that of all its U.S. competitors combined. “I believe we’re reaching the point of no return,” says Mr. Nelson.

## Habits As Ingrained As Religion

Why do some companies seem unable to get the message? As Mr. Nelson says, “Neither U.S. schools nor companies are benefiting from the insights. The schools teach theory. They don’t see practice as their job.

“So companies have to train on the job, and they train the wrong thing: how to bash the suppliers. Most American buyers have never been in a supplier’s plant, much less understand the cost structure or know what could be better. And companies still don’t put purchasing and engineering together. Ways of doing business are as ingrained as religion,” he says.

Along with management inertia, there is a sizeable list of who or what to blame for this situation: corporations’ inability or unwillingness to apply TPS properly across the enterprise, their focus on cutting costs versus seeking value, the quarterly earnings mentality, unappealing products and inflexibility.<sup>3</sup> There is no shortage of villains.



<sup>2</sup> “GM’s Relations with Suppliers Improving: Study,” Reuters, 4 June 2007.

<sup>3</sup> Tonya Vinas, “Continuous Improvement—TPS Is Answer to Auto Industry’s S.O.S.,” IndustryWeek, 28 February 2006.

In some quarters, however, the lessons are taking hold. Look at the recipients of the 2007 Shingo Prize for Excellence in Manufacturing, which recognizes world-class manufacturing in the United States, Canada and Mexico in line with TPS principles. Seven of the 12 recipients are located in Mexico, even though some of their parent companies (Baxter Healthcare, Johnson & Johnson, Delphi) are U.S.-based. In fact, Baxter had winners in both Mexico and North Carolina.<sup>4</sup>

Positive change is also coming from supply managers who have worked with the Japanese and now deal with their own suppliers in the same way. Other approaches and companies

have been successful, though, as Mr. Nelson points out, their direct competitors are probably not top companies using the Japanese approach to supply management.

What will it take for TPS—or any truly revolutionary business philosophy—to take hold? The answer may lie in another possible career outcome for CPOs: the CEO spot. In an *Inside Supply Management* op-ed piece last summer, we proposed that CPOs are a natural fit for the corner office.<sup>5</sup> Perhaps a CEO who combines deep company and supplier knowledge, the CPO and business skill sets, and a strong, experience-based vision for the company will put all the pieces together. 🗨️

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<sup>4</sup> Adrienne Selko, "Shingo Prize Announces 2007 Manufacturing Winners," *IndustryWeek*, 12 February 2007.

<sup>5</sup> John Blascovich, "From CPO to CEO: Charting a Path to the Corner Office," *Inside Supply Management*, August 2006.

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