

**Third Annual Symposium on Supply Chain Management
Toronto, September 2005**

Trust Enabled™ Supply Networks

Uncovering the trust-building secrets of highly collaborative supply chains.

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Food Replicator

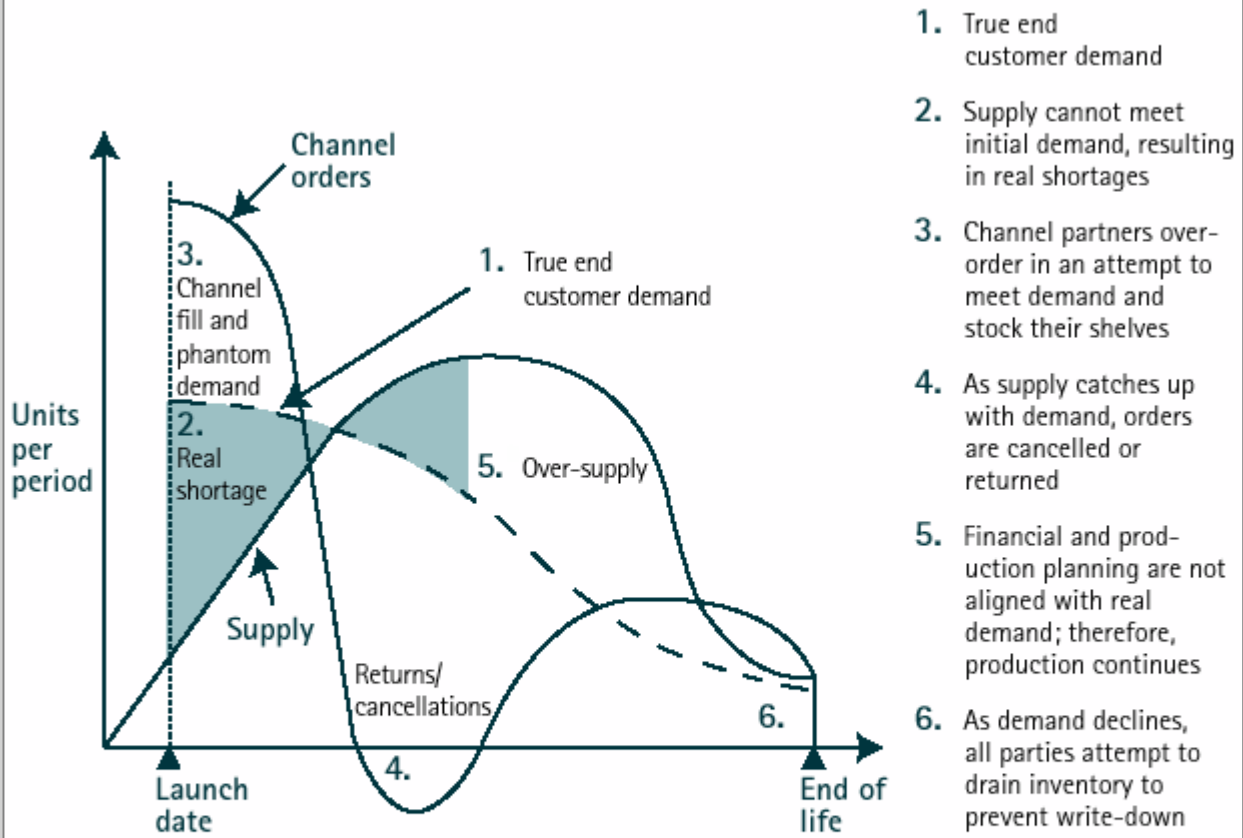


Similar to transporters, food replicators can synthesis food from raw organic material via matter/energy conversion.

Business on Demand

“An enterprise whose business processes -- integrated end-to-end across the company and with key partners, suppliers and customers -- can respond with speed to any customer demand, market opportunity or external threat.” - IBM

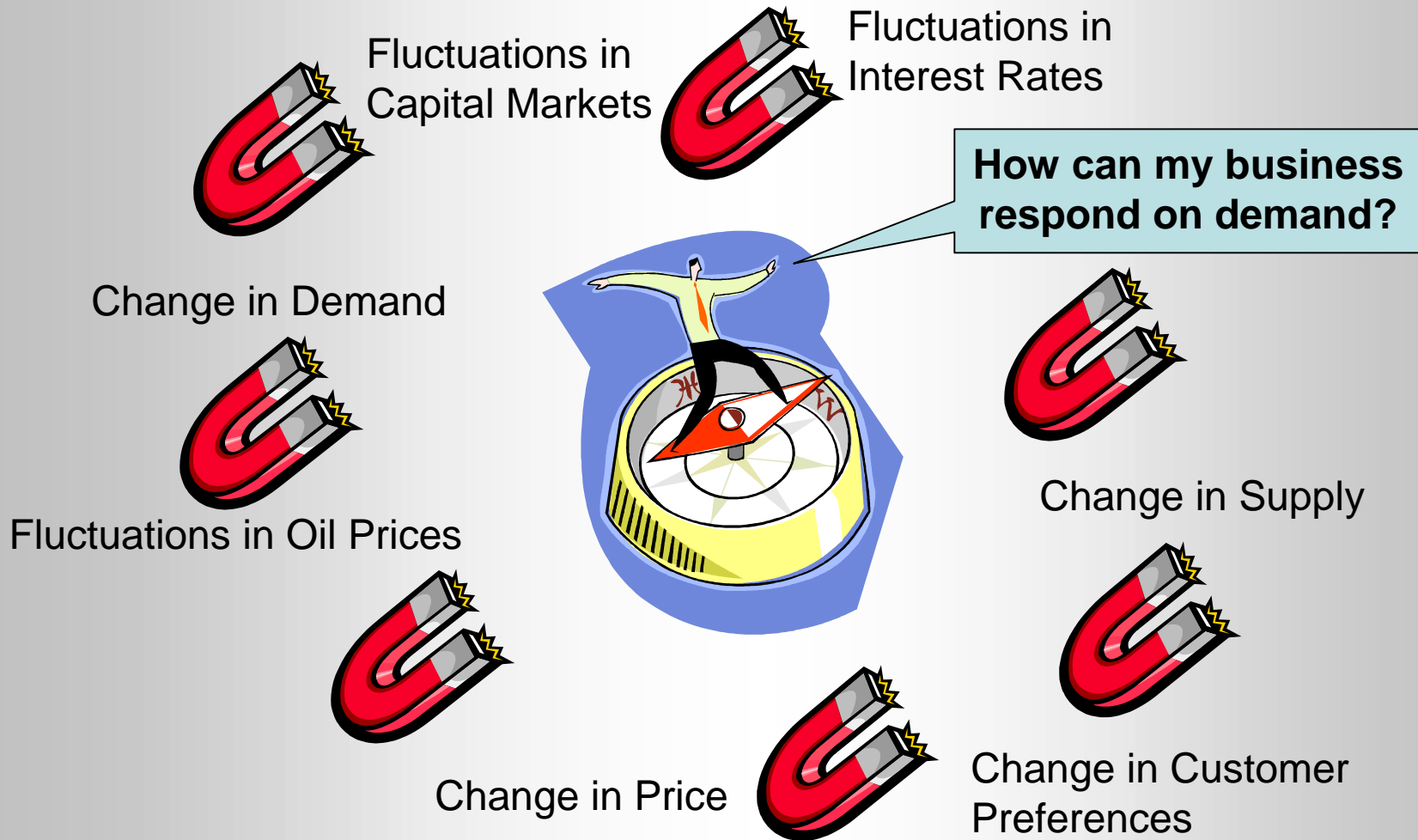
Figure 1. The bullwhip effect



Source: Accenture

The bullwhip effect—where slight discrepancies between channel demand and real demand can cause ever-larger ripples as they travel back through the supply chain—can be a powerful rallying cry for creating a more flexible and accurate supply chain through economic information sharing.

Leaders Want Nimble Organizations



Speed to Seize New Opportunities

"Trust equals speed.... Once people have stopped worrying about what the other guy's agenda is, you can make changes much more quickly" – David Berdish, Organizational Learning, Ford

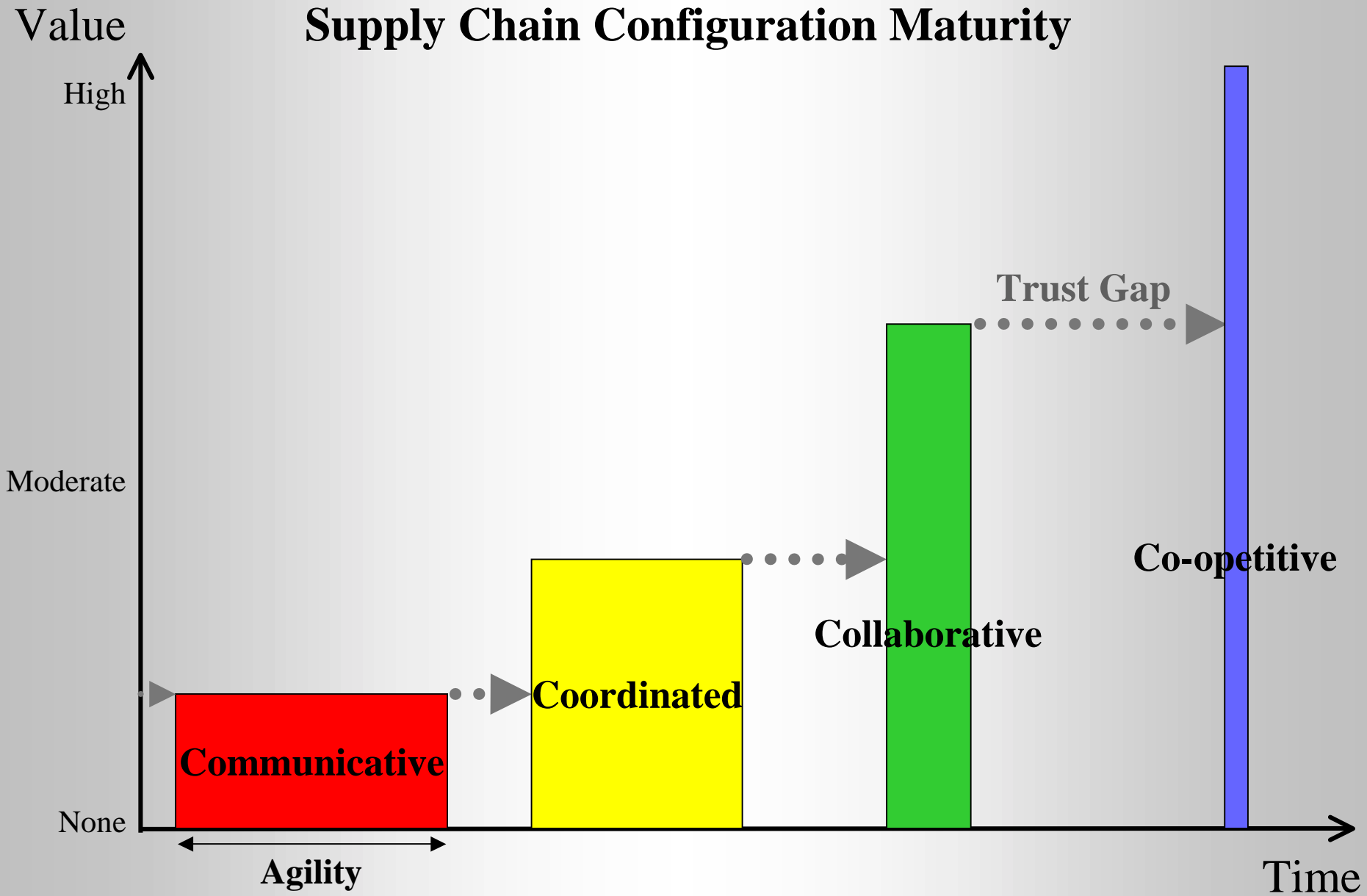
"...the key intervening variable in achieving organizational flexibility is the level of trust" – Lorenz, The Helen Kellogg Institute for International Studies (1990)

"...distrust is the highest barrier to implementing advanced e-business applications, such as supply chain management and product design collaboration systems that link companies to their suppliers, customers and business partners." – National Post (May 2002), based on survey by NerveWire.

“Of all the elements critical to managing supply chains, trust is one of the most commonly cited elements, yet one of the most difficult to measure.”

- Handfield, R.B., and Bechtel, C. (2004) “Trust, power, dependence, and economics: can SCM research borrow paradigms?”, *Int. J. Integrated Supply Chain Management*, Vol. 1, No. 1, 2004.

Supply Chain Configuration Maturity



Trust to receive



Trust to give

Value of Trust for Procurement

Seller

- ✓ Fewer invoice disputes
- ✓ Fewer returns
- ✓ Reduced logistic-related labour
- ✓ Lower inventory requirements
- ✓ Higher "up-sell" opportunities
- ✓ Differentiate on quality and depth vs. product
- ✓ Faster collection times

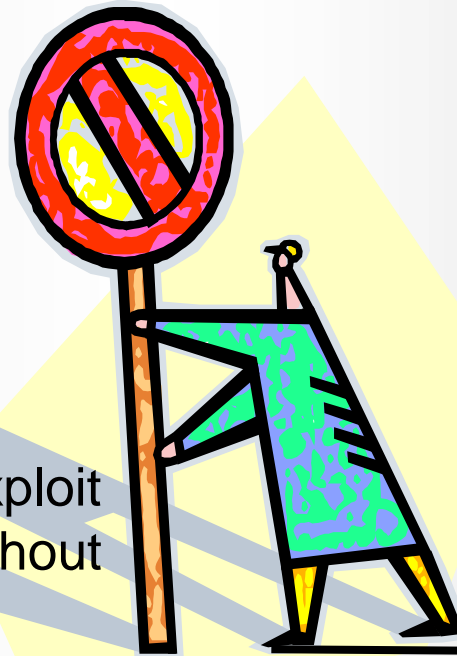
Buyer

- ✓ Reduced purchasing effort
- ✓ Fewer invoice disputes
- ✓ Better error handling
- ✓ Fast inventory turnaround
- ✓ Lower inventory levels
- ✓ Improved A/P days
- ✓ Improved contract compliance

“Buyers tend to be reluctant players”

Robert E. Speckman

- Shared values
- Common vision
- Merits of closer ties
- Sharing of key information
- Supply chain champion
- Seizing opportunities to exploit expertise/capability throughout the entire supply chain
- Belief that competitive success depends on the entire supply chain moving in unison



RISK MANAGEMENT

Trust Enablement vs. Risk Management

Trust Enablement

- Trust-based
- Optimistic
- Offensive
- Active
- Stakeholder-oriented
- **Bonus:** Golden Rule compliant

Risk Management

- ❑ Control-based
- ❑ Pessimistic
- ❑ Defensive
- ❑ Passive
- ❑ Organization-oriented
- ❑ **Loss:** Isolated self-interest

Trust = Acceptable Uncertainty



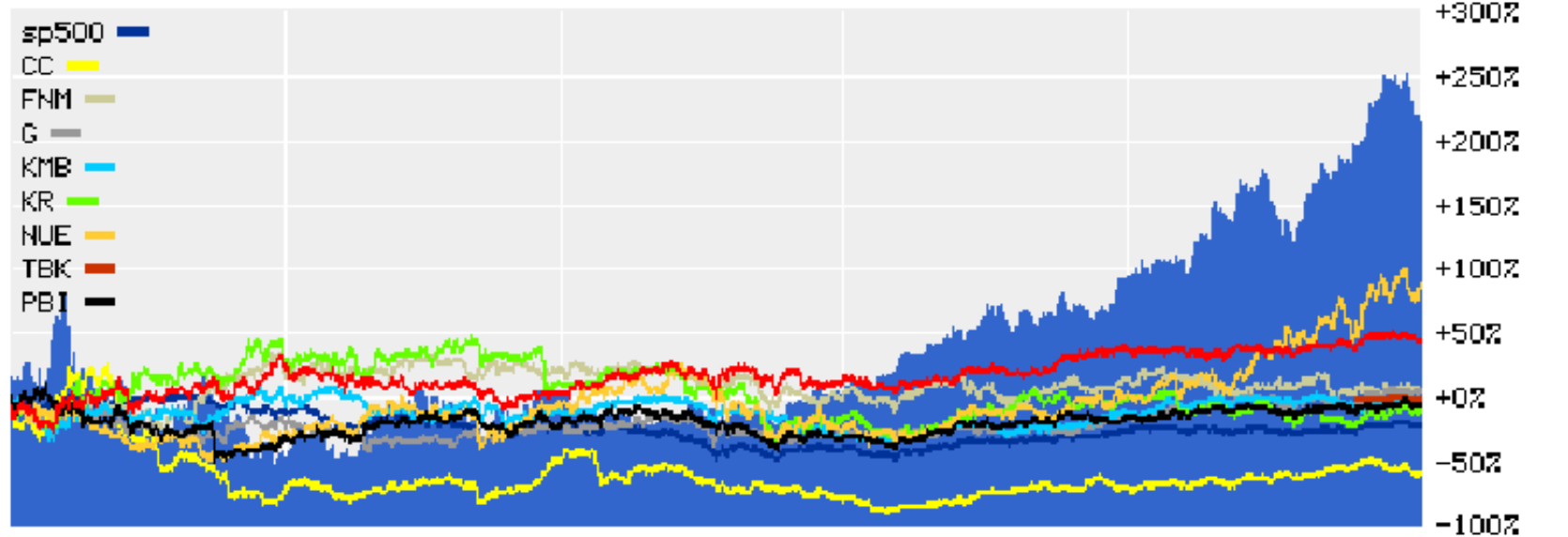
Trust the information, despite its source.



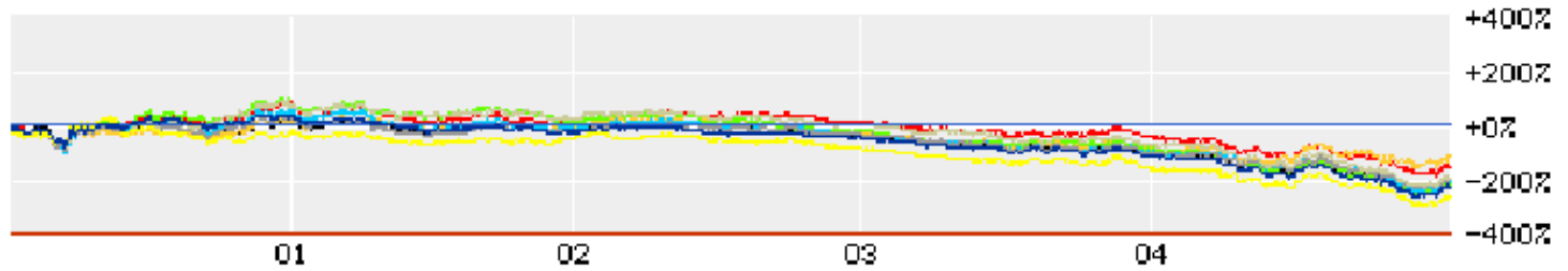
VS.



EBAY Daily



Compare WFC (-145.5%) PBI (-206.0%) TBK (+1.5%) NUE (-107.0%) eBay.com



eBay Builds Confidence

Trust Establishing Services

Trust Ensuring Services

eBay Builds Confidence

Trust Establishing Services

Trust Ensuring Services

1. Authoritative Sources

- ID Verify from Equifax
- Product Opinions & Grading
- Product Appraisals
- Privacy Policy
- TRUSTe seal

eBay Builds Confidence

Trust Establishing Services

Trust Ensuring Services

2. Experiential Sources

- Feedback Forum
- Tradenable escrow
- Product authentication

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Trust Ensuring Services

3. Ability

- Industry practices (SSL, etc.)

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Trust Ensuring Services

4. Motivation

- Policies (comprehensive)
- SafeHarbor investigations
- Disallowed products
- SquareTrade dispute resolution
- VeRO notice of IP infringement

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5. Trust Empowerment

- Identify reliable providers of feedback

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3. Ability

- Industry practices (SSL, etc.)

6. Risk Transfer

- User Agreement
- Fraud Protection Insurance
- PayPal Buyer Protection

Isn't trust different for a supply chain?

Blazer Barn



Blazer Barn

Trust Enablement™ Assessment of a Communicative Configuration

Establish Trust	Ensure Trust
<p>Experiential Sources of Trust - NONE</p> <ul style="list-style-type: none"> No previous personal or referential experience with supplier. 	<p>Motivation - NONE</p> <ul style="list-style-type: none"> The seller had virtually no inherent motivation to protect the buyer's interests and there were no dispute resolution or other recourse mechanisms in place to protect the buyer should something go wrong.
<p>Authoritative Sources of Trust - LIMITED</p> <ul style="list-style-type: none"> Relied only on self-assertions and promises of supplier. 	<p>Ability – LIMITED</p> <ul style="list-style-type: none"> Demonstrated ability to deliver blazers, but neither reliably or accurately.
<p>Trust Empowerment - NONE</p> <ul style="list-style-type: none"> No services provided to help identify possible sources of trust by either the supplier or online auction. 	<p>Risk Transfer – NONE</p> <ul style="list-style-type: none"> A virtually unenforceable contract, without warranties or guarantees. The buyer also did not have any business insurance to compensate them for any lost business.

NONE	LIMITED	MODERATE	CONSIDERABLE	HIGH
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Proctor & Gamble



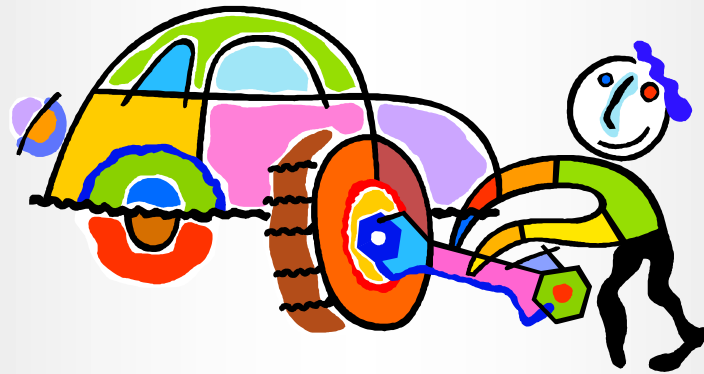
Proctor & Gamble

Trust Enablement™ Assessment of a Coordinated Configuration

Establish Trust	Ensure Trust
Experiential Sources of Trust - MODERATE <ul style="list-style-type: none"> • Pilot projects to demonstrate value; and • Strong leadership. 	Motivation - MODERATE <ul style="list-style-type: none"> • Long-term relationship objectives by both supplier and buyer; • Compelling need for the two industry leaders to cooperate for mutual benefit; • Strong disincentive for opportunistic behaviour; and • Limited overall business goal congruence.
Authoritative Sources of Trust - MODERATE <ul style="list-style-type: none"> • Industry leading supplier; • Strong business case; and • Evidence from the Kmart pilot project. 	Ability – CONSIDERABLE <ul style="list-style-type: none"> • Powerful software enables considerable cost reductions for inventory and in-stock.
Trust Empowerment - NONE <ul style="list-style-type: none"> • No services provided to help identify possible additional sources of trust by the supplier. 	Risk Transfer – MODERATE <ul style="list-style-type: none"> • Tight contractual underpinning with clearly assigned roles and responsibilities.

NONE	LIMITED	MODERATE	CONSIDERABLE	HIGH
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Toyota



Trust Enablement™ Assessment of a Collaborative Configuration

Establish Trust	Ensure Trust			
<p>Experiential Sources of Trust - CONSIDERABLE</p> <ul style="list-style-type: none"> • Tier twos voluntarily assumed leadership roles; • Within hours Aisin met with Toyota and Toyota's other tier one suppliers; • Aisin shared their blueprints (proprietary intellectual property) and other salvageable resources with any suppliers who requested them; • Aisin and Toyota helped suppliers to jury-rig production lines in 62 locations. 	<p>Motivation - CONSIDERABLE</p> <ul style="list-style-type: none"> • Long-term relationship objectives by both supplier and buyer; • Compelling need for all supply chain partners, even competitors to collaborate for mutual benefit; • Strong disincentive for opportunistic behaviour by most suppliers as they belong to the same <i>jishuken</i>, a Japanese-style supply chain form, initiated by Toyota that is an "exclusive or semi-exclusive supplier-purchaser relationship that focuses on maximizing the efficiency of the value chain [35]; and • Moderate overall business goal congruence, since self-interest depends on Toyota. 			
<p>Authoritative Sources of Trust - CONSIDERABLE</p> <ul style="list-style-type: none"> • Aisin and Toyota's assertions about the implications from the fire; and • Tier one suppliers and Toyota's aggregate expert assessment of the situation and recommendations. 	<p>Ability – CONSIDERABLE</p> <ul style="list-style-type: none"> • Highly effective collaboration configuration allowed many partners to successfully improvise production lines. 			
<p>Trust Empowerment - MODERATE</p> <ul style="list-style-type: none"> • A common supplier network facilitated discovery and engagement. 	<p>Risk Transfer – LIMITED</p> <ul style="list-style-type: none"> • No formal mechanisms to protect supply chain partners from loss or damages; • Cultural/community norms provided some level of protection. 			
NONE	LIMITED	MODERATE	CONSIDERABLE	HIGH

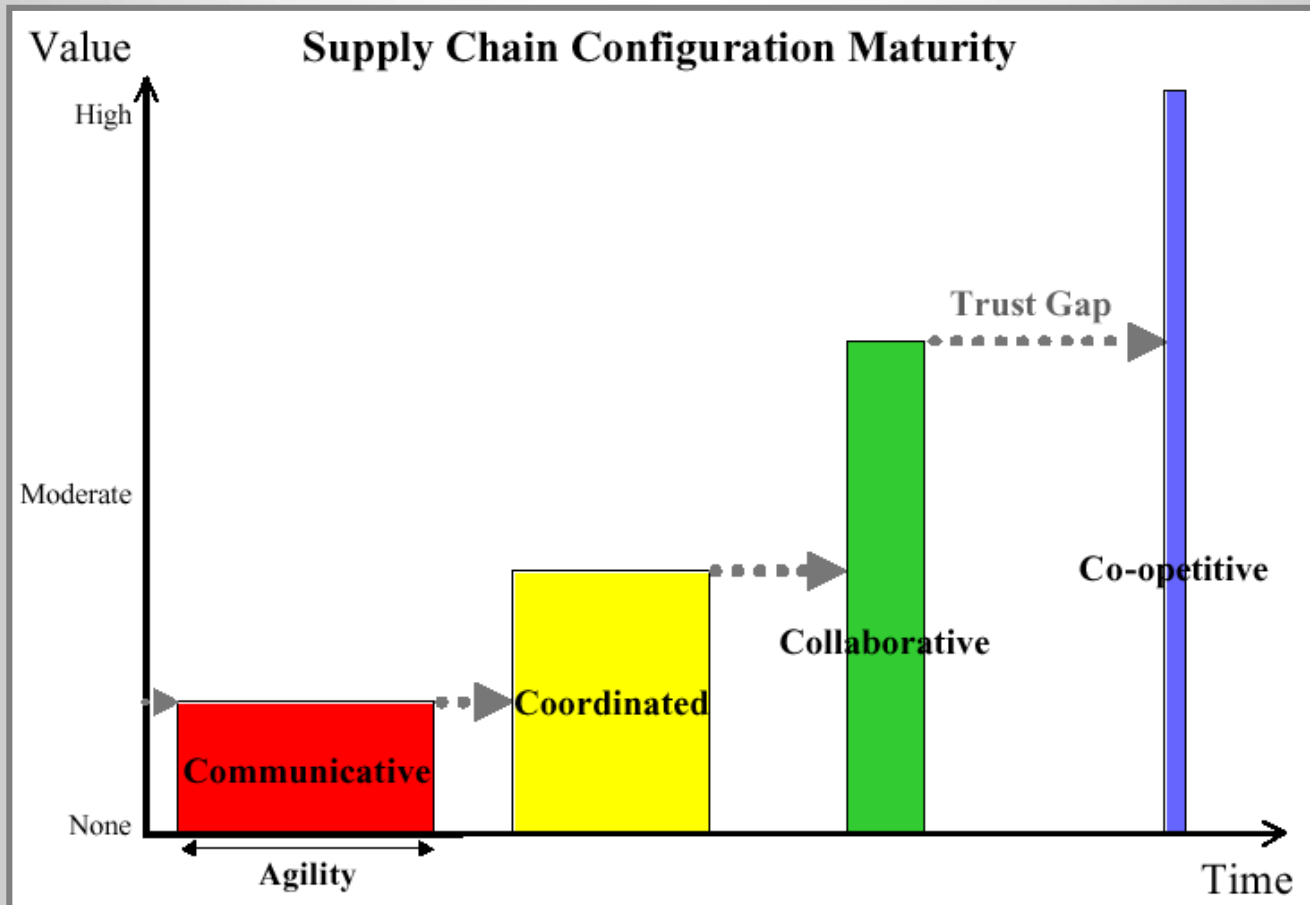
Linux



Trust Enablement™ Assessment of a Co-opetitive Configuration

Establish Trust	Ensure Trust
<p>Experiential Sources of Trust - CONSIDERABLE</p> <ul style="list-style-type: none"> • Experts collaborated with colleagues who shared previous relevant experiences; • Experts personally provided deep support to trace vulnerabilities; • Independent testing of the patch by multiple volunteers; • Full transparency of technical issues and solutions; • - Identity concealed for security reasons; and • - Secret system of deliberately vulnerable servers to catch crackers. [43] 	<p>Motivation - HIGH</p> <ul style="list-style-type: none"> • Long-term relationship objectives by both supplier and buyer; • Compelling need for all supply chain partners, even competitors, to collaborate for mutual benefit; • Self-motivated volunteers spontaneously organize within a loosely associated community of lateral relationships, without predefined responsibilities or authorities; <ul style="list-style-type: none"> ○ No sanctions or recourse for non-participation; ○ No remuneration for contributing; and • High overall business goal congruence, as all employers of experts had products and services that rely on the success of Linux and all technical experts are valued almost exclusively on their reputations within the community.
<p>Authoritative Sources of Trust - HIGH</p> <ul style="list-style-type: none"> • Colleagues referred reputable experts; • Community stakeholders notified with early warning advisory as soon as vulnerability was identified; • Preliminary patch posted within five hours; • Posted description of vulnerability and fix for user community on relevant web sites for worldwide distribution. 	<p>Ability – HIGH</p> <ul style="list-style-type: none"> • Expert volunteers collaborated to trace vulnerability; • Experts voluntarily wrote patch to fix vulnerability; • Multiple user-developers independently tested patch; • System of deliberately vulnerable servers to catch crackers.
<p>Trust Empowerment - CONSIDERABLE</p> <ul style="list-style-type: none"> • Professional network for expert location. 	<p>Risk Transfer – MODERATE</p> <ul style="list-style-type: none"> • Collegial reputation was the predominant risk transfer mechanism; • Multiple user-developers involved in independently testing patch; • - No formal mechanisms to protect supply chain partners from loss or damages, such as for legal liability; and • - No compensation for time, effort and intellectual property. [46]

	Communicative	Coordinated	Collaborative	Co-opetitive
Intangibles	NONE	CONSIDERABLE	CONSIDERABLE	HIGH
Agility	POOR	MODERATE	CONSIDERABLE	HIGH
Value	LIMITED	MODERATE	CONSIDERABLE	HIGH
Trust	NONE	MODERATE	CONSIDERABLE	HIGH
Relationships	LIMITED	CONSIDERABLE	MODERATE	MODERATE



Thank you.

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