For CFOs, enhancing supply chain performance may be a matter of trust

The disruptions that have rippled through the global economy in recent years, ranging from the COVID-19 pandemic to extreme weather events, to geopolitical unrest, have elevated the importance of supply chain resilience. Many CFOs, well aware of the value at stake, have invested in technology to ramp up the agility and efficiency of their companies' supply chains. These investments have helped improve the flow of goods and services in the face of supply shortages and fluctuating demand.

Still, finance leaders may have overlooked a key factor in de-risking their supply chains: namely, stakeholder trust. When companies face catastrophic events, confidence in suppliers' capability, reliability, humanity, and transparency become critical. CFOs need to ensure that their partners have well-designed, consistent plans to protect their organizations against crises and respond to shock, rather than frantically putting out fires. By identifying such exposures, CFOs can fulfill their mandate of addressing enterprise risk, which remains among their priorities in this year's CFO Agenda.[1]

Furthermore, a Deloitte Global survey found that trust-building investments can correlate with greater supply chain resiliency and substantial growth in revenues.[2] The survey drew responses from 1,037 executives—each working within or close to their organization's supply chain function—representing a cross-section of industries and 10 countries.[3] The research found, among other things, that executives overestimate the trust in their supply chains by an average of 20%.[4] That's a worrisome number, as it highlights potential blind spots and risks that can influence performance.

In this edition of *CFO Insights*, we'll examine why fostering trust in supply chains is more important than ever. We'll explore how trustworthiness affects performance and what's at risk for companies whose supply chains lack this vital quality. What investments should CFOs consider to earn—or rebuild—stakeholder trust? And why are some executives' levels of trust in their supply chains overstated?

Supply change

The pandemic's lingering legacies have some CFOs rethinking the lean, "just-in-time" mindset that has long shaped inventory management in favor of a "just-in-case" approach that is more costly but perhaps more resilient to shocks. Driving out costs by minimizing stock has also left many supply chains vulnerable to other global risks. The Russia-Ukraine war, for one, has complicated logistics. So have natural disasters, transportation snarls, and rising energy prices. In fact, 77% of respondents in the Deloitte survey, conducted earlier this year, acknowledged experiencing an adverse supply chain event in the previous 12 months. Forty-four percent of respondents expect a supply chain issue in the next two years.[5]

Indeed, concerns about corporate supply chains are unlikely to ease in the foreseeable future. When asked to identify the biggest external challenges to their supply chains throughout the coming 12 months, more than 40% of respondents ranked price volatility, financial/market instability/inflation, materials shortages, and labor/skills shortages among the top three challenges (see Figure 1). While 15% chose "crises of trust" as a direct issue, it's likely that the top-ranking concerns in the survey would sorely test the level of trustworthiness embedded in the supply chain.[6]

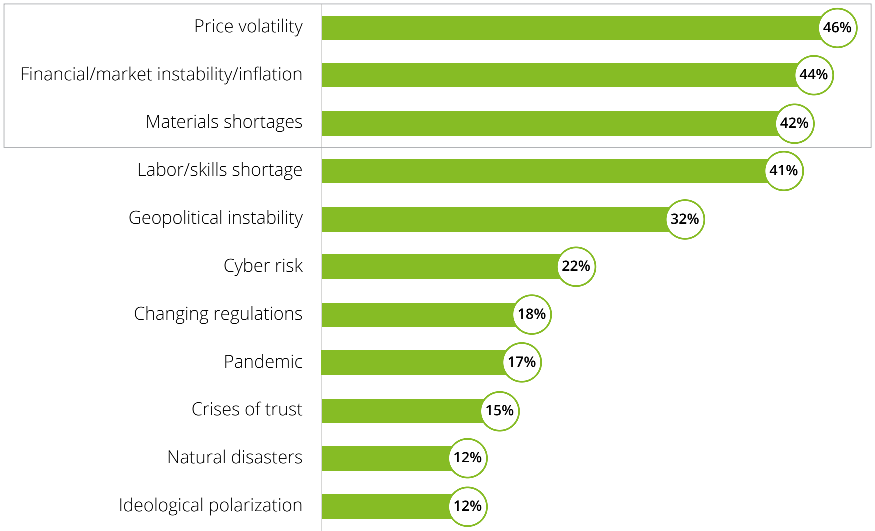
For CFOs, accustomed to investing in data and automation, the notion of building trust may seem abstract. But studies have shown that trust can bring quantifiable value to an organization[7] (see "Why trust should be one of your key performance indicators," *CFO Insights*, April 2022).

Despite the perception that a supply chain is linear, the typical model is actually more of an ecosystem—one that thrives on open, honest, and fair dealings. Given the mutual dependencies among suppliers and customers and the demand to get products to market quickly, collaborators within that environment have a stake in enhancing each other's performance.

When trust is impaired, the damage can ricochet across that network, potentially impairing relationships with board members, investors, customers, suppliers, and employees. For example, a supplier that cannot fulfill its promises of on-time delivery may risk losing customers to a competitor.

Figure 1. Multinationals foresee a world of issues with their supply chains

What are the biggest external challenges facing your supply chain over the next 12 months? Top 3 rankings:



Source: 2023 Deloitte Global Supply Chain Executive Trust survey.

Fantastic voyage

At its core, trust is reflected in the relationship between an organization and its stakeholders. It's the outcome of high competence combined with the right intent. Building such relationships requires four factors of trust: capability, reliability, humanity, and transparency. These four factors can be measured across the operating and functional areas of an organization. To do so, companies look to gauge several competencies. High on the list are customer experience, cybersecurity, sustainability, and supply chain operations, among others. Within those categories, companies might invest in practical and tangible efforts to earn trust with different stakeholders (see "Believe it: Why trust may be the new driver of enterprise value," *CFO Insights*, February 2021).

For CFOs, who are routinely faced with telling the story of a company's financial performance, understanding the value of trust—inside and outside the organization—makes a difference because it provides an early view of issues that may impact financial performance. Deloitte performed an analysis that measured the relationship between stakeholder perceptions of the four factors against performance metrics. We found that perceptions of two key trust factors—reliability and transparency—positively correlate with financial growth. When stakeholder assessments of the two factors moved from lower scores to higher scores, the likelihood that companies post growth rates of 15% or more increased by 14%, with an uptick in reliability, and 25% when transparency scores improve.[8]

Higher capability scores, it turns out, correlate with an organization's ability to maintain operational consistency. The pandemic-related shocks of recent years have spotlighted the agility necessary to drive performance in uncertain environments.[9]

Furthermore, humanity is a crucial element of trust. A 2020 Deloitte Digital survey indicated that employees are 2.6 times more motivated when their employers show humanity.[10]

Admittedly, such results may not garner much attention in some boardrooms. However, CFOs who take a myopic view of these priorities may erode the relationships with stakeholders and suppliers—and eventually, the bottom line—should such frayed partnerships lead to shortages, surplus stock, or product shipment delays. But when the relationship between a business and stakeholders in its ecosystem is solid, the company is typically much better positioned to collaborate with customers and vendors, share critical information, and capitalize on market opportunities concertedly.

Loyal subjects

Improving this relationship becomes difficult when executives have a skewed view of what customers actually think about corporate supply chains.[11] Indeed, it appears that trust in a corporation's supply chain lies in the eye of the stakeholder. In the Deloitte survey, global executives were asked to assess customer trust in their companies' supply chains across the four factors. The result? The executives overestimated levels of trust by an average of 20% (see Figure 2). Such findings suggest that CFOs and other senior executives may have blind spots when it comes to trust. One possible explanation: Executives may overestimate their supply chain's reliability and capability because both are comparatively tangible, while focusing much less on hard-to-measure traits like transparency and humanity, emotional components that boost loyalty.

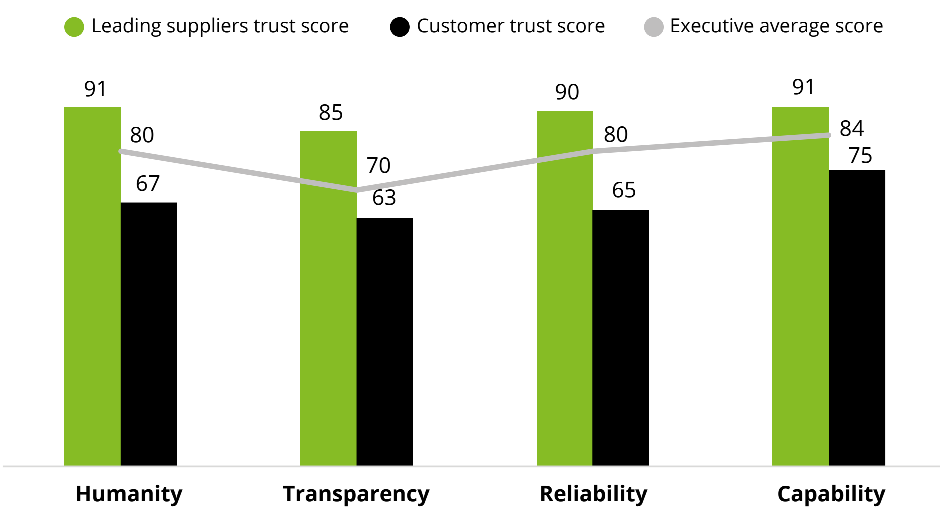
Given the importance of supply chain trust, how can a CFO convince senior management to invest in capabilities that help boost competency and buttress resilience? For answers, the Deloitte survey zeroed in on the leading suppliers among respondents, isolating those that outperformed their competitors across six dimensions: reliability, speed, agility, cost, asset efficiency, and innovation.[12]

Our analysis suggests that top-performing supply chains routinely outpace the rest of the field across a variety of performance metrics.[13] Investments in three areas differentiated high-performing supply chains from the competition. Knowing those, CFOs will want to ask the following questions about their own supply chains:

1. **Do we have a near-real-time view of inventory needs and operational efficiencies?** Among the leading suppliers, 27% have a fully deployed digital thread—a single, seamless strand of data stretching from development to commercialization. That compares to just 7% for the rest of the field. Eventually, artificial intelligence may move the needle, making the digital thread process more proactive and forward-looking.
2. **Are we using advanced predictive algorithms to forecast demand?** This is true of 38% of the leaders, compared to 10% of the others in the survey. Layering more accurate forecasting over the data provided by digital threads can bolster a supplier's ability to model demands accurately and plan for future needs and disruptions. In combination, sensing and analytics tools can provide warning of impending issues.
3. **Do we have visibility into Scope 3 greenhouse gas emissions?** Thirty percent of the top-performing group has this capability, while only 9% of the others do. The question to ask: Do we have visibility into the indirect emissions our company's customers and suppliers produce to help us meet regulatory requirements and improve supply chain performance? Doing so reflects a commitment to transparency.

Figure 2. Executive scores versus customer perceptions: Who do you trust?

We asked executives to rate the level of trust they believe their customers have in their supply chain operations and then compared these executive results to what customers say.



Sources: 2023 Deloitte Global Supply Chain Executive Trust survey; 2023 MHI Annual Industry Report, MHI and Deloitte Consulting LLP.

The impact of demonstrated humanity

Practicing humanity can also serve as a trust-building differentiator. Leading supply chains are more likely to prioritize talent development and growth (48% of leading suppliers, compared to 32% of other respondents). Deloitte's own stakeholder research indicates that company employees and their customers (particularly for younger generations) care deeply about the intentions and humanity of the companies whose supply chains they encounter, such as commitments to sustainability, human rights, and workforce experience.[14]

Investments in advanced technology like artificial intelligence (AI), which will likely reshape the organization (see the accompanying story, "Behind every smart supply chain, an intelligent enterprise"), may be crucial for sourcing and logistics. But supply chains, at their core, are made up of human beings, people interacting and forming trusted partnerships where all parties are better positioned to weather ongoing disruptions. Toward that end, it's important that CFOs establish a method for intentionally measuring trust across supply chain tiers to identify risk vectors before they affect the bottom line. In time, a trust metric may ultimately become an indicator not only of the health of the supply chain but also of the entire organization. For CFOs and supply chain leaders, there is no going back.

Behind every smart supply chain, an intelligent enterprise

Leveraging advanced digital technologies—which can detect, analyze, and provide prescriptive options—will not only help change how supply chains are planned and executed. It will likely reshape how organizations themselves are structured.

In this emerging "intelligent enterprise," machines will perform most of the analysis. Such an enterprise will maintain an ecosystem-wide information layer, powered by AI and machine learning (ML) algorithms, to automate and optimize supply chain decisions. But reaching that elusive end-state requires companies to embrace three vital components:

1. **An insights and decision platform.** To make intelligent decisions in large, complex supply chains, operators should understand how one person's action can affect the entire enterprise. The reality is that disruptions in one area could lead to delayed orders in another. Decisions impacting any segment of the supply chain must be based on timely data that is accurate, pertinent, and holistic. Many of the business rules and algorithms will likely lead to process automation.
2. **A digital organization.** Process automation enables managers to make decisions based on rapid analysis of data and its impact on the organization. To achieve this, the insights and decision platform should include the technology and tools necessary to access both internal and external data sources. The information should be captured in real time and organized into a single data model. That data model, in turn, will be made available to supply chain operators through a rules-driven, cloud-based, enterprise-wide layer. AI and ML capabilities will subsequently be applied to conducting in-the-moment analysis. The findings can then be used to respond to supply chain exceptions and guide the identification and automation of manual processes and non–value-add decisions.
3. **A digital operating model.** The digital operating model will likely become operational through a series of codified business rules. Those rules support the new customer-centric, rapid-response approach. The goal of the operating model? To help find and address the root cause of problems. In effect, this model assumes that supply chain disruption is an eventuality, rather than an exception. To keep down-time or delays to a minimum, the operating model design assigns decision-making authority based on information and analytics. Where formerly the governance model supported siloed, functional legacy systems, management can now replace those with policies, procedures, and incentives based on the integrated business planning process (i.e., the enterprise business planning process). A technology layer provides a common, integrated data repository—a single version of the truth—that will be accessed by roles across the enterprise. Once that is established, organizations can use advanced digital technologies to optimize supply chain decision-making.

Few, if any, organizations have reached this level of sophistication. In time, however, the intelligent enterprise will rewrite how companies operate—and, in turn, deliver on the promise of smart supply chains.

End notes

1. The CFO Agenda, CFO Program, Deloitte LLP, 2022.
2. "Is your supply chain trustworthy?," *Deloitte Insights*, July 13, 2023.
3. Respondents originated from the following industries: technology, media, and telecom (26% of sample); consumer (26%); energy, resources, and industrials (20%); life sciences and health care (20%); and financial services (4%). Their geographies spanned North America (44%), EMEA (31%), and Asia/Pacific (25%).
4. "Is your supply chain trustworthy?"
5. Ibid.
6. Ibid.
7. "Opinion: Why high-quality, trustworthy companies have beaten the S&P 500 by 30%-50%," *Market Watch*, July 3, 2021.
8. Given the use of regression models, these changes are averages when all else is constant (i.e., when the other variables in the model remain unchanged). Further, it does not distinguish the direction of causality but rather that, when accounting for other variables, a statistically significant relationship exists between the trust factors and the performance metrics.
9. "The new supply chain equilibrium", *Deloitte Insights*, April 1, 2022.
10. "*Time to double down on humanity*", Deloitte Digital, 2020.
11. "The 2023 MHI Annual Industry Report: The Responsible Supply Chain—Transparency, Sustainability, and the Case for Business," MHI and Deloitte Consulting LLP, March 2023.
12. In their assessments, 8% of the surveyed executives suggested their companies are performing at a best-in-class level. Another 33% indicated they are "very close" to reaching that mark.
13. "Is your supply chain trustworthy?"
14. Deloitte TrustID™ Supply Chain survey, conducted on December 2022, with sample size of 1,500 respondents.

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