

An Interview with Tomas Hult on Global SCM

By Sarah Singer

Executive Briefing: This is an interview with Dr. Tomas Hult on global supply chain management and related issues pertaining to today's global marketplace. He is the Eli Broad Professor of International Business in the Eli Broad College of Business at Michigan State University. Professor Hult is viewed as a leading authority on the intersection of international business and supply chain management.

Professor Hult is one of 82 Fellows of the Academy of International Business and Director of the International Business Center at Michigan State University. In research, Professor Hult was ranked as the 75th most cited scholar in "economics and business" between 1997 and 2007 (Thomson Reuters). He was also the 6th ranked management scholars who graduated since 1991 (Aguinis et al. 2012). In total, Hult has received more than 10,000 citations to his research (Google Scholar).



Sarah Singer: Tomas Hult, you are viewed as a leading authority on the intersection of international business and supply chain management. Can you tell us about your experience researching this intersection?

Tomas Hult: For more than 20 years, I've been researching, doing training and development, and working on projects within global supply chain management, with a focus on each of its core functions of logistics, purchasing, operations, and market channels. Sometimes I focus on some element of supply chains and other times on some element of global strategy. The unique aspect of my focus is that I typically study the total value achieved in the global supply chain. This is very different than focusing on a single function such as logistics or purchasing or a single relationship such as that between a corporate buyer and a supplier. Value can best be leveraged in global supply chains if a total value perspective is adopted, where quality received and costs added are taken into account at each global supply chain node, activity link, and resource use.

Singer: You recently published the largest study ever examining the effect of multinationality on firm performance. Can you tell us a little bit about the study and its findings, specifically how it relates to the manufacturing industries and global SCM?

Hult: The study we did on multinationality and performance included almost 48,000 multinational corporations – small, medium, and large – and covered a period of about three decades.

At a broad level, the results show that the effects of being global on a company's performance depend on its strategic motivations,

industry characteristics, and home country factors. As expected, international experience that employees have and the relationships they have built are the most significant factors that affect a company's global strategy. But we also found that top-level management's support is critical to how much success companies will have globally. And, we found that the path to success is more obvious if you are running a manufacturing company instead of service operations, which often are still somewhat localized and uniquely customized worldwide.

An important point though is that a company's size and how far they have come in the globalization efforts are not affecting what they can achieve from going global. This gives all types of companies an opportunity to reap advantages from going global regardless of their previous experiences. Another critical point is that going global has value above and beyond the strategic assets that companies possess. This finding is critical for global supply chains since the objective of global supply chains is to leverage the global marketplace and global partners in the chain to achieve the greatest total value possible for the end customers.

Singer: Please tell me how the importance of being multinational has changed over the past 10 to 20 years?

Hult: It's very clear that the more multinational you are, the more likely you are to perform well over time. Being multinational today is much more important than it was 10 or 20 years ago, partly because of the knowledge economy that we're in. An example of this is the tremendous increase in global production – where we have seen an increase from about 170,000 foreign affiliates of the world's largest companies about 20 years ago to about 900,000 foreign affiliates now.

Singer: How have supply chain activities become more global today as compared with 10 years ago?

Hult: The typical supply chain ten years ago was domestic, with companies sourcing relatively near the production facilities in the home country. Based on my experience with supply chains for the past 20 years, we have seen some of the most significant industry changes ever in how and where value is created in supply chains – globalization has really been embedded in this value proposition. Integrated global supply chains have doubled in numbers in the last 10 years.

Singer: Describe how supply chain activities will evolve and become more global over the next 10 years.

Hult: Supply chains today are around the midpoint between their days of being mostly domestic, as was the case 10 years ago, and being fully globalized. The expectation is that supply chains will have to become about 25 percent more global in the next five years to maintain their unique value proposition and about 40 percent more global in the next 10 years to ensure that value is created in a cost effective way for end customers, who, by the way, are also becoming more global.

Singer: You have said that integration of a company's logistics, operations, purchasing, and market channels is a key to global supply chain success. Please describe how coordinated a successful global supply chain should become in the next 5 years.

Hult: Coordination and integration of a company's global supply chain functions is one of the possible deal-breakers for success in the next five years. Today and forecasted for five years from now, coordination of global supply chain functions within a multinational corporation is more important than the functions themselves. And, the forecast for improving the coordination is also very steep. Coordination among the functions when operating global supply chains need to improve some 30 percent in the next five years just to keep up with performance expectations of adding value throughout the chain.

Singer: How does this description relate to the knowledge and skills a professional already working or interested in working in any of the areas of integrated global supply chains will need as they contemplate that most companies' supply chains will become more global over the next 5 to 10 years?

Hult: Supply chain professionals of the future need to have knowledge and skills that are specialized in their area of supply chains – whether it be logistics, purchasing, operations, or market channels – but they also need to have a broader level of understanding of the other areas of the chain. A

couple of factors are critical here. First, supply chain professionals need to have an understanding of how their industry's globalization drivers impact or should impact the globalness of their supply chains. Second, supply chain professionals need to be able to strategically understand and be part of leveraging the total global supply chain to create as much value in it as possible. Focusing on their function, their portion of the chain only, is not a recipe for superior value being achieved. A total value focus involving integration of supply chain functions and partners is the key for the future, and this focus is markedly different than the knowledge and skillset expected a few years ago.

Singer: Please describe the strategic benefits of a global supply chain to an organization. Can you explain a recent scenario involving an organization gaining competitive advantage from developing a global supply chain?

Hult: Global supply chains are responsible for about 20 percent of a multinational corporation's bottom-line performance, on average. Dell gets about 23 percent of its performance from effectively managing its global supply chains, Microsoft gets about 20 percent from their global supply chain efforts, and 21 percent of Nokia's global performance is tied to their global supply chain efforts. Each of these well-known and large organizations worked hard at developing and implementing their global supply chains and got the benefits from it.

Singer: What do you perceive as being the most critical elements of a successful global supply chain in the companies you have researched?

Hult: To me, the most critical elements of a successful global supply chains strategy are coordination across supply chain functions, adopting a mindset of achieving the greatest total value in the chain, which is not necessarily in each function or link in the chain, and integrating a strategic perspective in addition to operational excellence. Global supply chain management can and should be leveraged in corporate strategy.

Singer: How do you approach teaching the topic of global supply chain management in executive training programs and to advanced supply chain students?

Hult: The way I approach global supply chain management when I teach in executive training programs or write about it in trade press articles, I do away with the illusion that supply chains in the global marketplace are purely task-oriented, sequential "chains" of operational activities combined into a whole after the chain is completed. The best-value supply chains are those that strategically leverage the inbound and outbound – or upstream and downstream – operations from raw material to finished products reaching the end-users in a "strategic global supply chain system." Understanding

and being able to use critical leverage points, employing total cost analysis, identifying and achieving alignment with industry globalization drivers, and embedding global supply chains in corporate strategy are our focus. The tools and concepts that I stress in global supply chain management match these issues perfectly.

Singer: What final thoughts do you have on the topic of global supply chains?.

Hult: I appreciate that open-ended finale to the Q&A session. Here's an example of leverage, coordination, and integration that serves really well to explain global supply chains. Consider how to turn an aircraft, and now think coordination and leverage points. That is, aircrafts are typically steered by using an integrated system of ailerons on the wings, elevators at the rear, rudder at the tail, and all of those sometimes in combination with throttle adjustments. These control the roll, pitch, and yaw of the aircraft. Sounds easy enough! In comparison to the aircraft, the ailerons, elevators, rudder, and throttle seem very small. But, leverage allows the coordinated and integrated effort of these small pieces of the plane to steer the aircraft. In other words, putting the right

combination of a little leverage on the right places in a coordinated and integrated effort allows for incredible maneuvering of the plane. Global supply chains are the same. We want the integrated and coordinated effort, not only the rudder to work without being accompanied by the ailerons, elevators, rudder, and throttle.

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