COMPLYWORKS

Managing risks in your supply chain

Introduction

90%

of firms do not conduct a risk assessment when outsourcing production – Harvard Business Review

85%

of global supply chains experienced at least one disruption in the past 12 months – Deloitte

The supply chain is the foundation of a business. It involves a vast and often complex system of organizations, people and resources that transition products or services through their journey from concept to completion. From the extraction of raw goods through to consumer purchase, hundreds of stakeholders can be involved in sourcing, designing, producing, transporting and delivering a finished product.

In the complex supply chain environment where many moving components are outsourced, it is critical for businesses to ensure they hire suppliers, vendors and third-party contractors that are compliant with legal and regulatory standards. This can be particularly challenging for businesses with international supply chains. When crossing borders, the business risks present themselves differently. Regulatory standards, legislation, cultural nuances, access to resources – these are just a few of the many elements that can vary drastically when taking your supply chain overseas.

The companies that proactively identify risks and plan for contingencies are those that are better prepared to maneuver disruptions when third-party risk manifests. But before your business can identify risks, it must first understand where to look. The most common risks in a supply chain include:

- Economic
- Environmental
- Political
- Technological
- Social
- Legal

According to the Harvard Business Review, organizations can expect an average share price decline of 40 per cent because of major supply chain disruptions. But the repercussions aren't just financial; businesses also face legal and reputational damage when these risks become reality.

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The most common supply chain risks

Case study

In 2018, Hurricane Florence caused major flooding to buildings in North Carolina.

According to Convey, a bulk delivery management technology provider, delivery issues spiked 49 percent in the area as the storm hit.

Delays in the North Carolina ports reopening are estimated to have cost as much as $40 billion according to Oxford Economics.

The risks that most commonly manifest into supply chain issues can be separated into the following categories:

Economic
Currency fluctuations, volatile costs, shifting market share and the changing policy landscape are just a few factors that contribute to economic risk for organizations.

Environmental
Disruptive events such as natural disasters can have a major impact on the free flow of goods and services, including earthquakes, snowstorms, floods, hurricanes and more. Power outages, ceased transportation and damaged goods can quickly bring supply chains to a halt.

Political
Tension amongst geographical jurisdictions has a profound impact on businesses. Governments can issue tariffs, embargoes, or policy changes that put a halt to supply chains. In today's globalized world, the threat of sanctions is commonly used in political war.

Technological
Organizations face risks in the supply chain related to innovation, disruptive technologies and cyber security. Poor adoption strategies or a misunderstanding of the impact of new technology can have a negative effect on supply chains. Alternatively, failing to advance technology can also impede the flow of goods and services.

Social
International supply chains are often exposed to social risks related to human rights such as child labour, poverty level wages and unsafe working conditions. Suppliers also expose companies to bribery, corruption, tax evasion and other socioeconomic risks.

Legal
Complex legal requirements exist in all areas of the supply chain. From claiming patents and licensing, to managing customs and cross-border trade, organizations must be proactive. Legal risks related to product or service quality also extend beyond the supply chain to post-consumer delivery, as commonly seen for vehicle manufacturers or food suppliers.

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Effectively managing third-party risks

Companies that proactively manage supply chain risk spend ***50 per cent less*** *on disruptions – Deloitte*

29%

of organizations have experienced supply chain waste, fraud or abuse in the past year – Deloitte

At the core of the supply chain practice is risk management. Organizations must ensure that their operations and third-party contractors are compliant with legal regulations, are ethically sound and are fiscally responsible. A successful third-party risk management program should take these three steps:

1) Create a risk-aware culture and control team

If dispersed across an organization, risk management can quickly become siloed, disjointed and ineffective. While risk management should be controlled from a central function, assigning champions from each department for cross-functional awareness and buy-in is the first step to risk alignment. Use past experiences to establish realistic goals and objectives while also forecasting for the future and taking into consideration the direction of the company.

2) Evaluate the risks

What is your organization's risk profile? If you are a high-end clothier and fashion brand, your risk profile may be entirely different than that of a commercial construction company. Examine each area of your supply chain, from raw materials through to transportation, for hazards related to each of the above areas. Strategize as to how you can mitigate these risks and develop emergency response plans for when they do escalate.

3) Monitor, audit, report and improve

Many organizations are using outdated tactics like spreadsheets and paper documentation to track their third-party compliance. If this sounds like your business, you could benefit from digitizing your compliance reporting. One, centralized system to automate contractor prequalification will help you to manage third-party risk throughout your entire supply chain. Choose a solution that allows you to:

- Track certificates, licenses and insurance for suppliers
- Assign training courses and requirements to contractors
- Send communications to vendors on policy changes
- Manage risk and incident reporting
- Assess regions, business units, worksites or supply chain functions individually

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Automating supply chain compliance

Agencies that monitor supply chain compliance:

Canada
Canadian Food Inspection Agency (CFIA)

National Energy Board (NEB)

United States
Occupational Health and Safety Administration (OSHA)

Environmental Protection Agency (EPA)

Europe
European Medicines Agency (EMA)

European Agency for Safety and Health at Work (EU-OSHA)

Ensuring your entire supply chain is compliant with legal, ethical and industry regulations is a critical step for organizations who want to avoid financial, legal or reputational damage. If your business is still manually tracking compliance data, or isn't tracking it at all, here are three reasons why you should automate the process:

To produce quality, high-selling goods and services

When supply chain partners don't meet regulatory compliance or corporate standards, the product suffers. Setting standard expectations for supplier selection is only the first step. Auditing and maintaining those standards consistently is the key to sound supply chain compliance, which is where automation can greatly benefit your organization to reduce administration time and costs.

To create a consistent compliance records system

For an organization to have a holistic view, they should maintain one centralized system that allows them to simultaneously view data sets including supplier qualifications, noncompliance history, flagged issues, vendor communication and more.

Once this data is accessible from a single access point, it becomes relatively easy for manufacturers to improve quality assurance and operational efficiency by selecting the most suitable vendors for any given task. But when this process relies on manual workflows, the complex view of vendor compliance leaves more room for human error and opens the door to the consequences of noncompliance.

To use compliance as an agent for improvement

Compliance, at its core, is about maintaining a standard and adhering to best practices in all areas of a business. By automating compliance, businesses not only reduce manual time spent, avoid fines from non-compliance and mitigate risk, but they also commit to product quality and operational excellence. If your business outwardly focuses on maintaining compliant operations, it will naturally attract supply chain partners with that same standard of excellence.

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Getting started with risk reduction

Thriving in today's complex and globalized business environment comes down to a proactive outlook on risk management. Understand that the risks of your supply chain partners are also risks to you, and taking steps to actively control them will only improve the flow and efficiency of your entire supply chain.

To get started with reducing your risk, take active steps to:
- Identify where risks exist in your supply chain
- Make an action plan for mitigating those risks
- Develop contingencies for when risk escalates

A compliance management solution will help you track, analyze and monitor your supply chain partners so you can rest assured that your business has done its due diligence to prevent disruptions and avoid regulatory fines or legal ramifications.

How ComplyWorks can help

ComplyWorks offers a suite of integrated solutions to improve environment, health and safety (EHS) compliance. Our solutions are designed to help you collect, verify, monitor and report on critical data, giving you a clear view into the potential risks of your entire supply chain.

Together with Ariscu, ComplyWorks can help you manage your third parties from the prequalification of supply chain partners through to the implementation and completion of work. We provide one central platform to empower your employees and suppliers to meet their requirements, so you can:

- Ensure different supply chain functions are compliant with local regulations by tracking employees and equipment at a site level
- Receive records with automated expiration reminders to track security clearances, insurance, tickets, certifications and more
- Prove your organization's due diligence by verifying your suppliers are ethical, responsible and fit for work

Sources:

Harvard Business Review – Supply Chain Risk: It's Time to Measure It

Deloitte – Understanding Risk Management in Supply Chain

Supply Chain Dive – How Hurricane Florence is Agitating Supply Chains

Supply Chain Dive – Delivery Issues Jumped 50% as Florence Hit

Supply Chain Dive – North Carolina Ports Delay Reopening