

## **The Top 10 Risks Your Business Cannot Afford to Ignore Part 2 – Supplier Management**

### **Executive Summary**

Principal business risks relate to integrity of supply chains and the trend for outsourcing and off shoring.

It has never been more urgent to understand and proactively manage business risk at every level of the organisation in order to at least stay in business and to take advantage of opportunities for growth.

Strategic business review to drive cost-efficiency in order to compete is key to success. The absence of a robust framework and transparent business controls will potentially place additional strain on the business with increased pressure and risk.

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Managing such strategic change requires ultimate leadership and senior management commitment, performance related focus with effective communication and linked training. To balance cutting back on resource while trying to sharpen the focus and strengthen the infrastructure, implementation of a more holistic approach is critical: working smarter not harder.

Reducing business risk and removing barriers to growth is achieved through internal control systems implemented and working effectively. This improves information reliability, decision making and drives competitive advantage. From a secure footing different strategies can be evaluated, new markets entered and new products brought to market.

High performing companies have an internal control infrastructure underpinning the successful execution of their businesses and risk management strategies. This provides them with a vehicle for sustainable and continuous improvement that propels them towards their goal of reducing their exposure to risk while increasing their profitability.

Contrary to popular belief that internal control is a burden to budgets and management time, quite the opposite can be true when done correctly.

A streamlined, standardised risk management infrastructure, shored up with appropriate technology, can deliver long-term benefits far beyond immediate cost reductions: greater transparency, greater cross-enterprise collaboration, and ultimately greater business value.

The *Top 10 Business Risks* series comprises the following white papers:

- Part 1 – Systems
- Part 2 – Suppliers
- Part 3 – People

Read the other parts in this series by requesting your copy from [info@gaelquality.com](mailto:info@gaelquality.com).

The following section is common to all three papers in the series. Readers of the other parts should turn to page 6 to read about the risks associated with systems to satisfy standards for compliance.

## Business Risk

Risk Intelligence in a downturn is even more important and can be a useful guide to protect and enhance value through effective risk management (Deloitte, 2009).

It is the rare breed of business that intelligently manages the full spectrum of risk, that breaks through the organisational barriers that obscure a view of the entirety of risks facing a company and that systematically prepares an integrated response to potentially significant risks. Model companies that do so have been described as ‘Risk Intelligent Enterprises’ (Deloitte, 2006).

				
<p><b>Section One</b> Compliance Systems</p> <p><b>Section Two</b> Supplier Management</p> <p><b>Section Three</b> People</p> <p><b>Section Four</b> GRC and Business Risk Corrective actions/ Continuous Improvement</p>	On the brink of disaster / failure	Moving forwards but still dealing with unexpected and invasive events (Frequent Firefighting)	Coherent Strategy and team working together to drive business forward	Successful Risk intelligent world class business succeeding at all levels.

Regardless of your risk maturity at the start of the journey, every organisation will ultimately arrive at the same destination (Deloitte, 2006):

- Risk management practices that encompass the entire business, creating connections between 'silos' that frequently arise within large, mature and/or diverse businesses
- Risk management strategies that address the full spectrum of risks, including industry-specific, compliance, competitive, environmental, security, privacy, business continuity, strategic, reporting and operational
- Risk assessment processes that augment the conventional emphasis on probability by placing weight on vulnerability
- Risk management approaches that do not solely consider single events, but also take into account risk scenarios and the interaction of multiple risks
- Risk management practices that are infused into the corporate culture, so that strategy and decision-making evolve out of a risk-informed process, instead of having risk considerations imposed after the fact (if at all)

Risk management philosophy that focuses not solely on risk avoidance, but also on calculated risk-taking as a means to value creation.

## The Top 10 Business Risks

The top 10 business risks and barriers to growth reported in two comprehensive recent surveys. Each of these has increased in scale and complexity in the current economic environment, number one being the biggest risk.

These are summarised in Table 1 and have been grouped into four strategic business areas. Each of these Business Areas will be considered in turn within this series of white papers. This white paper considers the risks associated with supplier management.

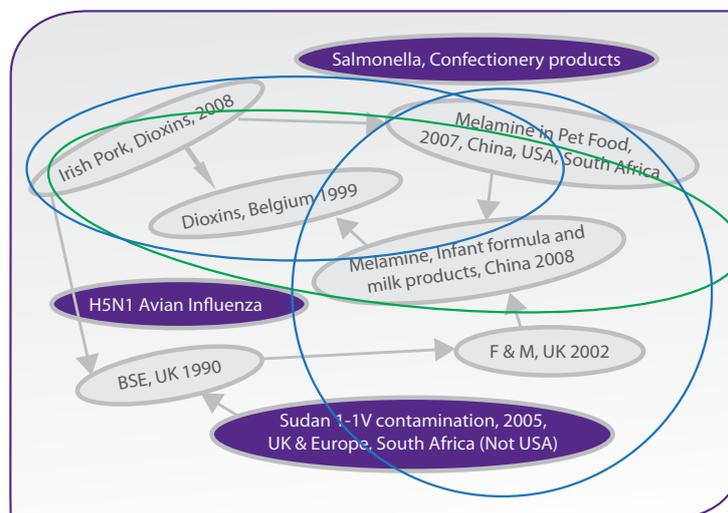
Table 1: Top 10 Business Risks and Barriers to Growth

Section No.	Business Areas	AON 2009 – Business Risk		ICAEW 2008- Barriers to Growth		
<b>One</b>	<b>Systems</b>	Systems /legislative changes	Regulatory	2	Regulatory changes/ Enforcement	7
		Damage to reputation		6	Product /service quality issues	4
<b>Two</b>	<b>Supplier Management</b>	Business interruption		3		
		Distribution or supply chain failure		8		
		Commodity price risk		5		
		Third party liability		9		
<b>Three</b>	<b>People</b>	Failure to attract or retain top talent		10	Availability of exceptional leadership talent	3
					Availability of specialist/ technical skills	2
					Staff retention	5
					Availability of general management skills	6
					Cost of labour	8
					Basic Skills of employees	10
<b>Four</b>	<b>Governance, Risk and Compliance (GRC)</b>	Economic slowdown		1	Competition in marketplace	1
		Increasing competition		4		
		Cash flow/ liquidity risk		7	Funding/ Access to finance	9

## Supplier Management

Principal business risks relate to integrity of supply chains and the trend for outsourcing and off shoring.

Supply chain related incidents keep appearing at an alarming rate.



### Dioxin - catastrophe for Belgium's food industry

60bn Belgian francs, (£1bn) hundreds of restricted farms, countless food lines taken off shop shelves, hundreds of processors affected and the fall of a national government. These were the costs and consequences of the dioxin animal feed contamination. How could it happen? Apparently, quite easily. The crisis began with a single industrial transgression and ended up almost ruining a country's food business.

### Dioxin - if it were to happen in Ireland .....

Exports of food were worth 7.5bn Euro to the Irish Economy representing 13% of total state exports. The food sector employs 40,000 people or 13.5% of the Irish workforce. If a Belgian scale dioxin contamination incident occurred in Ireland it could severely damage the economy, employment and not least consumer health.

FSAI, 2000

Whatever the industry is doing now is not sufficient to protect itself from incidents, which are likely to come at us more fast and furious in the expanding global marketplace, with increasing financial pressures and temptations.

## **System Integration**

Robust safety & quality management systems, with integrated risk-based supplier management regimes are essential for delivery of business objectives and minimising risks.

Business risks are invariably a function of internal control (GRC) and supply chain. This is particularly significant where the raw materials supplied are not or minimally transformed, such that the integrity of the finished product is one and the same.

Many companies lack an integrated supplier management system, with numerous silos of information. It is essential to have integrated information and visibility of individual supplier performance with appropriate communication links and supplier partnerships, in order to consistently deliver compliance, quality, safety and efficiency.



## Supply Chain Integration

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Legal requirement for ‘one-up’ for traceability is not enough to mitigate risks.

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Businesses currently approve their own direct suppliers, to the best of their – sometimes limited – capabilities, to fulfil their minimum legal obligations and customer requirements.

Assurance schemes have provided a certain degree of assurance, in the absence of any other.

But the value of certificates is often nebulous, dependent as it is on a number of governance and local factors, and a certificate does not provide the required protection from incidents – as demonstrated by persistent attack from supply chain incidents.

Achieving full transparency of supply chains – not just one-up – will at least allow the earliest exclusion of innocent parties from incidents. The greater the integration, the greater the degree of assurance to the weakest links in the chain, as well as the greatest protection.

Targeted risk assessments should be an integral part of managing supply chains in the current economic climate. Mapping the supply chain to understand its interrelationships, manufacturing processes and service procedures will help to identify and prioritise potential supply chain risks.

Risk intelligent enterprises use the information from risk mapping and assessment to develop risk quantification models. As well as offering insight into the magnitude of potential events, these also allow for consistent and quantitative cost versus benefit evaluation of various mitigation strategies that may include diversification of location of suppliers, business continuity planning, hedging and enhancements to technology (AON, 2009).



## Global Supply Chains

The growing complexity of global supply chain interactions and rapid developments in technology are widening the range of supply chain risk issues.

Businesses with complex supply chains often find it difficult to assess the nature of their risk exposures, especially in a fast moving environment. Internal and external supply chain risks threaten business continuity and complicate the management of supply chain vulnerability (AON, 2009).

The rapid growth of developing economies such as China and India and the significant impact of the newer EU countries are a strong confirmation of the continuing globalisation of the world markets. Businesses need to capitalise on the opportunities this offers and address the barriers that may constrain international supply chain expansion (ICAE 2008).

Opportunities must, however, be tempered with increased associated risks. This is especially important where there is a strong temptation to switch to cheaper, perhaps less reliable sources, where security and fraud can be progressively more tempting along the chain, with lack of robust governance particularly in developing countries.



## Integrated compliance management – the Q-Pulse advantage

With businesses under continually increasing pressure from customers, regulators and third parties, managing safety and quality throughout the supply chain is of paramount importance. With an integrated solution, businesses can demonstrate compliance as well as contribute to stability and growth.

With Q-Pulse from Gael, your business can integrate compliance-related processes and activities through a streamlined, standardised framework to increase transparency, cross-enterprise collaboration, and business value.

From documenting and distributing policies and procedures to identifying opportunities for continuous improvement, Q-Pulse increases the visibility and control of compliance systems to secure greater buy-in from stakeholders and to achieve greater transparency of compliance-related information.

And by intelligently managing key risks throughout the enterprise with Q-Pulse, your business can drive long-term stability and growth and firmly anchor compliance in the corporate culture, beyond meeting minimum legal standards to present opportunities for further growth and improvement.

### 7 Simple Steps to Compliance

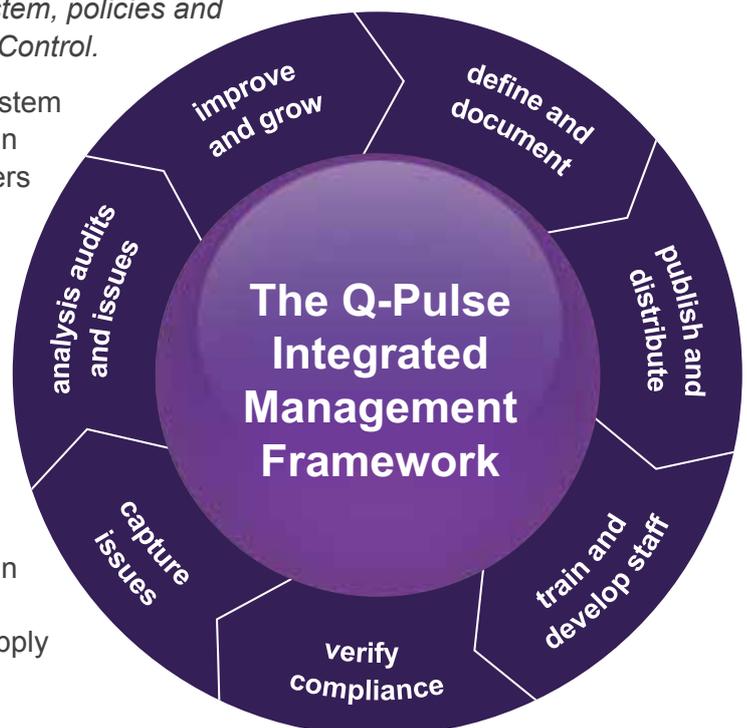
The Q-Pulse Integrated Management Framework comprises 7 simple steps:

#### 1. Define and document

*Define and document the scope of your system, policies and procedures, all with appropriate Document Control.*

By extending its document management system throughout the enterprise, your business can ensure that vendors, contractors and partners can be aware of and acknowledge the processes that comprise its systems, in order to successfully integrate compliance-related processes along the entire supply chain.

And by motivating suppliers to take part in the document control process, your business can achieve greater commitment to maintaining and improving integrated processes throughout the enterprise, to align supply chain objectives and strategy with those of the business and ensure global supply chain integrity.



## **2. Publish and distribute**

*Publish and distribute your management system to all appropriate personnel, via secure web access, including supply chain.*

By extending its compliance management system to suppliers, vendors, contractors and partners, your business can strengthen communication links throughout the enterprise, in order to improve supplier relationships, drive greater operational efficiencies and foster increased supply chain collaboration.

And by automatically notifying all sites and locations of upcoming or overdue compliance actions, your business can increase the visibility of its compliance systems, in order to ensure that legal obligations and customer requirements can be fulfilled and to achieve greater transparency along the entire supply chain.

## **3. Train and develop staff**

*Create a framework to demonstrate staff competence and capability and therefore train and develop staff.*

By reviewing training needs against policy requirements and person specifications, your business can ensure that all suppliers understand their role and responsibilities in contributing to its understanding of its operations, and in participating to build a shared corporate culture along the entire supply chain.

And by identifying suppliers impacted by changes to controlled documentation, you can schedule relevant procedure-based training to ensure that the entire supply chain has the expertise and experience required in order to achieve greater agility in responding to changes in processes throughout the enterprise.

## **4. Verify compliance**

*Verify compliance of your policies and procedures through regular internal audit and prove/demonstrate adherence to legislation.*

By integrating all internal, external and third party audits within a systematic and holistic framework, your business can track and continuously monitor supply chain strategy throughout the enterprise to achieve greater business performance and agility in responding to market opportunities.

And by increasing the visibility of ongoing performance, your business can improve relationships among and across all suppliers, vendors, contractors and partners, in order to fulfill legal obligations and customer requirements and at the same time increase transparency along the entire supply chain.

## **5. Capture issues, NCs and complaints**

*Capture issues, NCs and complaints, create action plans and track through to completion all within one single, integrated system.*

By extending its reporting system along the entire supply chain, your business can ensure that all suppliers, vendors, contractors and partners can report deviations, non-conformances and customer complaints through a standardised framework that improves subsequent investigation and analysis.

And by centrally managing all corrective action plans, you can achieve greater visibility at all sites and locations in order to neutralise threats and protect the safety and integrity of the supply chain, to fulfil legal obligations and customer requirements, and to achieve greater transparency throughout the enterprise.

## **6. Analyse audits and issues**

*Analyse audits and issues, incidents, occurrences and audit findings and determine the root cause with detailed graphical analysis.*

By analysing trends of individual supplier performance over time, comparing suppliers with each other and assessing performance against contracts and SLAs, your business can implement and track plans to control and minimise supplier-related risks and to continuously improve supplier performance.

And by learning from deviations, non-conformances and customer complaints throughout the enterprise, your business can identify opportunities to improve systems along the entire supply chain in order to contribute to the continuous alignment of strategy and the improvement of business performance.

## **7. Improve and grow**

*Improve and grow by identifying trends and concerns, highlighting costly repeat issues and implementing improvement projects.*

By increasing visibility and transparency along the entire supply chain, your business can enhance its governance capabilities in order to reduce risk across suppliers, vendors, contractors and partners and to continuously improve the quality of its operational activities across the enterprise.

And by continuously aligning its overall strategy with supply chain strategy and performance, your business can achieve greater integration throughout the entire supply chain to ensure supply chain assurance, reduce supplier costs and gain sustainable competitive advantage.

Contact us now at [info@gaelquality.com](mailto:info@gaelquality.com) to read the other parts in this series, or to find out how you can effectively manage performance throughout the supply chain with Q-Pulse.