

Risk Management In Supply Chain



According to the Supply Chain Risk Leadership Council (SCRLC), supply chain risk is the “likelihood and consequence of events at any point in the end-to-end supply chain, from sources of raw materials to end use of customers” and supply chain risk management (SCRM) is the “coordination of activities to direct and control an enterprise’s end-to-end supply chain with regard to supply chain risks.”

There are many types of supply chain risk - from environmental risk to financial risk, and beyond.

Taking the time to develop risk management strategies can give your business a competitive advantage.

Proper risk management relies on identifying internal and external environments, as well as identifying and assessing potential risks. From there, it involves creating a plan to address the risks and continuous monitoring and review of the risks and the plans to address them.

An Overview of the Risk Management Process

Identify All Environments

To start the process, you must identify all internal and external environments. Businesses may accidentally overlook internal risks, and doing so may contribute to their detriment.

Internal risks may be: inadequate strategies, policies, and organizational structures, or a rogue employee. External risks will vary depending on industry, but include and aren't limited to transportation issues because of the distance between the supplier and the enterprise, weather risks, and so on.

Creating a map of the supply chain will help your business identify the risks faced, and how to prioritize and address them.

To prioritize and address the risks, your company should first set the criteria for determining what poses a risk to the operations.

For many companies, the starting point is looking at the products that have the greatest effect on profitability.

To be successful, companies must identify, own, and manage risks at whatever level they exist.

Companies must also aggregate and report risks across the organization and vertically through any reporting structures.

Businesses should give risks that exists within multiple entities coordinated treatments.

In the event that lower-level risks are identified a higher levels of the company but not owned at those levels, it may be necessary to implement governance controls to ensure that risks are managed throughout the company and the supply chain.

For instance, franchises make a final product for local consumption who's performance affects the reputation of the corporate brand.

Risks may also occur when performance of a lower-tier supplier disproportionately affects the reputation of a larger manufacturer. This has been seen when lower-tier toy suppliers used lead paint and assembled and sold those toys to large firms that had strong brand-name recognition.

Establishing governance controls to manage such risks may include corporate leadership policies, procedures, and standards that the lower levels must follow with governance supported by compliance activities such as auditing.

Though companies cannot tell franchisees how to operate their facilities they can influence it with compliance and corporate social responsibility practices to serve as guidelines.

Identify, Assess, and Prioritize All Risks

After understanding how to identify the risks in your business, it's time to move on to risk identification and risk assessment, which involves finding the risk, analyzing the risk, and evaluating the risk.

This may involve creating a list of various external risks such as accidents, sabotage, natural disasters, supplier risks such as labor uncertainty, production issues, subcontractor problems; distribution issues such as damaged goods, warehouse inadequacies; and internal risks such as inadequate personnel, and facility availability issues.

The process will also prioritize the risks by the threat, by grouping them by their likelihood and their consequence to operations.

Take time to develop an initial risk register as a one-time effort to identify your baseline risks.

A lot of organizations begin a risk management program without fully knowing what threats their organization faces or the consequences that a disruption would have.

As a result they focus too much of their time and effort protecting against the wrong threats or too little protecting against the threats that really matter.

As such, they are more likely to fail to anticipate the important threats or fail to recognize the consequences that an apparently minor threat may cause.

To identify risks, companies may also want to consider the number and location of their suppliers.

For instance, if you are using suppliers in countries that have social unrest, high levels of corruption, or terrorist or drug activity you may be putting your business at risk.

Also, consider the number and origin of shipments as increased quantities or shipment value may pose additional risk.

Start your risk analysis process by estimating the likelihood and consequences of risks your firm faces and prioritize them accordingly.

It's a good idea to start by ranking risk events based on qualitative overall risk level. Using the simplistic approach needs to only be for the initial risk register because it provides an easy way to quickly prioritize the perceived risks and select those that need attention right away.

After identifying your top risks, use more sophisticated methods to complete your understanding of the nature of the risk and its likelihood along with the consequence and residual risk.

Create Risk Treatment Plans

Once risks have been identified and prioritized, it's time to develop risk treatment plans.

These are measures to protect the supply chain from those risks, as well as plans for response to the events the risks may cause, and plans to continue operations when disruptions occur, and plans to ensure a full recovery from any disruptions.

This may also include determining methods to measure risks and the effectiveness of risk mitigation plans.

Look at each of your risks and develop a plan to address them. For instance, if your main supplier for a mission-critical product is in an area that's particularly volatile, work with procurement to secure a new supplier that's how is has less risk to your business.

If you face a staffing and labor issue, consider working with local temp agencies

to bring in additional staff as needed, or hosting a hiring event for seasonal demands.

Continuous Monitoring and Review

It's important for businesses to continuously communicate and consult while monitoring and reviewing the entire process.

This means evaluating the effects of risk treatment, maintaining the plan, responding accordingly to changes in suppliers, regulation, and processes that affect the supply chain. It also means taking the time to look for ways to improve.

Principles of Supply Chain Risk Management

Any effort to implement supply chain management must include: leadership, governance, change management, and business case development.

Support from stakeholders and company leadership is crucial to a successful supply chain risk management program.

Using an integrated and engaged leadership team can help identify risks before they cause disruptions and can quickly and thoroughly respond to any incidents that may occur.

The leadership, ownership, and reporting of any supply chain risk needs to be senior management's responsibility.

For an effective SCRM team, you should recruit leaders from:

- Finance
- Governance
- Business Continuity
- Engineering and Design
- Import/Export Compliance
- Procurement
- Manufacturing
- Logistics

- Enterprise Risk Management
- Supplier Management
- Quality
- Security
- Manufacturing

Different functions need to be represented on the executive team that guides the project, but they also need to be represented on the team responsible for implementing the SCRM program.

The most effective approach is to have a senior executive skilled in areas where the business faces the most risk sponsor the initiative.

For instance, if timely transporting components is the most vital part of business operations and the one where it may face the highest risk, then it may be best to have a logistics executive sponsor the SCRM team.

Your corporate culture, including the area that accompany most wishes to emphasize in building its reputation may also determine the executive who sponsors the SCRM team.

For instance, a manufacturing company may elect to have one of its manufacturing executive sponsor the team regardless of where the greatest supply chain risks lies.

Depending on your industry, main concerns, and other factors, it may be that your Chief Information Officer (CIO) handles the risks or that your Chief Operating Officer (COO) assumes the ultimate responsibility for risk management.

There are a lot of mid-sized companies that rely on the Chief Financial Officer (CFO) for the responsibility of risk management.

The team needs to ensure that risk management processes are built into business function processes so that proper communication and collaboration takes place on events.

The implementation team should have regular meetings to promote proper communication. Regular though less frequent meetings of the executive steering team should also be part of the implementation process.

Many leading firms brief their executive board on a quarterly basis to discuss supply chain risks and what is being done to address them.

In the ideal world, a business will have detailed governance procedures for continuing their supply chain risk management team including those on the meeting structure, the standard agenda items, business process deliverables and the attendees.

Agenda items may include metrics, compliance, process maturity and audits. These audits include a review of risks and how the business is addressing them while sharing their knowledge and best practices.

Supply chain risk management teams need to also use input from lower-level working groups and process users to influence decisions of higher-level executives so they can determine the appropriate resources and priorities for their efforts.

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