



**institute for
supply management**

**Supply Chain Risk
Management Group**

A Bit on Risk

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HIGHLIGHTS

- **What is FCPA?**
- **Choosing Risky Suppliers**
- **Business Continuity**
- **Supplier Business Reviews**
- **Board Nominations**

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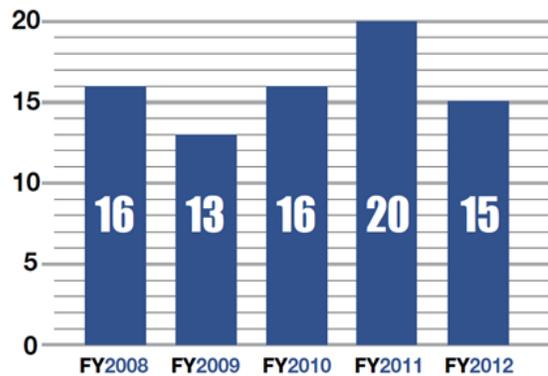
FCPA Anti Bribery-Are you concerned?

Fact: In 2009 - 10 of 11 corporate FCPA investigations involved payments made by a third party. (Source SEC)

The **Foreign Corrupt Practices Act (FCPA)** is a United States federal law and has been created in 1977. Investigations by the US Securities and Exchange Commission (SEC) in the 1970s revealed that US companies were making questionable or illegal payments to foreign government officials, politicians and political parties. Congress enacted the FCPA to stop the bribery of foreign officials. These anti-bribery provisions make it unlawful for any U.S. company to make a direct or indirect payment to a foreign official or firm for the purpose of obtaining or retaining business. The FCPA also

requires companies with securities traded on a U.S. exchange to keep books and records that accurately reflect business transaction and to maintain effective internal controls.

FCPA Actions Brought By The SEC



Source: SEC Website

The complexity of the FCPA has continuously evolved since its inception, and prosecution of violations has been seriously stepped-up in recent years. This demands aggressive risk assessment and compliance measures by any business operating across borders, particularly those working through and with third-party representatives.

In 2010 the **UK Bribery Act** was passed, becoming, along with the FCPA, the most advanced regulation for anticorruption globally.

Both UK and foreign companies are covered, provided they have some operations in the UK. The anti-bribery provisions prohibit companies from bestowing money, gifts, or anything else of value in order to obtain, or retain, business. The penalties for committing a crime under the Act are a maximum of 10 years' imprisonment, along with an unlimited fine, and the potential for the confiscation of property.

In addition to these 2 acts, legislators have created new regulations such as the Meat Inspection Act, the Pure Food and Drug Act, Sarbanes-Oxley (SOX), Dodd-Frank, 5 Food Safety Modernization Act (FSMA), Consumer Financial Protection Bureau (CFPB) rulings, and countless others. The enforcement of these regulations is a high priority area for the SEC, DOJ etc. and companies need to be prepared and have a compliance program in place since companies are increasingly dependent upon 3rd parties.

Be concerned about the risks associated with your 3rd parties and mandate additional oversight, controls and reporting.

Edda Rottscheidt - Board of Directors ISM Supply Chain Risk Management Group

Avoid Choosing Risky Suppliers in the First Place

There are many ways to look at and manage supplier performance risk. One opportunity to view performance and take action is during the life of the supplier's contract with the customer. The other opportunity to review potential performance is during the supplier qualification and selection process, before a supplier is chosen. The supplier selection process provides a good opportunity to avoid risky suppliers. But how do you know which suppliers will be good and which will not?

Of course it's better to avoid choosing poor-performing suppliers in the first place, during the selection process. However, if a supplier is not currently under contract with your organization, how do you determine and even predict how well the supplier will perform? Even suppliers who perform well today can always hit an unexpected setback. The good performers of today may become the risky suppliers of tomorrow.

In addition to evaluating supplier RFI and RFP responses, other ways of determining performance potential can be used. Here are 3 ways to predict supplier performance: business rating services; site visits; and checking references of other customers with whom the supplier is currently contracted.

Business rating services and analytics. Many third-party providers of supply risk management services are available. Third-party services use approaches ranging from analyzing publicly available financial information to customer surveys to data mining and even information crowd sourcing. They can uncover financial problems and supply chain risks during the supplier selection stage and for currently contracted suppliers. Some providers include: Company Watch, Credit Risk Monitor, DNBi, Equifax, Rapid Ratings, and others. (See the [CAPS](#) article on the [ISM SCRM Group website](#), [Supplier Financial and Operational Risk Management](#) for more details on choosing third-party services).

Site visits. Visiting a supplier and performing a business analysis of a supplier can be very useful in determining current and potential performance. Performing a reliable and robust site visit requires both expertise and a good site visit survey. The customer must be able get past appearances and know how to tell what's real and what's staged for their benefit during the site visit. Typically organizations do their own site visits. But when it comes to offshore suppliers, third-party services can be useful. Good providers of offshore site visits know the local language, culture and customs, and can determine if suppliers can meet customer requirements. And very importantly, they can help firms avoid choosing sham, misrepresented, and inappropriate suppliers.

Reference checking. Finding out how a supplier performed for other firms is very valuable and can help predict how well a supplier will perform for you. Supplier reference checks can be time-consuming and can yield uneven results, depending upon the quality of the references a supplier provides and the skill of the caller. Some supplier references are hesitant to say anything negative about a current supplier to a prospective customer. One company, eVendorCheck, works to overcome these challenges by scaling the process with software that gathers multiple data points from multiple respondents within each customer organization. However you go about it, supplier reference checking is a critical step.

Predicting supplier performance is not an exact science. Using good qualification and selection techniques helps increase the odds of success.

By Sherry R. Gordon, Board of Directors ISM Supply Chain Risk Management Group

Supply Risk Management

For many manufacturing and service organizations, the supply chain represents the most significant risk to economic profitability or even organizational viability. This is because the lack of an inexpensive part or service can shut down an assembly line or prevent the supply managers' organization from meeting obligations to its customers. Despite this significance, several research studies have revealed that many supply management organizations still do not yet have a formal supply risk mitigation program in place.

This role of identifying and mitigating risk has become more visible and prevalent for most organizations. This became apparent with organizations which performed a risk assessment as a part of their Sarbanes-Oxley Act compliance reviews, where supply chain interruption was often identified as a major source of organizational/financial risk. Unfortunately, such organizations often did not follow through with a risk mitigation plan even after they identified the supply chain risks.

Challenge

In the contemporary business environment, the supply management organization cannot afford to "stand still" while the risks in our supply chain increase. My discussions with Supply Management colleagues reveals that the main reasons for not addressing this critical subject are:

- ◆ too many higher priority responsibilities
- ◆ lack of resources to address the situation
- ◆ uncertainty with where/how to start the process

Interestingly, there is probably no more important subject to which we should dedicate ourselves than the identification and mitigation of supply chain risks. However, as a colleague recently observed: "executives do not receive credit for preventing problems; they are recognized for solving them". The corollary to this relevant point is that the progressive Supply Management professional recognizes the supply chain risks and gets executive management support to address the risks before they materialize into REAL problems. This is a relatively new role for many Supply Management professionals, but it is one where we can provide strategic value to the organization.

Supply Risk Identification

Where do these supply chain risks exist, and how do we identify them? Most Supply Management professionals probably have some experience identifying such risks, but were not actively reporting and mitigating such risks. In many cases, we were simply not calling the task "Supply Risk Mitigation". Such risks occur when we:

- ◆ procure from single or sole sources
- ◆ source in politically unstable countries
- ◆ source from geographically unstable regions
- ◆ source from financially weak suppliers
- ◆ fail to protect our intellectual property when provided to suppliers
- ◆ fail to manage insurance requirements when suppliers perform work on our property
- ◆ etc.

When we identify such risks, we have several choices:

- ◆ shift the risk
- ◆ share the risk
- ◆ minimize the risk
- ◆ eliminate the risk

Can we eliminate all risk? Probably not, unless our organization simply shuts its doors. However, if we identify the risks, we can often shift, share or mitigate the risk. The important thing is to initiate the process to actively identify all risks which could jeopardize our organization's ability to perform its obligations. This can be accomplished through a comprehensive review of all suppliers to determine which ones represent "critical" risk. In this case, the term "critical" is defined as any supply or service which could substantially impact the function of the Supply Manager's organization.

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Supply Risk Management- Continued from page 3

Every organization I have managed in my career has had some “critical” supplies and suppliers, which could directly or indirectly impact our organization’s ability to perform. The good news is that such supplies and/or suppliers are generally a very small subset of our supplier base. Interestingly, we are generally inclined to actively or aggressively manage the suppliers who represent our larger dollar expenditures, but the major risk may be represented by some of our smaller dollar value suppliers. In any event, it is imperative that we work diligently to develop a list of these “critical” suppliers or service providers.

Mitigation of Supply Chain Risk

After we have identified the critical risks which exist in our supply chain, how do we reduce or eliminate those risks?

I would propose that the following steps must be taken to address supply chain risks in any organization?

1. Obtain executive management support - Articulate the business imperative, and share the vision of how we intend to identify and eliminate our organization’s supply chain vulnerability.
2. Assemble a cross-functional team – we will need other disciplines to address many of the supply chain vulnerabilities. As an example, our engineering department may have created the supply/supplier dilemma in their design of the process or part we are purchasing. Their participation will be needed to address that vulnerability.
3. Develop a strategic plan to work towards minimizing or eliminating the risk – this may take place over years, but we have to start somewhere.
4. Execute the strategic plan which we developed with our cross-functional team – this will need to be a priority, despite resource constraints and conflicts. Our executive sponsor may be needed to assure availability of appropriate resources.
5. Provide periodic status reports to our organization’s executive management – keep them informed and engaged in the process.

A parallel benefit of an aggressive supply risk management program can also be the improved performance of our supplier base. Once we focus on the identification and measurement of critical suppliers, it is likely that their on time delivery and/or product quality will also improve. Remember the old adage that “something is not managed unless it is measured”. This can certainly be applied to provide additional benefit in supplier risk management.

Conclusion

The contemporary Supply Management environment is characterized by a newly-discovered realization that some of the major risks an organization faces may come from the supplier base. This represents a rare OPPORTUNITY for the progressive Supply Manager to identify, mitigate, and/or eliminate some of these serious risks. Our proactive management of these risks can demonstrate our strategic perspective and value, as well as our professional competence.

Ernest Gabbard, Advisor Board of Directors ISM Supply Chain Risk Management Group

Are we there yet?

Incorporating supply chain risk management in a comprehensive enterprise risk management program is now well accepted by most companies and organizations as a critical business requirement. With concerns fueled by an ongoing series of major disasters over recent years, such as the earthquake and tsunami in Japan, flooding in Thailand; the fire at a Bangladesh factory that killed more than 100 garment workers; and new strict reporting requirements on the use of conflict minerals, managing supply risk continues to be a hot topic.

Companies have made impressive strides as they have developed and implemented programs that evolve the management of supply chain risk from a reactive approach to a comprehensive, proactive approach to mitigating and managing supply network risk. For some this has required significant investments to improve and expand existing continuity programs. For others, it has meant starting from scratch to address supply chain risk.

Whatever the starting point, questions are often asked regarding a continuity program. “What is enough?” “Are we heading in the right direction?” “Are we done?” “Are we there yet?”

What separates the most mature programs from the rest? We can begin by asking some questions based on accepted benchmarks. What is the level of executive involvement and support? Is supply chain continuity integrated with other enterprise risk management/continuity programs? How often is the program reviewed, tested, exercised and updated?

A rudimentary assessment of a supply chain risk/continuity management program can be performed by evaluating how true the following statements are for the organization:

- ✓ Supply chain business units participate in the company’s business continuity/risk management program and are fully represented at the business continuity planning table.
- ✓ Resources, people skills and hours and financial, are made available to adequately support supply chain continuity/ risk management programs.
- ✓ Supply chain continuity/risk management responsibilities are included in job descriptions, and business continuity/ risk management knowledge and experience are taken into account when hiring and promoting.
- ✓ Supply chain practitioners are provided with the necessary business continuity training and participate in exercises and tests.
- ✓ Selection of all suppliers, outsourcing companies, and contractors – upstream and downstream - includes consideration of business continuity/risk management capabilities.
- ✓ The company ensures that all suppliers are made aware of its continuity requirements and expectations.
- ✓ Post-contract, suppliers are monitored for “red flags” and negative changes in risk factors such as their financial stability.
- ✓ A process is in place to monitor the horizon for new risks and threats and thus avoid addressing only those supply chain disruptions that have occurred in the past.
- ✓ There is a cyber-security awareness program that includes securing supply chain internal data and information systems and collaborating with third parties who provide products and services to the company.
- ✓ The company has in place a trained team, plans, strategies, and resources to respond when there is a disaster or significant supply chain disruption.

While using this checklist will provide an indication of the maturity level of your organization’s supply chain continuity program, gauge its progress, and identify areas for improvement, it is not by any means a replacement for a comprehensive assessment. To fully evaluate how closely the program aligns with organizational objectives, regulatory requirements, and certification standards requires a comprehensive review or an audit.

Regardless of the current level of program maturity, making our supply chains risk resilient must always be a work in progress. Once the initial continuity planning objectives have been achieved, there needs to be a cyclical process of continuous improvement to ensure that the needs and requirements of the organization, its customers, and other stakeholders are met.

Betty Kildow, Board of Directors ISM Supply Chain Risk Management Group
Author of “A Supply Chain Management Guide to Business Continuity”

Added Responsibilities Drive the Need for Change

As Supply Chain professionals, it seems our plate gets fuller every time we turn around. I recognize that is happening everywhere regardless of industry or profession. I find this to be an interesting dilemma because managing supplier relationships is so critical in our profession and our company's success and although it is one of the most important aspects of our jobs that is the area that gets pushed to the wayside. We simply don't have the time to sit down (face to face) and talk to our suppliers to understand what is happening in their business or how we can work together to ensure success.

While working in the Automotive Industry, it was realized that we had to change our working relationship with our suppliers. As a way of improving our supplier interaction, we implemented "business reviews" with our suppliers. It was a major paradigm shift. Who would have ever considered sitting down with a supplier and their team to talk about "the state of the business". It was unheard of!

As we rolled this out, I have found that these conversations with suppliers brought to the surface many areas that I would have never recognized or learned if we had not implemented "business reviews". We began these "business reviews" with our strategic suppliers and over a three year period they became a standard business process. They were led by the procurement organization (or supply chain teams as some may be referred) but it was a cross functional meeting with our internal team members as well as key members from the supplier. Depending on your supplier strategy the reviews may be more frequent with some suppliers than with others. Yes, they take time but the intention of the meeting was for three key reasons:

1. to build a strong relationship
2. mutually share information
3. to identify and understand potential risks

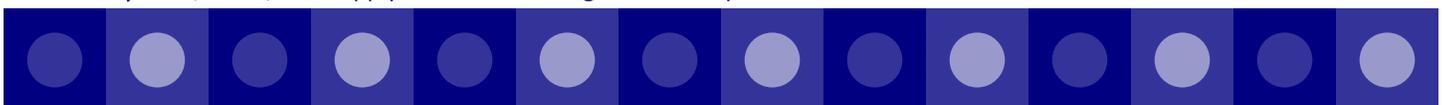
So what questions should you plan to ask and/or understand in the meeting?

- ◆ Changes in business strategy
- ◆ Changes in management structure
- ◆ Acquisitions or sales pending of key business
- ◆ Financial status
- ◆ Changes in plants locations or product lines
- ◆ Technology roadmap
- ◆ Capital projects being considered
- ◆ Quality and delivery metrics
- ◆ Cost structure of key product lines
- ◆ Business Continuity or risk mitigation strategy with their own suppliers
- ◆ Recent site assessments and key findings
- ◆ Contracts up for negotiation

Keep in mind; it is critical that this be a two way conversation. In other words, be prepared to share information about new opportunities, changes in your business that may affect your relationship and be honest and fair about questions that the supplier may bring up. Be vigilant in identifying any "red flags" that may come up. These often surface in this forum.

Satisfaction is achieved when there is an open dialogue, mutual listening and willingness to work together as true partners.

Rose Kelly-Falls, Chair, ISM Supply Chain Risk Management Group



Have you visited the group website?

Each month we will be updating the website with a **feature article** that will be contributed by one of the board members. Given the feedback that we received from our survey the group members have asked for frequent updates via articles and webinars. Each month as you visit the website you will land on the “feature article”. Last month, Betty Kildow contributed September’s article “Are we there yet?” (see page 5 of this newsletter for those that missed it!).

October’s feature article was contributed by Mickey-North Rizza. Mickey has written about the risks of hurricanes given we are currently in the midst of the season. I encourage you to check it out!

We host **webinars!** The most recent webinar, which occurred on September 10th, featured Thomas Tanel, President, CEO, and founding Principal of CATTAN Services Group, Inc. He identified and explored the longer-term implications and risk management responses to the “Top 10 Logistics Risks” challenges from a focused pragmatic perspective.

Our webinars continue to gain traction as we offer diverse topics associated with supply chain risk. To learn more about the upcoming webinars please visit the webinars page on the site.

We have added a “**podcast page**” which will link you directly to the Podcasts that have been recorded on Supply Chain Risk. They feature various topics that may be of interest. More podcasts are expected to be added by the ISM team as they are edited. Continue to check back for updates.

Our **articles and publications** continue to grow as new information is made available in the public forum. We also feature **resources** which provide links to websites and other groups and organizations that provide information related to supply chain risk management

As more details are made available, we will update our website on the 99th Annual International Supply Management conference in Las Vegas, NV. Topics on risk will be presented within the various tracks so plan to join us at the conference!

If you have feedback about the website, please [contact us](#). We are always seeking ways to improve. We are also looking for **volunteers** who are willing to contribute articles or assist in enhancing the site especially as we continue to grow! If you have not been to the website please check it out www.ismriskgroup.org!

2014 Board of Directors Nominations

Nominations for the 2014 board of Directors will be emailed to all group members in November. If you are interested in applying for a board position please watch for the email and submit your nomination for consideration. A Board position is a volunteer position and there is no compensation for involvement. An ISM Supply Chain Risk Management Board Member must be a member of the ISM Supply Chain Risk Management Group and an active Member of ISM to remain eligible for a Board position. The standard terms are two years with renewal opportunities. Full details of the responsibilities will be provided in the nomination notification.

VOLUNTEER OPPORTUNITIES



Institute for Supply Management

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Tempe, AZ 85285-2160
Affiliate support:
Lynn Marstiller
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2013 Board of Directors

Chair Rose Kelly-Falls
Chair Elect Cathy Herr

Directors:

Brian Bender
James Ezell
Sherry Gordon
Beth Green
Betty Kildow
Jim Lawton
Mickey North Rizza
Edda Rottscheidt
Jan Miller (ISM)
Ernest Gabbard (Advisor)

Additional webinars are forthcoming!

ismriskgroup.org

Message from the Chair

The ISM Supply Chain Risk Group is about to complete its 4th year in existence. It started as an idea but with great vision and persistence was started and driven by Richard D. Rich. We are a fully functioning group with Rules of Management, regular board meetings, a growing website and a membership that continues to climb. Our expertise has provided guidance and direction to ISM leadership who coordinated and hosted the 2nd annual Risk Management Conference in Chicago. It has been a great journey!

I hope most have figured out that Supply Chain Risk Management is not the "flavor of the day". It is here to stay! Corporations large and small recognize that they have to engage in supply chain risk management initiatives. The impact to revenue is simply too high if they sit back and "wait"

to see what may happen.

I want to share an interesting situation that occurred to me recently. I was in the airport speaking with another passenger who asked what I do for a living. I hesitated, but then stated "I am a risk manager". He said, "Oh, you are in the insurance business." I said "No, I manage risk in supply chains!" He looked confused but stated "Wow, now that is interesting, tell me more!" We talked for quite some time. At the end of the conversation, he gave me his card. I looked down and saw that he was the CEO of a major Oil and Gas producer. I walked away wondering if our discussion left any impact. I will never know but I am hopeful! I am so passionate about what I do if anything I am sure my enthusiasm will be remembered.

We should all, as supply chain professionals, consider ourselves "Risk Managers". Managing Risk is what we do everyday whether we are assessing suppliers, developing strategies, negotiating contracts or managing relationships. We are protecting our company's business.

As my term ends and Cathy Herr continues our mission as the 2014 Chair, I hope to stay involved and continue on this journey with the rest of those who share the enthusiasm for supply chain risk management. It has been an honor to serve with the board leadership and with the ISM staff who are all such amazing professionals. We have come a long way in a very short period of time!

Rose Kelly-Falls