



Moving towards the future:

Holistic supply chain risk mitigation

Understanding unified and comprehensive contractor risk management, the opportunities, challenges and prominent risk indicators.

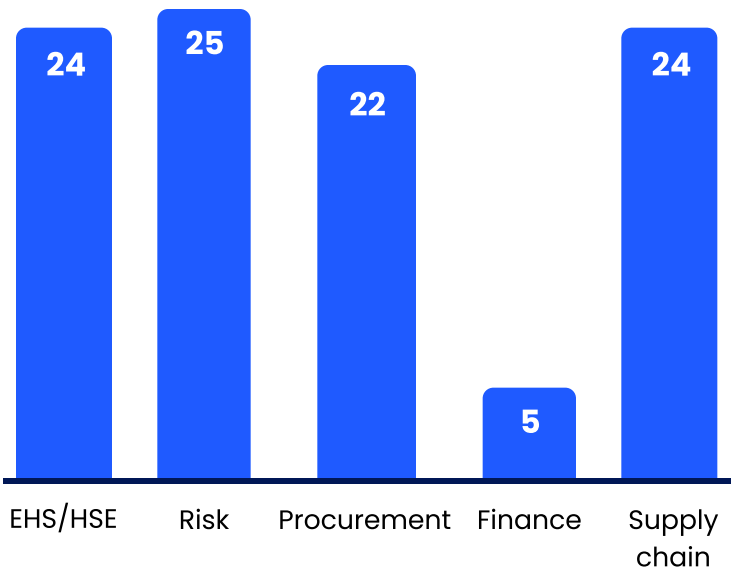
Transforming contractor management

Best practices to mitigate risk

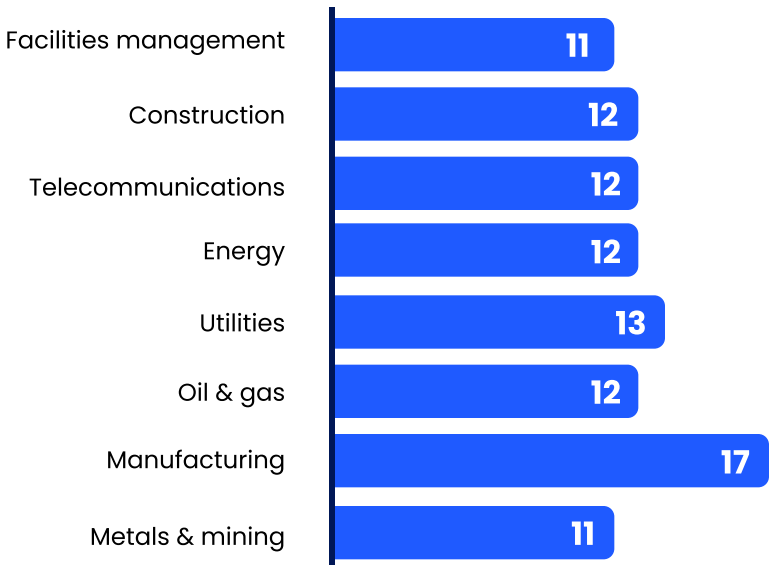
Over the last several years, supply chain and third-party risk has shifted to the forefront of firms' minds, driven by a confluence of global events and emerging challenges. Issues like the COVID-19 pandemic, blockages and delays in the Suez and Panama Canals, and geopolitical conflict have revealed how a single point of failure can cascade through the entire network, costing firms billions. In response to these large-scale, costly disruptors, firms have sought to diversify their supply-chain and third-party networks to become more resilient. Yet, the increases in contractor usage and supply chain diversification have created their own challenges as firms try to manage a range of resulting risks, from individual actors to full firm negligence, and outside actors and regulatory bodies. This agitated environment has only been exacerbated by the onslaught of ESG-related regulations and concerns (i.e. sustainable materials, labour rights and emissions management), as well as the increase in third-party cyber attacks. As these factors converge, firms are adopting more comprehensive risk management strategies to build progressively resilient, soundly secure supply-chain and third-party networks and are looking to software solutions to assist in reducing their risk exposure across their increasingly large global footprints.

To better understand these trends and identify best practices around contractor and supply-chain risk, Avetta commissioned independent research and advisory firm Verdantix to support in conducting in-depth interviews with 100 key decision-makers across multiple business functions and industries.

Respondent job functions



Respondent industries



SECTION ONE

Leadership believes in a unified supply chain risk strategy, yet in reality, this strategy is siloed and fragmented

When asked about managing risks from third parties, surveyed corporate leaders spoke of well-established risk management policies, as well as concrete procedures surrounding contractor procurement, onboarding and on-site operations. In practicality, these processes are not well connected through strategy or technology, and gaps in existing processes are only increasing under stress.

Our survey reveals several of the most prominent challenges facing firms looking to enact holistic strategies for supplier risk management:



Procurement risk management strategies can crack under pressure.



Supplier risk management efforts lack continuity across the contractor lifecycle.



Most firms do not present aligned motivations for positive supplier decision-making.



The current frequency of risk reviews falls short of optimal levels for effective supplier management.

Procurement risk management strategies can crack under pressure.

Most survey respondents (86%) stated that their firm's C-suite had a clear procurement strategy to prioritise safe outcomes. However, these strategies were often limited, focused mostly on simple safety criteria; only 51% of respondents indicated that there were established joint safety initiatives between procurement and HSE teams.

Procuring contractors can often be a stressful business. Take the construction industry, for example; hiring clients must staff contractor work whilst juggling impending deadlines, tightening budgets and a myriad of project disruptions. When the heat is on to find, sign and onboard workers, the best-made contractor risk management initiative can regress to bare-minimum compliance tick-box exercises. In practice, this equates to high-level vetting, whistle-stop safety briefings and sparse levels of supervision on site. The lack of joint initiatives results in mismatched priorities among teams and siloed strategies that do not mitigate third-party risk effectively.

86%

of respondents' C-suite had a clear procurement strategy to prioritise safe outcomes

51%

of respondents indicated that there were established joint safety initiatives between procurement and HSE teams

Most firms do not present aligned motivations for positive supplier decision-making.

The survey also highlights a fragmentation in aligned objectives for cross-functional procurement processes. For example, only 38% of respondents had a comprehensive strategy as part of their procurement process that included all safeguards, safety metrics and site-level feedback to prevent severe injury. This suggests that most organisations fail to provide consistent coupling points for positive supplier decision-making across all relevant departments, weakening the overall effectiveness of supplier risk management efforts.

Industry leaders leverage incentives that can be a combination of internal financial benefits, external punitive measures or in-house performance metrics for individuals or contractors.

38%
of respondents had a comprehensive strategy as part of their procurement process that included all safeguards, safety metrics and site-level feedback to prevent severe injury

“ Safety performance metrics are frequently linked to the incentives of our procurement team. For example, meeting safety compliance standards and reducing incidents are examples of safety-related goals that can have an impact on bonuses and performance reviews.”

Senior Vice President of Risk Management/Safety, United States



Supplier risk management efforts lack continuity across the contractor lifecycle.

Fewer than half of respondents indicated that procurement continuously monitored third-party risk and HSE performance as part of an ongoing strategy. Furthermore, only 47% offered supplier incentives to meet HSE targets. This leads to limited accountability among procurement teams and suppliers for HSE outcomes, resulting in firms exposing themselves to increased risks after contractors and suppliers are onboarded. Engaging continuously incorporates several industry best practices around “early and often” workflows, allowing for consistent assessment and benchmarking, ensuring the engagement of those who risk not qualifying and that continued contracts are only offered to those who pass selection.

The current frequency of risk reviews falls short of optimal levels for effective supplier management.

Despite 69% of respondents conducting monthly cross-functional supplier reviews, this cadence may be inadequate to address the rapidly evolving risk landscape shaped by external factors such as geopolitical conflicts. This discrepancy underscores a crucial gap between strategy and execution: while firms may have comprehensive risk management strategies, they often struggle to implement them fully.

This gap is further highlighted by the fact that only 40% of organisations involve their procurement teams directly in all stages of the supplier management process. Limited involvement can hinder an organisation’s ability to respond swiftly and effectively to emerging risks, potentially compromising the overall effectiveness of their supplier risk management efforts.

47%

of respondents’ firms offered supplier incentives to meet HSE targets

40%






of organisations involve their procurement teams directly in all stages of the supplier management process

SECTION TWO

Unified software solutions are essential to delivering holistic supplier risk management

As organisations increasingly recognise the importance of integrating health, safety and environment (HSE) and procurement departments, they are simultaneously discovering that having a unified solution is essential to comprehensive risk management. This realisation can be a direct reaction to a negative incident, or the recognition of industry best practices, but is often arrived at via a trial-and-error process. While findings suggest high levels of communication between teams, they also highlight the disconnect between communication and implementation, suggesting a danger lurking within business function silos.

Survey findings reveal that several key issues and opportunities centre around:

-  High levels of cross-communication between HSE and procurement teams.
-  A lack of a shared platform to facilitate enhanced communication.
-  Safety and certification dominate risk management – obscuring priorities.
-  Threats of not having a shared platform can be raised even higher by not having one shared with supply chain risk management.
-  Holistic risk management is only as efficient as the data and concurrent actions enable it to be.

High levels of cross-communication between HSE and procurement teams.

Effective supplier risk management relies heavily on robust cross-communication between HSE and procurement. This high level of communication is centred around strategies and goals, indicating a growing recognition of the importance of collaboration between these departments. The survey indicates that 59% of respondents share strategies and goals intermittently, while only 28% share strategies and goals through proactive, ongoing communication. These can be generated via top-down direction, an emphasis from the C-suite on decreasing risks and increasing the leverage of known top performers, or by cross-team collaboration distilled via best practices produced via ongoing interaction.

A lack of a shared platform to facilitate enhanced communication.

While the survey indicated that communication is occurring, it also identified a disconnect between that level of communication and the presence of a shared platform. Only 48% of respondents currently use a shared third-party risk platform, while 45% are looking for one in some capacity (see Figure 1). Not having a shared third-party risk platform can threaten even the best communication workflows and can contribute to many organisations struggling to convert their health and safety/procurement strategies, goals and efforts into a reality that could enhance risk management.

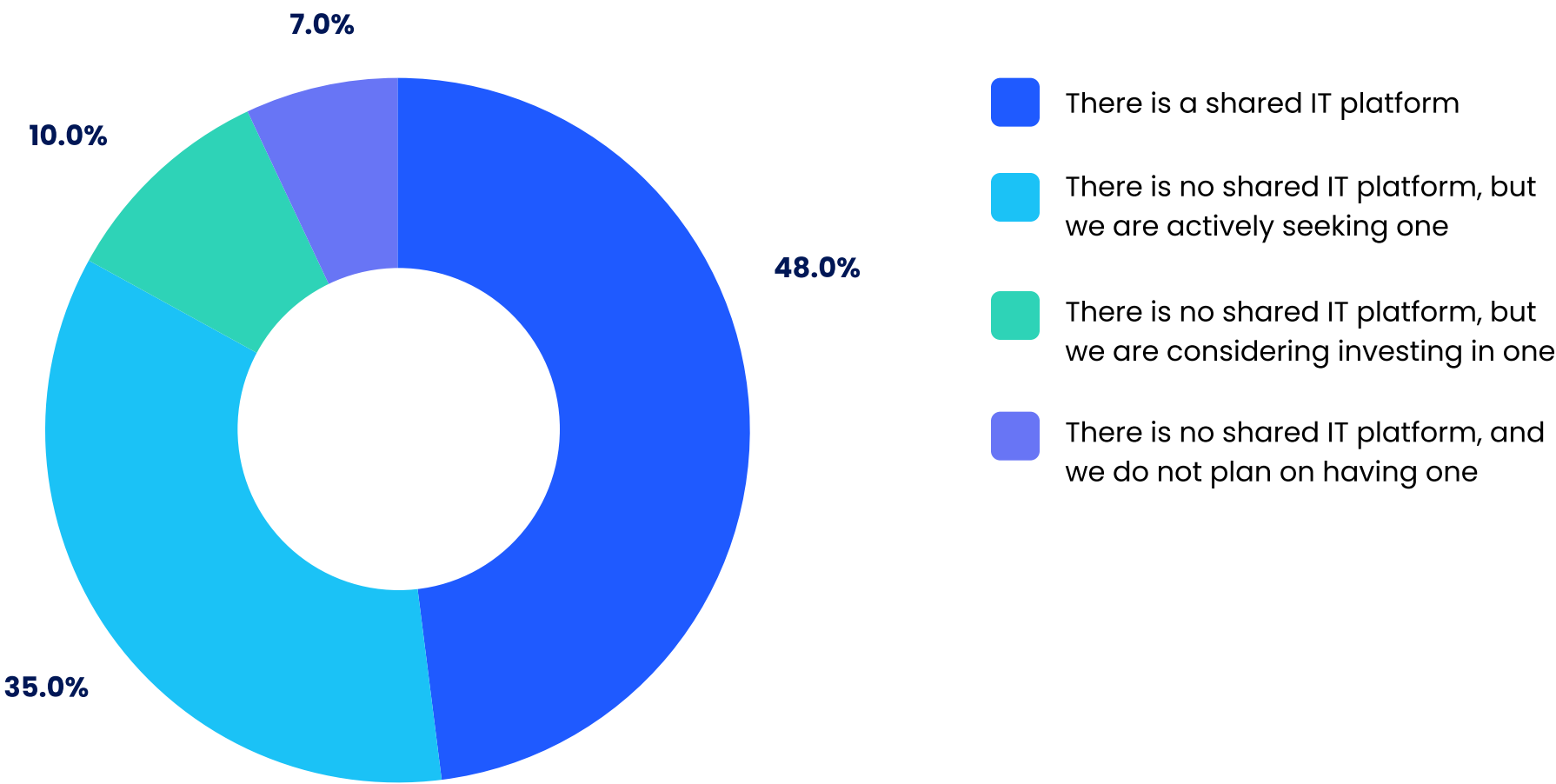


Safety performance metrics are frequently linked to the incentives of our procurement team. For example, meeting safety compliance standards and reducing incidents are examples of safety-related goals that can have an impact on bonuses and performance reviews."

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Figure 1: Presence of shared IT platform

Is there a shared IT platform for data sharing and visibility between HSE and procurement?

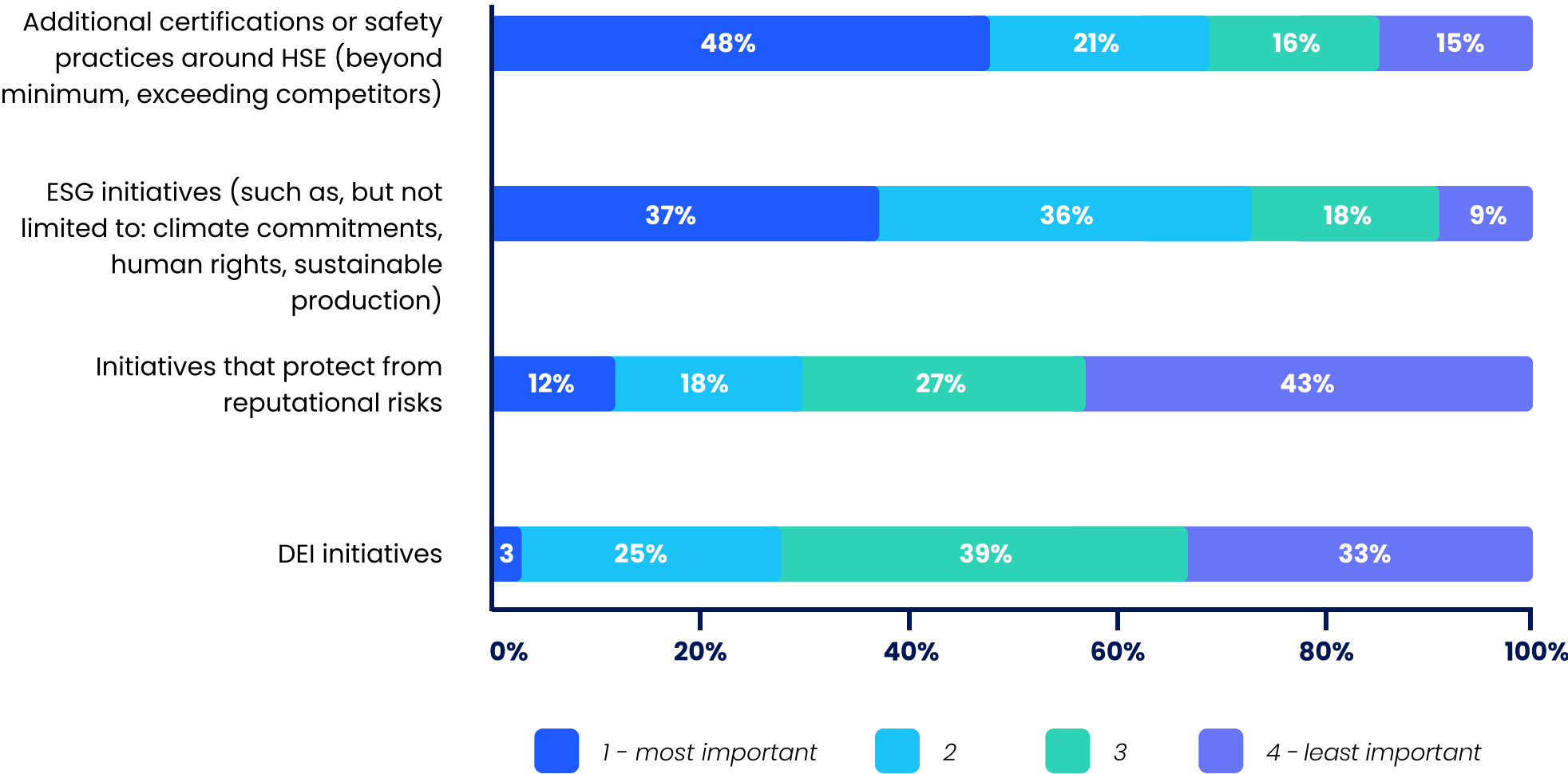


Safety and certification dominate risk management – obscuring emerging priorities.

As firms diversify their operations at home and abroad while continuing to leverage increased numbers of third-party workers, HSE and procurement teams are often focused on function-relative risks, such as safety and certification considerations (see Figure 2). However, as other teams become integrated in the procurement process, there may be conflicting risks that are not addressed directly. Downstream issues such as assurances, supplier diversity and physical element threats that are assessed by dedicated teams need to be fed back into upstream reviews, but this can be difficult without a shared platform creating a single source of truth. Shared platforms can create this centralised view, transforming supplier selection processes into something more robust.

Figure 2: Supplier factor differentiators

How important are these differentiators when choosing a supplier?



N=100

Note: Data labels are rounded to zero decimal places; percentages less than 6% are written as numbers.

Threats of not having a shared platform can be raised even higher by not having one shared with supply chain risk management.

The absence of a shared platform poses significant threats to effective supplier risk management. Without a unified system, organisations face challenges in managing and accessing supplier risks comprehensively. This is particularly concerning given that 90% of surveyed procurement practices monitor and assess supplier and business risk on some level, but tracking KPIs and KRIs (key risk indicators) can be challenging without a single source of truth.

Holistic risk management is only as efficient as the data and concurrent actions enable it to be.

The backbone of any single source of truth is its ability to be available and present for each function that requires tie-in. Many firms and functions leverage either internally developed or external third-party systems for point operations along their workflows; these systems have varying types of technology stacks and operating systems, and holistic risk management requires these systems and their data to link with one another securely and seamlessly. Uniting the financial team's data is equally as important as the data from cyber or EHS teams when developing a full risk profile. To achieve this, seamless APIs and a centralised platform where these risks can be managed is essential.



SECTION THREE

Numerous risk indicators are overlooked by hiring client firms

Lack of communication and short-sighted risk management practices coupled with an increasingly regulated environment and dynamic third-party risk landscape only exacerbate a firm's exposure to systemic risks. Establishing deeper relationships between internal departments and broadening collaboration with suppliers is key to decreasing overall risk. Yet, many firms are still falling short in these areas.

Survey findings suggest that some of the largest risks to hiring firms can revolve around:



An emphasis on traditional safety KPIs in the face of new threats.



An increase in extreme weather events generating new hazards for operations.



Distinct lack of cyber risk considerations.



Third-party liabilities requiring insurance beyond traditional sources.



Slow recognition of how new sustainability regulations will affect risk consideration.

An emphasis on traditional safety KPIs in the face of new threats

When rating suppliers, the focus was on safety, compliance and certification (see Figure 3). These options were the top three selected by all business functions across the survey, highlighting the traditional values and priorities that are present across the procurement process. Simultaneously, this highlights the disconnect evidenced above: a lack of communication of priorities between business functions, given rapidly changing macro drivers.

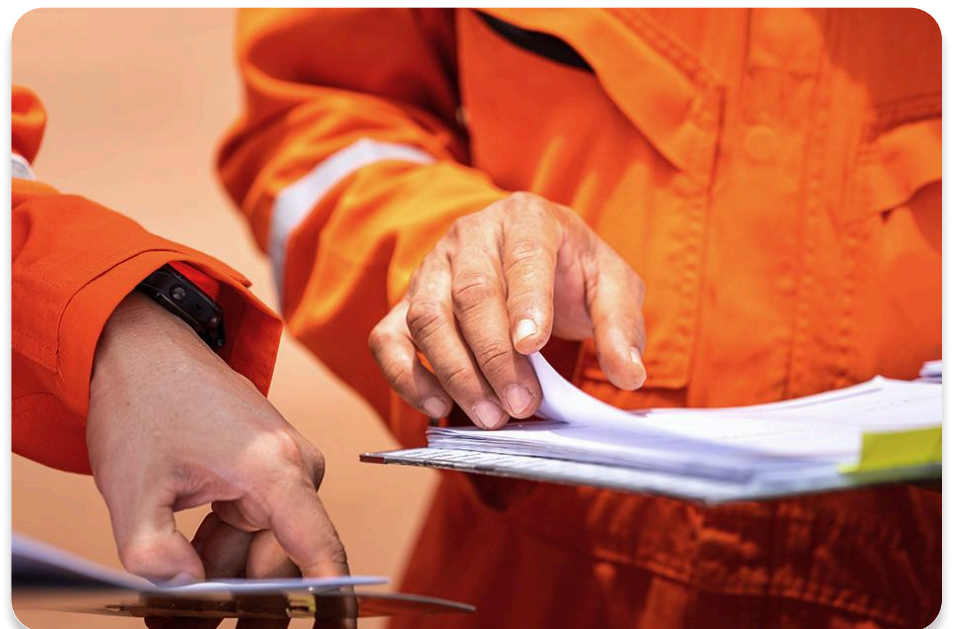
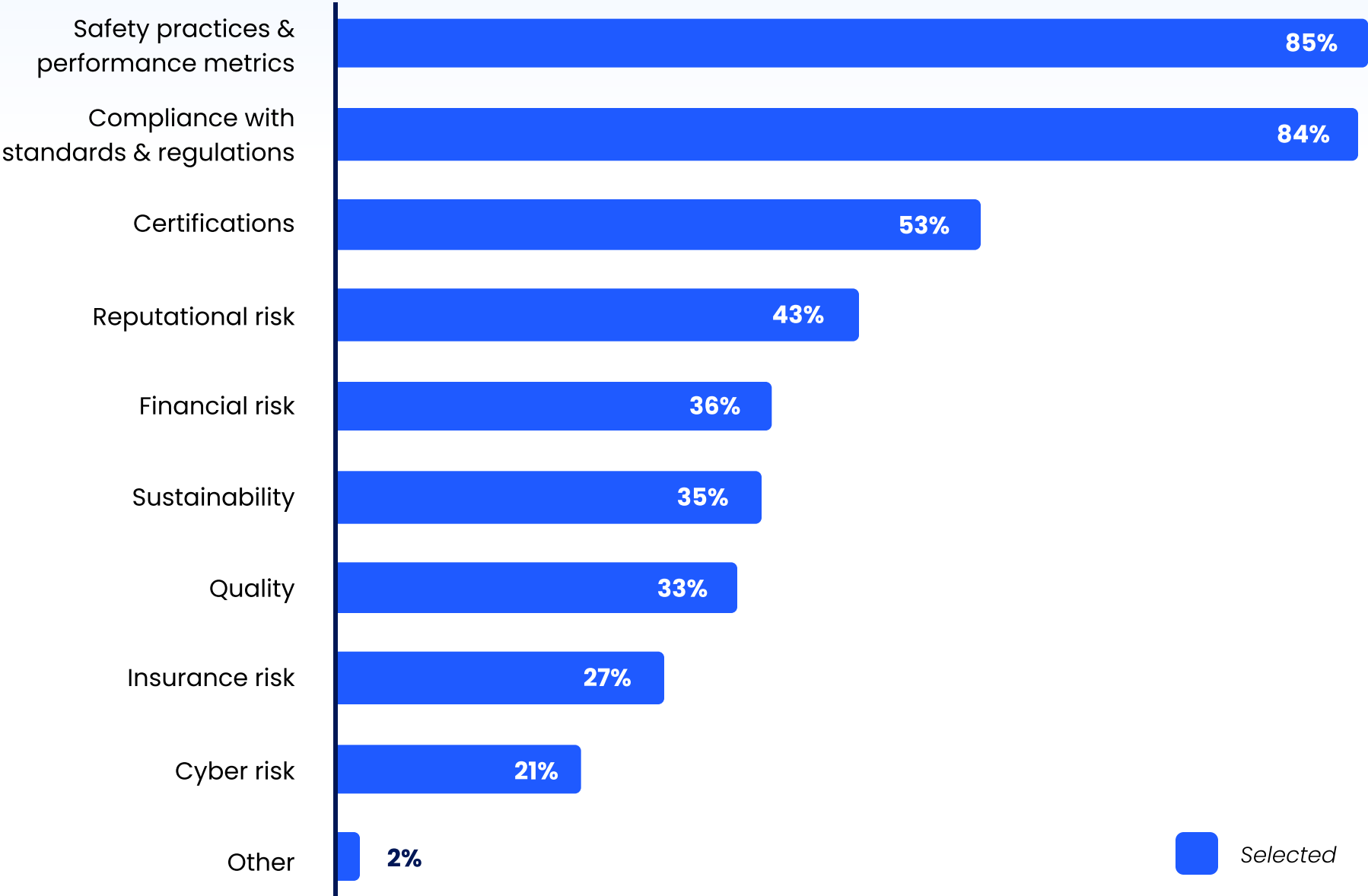


Figure 3: Performance rating of supply chains

How is performance rated for suppliers in your supply chain?



N=100
Note: Data labels are rounded to zero decimal places; percentages less than 6% are written as numbers.

Distinct lack of cyber risk considerations.

Cyber risk was one of the lowest selected across all categories. When compared across the industries polled, cyber risk reached its highest selection within the telecommunications sector (33.33% selected) – an interesting consideration given that sector’s exposure. While not a completely novel risk factor, it is becoming increasingly vital to overall operations, with some sources stating that approximately 75% of software breaches occur via supply chain IT software suites. Recent events, such as the 2023 Bank of America breach, also highlight how cyber attacks can affect physical operations beyond just data breaches and regulatory fines.

~75%
of software breaches occur via supply chain IT software suites

Slow recognition of how new sustainability regulations will affect risk consideration.

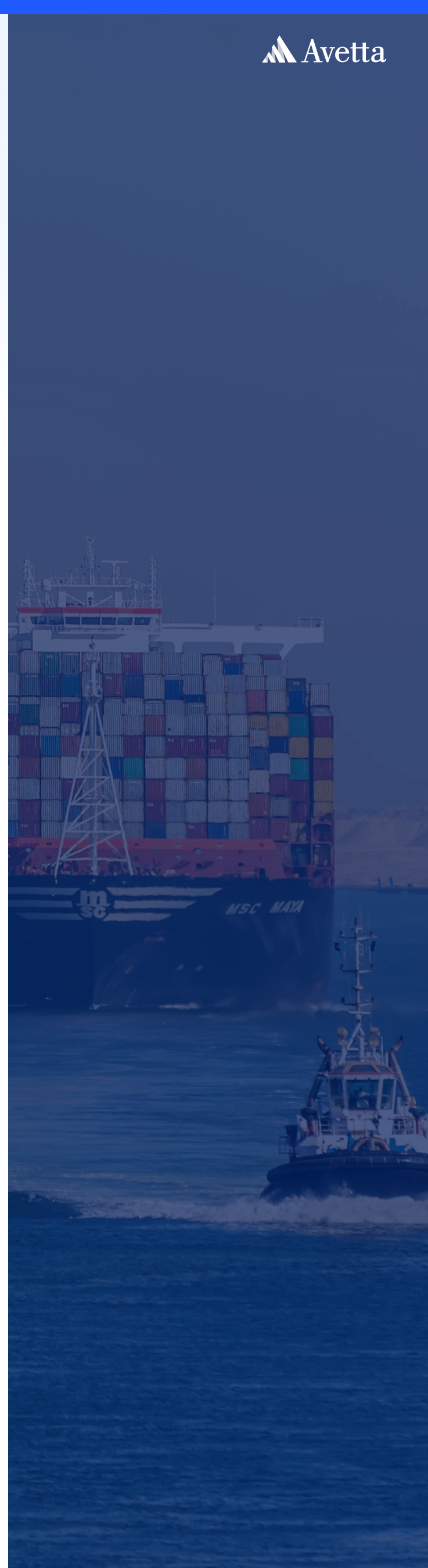
Regulations such as the EU Corporate Sustainability Due Diligence Directive (CSDDD) will require approximately 17,000 firms to both identify and mitigate supply chain risks. These pertain to both human rights and environmental conditions and protections. This is only the latest regulation in recent years to cover these topics. For example, the German Supply Chain Act will require firms with more than 3,000 employees to carry out direct supply chain risk management and analysis, with annual reporting. When queried, respondents often placed sustainability considerations lower than more immediate risks, with the manufacturing industry ranking it the highest at 47%. As a truly global process, this sector, along with others such as finance or construction, could find itself leading the way in sustainability considerations.

An increase in extreme weather events generating new hazards for operations.

With the increase in extreme weather events, supply chains have been increasingly exposed to disruption. Blockages in the Suez Canal have held back shipments of materials, droughts in Taiwan have created global semiconductor shortages, and critical manufacturing plant downtime has slowed the production of other key materials. Having a deeper understanding of supply chain locations and the operators involved along the value chain can enable firms to mitigate future climate change impacts.

Third-party liabilities requiring insurance beyond traditional sources.

Insurance risk, while ranked low, potentially has some of the biggest benefits for firms exposed to extreme events or contractor accidents. Contractors working on construction or oil and gas rigs are exposed to a large number of potentially deadly hazards every day, and at the same time are responsible for the smooth operation of these projects. Ensuring that these firms not only have the proper health insurance, but are also covered by liability measures to reduce the hiring firms' exposure, can mitigate the financial and reputational fallout that can occur.



Moving towards the future

Proactive supply chain risk mitigation

Currently, most firms view risk in the traditional sense: compliance, capability, coverage. While this has enabled hiring firms to execute projects, it will require an update to both how they view risk and how they communicate around it.

New regulations, risk vectors (both direct and indirect), extreme weather events driven by climate change, cybersecurity vulnerabilities and more will drive risk perceptions from the C-suite down to the line manager. New roles, such as Chief Risk Officer, will have to aggregate this data and generate plans to mitigate their firm's exposure while communicating this to the teams executing on the operations side. Improvements in risk mitigation in separate functions, such as EHS, may deliver targeted benefits, but still leave the firm as a whole at risk if not connected across a unified platform.

Centralising the incoming data as a coherent analysis that can deliver insights across the full operation is only possible if done via a unified system. To properly manage, mitigate and communicate, firms must turn to advanced digital technologies and updated business practices to understand their supply chain risk holistically, transforming it from a reactive operation into a proactive operation.

