



The Need for
**Strategic
Risk
Management**



In March 2021, one of the world's largest container vessels, the 400m long "Ever Given" carrying 18,300 containers, was wedged sideways across the Suez Canal for six days.¹ This resulted in a complete blockage of one of the planet's major trade routes, resulting in unmitigated trepidation for the global shipping industry. It was estimated that this somewhat "short" blockage cost international trade anywhere between a staggering USD 6-10 billion weekly while reducing the annual trade growth by 0.2-0.4 %.

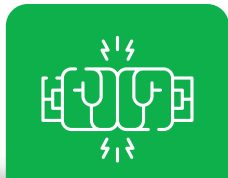
This incident showed the potential risk of unplanned supply chain incidents and the sizeable impact they can have on businesses and the global economy. Thus, businesses should be aware of these possible risks and take robust steps to protect against them.

Strategic Risk in Supply Chain

An Overview

In general terms, identifying and mitigating risks has always been the touchstone of successful businesses. However, this is easier said than done, especially in a business environment where parameters shift, constantly giving rise to new risks. In today's market environment, it can be difficult for decision-makers to have confidence that their strategies and plans will work out as expected.

One of the major reasons for this is strategic risks– those that often emanate from unplanned business strategy decisions. Strategic risks can be broken down into several categories, including:



Competitive risks



Regulatory risks



Political risks



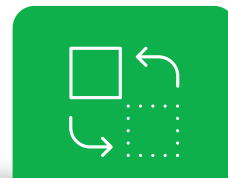
Governance risks



Economic risks



Operational risks



Change risks

Strategic risk vectors can be difficult to identify when it comes to mitigation as they are accelerated mainly by sweeping business trends and tech innovations. However, this can also be an opportunity for businesses to embrace the risks and use them as an opportunity for strategic change. Here, they must tread cautiously, or else businesses that fall behind the process innovation curve may risk falling prey to disruption. This is one of the several reasons that strategic risk management is a crucial objective for modern-day organizations. This is especially true for businesses that are managing cross-border supply chains and, thus, are faced with more significant threats as supply chains have become exponentially more complex, interrelated, and risk-prone than ever before.

Supply chain risks and disruptions have a sizeable impact on the financial performance of a company. Following a supply chain incident, businesses have reported decreased sales, high incurred costs for recovery, and even a reduction in stock prices, leading to a negative impact on brand image.

If temporary setbacks aren't enough, some businesses that face extended interruptions can fail to recover altogether. One of the most insidious aspects of supply chain risks is the extent of the damages directly proportional to the scale of the business. The largest automotive manufacturer in the world, Toyota, had to cut its global production capabilities by almost half (40%) in September 2021 due to supply chain disruptions that caused a global microchip shortage.ⁱⁱ Predictably, the impacts cascaded onto other aspects of their financial well-being. Global sales volumes went down by 20% by the end of October, and their stocks saw a 3.4% fall in prices almost immediately afterward. Toyota isn't the only one bearing the brunt of supply chain crises. Other global giants such as Ford Motor Co.ⁱⁱⁱ and Apple Inc.^{iv} have reported a similar direct impact on productivity and revenues. Overall, several countries and regions globally have reported varying impacts of supply chain disruptions in the last year.



Figure 1: The average cost to respondent organizations by region or country in millions resulting from global supply chain disruptions^v

Identifying the Strategic Risk Vectors in Procurement

The first step is to understand the business strategy including goals, objectives, execution plan, and metrics or scorecard. The strategic risk mitigation plan should mitigate risks while enabling the success of the business strategy. Without this important context and anchoring, there is no way to measure the efficacy of the strategic choices made. With this, companies must ensure they are constantly assessing their strategy and competitive dynamics. Identifying procurement risks involves four stages:

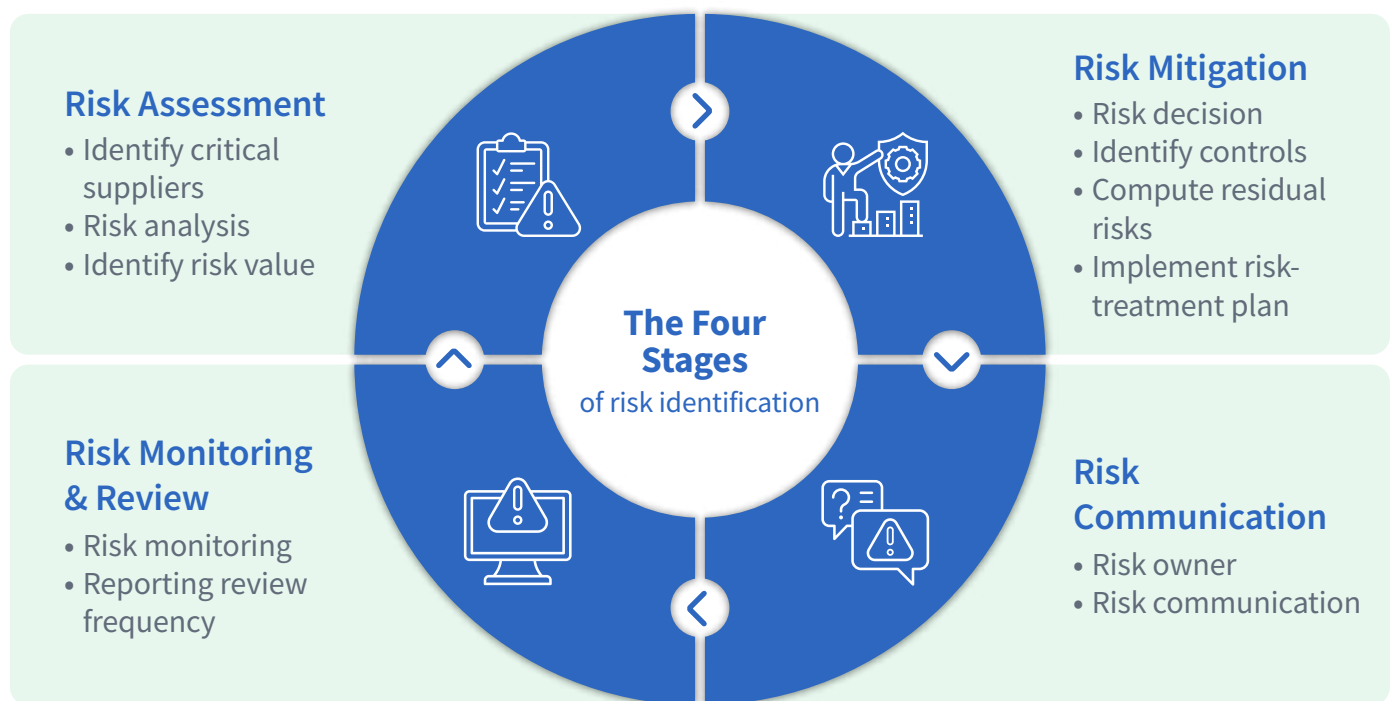


Figure 2: The four stages of risk identification^{vi}

From a procurement and supplier management perspective, key behavioral traits of decision-makers can result in strategic decisions going wrong. Some common identifiable traits include:



Onboarding Process: With overly cumbersome supplier onboarding processes, you stand the risk of losing out on a large supplier base that is unable or unwilling to complete it, giving you a much smaller supplier repository from which to choose.

Limiting Choices: At times, companies may solely rely on the suppliers they have worked with previously. The reluctance to identify and collaborate with new suppliers, no matter how well qualified, may increase risks due to limitations of choice.





Sourcing Variation: Unwillingness to source from low-cost countries can add to financial strain and increase risk.

Supplier Qualification: Any inclination on the management's part to rope in contractors without proper auditing can expose the business to potential operational, regulatory, and financial risks with detrimental impacts.



Technology Absorption: The failure to empower procurement and enterprise safety and sustainability professionals with supplier management technologies leaves you vulnerable to obsolescence.

Financial Assessment: Awarding contracts to suppliers who are not financially sound does not make for a sound business plan, leaving the contractor, your projects, and your business vulnerable.



Businesses must get procurement right as it is an integral part of any organization. Any missteps can result in significant losses in terms of time and money.

To ensure a robust business that delivers on its key strategic goals, organizations must put in processes that help them understand the nature of risks that may affect their supply chains. This must be followed with concrete steps to help avoid or diminish the identified risks. At times, businesses might overrate risks that might not be as significant as initially thought. The ultimate goal of comprehensive risk management is to tag risks for what they are in terms of the potential and effort needed to counter them.



Mitigating Strategic Supply Chain Risks

So, what can businesses do to enforce wholesale strategic risk reduction across their supply chains? Thankfully, there are some best practices that, if implemented, can help build a robust enterprise risk culture to stay secure and profitable. They include:



Revamping contract management – The evolution of advanced procurement toward a set of processes that enhance visibility, detect failures, and monitor and optimize risks includes contract management as a critical element. The best practices concerning supplier contract management include the following:

- ✓ Establishing a template to enhance end-to-end process efficiency
- ✓ Creating a centralized document repository
- ✓ Continued internal monitoring
- ✓ Setting up proactive contract renewals



Supplier insurance, indemnification, and liability limitations – Businesses need to ensure that the required supplier insurance, indemnity, and liability limitations are in place and align with their organization to minimize risks emanating from worksite incidents.



Get complete visibility of supplier financial performance – An economic analysis of suppliers offers a holistic picture of their stability. Your business can avoid getting into contracts with suppliers that run the risk of going bankrupt, thereby mitigating business risks and driving better procurement and decision-making.



Perform supplier operation review and assessments – Supplier evaluations help qualify new suppliers and assess current supplier relationships. The formal assessment of supplier performance helps determine their relevance and congruence with organizational needs. This allows organizations create a low-risk portfolio and stay competitive.



Establish a diversified supplier portfolio – From material shortages to natural disasters, there could be any number of reasons behind supplier failure that negatively impacts your operations. Diversifying the supplier portfolio helps counter such risks. It is hardly surprising that, between 2017 and 2020, corporate spending on diverse suppliers rose by 54%.^{vii}



Prioritize potential risks – Effective risk management must include the categorization of potential risks and their prioritization based on urgency and applicability per the organizational conditions. This helps draw a roadmap toward holistic risk mitigation by addressing the most pressing concerns at the earliest.

How can Avetta Help?

Technology can help organizations overcome the visibility gap in monitoring a complex supply chain and its potential risks. An end-to-end contractor management tool allows companies to extend visibility and ensure compliance beyond primary contractors.

With **Supplier Prequalification**, Avetta offers a simplified yet secure solution for onboarding contractors and subcontractors. With this, you only work with contractors that meet your qualification criteria regarding compliance, financial stability, and more. You can mitigate any potential strategic threat vectors by ensuring compliance across the extended supply chain. This promotes higher productivity, resilience, and regulatory adherence.

Moreover, **Avetta's Subcontractor Management** solution offers complete visibility beyond the primary suppliers into tier-2 and tier-3 suppliers. You can check and manage their compliance status and lessen any strategic risks that might emerge from the process. The streamlining of the subcontracting process and consistency in compliance adherence ensure that your business stays protected despite branching out across multiple subcontractors.



Special Thanks to Our Co-Author:



Shawn M. Galloway

Shawn M. Galloway is the CEO of ProAct Safety and co-author of several bestselling books. As an award-winning consultant, adviser, leadership coach and keynote speaker, he has helped hundreds of organizations within every major industry to improve safety strategy, culture, leadership and engagement. He is also the host of the highly acclaimed weekly podcast series Safety Culture Excellence®.

For more information, **call (936) 273-8700** or **email info@ProActSafety.com**.

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ⁱSource: **The cost of the Suez Canal blockage**; <https://www-bbc.com/news/business-56559073>

ⁱⁱSource: **Chip shortage: Toyota to cut global production by 40%**; <https://www-bbc.com/news/business-58266794>

ⁱⁱⁱSource: **Chip Crisis Threatens to Cut Auto Output by 7.1 Million Cars**; <https://www-bloomberg.com/news/articles/2021-08-19/chip-crisis-threatens-to-cut-auto-output-by-7-1-million-cars>

^{iv}Source: **Apple Finally Falls Victim to Never-Ending Supply Chain Crisis**; <https://www-bloomberg.com/news/articles/2021-10-13/apple-finally-falls-victim-to-never-ending-supply-chain-crisis#xj4y7vzkg>

^vSource: **Estimated average annual cost to respondents' organizations as a result of global supply chain disruptions in 2021, by region or country**; <https://www-statista-com/statistics/1259125/cost-supply-chain-disruption-country/>

^{vi}Source: **Procurement Risk Management in 2022**; <https://blog-companywatch-net/resources/procurement-risk-management-guide>

^{vii}Source: **Corporate Spending On Diverse Suppliers Rose An Average Of 54% In Recent Years, According To New Research From Bain & Company And Coupa**; <https://www-prnewswire.com/news-releases/corporate-spending-on-diverse-suppliers-rose-an-average-of-54-in-recent-years-according-to-new-research-from-bain-company-and-coupa-301278889.html>

About Avetta

The Avetta SaaS platform helps clients manage supply chain risk, and their suppliers, to become more qualified for jobs. We offer the world's largest supply chain risk management network for hiring clients in our network to manage supplier safety, sustainability, worker competency, and performance. We perform contractor prequalification and worker competency management across major industries, all over the globe, including construction, energy, facilities, high-tech, manufacturing, mining, and telecom.



For suppliers in our network, our audit and verification services help lower their safety incidents rate by 29%. As a result, about 50% of members find additional job opportunities within the first year of joining. In addition, our suppliers receive privileged access to the Avetta Marketplace, where dozens of partners offer special discounts for business services like insurance and work gear. Avetta serves more than 375 enterprise companies and over 130,000 suppliers across 130+ countries.