

Risk and supply chain vulnerability

Level 5 - 02

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Session 1

Introduction, terminology and definitions

Sources of risk – Internal and external



Learning objectives

At the end of this session candidates will be able to:

- give examples of the definitions and meanings of the key words and phrases used in risk management
- recognise some of the risks that an organisation faces in the modern world distinguish between internal and external hazards and risks
- define some internal sources of risk
- define some external sources of risk
- explain the purpose of segmentation and describe some tools commonly used to categorise or segment stocks, suppliers and so on
- assess the vulnerability and criticality within supply chains
- assess the risks involved in using technology.



Definitions of risk and risk management

Risk is *'the possibility that a hazard will cause loss or damage'*

Risk management is *'a discipline for dealing with uncertainty'* (Kloman)



Common risks

- Quality
- Environmental pollution
- Health and safety
- Fire
- Computer failure
- Marketing risk
- Fraud
- Security
- International trading
- Political risk.



Internal risks

- Quality
- Accidents
- Fire
- Security
- Fraud
- IT
- Marketing
- Buildings
- Telecoms
- Human.



External risks

- Political
- Economical
- Social
- Technological
- Environmental
- Legal.



Vulnerability in the supply chain

- Reputation
- Unreliability
- Overstocking
- Price increases
- Conflicts of Interest
- Corruption
- Financial failure.



Risks in using technology

- Loss of data
- Fraud
- Hacking - unauthorised access
- Hardware or software faults
- Theft of computers
- User error.



Session 2

The costs of failure
The stakeholders' influence

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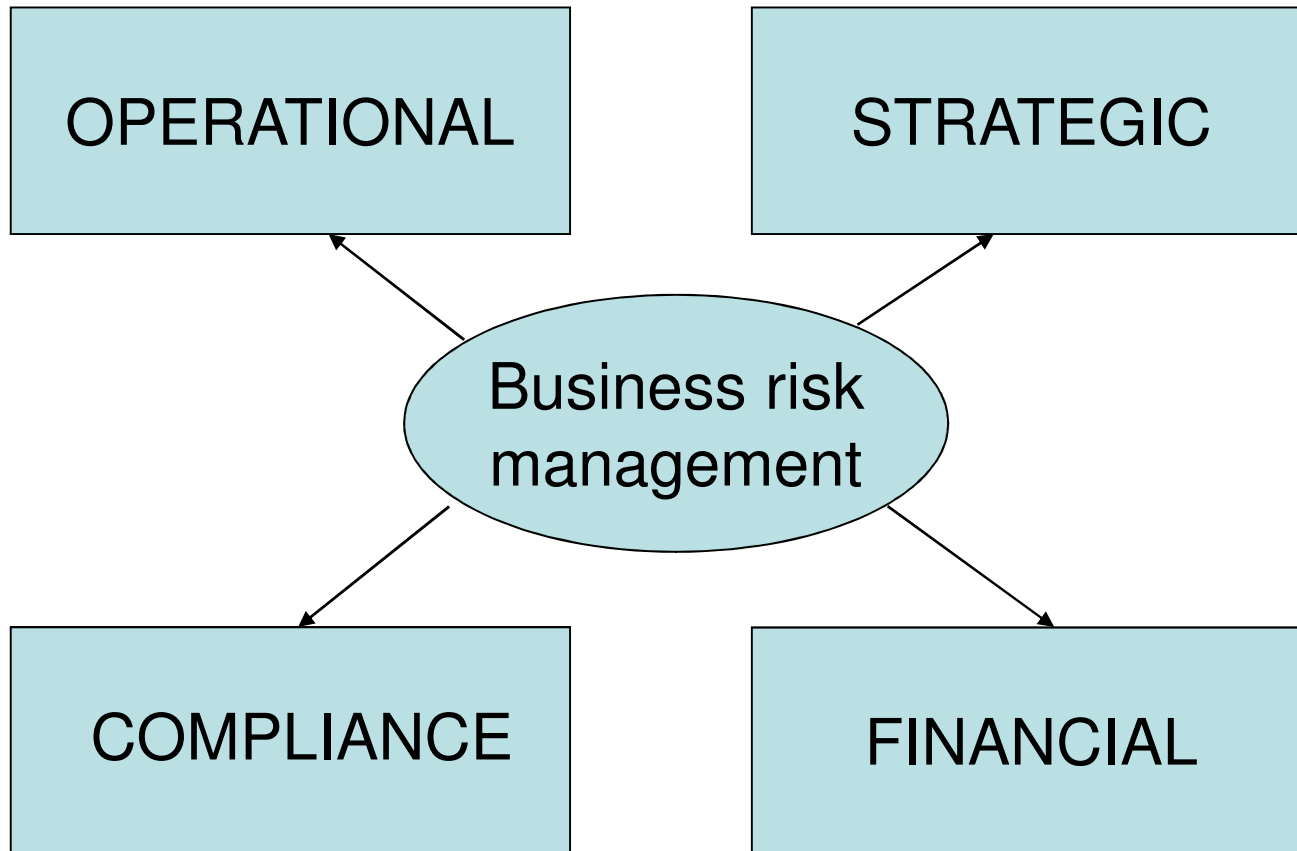


Learning objectives

At the end of this session candidates will be able to:

- recognise the risks that may arise from the selection of a particular strategy
- recognise the risks that may arise from specific tactics and operations
- recognise the risks that may be specific to projects
- identify the stakeholders in an organisation
- evaluate the role of a private sector organisation's stakeholders in risk management
- evaluate the role of a public sector organisation's stakeholders in risk management
- evaluate the needs and desires of stakeholders
- understand factors influencing stakeholder satisfaction and the impact that purchasing can have.

Four types of risk



Strategic risk

- Markets
- Technology
- Competitors
- The economy
- Consumer needs
- Legal
- Intellectual property
- Merger and acquisition



Operational risk

- Distribution
- Logistics
- Suppliers
- Product/Service quality
- Employee issues
- Fraud
- Projects
- IT
- Natural events (Weather)
- Fire.



Compliance risk

- Stock exchange rules
- Tax requirements
- Environmental legislation
- Accounting standards
- Internal controls
- Ethics.



Financial risk

- Exchange rates
- Interest rates
- Liquidity
- Profitability
- Credit
- Costs.



Examples of key success factors

Key success factors will impact on types of risk that exist and control mechanisms for monitoring –

- no downtime
- fast fulfilment
- effective customer support
- adequate profit margin.



Stakeholders

- Employees
- Customers
- Intermediaries
- Suppliers
- Partners
- Investors
- Government
- Regulators
- Pressure groups
- Community
- Media.



Sources of stakeholder power

Within organisations:

- the hierarchy (formal power), for example autocratic decision making
- influence (informal power), for example charismatic leadership
- control of strategic resources, for example strategic products
- possession of knowledge and skills, for example computer specialists
- control of the environment, for example negotiating skills
- involvement in strategy implementation, for example by exercising discretion.



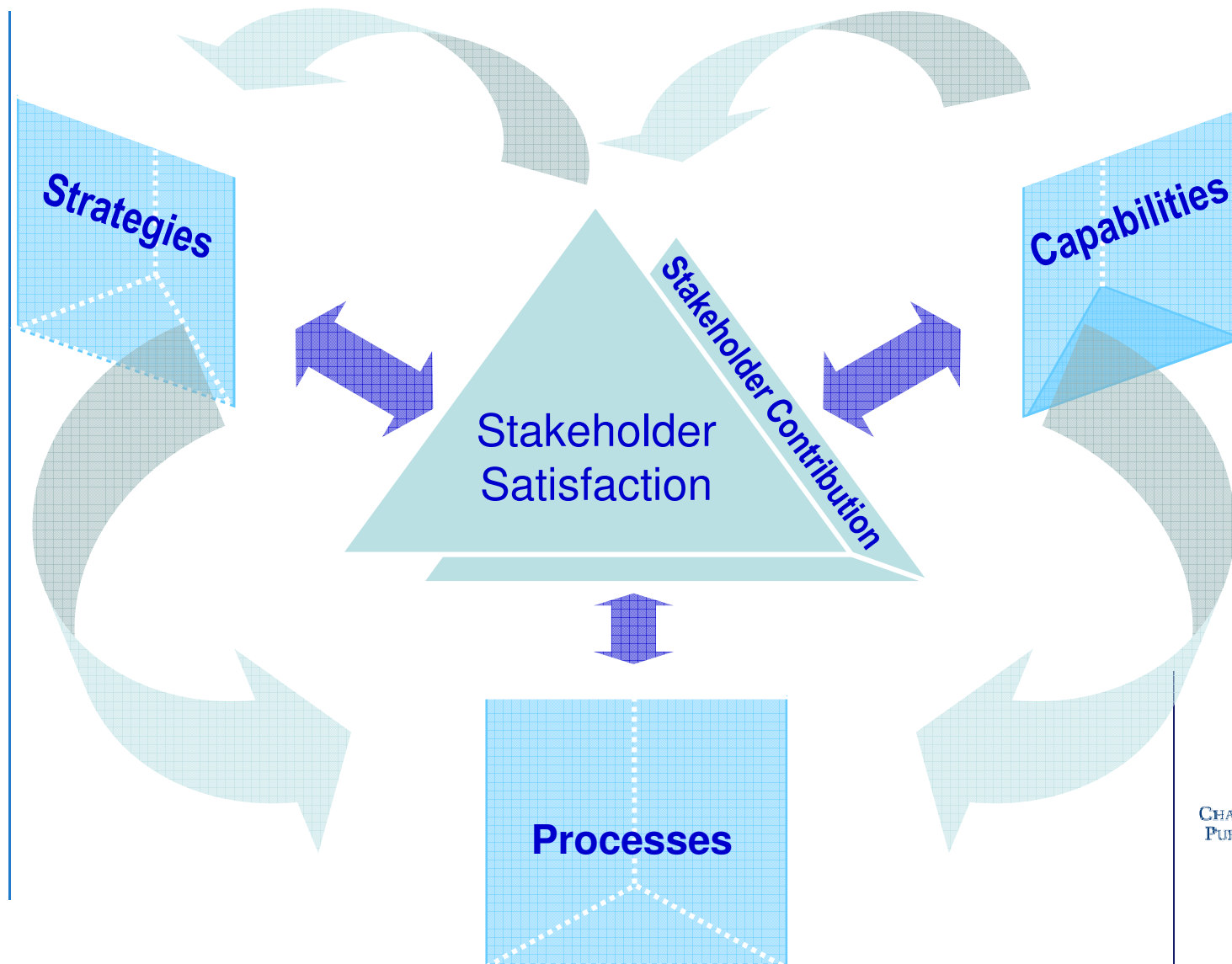
Sources of stakeholder power

For external stakeholders:

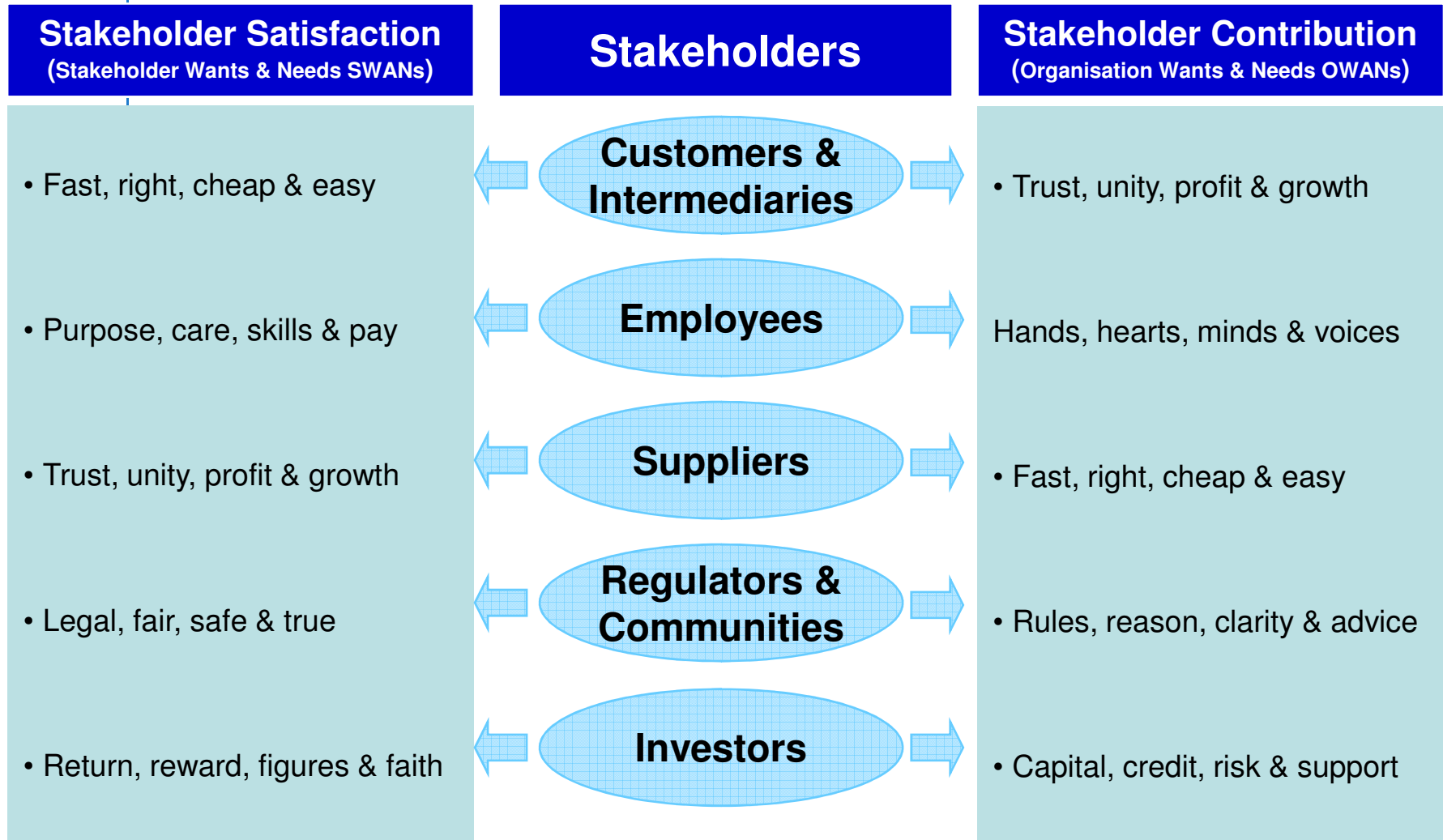
- control of strategic resources, for example materials, labour, money
- involvement in strategy implementation, for example distribution outlets, agents
- possession of knowledge (skills), for example subcontractors
- through internal links, for example informal influence.



Delivering stakeholder value



Stakeholder needs = Organisation needs



Key stakeholders



Session 3

The outcomes of successful risk
management

Selecting and building the strategy

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Learning objectives

At the end of this session candidates will be able to:

- allocate appropriate resources to deal with the more important risks and threats
- recognise how good risk management leads to increased confidence
- assess the value of disaster recovery plans
- prepare for situations where the organisation's reputation may be at risk
- predict the impact of changes in the business environment on your supply chain.
- give examples of the benefits that can be derived from improved organisational coordination with service and delivery partners

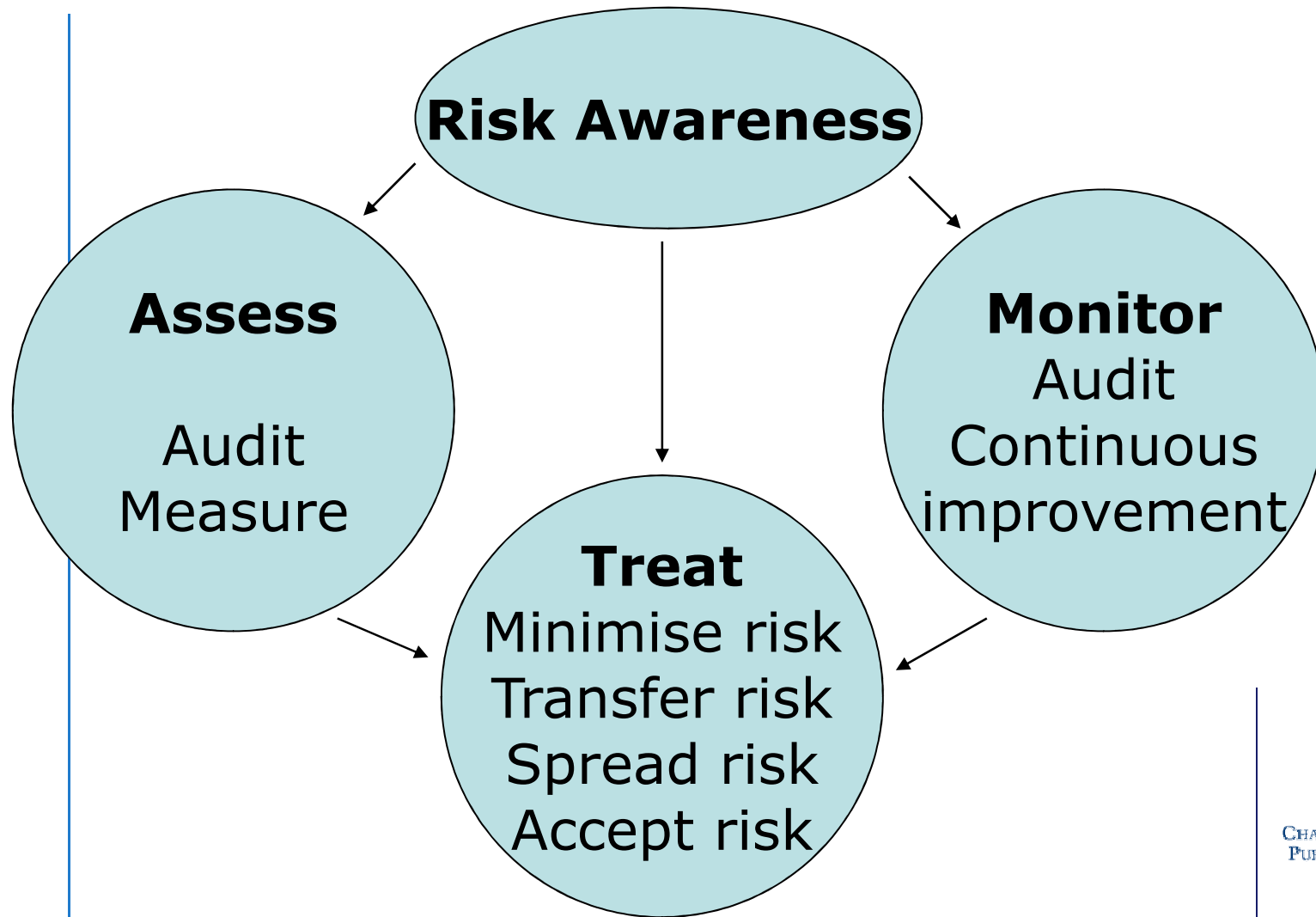


Learning objectives (cont'd)

- demonstrate that you understand your organisation's risk management strategy
- explain how the development of a corporate risk management strategy will impact upon hr issues
- explain how the development of a corporate risk management strategy will impact upon financial decisions
- explain how the development of a corporate risk management strategy will affect the selection of supply chain strategies
- explain how the development of a corporate risk management strategy will impact upon health, safety and environmental issues.



Four stages of risk management



Disaster recovery plans

Advantages -

- an ability to maintain, or resume trading
- safeguarding of reputation, brand and image
- reduction of downtime through the mitigation of disasters
- prevention of loss of customers due to inability to trade
- increase in confidence of stakeholders.



Impact and probability

The **Kraljic Portfolio Matrix** is a purchasing approach to manage supplier relationships. It includes the construction of a portfolio matrix that classifies products on the basis of two dimensions: profit impact and supply risk ('low' and 'high'). The result is a 2 x 2 matrix and a classification in four categories, each with a distinctive approach:

- **Bottleneck.** These items cause significant problems and risks. They should be handled by volume insurance, vendor control, security of inventories and backup plans.
- **Non-Critical.** These items require efficient processing, product standardisation, order volume and inventory optimisation.
- **Leverage.** These items allow the buying company to fully exploit its full purchasing power (tendering, target pricing, product substitution).
- **Strategic Items.** These items require further analysis.



Risk management strategy – HR issues

- Recruitment
- Training and development
- Promotion, redeployment
- Career planning
- Pay and productivity issues
- Retirements and redundancy
- Staff welfare
- Disciplinary action
- Succession planning
- Trade Union negotiations.



Risk management strategy – financial decisions

- Credit terms
- Contractual terms
- Currency risks
- Interest rates
- Inaccurate budgeting
- Inaccurate forecasting.



Risk management strategy – supply chain

- Continuity of supply
- Responsiveness to demand
- Cost management
- Outsourcing decisions.

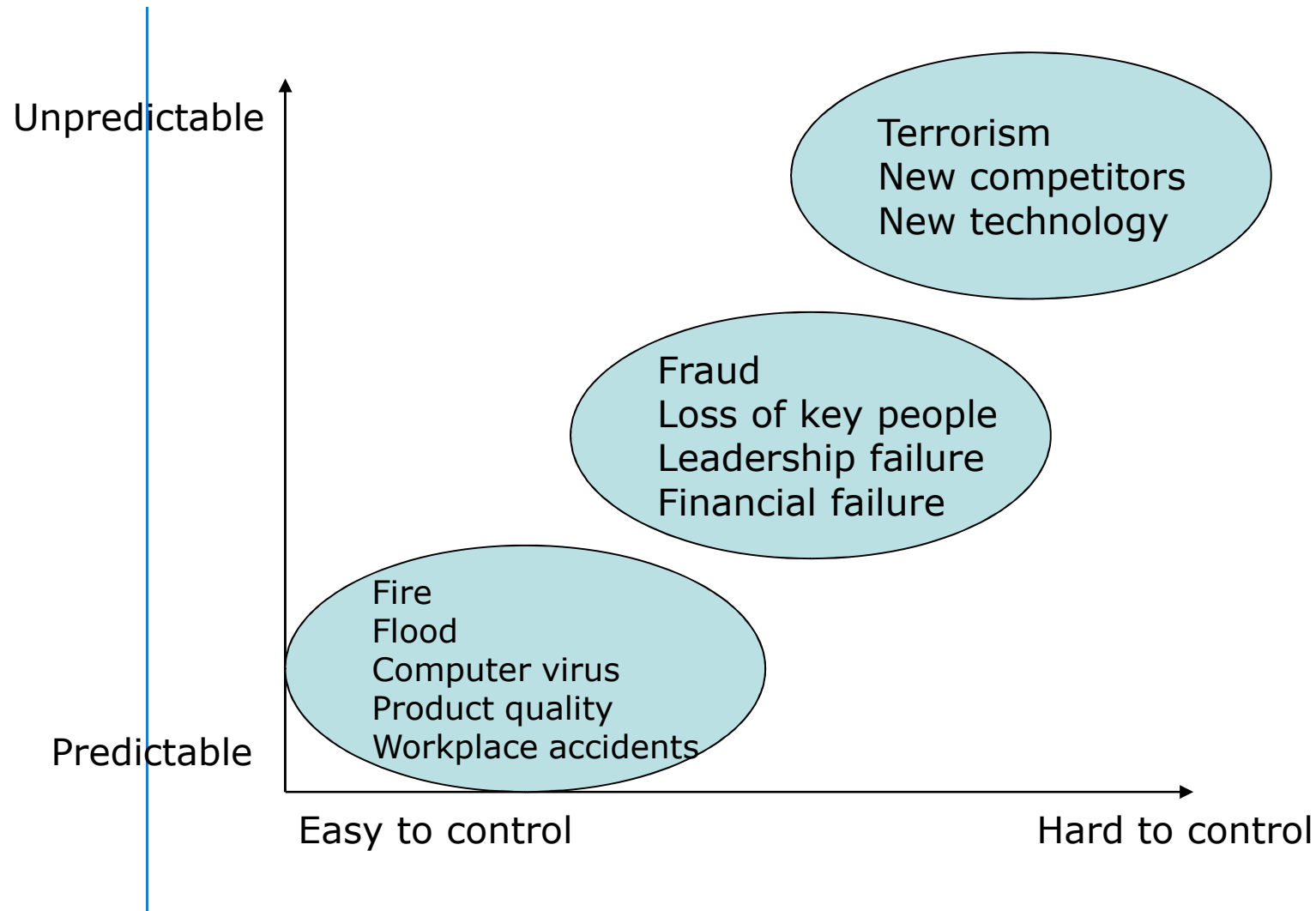


Risk management strategy – health and safety

- Dangerous machinery
- Noise and vibration
- Electrical dangers
- Harmful substances
- Confined spaces
- Lifting and handling
- Falls and falling materials
- Driving accidents



Predictability



Session 4

Identifying appropriate processes
Resources for a risk-aware culture



Learning objectives

At the end of this session candidates will be able to:

- summarise some risk identification methods
- show how risks can be analysed
- evaluate the impact of risks upon the organisation
- make the right decision on how to treat the risk
- know how to gather feedback on potential problems
- how to link the various stages into a risk management process
- identify appropriate resources
- demonstrate methods of raising risk awareness
- summarise the value of using risk registers
- propose ways of monitoring risk and reacting appropriately to changes in the risk parameters.



Identifying risk

- Physical audits
- Research
- Analysis of trends
- Access to records – accident reports, near misses
- Risk assessments



Treating risk

- Avoid
- Minimise
- Spread
- Accept

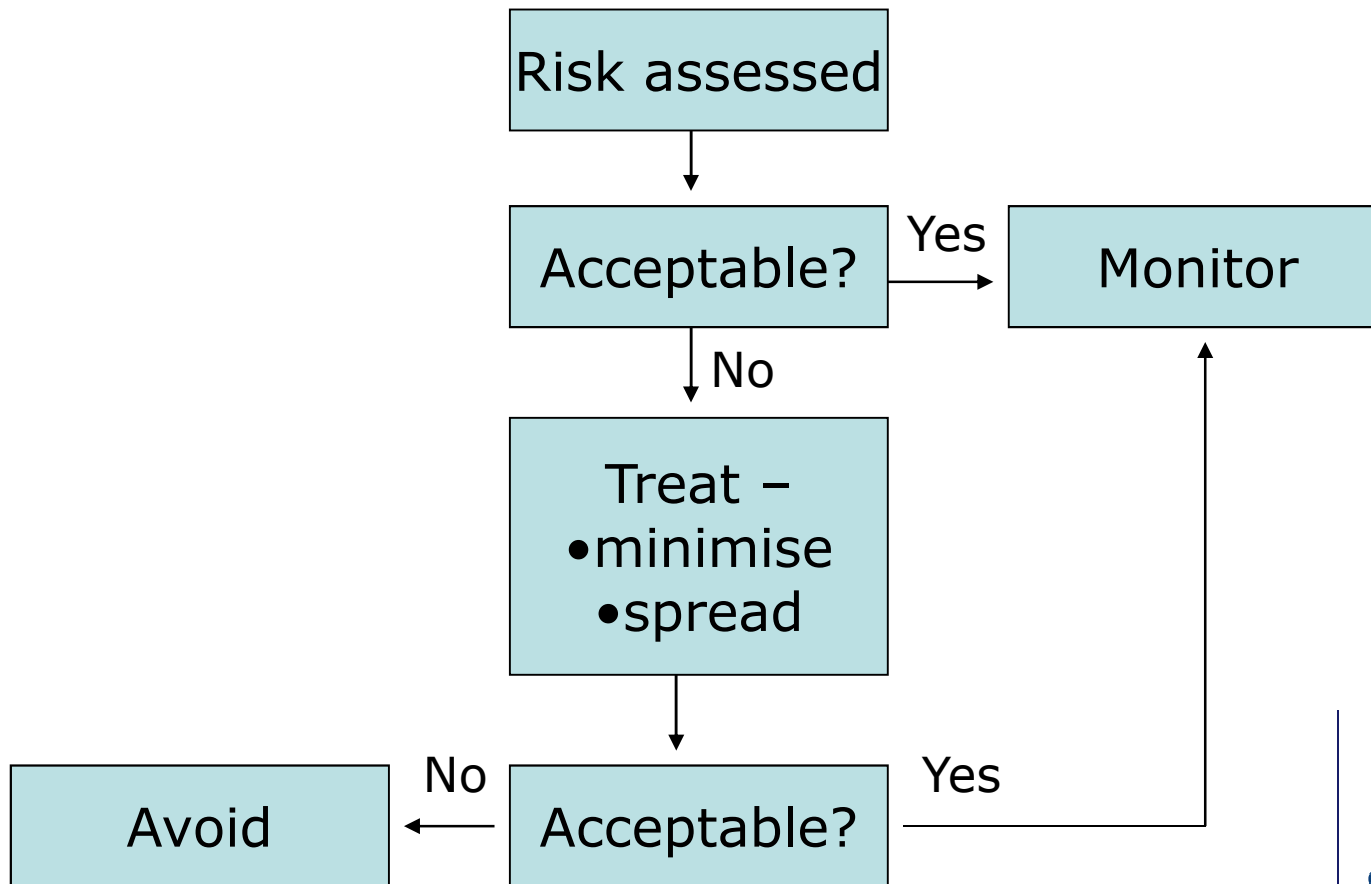


Gathering feedback

- Trends that indicate a growing danger
- Data that shows a variance from the norm
- KPIs
- One-off reports on new areas of risk
- Findings of previous audits
- Information from inside and outside of the organisation.



Risk management process



Raising risk awareness

- Keep all managers informed
- Electronic bulletins
- Red, amber, green systems
- Involvement –
 - audit teams
 - risk questionnaires.



Using risk registers

- Risk registers/logs kept as permanent record
- Record –
 - type
 - who is responsible
 - date identified
 - description
 - cost
 - probability
 - impact
 - response actions.



Session 5

Sharing risk through the supply chain
Tactics and tools for risk identification



Learning objectives

At the end of this session candidates will be able to:

- identify appropriate third parties to assist in the mitigation of risk
- recognise methods of deciding upon appropriate insurance
- demonstrate how upstream supply chain partners can contribute to risk sharing
- demonstrate how downstream supply chain partners can contribute to risk sharing
- apply some tools for the qualitative identification and analysis of risk
- apply some tools for the quantitative identification and analysis of risk
- identify the resources that would need to be in place in order to facilitate the tools tactics and tools mentioned above
- calculate the impact using specific tools.



Who can help with Risk?

- Insurance companies –
 - **loss of profits**
 - **business continuity**
 - **fire and theft**
 - **public liability**
 - **professional indemnity**
 - **employer's liability**
 - **goods in transit**
- Self-insurance
- Pooling
- Upstream partners
- Downstream partners.



Contribution of upstream partners

- Outsourcing
- Joint ventures
- Consignment – vendor managed inventory
- Sharing of electronic data
- Contracts.



Contribution of downstream partners

- Wholesaler responsibilities
- Management of supply/demand
- Seasonal demand
- Customer service
- Transport trade-offs.



Quantitative identification and analysis

- 3 x 3 weighted matrix
- Decision trees
- Fault trees
- Network analysis
- Dependency modelling
- Cost/benefit analysis
- Research.



Qualitative identification and analysis

- Subjective analysis – impact/probability
- Risk mapping
- Scenario building
- Auditing
- Influence diagrams
- Decision trees.



Resources needed to mitigate risk

- Budget
- External consultants/advisors
- Human resource
- Software systems.



Session 6

Supplier selection

Ethics and corporate social responsibility;
health and safety



Learning objectives

At the end of this session candidates will be able to:

- explain some supplier appraisal techniques that will assist in the identification of risks
- propose supplier selection methods based upon solid risk management techniques
- formulate some financial tests to evaluate a supplier's financial status
- propose some contingency plans to enable early warning of changes in a supplier's financial position
- demonstrate an awareness of the changing nature of global ethics



Learning objectives (cont'd)

- define the impact on the management of the supply chain of a corporate social responsibility policy
- formulate a plan of action to deal with safety issues
- predict some health and safety issues that may arise within the supply chain
- formulate a policy to deal with the risks of fraud
- develop a policy of personal ethical conduct for all purchasing and supply management staff.



Supplier Appraisal Methods – incorporating Risk Management

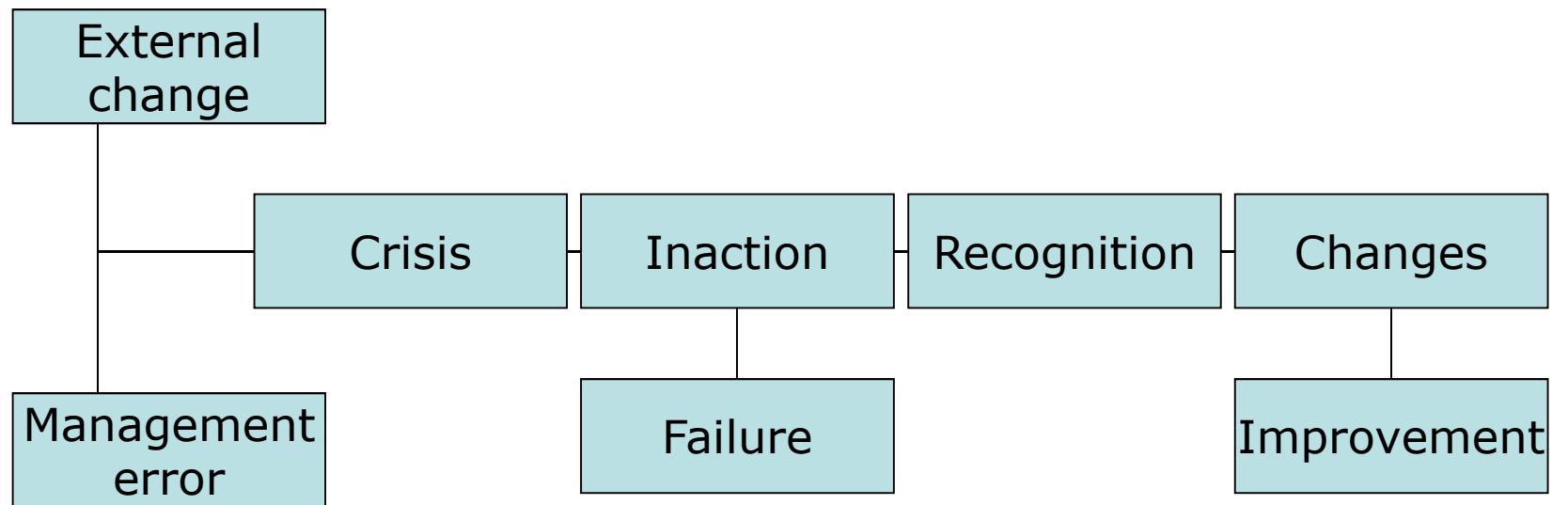
Risk	Selection Method
Unreliable or slow supplier	Scorecard Targets for quality
Supplier goes bankrupt	Financial assessment
Disruption from natural event	Audit of their processes and contingency plans

Contingency plans – monitoring changing circumstances

- Visits and audits
- Non-reliance on single supply source
- Vertical integration
- E-business
- Business continuity.



Stages of a crisis



Awareness of Global Ethics

Principles of Ethical Trade -

- employment is freely chosen
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic
- child labour shall not be used
- living wages are paid
- working hours are not excessive
- no discrimination is practised
- regular employment is provided
- no harsh or inhumane treatment is allowed.



The supply chain and corporate social responsibility

- Overlay CSR Risk over the existing supply chain management processes. Key and strategic suppliers receive the usual special attention (from buyers, quality managers and so on), the suppliers of low value items are not within the sphere of influence, and they will go elsewhere if the customer is a pest.
- Are external standards necessary? Is SA8000 a solution? – or yet another problem in a world of management system fatigue. Do we really need another audit item?
- Who is going to persuade the Head of Purchasing about the ‘weight’ of CSR factors in the supplier assessment process?
- Are we really an ethical company – or do our principles last only until the price of goods rises by 1%?
- Can we afford to.....can we afford not to? One man’s risk.....is another’s Business Opportunity.....



Action plans for safety

Check -

- drainage
- materials
- waste storage
- waste disposal
- packaging
- hazardous substance storage
- effluent and other discharge disposal
- air emissions
- cleaning activities
- delivery areas
- Security.



Fraud and ethical conduct

- Assets –
 - Valuable?
 - Commercial secrets
- Staff -
 - Left unsupervised with finance or assets?
 - Addictions or heavy financial commitments?
 - Close links with suppliers or customers?
 - Accounts employees never taking holidays
- Systems –
 - Record keeping
 - Written procedures
 - Fraud audits undertaken?



Session 7

Project appraisal, contractual and negotiation issues



Learning objectives

At the end of this session candidates will be able to:

- explain the problems of investment appraisal
- recognise the specific issues related to capital projects
- deal with project failure in such a way as to minimise losses
- recognise appropriate negotiation strategies to reduce future contract risk and supply chain vulnerability to enhance long term business value
- identify the Key steps in negotiation planning for success
- adopt a strategic approach and negotiation techniques
- apply best practice methodology
- understand tactics and standpoints
- recognise the behaviours of successful negotiators



Learning objectives

- explain contractual issues and remedies
- explain dispute resolution alternatives
- identify how contracts can fail to deal with specific scenarios
- recognise ways to mitigate consequential losses
- deal with Project Failure in a professional manner and obtain appropriate compensation
- apply the most appropriate corrective action following failure of the contract
- recognise potential conflicts of interest
- apply continuous improvement to contracts for goods and services.



Financial risk

- Maintain a healthy margin
- Build reserves
- Have saleable assets
- Avoid financial risks
- Reduce reliance on a few big customers
- Have control measures in place
- Keep costs low



Minimising loss from project failure

Nine steps –

- obtain adequate information
- examine all the options
- carry out a risk assessment
- allocate experienced staff
- create a project plan
- invest one step at a time
- build in flexibility
- review progress regularly
- spread the risk.



The role of negotiation

- Negotiate risk/reward contracts
- Manage risk of disputes
- Negotiate cost/risk sharing with supplier
- Key steps in planning for successful negotiation (Best Practice methodology including tactics & standpoints)
- The behaviours of successful negotiators
- Negotiation techniques to reduce risk and vulnerability.



Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

An effective team should always identify its objectives, expectations and alternatives whilst preparing the negotiation. In all cases, objectives, expectations, and alternatives should be identified beforehand. The following 8 steps represent good practice in terms of planning for a successful contract negotiation:

STEP 1

- Identify your client organisation objectives, expectations and alternatives
- develop objectives, etc. for all aspects of the contract
- focus on the least acceptable alternative and the most desirable outcome for each aspect
- identify potential negotiation positions that will facilitate achieving the most desirable outcome.

Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

▪STEP 2

▪Identify each contractor(s) / supplier(s) key business drivers, least acceptable alternative and most desirable outcome and benefits that will result from addressing them. Examples might include:

- contractor / supplier needs this contract to absorb excess capacity = more aggressive pricing
- demand for contractor / supplier services is growing (profit potential increasing) = secure resources to meet our needs while offering supplier competitive margins
- contractor / supplier may be seeking multi-year contracts = better pricing and supply assurance
- contractor / supplier market is increasingly competitive = lower cost, better service, and so on.

Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

STEP 3

- Identify each of the contractors(s) / supplier(s) representatives involved in the negotiations:
 - who are they?
 - what prior dealings have you had with them ?
 - what are their experiences?
 - what role are they playing in the negotiation?
 - what is their personal stake in the negotiation?
 - how will the outcome of the negotiation impact them?

Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

STEP 4

- Identify your strengths (& weaknesses) and plan on how to take advantage of (compensate for) them during the negotiation. Examples might include:
 - this is first of many similar projects in your business plan = promise of long term contract or relationship
 - competitors are anxious to break into this market = threat to take business elsewhere
 - market is very tight and supply constrained (contractor(s) / supplier(s) market) = your willingness to commit to a long term agreement.



Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

STEP 5

- Identify lists of issues that you might expect the contractor / supplier to raise during the negotiation & prepare to deal with them.

Examples might include:

- use of incentives
- escalation terms
- performance metrics
- terms and conditions.

STEP 6

- Identify the key messages(s) that we want to deliver based on analysis of information from previous steps. Examples might include:
- the competition is very aggressive in seeking this contract
- we are looking for a long term relationship that looks beyond current short term market conditions
- we are not satisfied with the technical (or commercial) quality of your proposal.

Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

STEP 7

- Establish and organise your negotiating team (plus roles and responsibilities)
 - considering the information developed, identify the experts needed to support the negotiations
 - determine roles and responsibilities in preparing for and conducting the negotiations
 - identify spokesperson for each aspect of the planned negotiation
 - establish procedures and protocols for calling conference breaks, seeking clarification, and so on among team members
 - practice by role playing using different tactics for each side to better anticipate issues and outcomes.



Key steps in negotiation planning for success

(Best practice methodology including tactics and standpoints)

STEP 8

- Develop a detailed strategy that properly considers all of the information developed and takes advantage of the strengths of the negotiating team. *Recognise that this strategy may vary with each of the contractor(s) / supplier(s) involved.*



The behaviour of successful negotiators

Research has consistently shown that certain behavioural characteristics are exhibited by successful Negotiators in the field of Supply Chain Management across all sectors of industry. These are listed as follows:

- successful negotiators consider a wide range of outcomes or options for action, especially options that might be raised by the other party
- successful negotiators give significant attention to areas of common ground
- successful negotiators pay attention to the long-term implications of issues

The behaviour of successful negotiators

- successful negotiators plan their objectives in terms of upper and lower limits
- successful negotiators identify major issues and plan for each one separately
- successful negotiators learn all they can about the other party: their needs, current business results, expectations, style, past practices, trustworthiness, deadlines, constituencies they must please, and decision-making authorities



The behaviour of successful negotiators

- successful negotiators try to clear up or diffuse any rumours or misinformation, or resentment left over from the past
- successful negotiators are careful to avoid provoking, and being provoked by, the other party and getting caught up in a “Defend/Attack” spiral
- successful negotiators avoid using words and phrases that have negligible negotiation value but cause irritation with the other side (such as generous, fair or reasonable offer)



The behaviour of successful negotiators

- successful negotiators are able to articulate a vision or image of an ideal outcome to the negotiation in a way that attracts or “Pulls” the other party in his or her direction
- negotiators who expect more, and who ask for more, settle at higher levels than those who have lower aspiration levels and make more modest opening demands
- successful negotiators are not afraid to say they are unprepared to discuss a certain issue or reach a conclusion
- successful negotiators are less apt to make a unilateral concession early in a negotiation

The behaviour of successful negotiators

- successful negotiators do not respond immediately to another party's proposal with a counter-proposal. Immediate counter-proposals are perceived as blocking or disagreeing by the other party, rather than as proposals
- successful negotiators state their position clearly, directly, and succinctly, and are willing to repeat it until they sense that the other party has heard and takes it seriously
- successful negotiators avoid "Argument dilution"; that is, they stick to their two or three strongest points
- successful negotiators, when they disagree, first give the reasons or explanation for their disagreement, and then state that they disagree

The behaviour of successful negotiators

- successful negotiators “test understanding” and “summarize” more frequently than average negotiators
- successful negotiators reflect back on what the other person has said to obtain a further response
- successful negotiators ask significantly more questions than average negotiators
- skillful negotiators more frequently disclose both proprietary data and information about their underlying needs. This is apparently done to increase the trust level so that the other party will disclose similar information

The behaviour of successful negotiators

- successful negotiators avoid large or unilateral concessions near the end of a negotiation to meet a deadline or avoid a deadlock
- successful negotiators check out any ambiguities, possible misunderstandings, or reluctance to close before the end of the negotiation rather than leaving them as potential hazards during implementation
- successful negotiators take frequent breaks and caucuses to confer with associates, review the other party's proposals, and/or to formulate their own position



The behaviour of successful negotiators

- skilled negotiators ask for something in return when they make concessions
- wherever possible, skillful negotiators take steps to avoid being placed under deadline pressure
- successful negotiators set aside review time after the negotiation to capture lessons learned and identify best practices
- successful negotiators avoid emotional or value-loaded behaviour
- successful negotiators, if they decide to attack, attack hard and without warning. Attacks that build up gradually allow the other party to build up their defences, leading to a “Attack/Defend spiral”
- successful negotiators are more likely to give information about their feelings or motives than average negotiators.

Gain control through negotiating techniques

Tactic	Techniques
<ul style="list-style-type: none"> ■ Use competitive leverage 	<ul style="list-style-type: none"> ■ Enter negotiations with alternatives <ul style="list-style-type: none"> • Other suppliers • Make internally • Alternative product ■ Create demand through perception of enhanced value
<ul style="list-style-type: none"> ■ Encourage supplier investment of time 	<ul style="list-style-type: none"> ■ Allow supplier to invest significant time in the process <ul style="list-style-type: none"> • Preparation of information • Multiple bargaining cycles • Discussions before session ■ Ensure supplier vulnerability to loss ■ Encourage long-term relationship
<ul style="list-style-type: none"> ■ Ensure commitment of team 	<ul style="list-style-type: none"> ■ Ensure understanding of and commitment to goals by all team members ■ Project unified position to supplier
<ul style="list-style-type: none"> ■ Achieve mutual identification 	<ul style="list-style-type: none"> ■ Determine real needs of other party rather than wants ■ Show understanding of and empathy with needs ■ Incorporate other party's ideas into discussion ■ Transform two separate goals into one mutual goal ■ Form basis for long-term relationship
<ul style="list-style-type: none"> ■ Show expertise 	<ul style="list-style-type: none"> ■ Present image of confident, self-assured team through understanding of <ul style="list-style-type: none"> • Information • Issues • Products and applications

Gain control through negotiating techniques

Tactic	Techniques
<ul style="list-style-type: none"> □□ Keep discussions unemotional 	<ul style="list-style-type: none"> ■ Provide only necessary information when require ■ Show little emotion as points are made ■ Avoid surprises
<ul style="list-style-type: none"> ■ Make orderly concessions 	<ul style="list-style-type: none"> ■ Create “hierarchy” of concessions, from wants to needs ■ Make concessions slowly ■ Match concessions to those of other party
<ul style="list-style-type: none"> ■ Legitimise your position 	<ul style="list-style-type: none"> ■ Establish credibility with other party through <ul style="list-style-type: none"> • Size of company/order • Historical precedent • Desire for long-term relationship ■ Show less confidence in legitimacy of other party
<ul style="list-style-type: none"> ■ Stress unmet needs 	<ul style="list-style-type: none"> ■ Stress areas of unmet needs in supplier offer <ul style="list-style-type: none"> • Product’s deficiencies • High price • Delivery problems ■ Create impression of unsatisfactory supplier response

Key issues

- Conformance to specifications
- Measuring supplier performance
- Clear contract (legally binding)



Specifications

Clear and unambiguous specifications facilitate:

- communication between all involved including purchaser and supplier
- comparison between bids.



Suppliers performance indicators

- Price
- Quality
- Delivery
- Customer satisfaction

- *Performance management systems*
- *can be complex and should include*
- *alerts when KPIs are not met.*



Written contract

Benefits of a written contract include:

- accurate record of the agreement
- clarify purchaser's rights against the supplier
- clarify buyer's obligations to supplier and vice versa.



Intention

- Both parties must intend to enter a legally binding contract
- In *social/domestic agreements* the law presumes no intention to create a legal relationship unless there is evidence
- In *business/commercial agreements* presumption is that the parties intended to create a legal relationship.



Right to sue

- Only a party to a contract may sue to enforce that contract or be sued on it (doctrine of privity)
- Purchaser may not sue a subcontractor or third party if the contract is with the main contractor – purchaser in a strong position may be able to insert a clause that holds main contractor liable for any breaches by a third party
- *Contracts (Right of Third Parties) Act 1999.*



Pre contractual statements

- Advertising 'puffs' – “just like granny used to make”
- Representation – factual statements, legally binding
- Contractual terms - legally binding.



Session 8

Public Sector issues Technological and environmental issues

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Learning objectives

At the end of this session candidates will be able to:

- define what is meant by the public sector
- recognise some of the risks that are inherent in public sector projects
- describe the workings of the EU directives and the remedies available for infringement by public sector organisations.
- explain the role of audit bodies in the public sector
- summarise the work of the office of government commerce in assisting public sector organisations to manage and mitigate risk



Learning objectives

- recognise the reputational risks that can derive from issues in the public sector including freedom of information
- summarise some of the new legislation that can impact upon total costs
- evaluate the impact of change in telecoms technology
- give examples of situations where failure to manage changing technology has led to financial or operational damage.
- propose some methods that can be used to validate computer outputs
- compare a number of techniques for assessing environmental risk.



Risks in Public Sector projects

- Disaster
- Failure to perform – for example, housing management
- Litigation
- School trip risks
- Environmental issues
- Legionella
- Health and Safety
- Workplace risks.



Audit bodies and the Public Sector

- Audit Commission
- National Audit Office
- Accounts Commission (for Scotland)
- Northern Ireland Audit Office.



Managing and mitigating risk

- Understand your risks
- Develop a risk policy
- Put written procedures in place
- Assign roles and responsibilities
- Train staff
- Communicate effectively
- Keep records
- Conduct internal audits
- Review audit findings
- Put contingency plan in place
- Engage external assessors.



Legislation – impact on costs

- Risk of being sued
- Regulatory controls
- Disability Discrimination Act
- Sarbanes Oxley
- Acquisitions
- Intellectual Property
- Electronic communication.



Costs of environmental risk

- Costs of compliance
- Costs of breaking the law
- Environmental legislation
- Finance and insurance difficulties for non-greens
- Attracting and retaining good staff more difficult
- Anti-social and uncaring image
- Unable to compete.



Session 9

International Issues Quality Issues

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Learning objectives

At the end of this session candidates will be able to:

- demonstrate how the effective management of currencies and commodities can make a major contribution to an organisation
- analyse the impact of culture on business relationships
- prepare a plan of action for improving relationships when dealing with foreign suppliers
- summarise the possible geographical causes of delays and damage in your supply chain
- distinguish between the payment methods commonly used for international sourcing



Learning objectives

- assess the implications of different standards by foreign suppliers and service providers
- summarise what needs to be included in effective specifications
- evaluate the relative impact of the costs of quality
- show how product liability needs to be addressed by supply chain managers
- summarise some modern quality management systems that are used in modern business
- learn how to use tools and techniques for measuring quality.



International – managing currencies & commodities

- Financial risk caused by currency difficulties
- Sourcing from abroad – tariffs and taxes
- Sourcing from abroad – reputation issues
- Supplier unreliability.



Impact of International culture on business relationships

- Culture
- Language
- Infrastructure
- PEST factors
- Customer expectations.



Geographical causes of delay and damage in the supply chain

- Road congestion
- Lack of tracking function
- Import delays
- Marine shipping
- Bonded warehousing
- Air freight delays
- Freight rail
- Overseas infrastructure.



Payment Methods in International Sourcing

Incoterms –

- Ex-works
- FCA
- FAS
- FOB
- CFR
- CIF
- CPT
- CIP
- DAF
- DES
- DEQ
- DDU
- DDP



Impact of cost of quality

- ISO 9000 & variants
- TQM.



Product liability in the supply chain

- Recalls
- Product failure
- EU law
- Rogue competitors

Need to –

- carry out supplier assessment
- inspect manufacturing sites
- investigate complaints
- use batch numbers to identify faulty products
- keep distributors informed.



Session 10

Controlling the risks Contingency planning



Learning objectives

At the end of this session candidates will be able to:

- design a programme of internal audits
- explain the value that can be derived from effective external audits
- demonstrate the value of feedback and appraisals as monitoring and control techniques
- propose some software solutions that can be used to test risk on an ongoing basis
- explain the need for key staff succession planning
- give examples of how disasters can be avoided through good design
- demonstrate a number of it disaster recovery solutions
- formulate a plan of action to deal with disaster recovery in the supply chain.



Programmes of internal audits

- Accountants
- Quality
- Specialist internal audits –
 - Risk policy and controls
 - Exposure to uncontrolled risk
 - Reassure management policies are being followed
 - Give advice on controlling risk



Value of external audits

- Objective
- Expertise
- Existing employees less likely to view with suspicion
- Work with internal risk committees/staff
- Provide advice.



Feedback and appraisals in monitoring risk

- Raise awareness in all employees of need to manage risk
- Appraisals and feedback help to motivate staff
- Decentralised decision making helps monitor risk
- Appraisals gather internal feedback and help identify areas previously unidentified
- Appraisals also monitor skills and allow staff to receive training and development to lower risk.



Software solutions

- SAS
- Palisade
- ARMS
- ADP
- Bancdirections
- COR Risk Solutions
- Credix
- Riskbox
- Riskcare,
and so on.



Avoiding problems with IT projects

- Standard/bespoke?
- Assess risks formally
- Involve line management
- Do not over rely on Consultants
- Be aware of lack of objectivity in Vendors
- Don't underestimate costs
- Keep it simple
- Break down big projects into smaller steps
- Go to tender for major projects
- Choose advisors who understand the business
- Undertake trials
- Carry out training
- Have a disaster recovery plan
- Build in flexibility
- Review regularly.



Key staff succession planning

- Obtain management buy-in for succession planning
- Identify future leadership needs
- Conduct staff reviews – competencies and skills
- Identify high-potential talent
- Recruit external future leaders
- Give staff cross-functional experience
- Create opportunities for individual growth
- Implement training and development – formal and informal.



Contingency plans for supply chain risk

- Prepare and test emergency plans
- Have sections dealing with –
 - product quality failure
 - environmental pollution – you or key supplier
 - Health and Safety accident
 - security failure – you or key supplier
 - fraud – you or supplier
 - IT failure – you or supplier
 - industrial relations problems resulting in production or supply failure
- Have someone responsible for the plan
- Test regularly.



Emergent risks

- 9-11
- Chernobyl
- Flixborough
- Foot and mouth
- Global warming
- Mad cows' disease
- MRSA
- Sars
- San Francisco earthquake
- The sinking of the Titanic.

