An Anthology of Some of the Best

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In part 4 of the series, we discussed the role of people in the supply chain, and need to have the right competencies for their roles in the organization. We highlighted the importance of high level management attention, to ensure the right balance of resources, with the necessary leadership focus, as well as sustaining a high organization engagement level. It is this combination of good competencies and closely synchronized cross-functional processes that drives a high performing supply chain execution model, where people create the capabilities that deliver the performance and achieve the results that meet the strategic goals. We now look at managing supply chain risks. Stephanie Krishnan, Joe Lombardo and Raymon Krishnan continue with the series.

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n the last 4 Parts of the series, we looked at the internal elements necessary to achieve an effective supply chain performing model. However, whilst this is a fundamental component, we need to address the factors, that could disrupt the smooth flow of the business supply chain, and that can create immeasurable business risks with equally high negative consequences.

What are the types of business risks?

Every business faces potential risks each day of its operating life. The types of risk can vary for different businesses. The severity of risks will depend on the business nature, as well as on the supply chain dependencies.

In Part 5 of this series we will examine the typical risks to the supply chain. Risks are categorized into the potential business disruptions derived from sources of internal factors and external factors.

Internal Risks are those risks which arise from events occurring within business organization, and which could arise during the normal operation of the business. Whilst
these risks cannot always be forecasted, the probability of their occurrence can be predicted with some degree of accuracy. These types of risks could be contained and controlled directly by the business executive. The typical internal risks sources and impact to the supply chain, can come from, Strategic Risks, Financial Risk, Organizational& Operational Risk, Employee Risk, Innovation Risk and Business Governance.

External Risks are those risks which arise from events occurring outside of the business organization, which may have a direct or indirect impact on the business operations. Such events are beyond the control of the business executive, who could forecast some probability of occurrence but with a very low degree of accuracy. The external risks are those from external sources where the visibility is less clear and the probability of control is lower for the company executive. The typical external risks sources and impact to the supply chain, can come from, Political & Economic Risks, Compliance Risks, Environmental & Natural Risks, Technological Risks and Health & Safety Risks.

Many executives are aware of the risks that they face in the business but often it is a “gut feeling” and sometimes cannot be quantified for sustainable actions. Managing Risk cannot be left to chance. Risks to the Supply Chain

Put very simply, a factor that disrupts the smooth flow of the goods and services of the business is a potential risk. Fig. 1 illustrates the critical steps in the supply chain and business cycle. Disruptions and breakdowns are not only associated with physical and tangible sources. Some of the most serious disruptive risks can be from intangible sources. Data exchanges, data communications systems and other external sources are potential risks that could impact the supply chain.

However, it is the physical flows of the supply chain that are usually the most visible disruptions to the business.

Risk Identification Process

Assessing the Business risks must begin from a zero base starting point. That implies that both internal and external sources of risk must be viewed with equal importance. The tendency is often for companies to address the external risks first. But Company executives often underestimate the risks from the internal Company sources.

Most CEOs find it unimaginable that risks could originate from within their own business operations. But the reality shows that the most vulnerable and damaging risks do originate from internal sources and frequently go unattended for a very long time.

Fig. 2 illustrates the Enterprise Supply Chain model, highlighting the key contributors to the supply chain. A “deep dive” process analysis and...
review into all the key business enablers and their respective processes will identify the potential inherent risks.

An effective approach to risk assessment will be to address the internal risks first. Understanding clearly the internal risks, will assist in identifying the interdependencies with external sources and consequently external risks. Clarity of the types of risk and their sources is essential to assert a robust control and total management of the supply chain.

The key documents from such a structure would be a Risk Assessment Matrix and a Risk Defensive Plan. But before these can be meaningfully formulated, it will be necessary to identify which are the critical processes, resources and services to the business supply chain that generate serious risks.

The starting point for developing a defensive plan however simple or complex, is to know what are the factors that need defending from a risk and the potential negative impact on business continuity.

The guidance of a Risk Assessment Matrix, as illustrated in Fig. 4, would be used to categories the processes with Likely Failure Probability vs the Degree of Severity of such a failure. This would determine which are the key processes that need to be defended with an appropriate defensive/contingency plan.

The risk matrix mapping must be done for all sources of risks. This will identify the real and potential business risks as well as to focus attention on the urgency for mitigating actions.

We have outlined the typical internal and external risks in the earlier sections. However, there are other external risks, which Company executives need to understand and anticipate at all costs.

The new age external business risks are those associated with outsourcing. The rapid trend of outsourcing business activities means that whilst moving internal processes to an external 3rd party for economic reasons maybe a positive factor, managing the associated business risk needs to be an important decision consideration.

Whilst 3rd parties have to manage their own risks, the business interdependencies from outsourcing are often so crucial to the supply chain, that they must be considered as internal risk sources and included in the Company Risk Assessment.

**Risk Assessment Process**

Considering the wide spectrum of risk and their sources facing any business, it is crucial the CEO recognizes the need to create a formalized structure to address Risk Management. The appointment of a Risk Management Executive would be recommended as it would raise the awareness and focus on risk management across the supply chain. A formalized risk management leadership and structure would assess and mitigate the types of risk and the degree of exposure from both internal and external risk factors to the supply chain and to the business in general.

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An organization will have many processes both simple and complex ones, so a prioritization of the key business processes must be done by the process owners with their functional management. The completion of the processes the risk assessments will trigger a detailed review followed by the preparation of the necessary action plans.
The methodology for formulating a risk assessment is shown in Fig. 5. It must be applied across all levels of the organization that are relevant to the business supply chain. The tools to prepare a risk assessment are widely available for immediate use. For an effective deployment, guidance and training would be recommended for the key process owners and functional managers to obtain the best benefits.

**Building a Defensive Plan & Disaster Recovery Plans**

The risk assessment master matrix (a compilation of all risk assessments, is a key document for the CEO & Company Executives. This report would highlight some very sensitive factors about the company’s risks and vulnerabilities. As such all the inputs, departmental risk assessments and the compilation of the company master risk assessment report should be managed by a high level executive reporting to the CEO. The company risk assessment report must not be freely disseminated and should only be shared within a small circle of the CEO's top executives.

The risk defensive plan (also called the risk mitigation plan) and the disaster recovery plan will be prepared and directed by departmental high level executives. The defensive plan would encompass actions to contain, reduce or eliminate those risks where the business executive has the ability and power to do so. Whilst the disaster recovery plan (sometimes called a contingency plan) would involve actions deployed in case of an improbable but possible disruption occurring, that would put the business at risk. All business risk plans must be review periodically and tested, where possible, to ensure their effectiveness as intended.

Whatever the nature of your supply chain, understanding the exposures and vulnerabilities to business risks and the interruptions they could cause, is a fundamental requirement to managing and sustaining effective supply chains. All the risk management processes and plans discussed above must be realistic, effective and are part of the business governance responsibilities. The full engagement of all stakeholders in risk management is a fundamental prerequisite.

For more information on the articles or to contact the writers please email info@lscms.org.

![The risk assessment master matrix is a key document for the CEO & Company Executives.](image-url)