

RISK OVERSIGHT

Mitigating Supply Chain Risks Takes Board Knowledge to a New Frontier

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Supply chain disruption has impacted almost every industry over the past year and a half, severely affecting the ability to source, produce, and distribute products and services. Anyone who has recently tried to purchase furniture, lumber, a car, or high-end electronics has felt the impacts of supply chain disruption.

But even before COVID-19, strategic thinking about the supply chain had begun to evolve from viewing it as a limited function to a company-wide matter of importance. This expansion of perceived scope has shifted corporate focus away from optimizing supply chain efficiencies and toward managing and mitigating supply chain risk and building resiliency.

Along with quotidian risk factors ranging from increased lead times to nonperforming suppliers, today's supply chains face myriad modern risk issues, such as geopolitical shifts, cyber intrusions, and environmental disasters. Companies must undertake a complete assessment of current supply chain risks, uncover the root causes, and develop road maps to improve their risk profiles. Failure to do so increases the risk of business, operational, and financial disruptions, as well as of regulatory violations.

The following are four action steps to ensure your company is prepared for supply chain disruptions:

1. Identify and assess critical supply chain risks end to end.
2. Evaluate risks based on simulations using advanced data analytics.
3. Undertake strategic risk management planning and prioritization.
4. Develop and implement risk mitigation strategies.

Almost all supply chain risk assessment methodologies are based on elements from the supply chain operations reference model. A robust and flexible risk identification methodology should review the entire end-to-end supply chain, including workflow and processes; regulatory compliance; export controls, sanctions, and trade issues; cybersecurity; environmental, social, and governance (ESG) issues; track and trace or material identification; blockchain and technology solutions; procurement and sourcing strategies; due diligence on third-party vendors; fraud and counterfeiting; factory and labor conditions; and strategic communications.

Sanctions compliance in particular is a rapidly growing concern. The United States' Office of Foreign Assets Control aggressively enforces US sanctions and recently announced a collaboration with the Delaware Department of Justice that could further increase the risk of sanctions-related cases and penalties. Human rights violations can result in not only business losses but also negative publicity.

Regulatory risk exposure can be both identified and mitigated through the performance of initial and periodic due diligence on supply chain partners. Investigations can help uncover such concerns as exposure to trade sanctions, or the risk of sourcing materials from parties or regions that may cause imports to be denied.

In today's global economy, directors should be well versed in the comprehensive due diligence and investigations that management has undertaken to uncover any critical supply chain risks. Without this knowledge, directors will be unable to provide useful guidance on maintaining the efficiency, execution, and mandated compliance of the supply chain.

A balanced and holistic risk management approach to your supply chain provides insight into key points of production and offers the following benefits:

- greater visualization and understanding of the supply chain
- ability to identify and quantify critical supply chain risks, including weak links and disruption impacts
- clear areas of focus and prioritization, enabling targeted and effective risk mitigation
- insight into governance and organizational structures required to effectively mitigate supply chain risk
- informed, scenario-based decision-making pertaining to supply chain risk and the company's overall supply chain strategy

Organizations that prioritize supply chain risk management today will be better positioned to overcome whatever global uncertainty the future may bring. □



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