

Managing risk

European Union legislation is impacting the supply chain in response to consumers lack of trust in corporate Britain in the 21st century. Companies are having to rebuild their trust with consumers. This means added complexity and opportunity for the supply chain professional.

Consumers do not trust you. A sweeping statement maybe, but an increasing number of consumers no longer trust the role of a business. This being to make profits and at the same time increase the prosperity of those working in the business and consumers of the product or service. That was one of the aims when large organisations set up in the early 20th century.

The political economist Adam Smith argued that the pursuit of self interest in a free market would benefit all in society. It is evident in some quarters that capitalism has not gone hand in hand with altruism. For some, this is the business climate for the public limited company (plc) in the 21st century, where globalisation and technological innovation are redefining operational boundaries.

Lack of trust by the citizenry has contributed to an increase in intervention by government, both at a European and at the member state level.

For the procurement professional, this has resulted in the need to manage a more complex and demanding supply chain. Let us take examples from two business sectors and analyse the impact on the supply chain.

The food supply chain

The food supply chain is one key area affected by actual and perceived risk. The end to end supply chain includes the manufacturer of the food, the retailer and the consumer. That is the simplistic linear supply chain. In reality there are a multitude of stakeholders, including government and consumer groups.

The management of risk are strategic and operational activities, with the use of scenario planning to identify and mitigate against the risk and then executing the plan. For the plc, success may ultimately be judged by movement of the share price of the organisation.

The procurement professional should have the skill sets to interface with internal functions and communicate requirements effectively with the supplier base.

For example if your organisation is a food manufacturer, typical roles may include:

- Taking consumer driven requirements gained through information received upstream in the supply chain to the supplier base. For example, consumers of fast foods may insist on information displaying the Guideline Daily Allowance (GDA) for sugar, fat and salt to be displayed on packaging. The procurement department is then charged with making sure that the supplier of the packaging includes this information on the box. There may also be a need to financially reconcile this deviation from the original specification as detailed in the buyer/supplier contract.
- Legislation may also be a key driver in managing risk within the supply chain. For example, a European Union Directive requires traceability of food from farm to plate.
- The strategy for managing risk can also be used in the development of a company marketing campaign. This is what a manufacturer of oven cooked potato chips did in the UK.
- Procurement could also minimise risk by influencing product diversification through supplier development and harnessing innovation within the supply chain.

Petrochemical and extractive industries

The second example relates to the oil, gas and petrochemical industries, and the primary sector mining commodities including coal and copper.

In this technological age, the consumer is better informed on operations within these industries with legislation including the Freedom of Information Act requiring the disclosure of information. The oil and gas industry have spent millions of dollars communicating their message on social responsibility, and how they are developing low carbon fuel sources. In this case, the procurement professional has to be well informed on current and future environmental legislation affecting the organisation.

The procurement professional in manufacturing is also involved in managing this risk as they need to be aware of legislation such as the REACH Directive (relating to the use of chemicals in products) and the Directive governing the treatment of WEEE (focusing on Waste, Electrical and Electronic equipment). Failure to apply the legislation has led to manufacturers being left with obsolete stock.

There are other examples of where the procurement professional is charged with mitigating against risk with the supply chain. In the final analysis it is training and development that will ensure competent people are engaged to rebuild the trust between the organisation and the consumer.

The Chartered Institute of Purchasing & Supply have guidance material relating to CSR, obsolescence and other issues around sustainable procurement on their website www.cips.org.

Written by René de Sousa, Professional Practice Team, CIPS