

Resilience in the Supply Chain

Procurement has long seen the need for a robust and reliable supply chain, and in recent years has increasingly promoted effective business continuity management. However, it's questionable whether the conventional approach delivers the levels of certainty and governance we need. A brief examination of supply chain dynamics helps illustrate why this may be the case:

- **Scale.** We can probably identify 5, 10 or maybe 50 critical vendors or outsource partners whose failure would cause our business severe problems. Each in turn will have its own critical set of upstream vendors whose demise would cause it to fail, and so-on up the chain. This gives rise to a potentially large critical vendor population whose risk we inherit.
- **Concentration.** The supply chain is really a web with many strands, including back- and cross-links. It's entirely possible that a number of off-the-radar, low-risk vendors all rely on a common upstream supply, giving rise to a critical concentration risk that's hard to detect.
- **Competition.** When a supplier fails, competing and non-competing organisations may make a priority call on the scarce supplies that we and/or our critical suppliers rely on. As a result, our assumptions regarding recovery times and levels may be subject to forces we can't control.
- **Change.** Procurement generally plays a gatekeeper role, performing due diligence checks at the start of a contract and sometimes at renewal. Supply chains, however, persist in the long term and the risks faced by every link are subject to constant change. They don't receive regular re-assessment and our initial appraisal may only be valid for a matter of months.
- **Confidentiality.** The agreements we and others enter into mean there is little chance that our twice-removed vendors have any idea we rely on them, and consequently do little to protect us.

These factors each serve to cloud the risks we face. They mean we can't see far upstream and consequently, we can't measure or manage our exposure effectively. However, the large number of critical links in a supply chain means the likelihood of failure is material so the risk is real. It poses questions about workload and resourcing, which in turn dilute information quality and confidence.

So, why don't we see supply chains collapsing on a regular basis? Stability is brought about by the reserves, stockpiles, contingency plans and insurances held by some (but not all) firms, absorbing shocks before they transmit and damage fragile reputations. High profile breakdowns do occur. The demise of Northern Rock triggered a collapse, amplified by speculation. Shocks reverberated around the financial system with impacts on markets, incomes and prices. Compare this to the failure of a small but highly specialised manufacturing firm with a handful of medium-sized customers. The effects may be scarcely detected by those more than one or two links away, absorbed as the system heals and protects itself. Yet one or more of those dependents might be very severely affected, failing slowly as unique component stocks finally run dry. We shouldn't assume stability.

Flying Blind

The underlying message is that without intelligence we can't tell where, when or how the supply chain might fail. We wouldn't dream of flying blind in any other business situation, so why here?

We need to gain clarity and certainty. First, we need to know that for ourselves, best practice steps are being taken to limit the impact of any supplier failure. There are a number of instruments available, including contract provisions, insurances, alternate vendors, stockpiles, self-sufficiency and so on. These can be combined, forming strategies that may be applied to vendors with similar impact and risk profiles, identified by the BIA. Each has the effect of pushing suppliers back down the critical list and reducing the scale of activity required.

Second, we need to know that externally, each critical direct and indirect vendor has done all it can to minimise the likelihood of its failing, building our confidence in its ability to recover in time. In the simplest terms, the vendor must convince us that they:

- Can restore the services we rely on to agreed levels in acceptable timeframes.
- Have taken best practice steps to limit their continuity risk and become resilient.
- Will apply these three requirements to all their critical suppliers.

Supplier BIA

Perhaps the most widely-used approach to supplier assurance involves self-assessment, requiring documentary proof of BCM capability by each key supplier, often as a contractual requirement. This goes some of the way to solving the challenges raised by this article, but leaves us to prioritise which suppliers we assess and then risk-manage the outcome. Again, reducing this to high-level steps, we might sensibly decide to:

- Complete a **Supplier BIA** to first identify the list of critical suppliers, and subsequently to risk-analyse their collective responses, adding to the continuity risk register.
- Provide a standard questionnaire for critical suppliers to **Self-Assess** their resilience, including quantified and evidenced upstream risk, ideally based on the same questionnaire.
- **Physically inspect** a small percentage of vendors as part of a systematic continuity assurance programme. This validates responses and acts as an incentive to comply.

This promotes improvement and saves time, since potentially just one set of definitive responses is required per supplier, with the added benefit of providing transparency beyond the first link. It begs questions about which information we collect, how we process self-assessment returns, and the basis under which we manage the supplier network. However, these are elements that lend themselves to inclusion in the organisation's Business Continuity Management System.

Finally, a question. BS25999 encourages us to understand supply chain risk via concise, all-embracing statements. Given the issues involved, should it do more?

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