

Art of Procurement, in partnership with GRMS

# Defining and Driving a World-Class Supplier Risk Management Program





**No company can afford to ignore their responsibilities with regard to risk management, and supplier-related risk is a crucial area of focus.**

Identifying and monitoring supplier risk on an enterprise-wide basis presents a difficult challenge for most companies. The continuous monitoring of crucial supplier risk components such as financial stability, insurance coverage, and regulatory compliance can be extremely complex on a global basis. Additional challenges of limited resources, applying consistent standards, and consolidated reporting add to the difficulty of proactively managing supplier risk.

Procurement has historically relied upon supplier-provided point-in-time information from unverified sources to monitor risk, resulting in significant risk exposure for companies. Procurement is often indecisive about supplier involvement and/or investment. Because they can't achieve world class risk management in isolation, procurement may end up doing nothing - by far the worst option given today's supply chain disruptions.

In this paper, we will address the three primary supplier risk management considerations facing procurement organizations today and propose a solution that lightens procurement's burden while strengthening key supplier relationships. The three primary considerations are:

**The Problem:** Supplier risk management is a top corporate objective but identifying and continuously monitoring supplier risk on an enterprise-wide basis is a difficult challenge for most companies.

**The Reality:** Managing suppliers in multiple countries as well as staying knowledgeable about the myriad of ever-changing global watch lists and compliance regulations is nearly impossible. Resources are limited, consistent standards are not applied, and consolidated reporting is difficult at best.

**The Solution:** When partnering with a third-party to validate and monitor supplier risk, companies should ensure that the approach is founded on validated data and documents.

## The Problem: Supplier Risk Management Has to Happen in the Fast Lane

Given the global disruptions experienced since 2020, no one needs to make a business case for supplier risk management. The true challenge for companies is getting their arms around the scope, scale, and speed required to ensure regulatory compliance and risk management in real time.

Financial stability is the number one source of supplier risk, but there are many other risk factors that companies should include in their assessments, including health and safety (HSE), insurance validation, cyber security, global watch and exclusions lists, environmental, social, and governance (ESG) programs, and diversity validation/monitoring.

Procurement teams rarely have the resources required to assess the risks associated with all their suppliers in a compressed time frame.

Procurement can deliver accelerated results by lowering the friction that often occurs during supplier onboarding. Improved onboarding also lightens the effort associated with transitioning from risk validation to ongoing monitoring.

Reliable supplier risk assessments are not once-and-done; each moment in time is an independent trial. Only ongoing, continuous monitoring will help companies achieve the level of risk protection required to reduce risk.

Because there are many key risk components that make up the total overall risk assessment of a supplier, missing just one piece of the supplier risk assessment 'puzzle' - such as an expired diversity certification or a drop or change in insurance coverage - can create liability exposure for your company, both financially and reputationally.

### **Case Example: Non-credentialed Child Care Center**

A corporation had a third-party childcare center run inside one of their sites. After a thorough third-party risk assessment, it was determined that the provider was not a real company. Procurement had never validated their credentials. The lapse went unnoticed for years, opening the company to risk - and even damaging headlines - by associating them with a company who was jeopardizing the safety of young children.

## **The Reality: Procurement Must Approach Risk Assessments Comprehensively and Consistently**

Risk management is a big job that comes with high stakes. In fact, it is so critical that validated third-party information is the only way to drive desired changes in risk status and behavior. Procurement's limited bandwidth often creates an opportunity to leverage specialized third-party services, a decision that benefits the enterprise as well as their suppliers.

Procurement should look for a solution that provides the broadest possible coverage of what is important to the company globally. There must be one source of truth, or decision makers will be forced to overcome their indecision, creating delays and diminishing returns.

### **Benefits to Procurement of Third-Party Risk Assessment Support:**

- Quickly putting all suppliers through a robust risk assessment achieves initial validation and an accelerated transition to ongoing management.
- Having suppliers work through a third party communicates that the activity is mandatory and that there will be consequences for failing to participate.



- When suppliers with elevated risk levels are identified, the information is immediately routed to procurement for internal discussion and ongoing management.

**Benefits to Suppliers of Third-Party Risk Assessment Support:**

- Working with an experienced partner helps suppliers identify their own risk areas so that they can resolve them on behalf of all their clients.
- Suppliers that are compliant with a third-party validated risk assessment program are more likely to maintain and possibly increase their business, making participation in the program a competitive differentiator.
- Having a single point of entry for suppliers to onboard, upload required documents, and assess/monitor risk accelerates processes for suppliers and their corporate clients.
- Access to subject matter experts via a centralized support center can streamline the risk assessment process.

In addition to the independent benefits they realize, corporations and suppliers can be aided by third-party provided alerts. These notifications notify companies when a supplier's status or risk factors have changed, allowing them to stay focused on their options and actions.

With all these benefits, selecting the right third-party partner is essential. This partner will impact the process for corporations, their suppliers, and the resulting relationships.

### ***Case Example: ESG as a Real Source of Risk***

Environmental, Social, and Governance (ESG) programs are among the highest visibility initiatives in the corporate world today. While most of these programs are started to address risks to the environment, humanity, and the corporate structure, they can easily become a source of risk if not managed properly.

Companies are routinely held responsible - both legally and through brand loyalty - for their partnerships. As a result, ESG concerns such as cyber security, diversity status monitoring, insurance verification, financial stability, and global criminal/terror watchlists are an essential component of supplier risk management.

As with other sources of supplier risk, this information should be incorporated into standard reports and kept up to date in real time. Since the requirements for third-party data and document validation are no less essential here, the same collaborative approach should be adopted.

## **The Solution: Third-party Supplier Risk Validation and Monitoring Should Include Data and Document Validation**

Simply having suppliers provide some of the information for their risk assessment does not improve the accuracy of that assessment. Data and documents must be validated - up front and on an ongoing basis.

While this seems like an obvious measure, many of the traditional third-party data sources do not validate and continuously monitor the data they offer to their clients. This is the primary difference between a “data source” or a “searchable database” and an actively engaged technology-driven service company that proactively manages supplier risk. Taking a service-based approach is more accurate, reliable, and consistent.



As we have pointed out, involving suppliers in their own risk assessments provides them with the opportunity to learn from what is uncovered and address those issues themselves. They can make an investment in themselves, protecting their business as well as their clients'.

## Conclusion

Risk management is more than a full-time job. Making partial efforts by assessing some suppliers or some risk factors, or not keeping assessments up to date in real time, offers very little tangible value. Reliable compliance requires a scalable, digitally-enabled solution that is supported by corresponding services.

Corporations know how important suppliers are to their success, and no supplier can succeed without loyal clients.

Having a trusted third party gather, validate, and proactively monitor supplier-related data and documents is a valuable approach to mitigating supplier risk and providing fair and consistent standards across all suppliers, while reducing time and compliance costs for companies worldwide.

### About GRMS

GRMS is the recognized leader in providing customizable supplier risk assessment programs in over 120 countries worldwide. Leveraging an advanced technology platform, GRMS offers companies the ability to proactively manage and continuously monitor their suppliers for key risk components.

GRMS' services include the verification of data, physical review of documents and a support system that assists suppliers to obtain compliance with a client's unique risk assessment requirements.

Since 2010, GRMS has served a global clientele of companies and organizations ranging from mid-sized businesses to Fortune 50 companies. To learn more about the GRMS difference, please visit [GlobalRMS.com](https://GlobalRMS.com).



## About Art of Procurement

Art of Procurement was founded in 2015 to empower professionals at all levels to align procurement performance with corporate objectives.

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