

Common headaches with supply chain compliance...



**and how to
solve them**

Introduction

It is hard to think of a time when the stakes have been higher for those working in procurement. The Covid-19 pandemic, coupled with the impact of Brexit in the UK, illustrates just how vulnerable both domestic and international supply chains are to disruption, elevating the supply chain and procurement function into a position of prominence that it has rarely enjoyed previously. With supply chain disruptions in 2021 up 88% year-on-year, suddenly it is not just about price and shaving a few percentages off the cost of a product or service. It's also about ensuring the continuity of suppliers essential to the business's ability to function, and mitigating inflationary effects brought about by uncertainty and supply shortages.

Covid, though, was not the only driver for procurement's new status. In recent years, the need for organisations to improve their ethical and sustainability credentials has become paramount, not just for the benefit of society and the environment, but also for

"It's hard to think when the stakes have been higher for procurement"

the reputation of the wider organisation. Businesses cannot afford to become embroiled in any kind of scandal, whether that involves sustainability initiatives, health and safety violations, data breaches, modern slavery allegations or financial misconduct. >>



88%

supply chain disruptions in
2021 up 88% year-on-year

In the court of public opinion – as well as the eyes of investors – it makes no difference whether this is directly due to the activities of an organisation or its wider supply chain. In an age when poor practice can have devastating consequences for brands, it is no longer acceptable to plead ignorance of what is happening further down the supply chain, and customers expect organisations to play an active role in helping to raise standards across the board. Further to this, Unilever (*Sustainable Living, 2017*) suggested as many as one in three consumers prefer purchasing from brands with perceived social or environmental impact.

There are also practical reasons why organisations need to be in control of their entire supply chain. Research by Alcumus, a global specialist in technology-led supply chain compliance, suggests a lack of control leaves businesses exposed to poor performance, as a result of suppliers not operating effectively and/or compliantly. In fact, over three-quarters of businesses have encountered instances where supplier performance has adversely affected their own operations in the past year.

This was most commonly through issues with delayed deliveries (affecting 52 per cent of all businesses) as well as unavailability of services (28 per cent) or products/parts (27 per cent). Some 15 per cent of all organisations have seen their share price suffer as a result of supplier failings, and 13 per cent have found themselves the subject of a health and safety investigation.

“A lack of [supply chain] control leaves businesses exposed to poor performance due to supplier failings, such as seeing share prices suffer”



1 in 3

consumers prefer purchasing from brands with perceived social or environmental impact



Major challenges



Patchy visibility

Despite supplier visibility rising to become such a top strategic priority for global companies, 69 per cent admit that they do not have total visibility over their supply chains. The threat of fines, investor scrutiny, falling shareholder value and poor performance all mean this is an issue no company can afford to ignore. Organisations need to know in advance which suppliers and contractors they can trust, and need to be able to rely on the information they have about their credentials.

But most businesses and procurement functions have, at best, limited visibility into the credentials of their suppliers and contractors, or how this may change over time. Nine out of 10 businesses with more than 250 employees claim to have pre-qualification requirements for them, with 44 per cent of these having different requirements for contractors as opposed to suppliers, according to the Alcumus research. But almost 40 per cent of businesses concede they have found it more difficult to verify the credentials of their supply chain over the past two years.

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40%

*of businesses concede
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supply chain*

**55%***of businesses feel
modern slavery is very
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What organisations include in such assessments varies, too. Almost 90 per cent of businesses include health and safety and quality criteria in pre-qualification assessments, and around 80 per cent include environmental, cyber security and financial elements. But this falls to 66 per cent for modern slavery.

These figures are also reflected in companies' perceptions of the importance of the various elements. Only 55 per cent of respondents – made up of a wide range of supply chain and operations professionals from businesses with more than 250 employees from different sectors – feel modern slavery is very or critically important, compared to 82 per cent for health and safety and 79 per cent for quality.

The danger of underestimating an issue such as modern slavery can be seen in the cases of fashion brands Boohoo and Quiz, which were found to be using suppliers that paid workers below the minimum wage or forcing people with Covid-19 to work.

The exposure caused Boohoo's share price to fall and both companies have since announced extensive reviews of their supply chains and auditing processes.

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Verification



A further issue is that of how well any information is verified. This is generally less likely to happen in the largest organisations with more than 1,000 employees, while those with 250-500 employees are most likely to undertake verification in the areas of environmental, cyber security and modern slavery.

The reality is that, while some organisations will be conducting checks and verifying information effectively, a lot will not, says Dale Jones, technical director at Alcumus. “Everyone says they are doing it but from our experience the level of depth can vary,” he says. “They’re maybe asking one or two questions when they onboard them, but then they don’t touch them again.” Simply staying on top of which suppliers and contractors still exist and operate in a particular space can be challenging, he adds.

Time-consuming process



Not surprisingly, for those organisations that do conduct pre-qualifications and verification, it can be a significant undertaking. Around a third of businesses have more than 100 tier-one suppliers, while 19 per cent of those with more than 1,000 employees have more than 500 such suppliers. This also accounts for a significant amount of spend – more than half of companies with more than 1,000 employees spend more than £10m a year with tier-one suppliers.

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**3x**

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For those businesses handling verification in-house, an average of three people tend to be involved, with the figure rising to five people for 59 per cent of the largest businesses.

An average of around an hour is spent verifying each supplier, the research found, equating to approximately 100 hours in total for businesses with 251-500 employees, and 300 hours for businesses with more than 1,000 employees. All this can result in fewer resources to concentrate on other key procurement priorities, and an inflated lead-time to onboard suppliers for key projects.

Yet, with the time spent chasing information and pre-qualifying suppliers in the first place, it's likely that this underestimates the size of the project. Alcumus estimates pre-qualifying health and safety information for a typical contractor may take three hours, which could account for 1,200 hours for a business with an average of 400 contractors in a mid-size organisation.

"Especially in large organisations where it can go through five layers of different buying people, it's a process that can take hours, days or even weeks to get right," says Jones. Getting this right is critical to avoid risk. According to a Verdantix study (*Control of work, 2021*) recordable safety incident rates are typically three times higher for contractors compared with permanent staff. With factory fires up 129% year-on-year, this is increasingly significant for your supply chain too.

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He adds, too, that while it may take an average of an hour to conduct pre-qualification verification, many organisations are spending under 45 minutes. “There are big swings in the total number,” he points out. “There are companies that are just not paying enough attention to it, or don’t have the appropriate depth of expertise required for all the different work categories.”

Any verification also needs to be undertaken on an ongoing basis, rather than just as a one-off exercise. Four in five businesses currently require suppliers and contractors to go through an annual compliance audit process, although there are also concerns here around just how well this is being done. “They may chase up insurances but that’s often as far as they go,” says Jones. An external verification business can check insurances as they expire, as well as verifying other key product certification, he adds.



Additional headaches

Other challenges identified by the research include a lack of transparency around information, and human error, which were both cited by 44 per cent of respondents. An inability to report on data is also an issue, particularly for businesses with 500-1,000 employees, while other factors include lack of dedicated resource and not enough budget.



44%

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Taking action

Software can play an important role in helping organisations gain the visibility they need into their supplier and contractor base, giving them the platform on which to make more informed decisions about which suppliers to use and what action to take where there are concerns.

A robust supply chain compliance system can offer improved supplier visibility, and a consistent process for supplier due diligence and verification with the ability to score different supplier types by their compliance standards.

This can provide reassurance, both internally to senior management and to external partners such as investors, that suppliers and contractors have appropriate credentials in place for health and safety, financial stability, environmental management, operational quality, equality and diversity, information security, modern slavery and anti-corruption, to meet legal requirements and create a safer supply chain network.

For some organisations, simply providing a template to help address this issue is a

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welcome starting point, says Jones, helping them understand their position and allowing them to set their own strategy. “Such a system can validate all the key headline policy processes,” he says. “It gives companies all the intelligence within the system, so they can then start profiling their supply chain, and determine their policy and approach.”

Taking part in such due diligence exercises can also benefit suppliers, not least through continuing to safeguard relationships. But the use of standard procedures across multiple clients can also help reduce burdensome processes and paperwork, which is often required in different formats by potential and current customers.

“The use of standard procedures across multiple clients can also help reduce burdensome processes”

“There is no market standard for suppliers to demonstrate their credentials, such as the Safety Schemes in Procurement scheme for contractors, for example,” says Jones. “This means suppliers are increasingly faced with multiple lengthy tenders each time they bid for new work. We’ve got contractors who work with 200 of our clients, so we are saving them from doing 200 pre-qualification questionnaires on an annual basis.” Being able to demonstrate their credentials can also result in more work, he adds.





Next steps

Procurement and supply chain leaders need to act now to ensure they are able to protect their business.



Identify which areas are most important to your business e.g. tracking sustainability, demonstrating social value or conducting financial due diligence



Ensure you have a robust and consistent method to onboard suppliers to the appropriate depth of risk



Ensure you can share visibility across your organisation and report on the metrics that are most important to you

The Alcumus Risk Barometer is a free-to-use tool that will allow you to quickly identify weak spots in your supply chain compliance and benchmark against your peers in a matter of minutes. It was developed by experts with more than 20 years of supplier pre-qualification experience and based on 2021 research of 456 UK businesses.

Facing the future

It appears that many organisations are aware they need to do more. Alcumus' research suggests more than 80 per cent of businesses will be looking to improve their pre-qualification processes in the next two years, suggesting there is both a recognition that existing measures are inadequate and a need to do something about it. This resolve is strongest in the finance sector (92 per cent), with manufacturing (88 per cent) and construction (87 per cent) also determined to act.

Those that can do so – and demonstrate qualifications and standards in their supply chain on an ongoing basis – will reduce their liability, maintain compliance around both statutory obligations and best-practice frameworks such as ISO standards, and gain competitive advantage through more efficient and rigorous processes.

It will also make businesses more attractive to both future employees and investors,

points out Jones; something that is becoming even more important in the age of the Great Resignation. “The demographic of buyers is changing, and they are becoming more aware of social injustice,” he says. “Trying to find the right people to fill vacancies is hard and candidates are pushing back with wanting to work for the right business. Similarly, most businesses these days are getting investment from big players, and they are focusing their funds on companies that can provide peace of mind that their supply chain has been vetted to a high standard.”

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www.riskbarometer.alcumus.com



80%

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About Alcumus

Alcumus helps organisations create a safer and more sustainable world through market-leading integrated products and services that anticipate, manage and mitigate risks to protect people, organisations and our planet. It supports global clients – many of whom are on the FTSE 100 index and Fortune 500 indexes. Through an integrated approach to managing Health, Safety and ESG across industries, locations, contractor and supplier networks, Alcumus contribute to the continued success of 45,000 around the world. The in-house team of specialists also provide HR consultancy and workplace monitoring services, training and UKAS accredited certification and accreditation support.

For further information visit:
www.alcumus.com/supply-chain-compliance