Managing Risk in the Global Supply Chain
Over the last decade, many companies faced supply chain challenges that have stretched their capabilities to the breaking point. Both the preponderance of natural disasters and huge economic swings caused extreme challenges across the supply chain. These challenges have not diminished. Supply chains, which once functioned almost on autopilot, face many dangers today in both the global and the domestic market.

To assess the state of supply chain risk management in industry today, I led a research team at the University of Tennessee to survey more than 150 supply chain executives from a wide range of companies, including retailers, manufacturers, and service providers.

Some findings were surprising, as you will find in our formal report, Managing Risk in the Global Supply Chain, sponsored by UPS Capital. For example, despite recent unprecedented challenges, it appears that many supply chain executives have done very little to formally manage supply chain risk. In particular:

- None (0%) of those surveyed use outside expertise in assessing risk for their supply chains.
- 90% percent of firms do not quantify risk when outsourcing production.
- 66% had risk managers in their firms, either in Legal or Compliance, but virtually all of those internal functions ignored supply chain risk.
- 100% of supply chain executives acknowledged insurance as a highly effective risk mitigation tool, but it was not on their radar screen, nor in their purview.

One interviewee was not alone in expressing the following sentiment:

“Frankly, my boss isn’t asking me to look at (risk). It (risk management) is the right thing to do, but we aren’t rewarded for doing it.”

Maybe that’s at the heart of it: few executives are compensated or incentivized in their day-to-day job to rigorously manage risks.

Due to its global nature and systemic impact on the firm’s financial performance, the supply chain arguably faces more risk than other areas of the company. Risk is a fact of life for any supply chain professional, whether it’s dealing with quality and safety challenges, supply shortages, legal issues, security problems, regulatory and environmental compliance, weather and natural disasters, or terrorism.

Companies with global supply chains face additional risks, including:

- longer lead times
- supply disruptions due to global customs
- foreign regulations and port congestion
- political and/or economic instability in a source country
- changes in economics such as exchange rates, and
- supplier failures.

The scope and reach of the supply chain cries out for a formal, documented process to manage risk. Unfortunately, without a crisis to motivate action, risk planning often falls to the bottom of the priority list.

The Silver Lining

But, there is a silver lining. While risk cannot be eradicated, it can be managed. Once a risk management plan is developed, it can become a competitive advantage because so few firms have one.

In the next few weeks, I will take a deeper dive into each of the risk mitigation steps, guided by observations from our research and insights drawn from UPS Capital’s expertise. Here is a snapshot of the risk management steps and discussions to come:

- **Identify:** Our latest survey results will give us a current look at the state of risks facing supply chains. I’ll also walk through how to document risk management processes and identify the most common gaps.

- **Prioritize:** After reviewing the most common concerns for risk managers, I’ll detail a strategy that can help target which risks are most urgent for your business. After all, the reality is that no company has enough resources to mitigate all risks.

- **Mitigate:** As the most critical part of the risk management process, I’ll divide the discussion of mitigation into two parts. The first will focus on the most common strategies used to mitigate supply chain risk and how they are applied. The second will specifically look at a real-world example of how insurance can be a strategic mitigation tool, as our research indicates that risk managers acknowledge this option as a sound approach, but often underuse and misunderstand its risk mitigation potential.

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