

Supplier Financial and Operational Risk Management

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Executive Summary

The research report *Supplier Financial and Operational Risk Management* written by Dr Phil L. Carter, Executive Director of CAPS Research and Dr. Larry C. Giunipero, ISM Professor of Supply Chain Management and College of Business, Florida State University examines risk management programs that recently have been implemented in leading companies across a variety of industries.

Those companies that participated in the research have all implemented solutions from third-party service providers (3PRs) to help them with their risk management programs. **Rapid Ratings** and other 3PRs play an important role in risk mitigation therefore the research team interviewed several principals in these firms, **including Rapid Ratings CEO James Gellert**, to understand how their solutions were integrated and the value that they bring to supply chain risk. The research compared information gathered in these interviews with the information gathered from the leading companies to gain a balanced perspective.

Based on the research conducted some key findings and recommendations include:

- Initiate a program to manage supplier financial and operational risk, referred to as “the program”
- Obtain Executive support for the program
- Obtain funding and include funding in future budgeting activities
- Appoint a lead from supply management and a cross functional risk management team
- Develop objectives, metrics and goals for the program to judge success
- Create and document a processes for risk management that can be cascaded across the company
- Provide training to supply management team members in various topics such as ratio analysis in order to judge financial risk, basic contract law, bankruptcy law and awareness to other operational indicators or “warning signs”
- Research various 3PR’s and decide if one solution or if multiple solutions are required for your organization
- Train team members and integrate the service into the program
- Engage all cross functional team members who have contact with critical suppliers to be your eyes and ears for the risk management program
- Develop a list of mandatory strategies and document actions and plans before they are required
- Commit to being proactive (vs. reactive) even when there is resistance from your colleagues and suppliers

- Develop a program that is integrated into business practice to ensure that it does not become “the flavor of the day”

Key Findings Include:

- a. Supplier Risk Management is not free, time, resources and commitment is required
- b. Supply Risk Management is a cross functional activity and must have connections to senior management
- c. Establishing a strong process is needed to guide the activities and requirements
- d. Recognize that even with the best monitoring and predictive indicators, a firm will still have risk
- e. There will still be unanticipated events but a proactive plan and speedy response will minimize the damage
- f. Multiple metrics will be required to measure risk, finding the right combination using qualitative and quantitative measures are key
- g. Proactive risk management should include both financial risk and operational measures
- h. It is not necessary to monitor all your suppliers, but understanding your most critical suppliers who have a large impact to your operation must be identified and placed on a critical supplier or “watch” list
- i. Critical suppliers who show stress financially or operationally should be put on a “watch list” and monitored closely with mitigation plans in place
- j. There is a relationship between a suppliers financial risk and operational risk but it cannot be measured one-for-one
- k. Predictive measures that give advance warning of financial distress are available, reliable and are necessary
- l. Measures or signs of operational distress are available but have a shorter horizon and can be less reliable
- m. Third party providers (3PR’s) of supply risk management services can bring value to the process but review capabilities and pricing before engaging in these services
- n. Risk mitigation strategies must be developed and identified including resources required for implementation
- o. Develop a credible business case that will generate executive supports to avoid internal and external resistance
- p. Supplier Risk Management and business continuity planning are not the same but are complementary

This research paper provides excellent insight into best practices, case studies and company information of the services and resources available for those seeking both financial and operational risk analysis. Following the recommendations in the report, which are built on best practices, will provide the framework necessary for developing a best in class supply chain risk management program.

[For the complete report](#)