StrategicRISK

SPECIAL REPORT:

SUPPLY CHAINS

In partnership with FM Global

The case for 'just-in-case'

Can companies make the shift away from 'just-in-time' supply chains and give lean manufacturing more padding against future disruption? The *StrategicRISK* FM Global roundtable met virtually to explore how we can rebuild smarter and stronger.

In January, over 20 risk managers, based in Singapore and Malaysia and from a variety of different industry sectors, met virtually to discuss supply chain risk, with a particular goal of identifying lessons learned from the COVID crisis.

In early 2020, the sudden closure of China's borders had a profound impact on global trade. According to the Business Continuity Institute, three out of four businesses reported that their supply chains had been adversely affected as a result of the country closing down in an attempt to halt the spread of the disease.

The World Economic Forum has predicted supply chains will reshape following the pandemic. Not only have COVID-19 and resulting lockdowns revealed the fragility of modern supply chains, this has led to a fundamental rethink of globalisation. There is an urgent need to design smarter, stronger and more diverse supply chains, according to WEF.

AUTOMATION'S WHAT YOU NEED

The pandemic has reaffirmed the fact that logistics and manufacturing sectors in particular need to automate. Nearly three-quarters of supply chain organisations view technology as a competitive source of advantage, according to Gartner.

Roundtable participants agreed, saying that greater automation of the supply chain will be an essential and ongoing trend moving forward. By leveraging technology, from robotics, data analytics and IoT, trading systems should become more reliable and resilient, and less prone to disruption and downtime.

Jeffrey Toh, business risk consultant, Asia-Pacific for FM Global, asked for feedback on the types of resources most needed.

"At FM Global we offer free analytics tools, which are available for everyone, and our Resilience Index is there to help you rank your own business as well as help you make more informed choices. It can help you understand your different suppliers, their locations and infrastructures; do they have natural catastrophe or emerging cyber exposures, for instance?"

The basics of supply chain risk management must be in place before selecting the right technology to enhance those processes, thought Roland Teo, head of the Regional Advisory Group for Singapore and South East Asia, RIMS.

"Before the tools come in, the risk manager has to be competent," he said. "A competent risk manager understands the fundamentals and is able to effectively tap on the many materials, resources and literature out there."

Toh agreed. "Going back to fundamentals would involve building knowledge around your supply chains," he said. "We need to assess what we already know and perhaps more importantly, understand the gaps that exist in our knowledge. Plugging these gaps would be key to managing any supply chain risks."

SLOW DOWN TO SPEED UP

Roundtable participants were in overwhelming agreement that going forward, a new balance would have to be struck between efficiency and resilience. Lean manufacturing techniques, including just-in-time, now need to make way for 'just-in-case' approaches, building more slack and contingency into the process for when the worst happens.

For some risk professionals, this means it is important for the organisation to stockpile some of its most essential components.

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"I WOULD RATHER HAVE LESS JUST-IN-TIME WORKFLOWS AND HAVE MORE OF A BUFFER AT INCREASED COST."

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"Even in the pandemic, our objective is very clear, and first and foremost it's about keeping the lights on," said Pui Yong Leo, head of risk, risk management department at Malaysia's multinational electricity company Tenaga Nasional Berhad.

"With that clear objective in mind, when it comes to supply chain risk, we put a priority on any components or equipment we need to maintain our service."

"We have moved to a 'just-in-case' strategy," she explained. "It's very difficult to find the right balance but we have a different responsibility being a national utility firm. So increasing the amount of stock that we hold is something we just have to do."

'Stockpiling' of a different type stretched supply chains to their limits in March 2020, particularly within the food and drink industry. As pandemic fears took over, there was a spike in panic buying for what were deemed to be supermarket essentials, including toilet paper, rice and noodles.

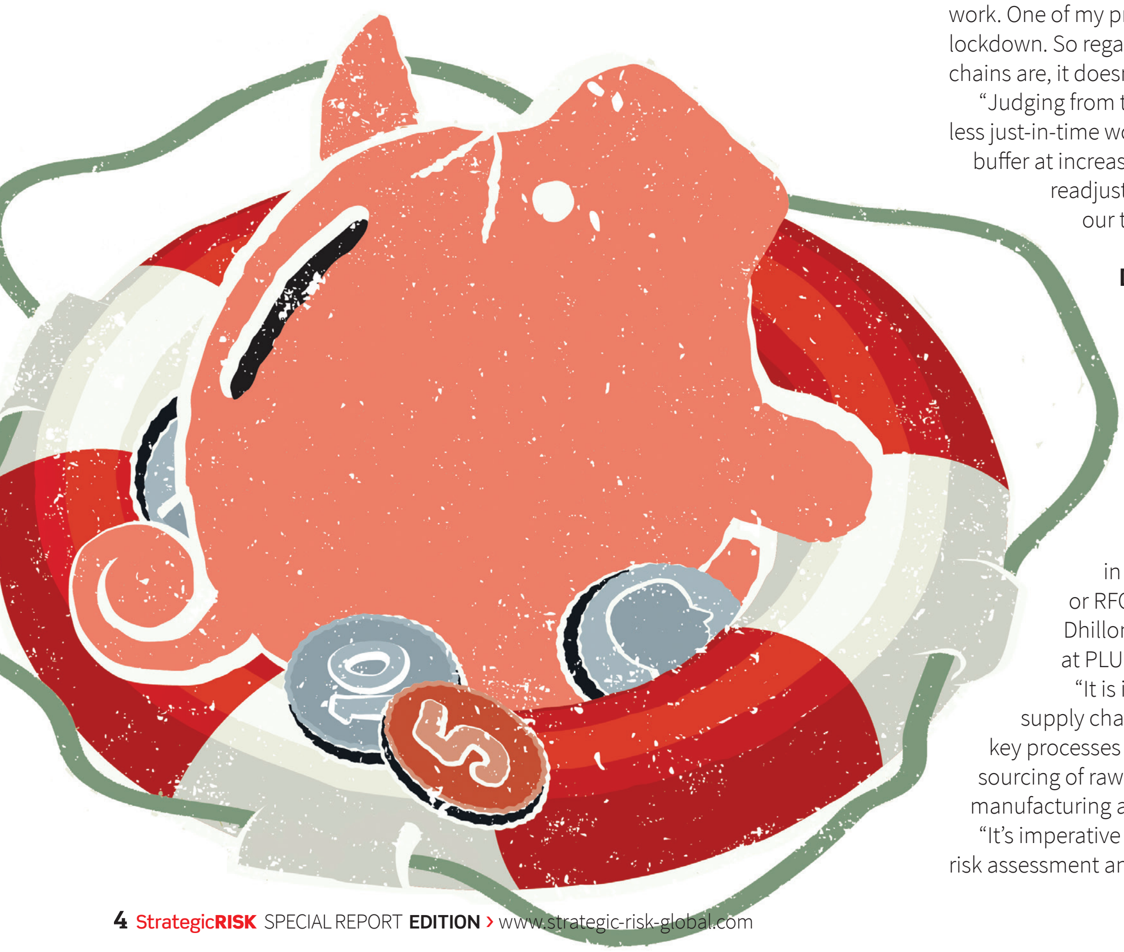
In Singapore and other parts of the region, pictures circulated on social media showing empty shelves in some stores. Trade minister Chan Chun Sing called for calm, saying there was "no risk" of running out of essential food and household items, and the supplies were soon replenished.

Learning from this, many retail businesses are now keeping more stock on standby. In November, in the UK, prior to Brexit and another country-wide lockdown, Andrex toilet roll maker Kimberly-Clark announced it had over 100 million rolls held in warehouses around the country.

But stockpiling is not a practice that works in all industries. Siang Leng Sim, associate vice-president, risk management at Singapore-based real estate firm Pontiac Land, said that from a construction perspective, it was not possible to have materials brought on site too early. "For us we have really had to rethink the concept of having sufficient buffers for such long-term disruptions arising from the pandemic."

"IT'S IMPERATIVE FOR US TO MAP OUR SUPPLIERS IN THE CONTEXT OF 'ABILITY TO SUBSTITUTE' AS WELL AS 'LEVEL OF DISRUPTION, FOLLOWING THE PANDEMIC'."

Satpal Singh Dhillon, PLUS Malaysia Berhad



Diversification of suppliers does not always work either, he pointed out. "The problem with a Black Swan event is that diversification doesn't always work. One of my projects is in a location that was in lockdown. So regardless of how diversified your supply chains are, it doesn't really matter."

"Judging from this crisis, I would rather have less just-in-time workflows and have more of a buffer at increased cost. There needs to be some readjustment of where we want to spend our time and money."

DO YOUR DUE DILIGENCE

Some respondents said they had been focusing more on business continuity planning (BCP), ensuring that contingencies were in place if certain scenarios arose, such as the loss of a key supplier.

Trading partners should be asked if they also have BCPs in place during the tendering or RFQ process, thought Satpal Singh Dhillon, chief governance and risk officer at PLUS Malaysia Berhad.

"It is important to understand the supply chain and map it out. Typically, the key processes involved in a supply chain include sourcing of raw materials, delivery, storage, manufacturing and finally sales."

"It's imperative for us to perform a supply chain risk assessment and map our suppliers in the context

> “RISK MANAGERS NEED TO SPEAK THE LANGUAGE OF THEIR BOARDROOM DECISION-MAKERS, TO MAKE THE CASE FOR INVESTMENT IN RISK MANAGEMENT.”
>
> **Jeffrey Toh,** FM Global

of ‘ability to substitute’ as well as ‘level of disruption, following the pandemic’. If suppliers are going through high disruption, then you immediately need to start looking for alternative suppliers, alongside the ability to use alternative products.”

“If you are not able to that, you have to kick in your crisis plan to be resilient,” he added. “One way of doing this is to deep dive into contracts with suppliers, and understanding key terms and clauses, because if your supplier is disrupted and not able to deliver, it’s really going to affect your supply chain process.”

Doing appropriate due diligence is critical to managing risks and asking the right questions, Singh Dhillon explained. “Now, when we engage a new supplier, we ask how they manage their supply chain, where they get their raw materials from, who are the parties they’re working with. Additionally we take necessary steps to investigate the financial position and stability of prospective suppliers. It’s a red flag if a party posted losses for four quarters in a row.”

Rising insolvency rates are anticipated to be a significant source of supply chain disruption through 2021. Trade credit insurer Euler Hermes’ global insolvency index is forecast to hit a record high for bankruptcies in 2021, up by 35% by the end of the year, with the US, Brazil, China and core European countries feeling the brunt.

DOWN THE LINE

As is often the challenge with supply chain risk, the lack of transparency beyond the first tier of suppliers is a major hurdle to overcome. While a main supplier may tick all the right boxes, it is not as clear cut whether they could be impacted by a supplier of raw materials further down the chain.

> “I HAVE TO JUSTIFY THE INCREASE IN PREMIUM AND AT THE SAME TIME WE’RE NOT ADDRESSING THE KEY EMERGING RISKS THAT ARE CONCERNING THE BOARD.”
>
> **A risk manager**

The pandemic has once again revealed the challenges in gaining visibility into the entire supply chain ecosystem. Research carried out by McKinsey last year found that while companies can work with their tier-one suppliers to create transparency, this is impossible in instances where those suppliers lack visibility themselves. This leaves risk management teams doing all the detective work, it pointed out.

Building a more resilient supply chain is also about better understanding how the business works and not losing sight of what is central to the organisation’s operational resilience. Tenaga Nasional Berhad’s Leo said her company had been collaborating more in order to identify the really critical materials needed to keep operations going, regardless of whatever disruptions is occurring day by day.

“There is increased need to assess the risk, not just of the tier one but also tiers two and three within the supply chain. We are even stricter with new contracts and require our suppliers to have basic risk management elements in place. It’s about having a strong focus on risk management and business continuity management, not just in our organisation but also with our suppliers.”

Onshoring and near-shoring may be one solution, pointed out one risk manager. “It may help to have a balance between local and overseas suppliers so that when the borders are closed you can still maintain a reasonable supply.”

TRANSFERRING RISK

Whether it is traditional physical risks or more intangible exposures, such as cyber, the lack of effective risk transfer solutions for supply chain exposures was an issue for a number of respondents.

The issue has become even more difficult against the backdrop of the pandemic and a hardening insurance market, according to one risk manager.

“The biggest challenge for me is that I have to justify the increase in premium and at the same time we’re not addressing the key emerging risks that are concerning the board and our senior management. The limited resources in the insurance industry and lack of availability of covers for emerging risks is part of the risk itself.”

But some risks are simply not transferable, explained FM Global’s Toh, and this is where risk mitigation and support from the tripartite relationship is important.

“There are non-transferable risks such as the reputation of the brand, market share and shareholder value,” Toh said. “Risk managers need to speak the language of their boardroom decision-makers, to make the case for investment in risk management. There are other factors that can help you mitigate those risks you can’t transfer. It’s about building resilience and improving your physical risk.” **SR**