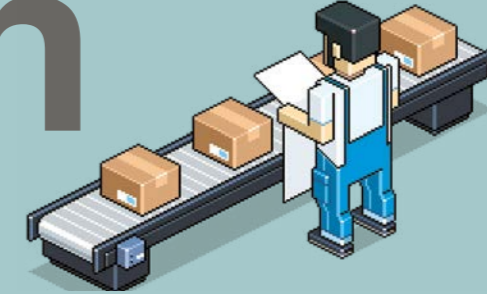




Mitigating risks in your supply chain



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The price of poor quality control in your supply chain is getting higher, with reputational risks increasing as media coverage raises customers' awareness towards issues surrounding international commerce. But when you can't rely on your supply chain's quality control data, how can you be sure a scandal is not waiting to break?





Following the Kobe Steel's falsified inspection data scandal, we can ask: how difficult is it to assure quality in an increasingly global business environment, where your supply chain assumes international proportions?

The Japanese company falsified inspection data on metal shipments; mainly aluminium, copper and steel powder. It was found that quality control inspectors falsified inspection data, a practice that may have gone on for a decade.

Kobe Steel's reputational risk has increased tremendously since the scandal, says Alexandra Mihailescu Cichon, Head of Sales and Marketing at RepRisk. The company's RepRisk Index has risen from 20-25 to 88, which puts Kobe Steel in the 'extremely high risk' category.

The RepRisk Index (RRI) is RepRisk's proprietary measure for reputational risk linked to environmental, social and governance (ESG) issues, such as human rights' abuses, breaches of labour standards,

environmental damage, corruption and violations of international standards. The RRI ranges from 0 to 100 – the higher the number, the higher the risk exposure of the company. Cichon says that, at present, Kobe Steel is the most exposed company in the RepRisk Platform, an online risk research and monitoring database that RepRisk runs.

Cichon says there is the possibility of Kobe Steel's client companies also suffering from the damage caused by the scandal, but she says it is too early to know, as it will depend on whether any safety issues will arise from the client companies' products that use Kobe Steel's metals.

As for minimising the consequences of the scandal, Cichon says it is possible, given that Volkswagen, for example, recuperated from the high emissions scandal in 2015.

"If the Kobe Steel scandal starts and ends just with the falsification of data, and there are no negative consequences for its clients, the company will likely be able to recover," she says.

Salma Loulidi, Quality and

Supply Chain Manager at Medicom, tells *QW* that: "The fact that a company the size of Kobe Steel faces such a scandal raises a thousand questions about the quality of any product of any well-known company. Kobe Steel has not only damaged its products' credibility, but also the credibility of all its suppliers."

Loulidi says that part of the problem was the way the board was getting its information on the company's quality procedures, as only relying on official channels can mean the board is neglecting important sources of information. She adds that whistleblowing employees play a "primordial role" in providing crucial information about the company's operations.

Commenting on the news about Kobe Steel, Martin Davies, Lead Quality Surveillance Engineer at Horizon Nuclear Power, says: "We cannot speculate on the issues facing Kobe Steel, and it is important to note that they are not part of our supply chain."

"We take the safety and security of our future Wylfa Newydd plant extremely seriously, and any supplier of materials for it would need to meet extensive

"Supply chains will be affected by an exponential transformation powered by development and diffusion of certain technologies, such as blockchain and digital tagging"

quality assessment criteria not only set by us, but also by the UK regulators."

Following the scandal, Japan's government has revoked the company's quality industrial certification, due to "improper quality management". As a result, the quality of copper products made at Kobe Steel's plant in Hatano will no longer be certified by Japan.

The International Organization for Standardization (ISO) 9001 certification was also suspended at seven plants of Kobe Steel Ltd and group companies. Private certification bodies, including JIC Quality Assurance Ltd and the Japan Quality Assurance Organization, concluded that the group's quality control system failed to meet the requirements for the ISO 9001 quality control standards.

This is not the first time the company has been associated with data forgery. Back in 2013, Kobelco Eco-Solutions, a Kobe Steel subsidiary, admitted to falsifying the concentration data on gas emissions at the Hyogo Prefecture regional river-basin sewerage and sludge treatment plant in Japan. In 2016, another Kobe Steel subsidiary, Shinko Wire Stainless (SWS), acknowledged the forgery of data relating to steel wire strength tests.

International proportions

In today's increasingly internationalised business environment, where supply chains assume complex proportions and global media keeps every tier under the spotlight, highlighting any ESG



A PIECE OF ADVICE



ALEXANDRA CICHON

"You need to identify where you have pockets of risk. You may want to look at aggregated risks to have an overview as to what the potential ESG risks could be. Organisations often use tools such as questionnaires and audits, but the question is whether you are auditing the supplier that really needs to be audited. By conducting a high-level risk screening of all suppliers, resources could be better deployed for supplier engagement and audits."



RENATO GROTTOLA

"Supply chains will be affected by an exponential transformation powered by development and diffusion of certain technologies, such as blockchain and digital tagging. There is an opportunity to turn complexity into competitive advantage, by exploring convergences between consumer needs and the information already available with existing supply chain stakeholders."



SALMA LOULIDI

"If I have to give any advice, it would be that all the players [from your supply chain] must be certified with international certifications. You should also run surveys about players to be sure."



"Each participant in the supply chain ecosystem will need to ensure an accurate, effective and true provision of information, while also connecting all collected data to each specific product item"

issues, guaranteeing your supply chain quality is more relevant than ever.

This is not always easy, as there can be a lack of transparency by suppliers and factories, leading to a difficulty in measuring supply chain performance. This leads to difficulty in understanding where to invest financial and human resources to improve product and supplier performance, reduce returns, and protect brand and profit.

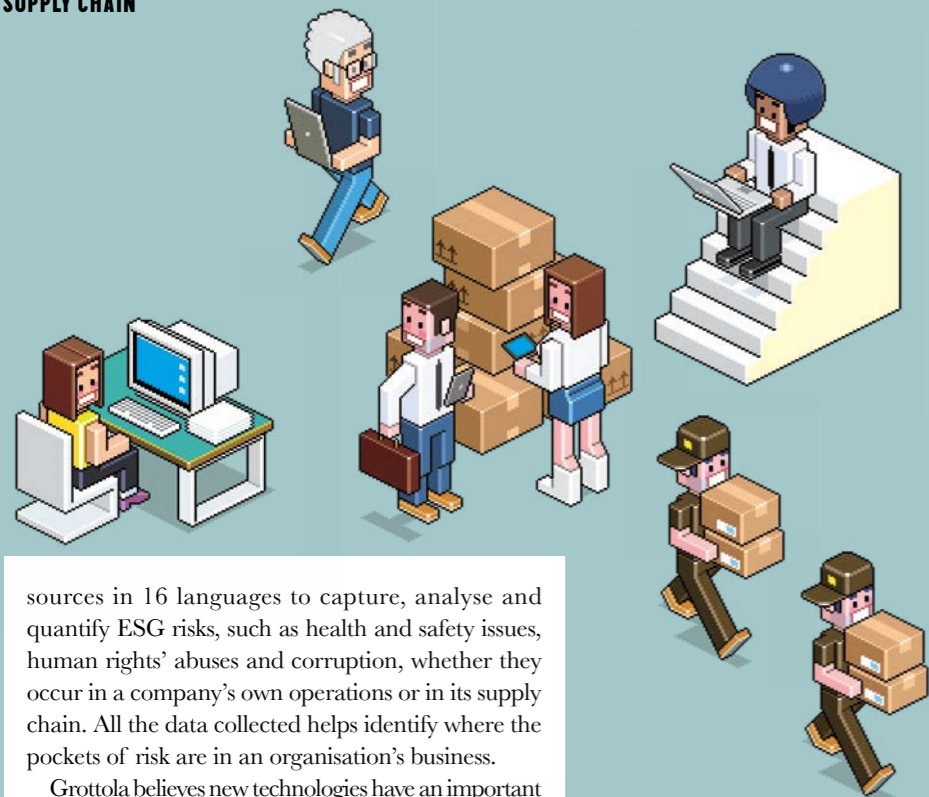
Loulidi highlights that it's not easy to ensure quality in your supply chain in today's international business environment, however: "ISO standards help a lot to create a trustful environment between all actors in the supply chain."

Renato Grottola, Global Digital Transformation Director of Business Assurance at DNV GL, tells *QW*: "In today's world, supply chains are evolving from a static and linear sequence of customer/supplier relationships into sets of connected 'supply chain ecosystems', which includes new digital distribution and sales channels, with active participation by end-users and consumers."

"Manufacturers are under pressure to deliver multiple product variants, and this requires the involvement of a complex network of suppliers that needs to be coordinated. Product lifecycles are getting shorter, while stakeholder requirements are increasing in number and complexity."

Consumer behaviour and expectations are also changing, and Grottola says they are now emphasising customer experience and more engaging products, and that consumers are taking up a leading role in supply chains. "New needs of trust are arising that can hardly be satisfied by the present assurance offering, which is tailored to mass customisation models," he adds.

Cichon says that RepRisk screens information daily from international to local media and stakeholder ►



sources in 16 languages to capture, analyse and quantify ESG risks, such as health and safety issues, human rights' abuses and corruption, whether they occur in a company's own operations or in its supply chain. All the data collected helps identify where the pockets of risk are in an organisation's business.

Grottola believes new technologies have an important role to play in supply chain quality management, saying that in future supply chain ecosystems, efficiency and speed will be achieved by granting fast and selectively transparent access to information.

"A significant portion of value is attached to the massive amount of data produced in the ecosystem; value which may be unlocked through adoption of the new technologies. Each participant in the supply chain ecosystem will need to ensure an accurate, effective and true provision of information, while also connecting all collected data to each specific product item."

In fact, new technologies are rapidly becoming available in the area of traceability of products and their components, "with the potential to make the leap from batch-level traceability to serialisation at affordable costs."

Grottola mentions that the diffusion of blockchain-powered supply-chain platforms, and the adoption of industry-wide standards on specific issues such as digital identity, will act as the catalyst in turning supply chains into something more digital.

Blockchain technology assures a continuously growing list of records, called blocks, which are linked and secured using cryptography.

Grottola believes the combination of blockchain and "tagging/track and trace" digital technologies already provides solutions that are attractive and valuable



enough, in their ability to minimise risks in the supply chain ecosystem, which go beyond justifying their cost.

"In the future, such solutions are set to create new market opportunities for brand owners and retailers across industries, while increasing transparency and ensuring a better experience to customers and users.

"Blockchain will provide the right level of trust needed to share, with proper permission and security levels, supply assurance information that so far has been considered part of corporations' know-how.

"Blockchain has the potential to merge all kinds of transactions (financial, informational, physical), thus reducing significantly frictions that today are limiting supply chain efficiency." ■

"The question is whether you are auditing the supplier that really needs to be audited"

Learn it
RepRisk Special Reports:
reprisk.com/publications

EXTERNAL SUPPLY CHAIN RISKS

Demand risks: caused by unpredictable or misunderstood customer or end-customer demand.

Supply risks: caused by any interruptions to the flow of product, whether raw material or parts, within your supply chain.

Environmental risks: from outside the supply chain, usually related to economic, social, governmental and climate factors.

Business risks: caused by factors such as a supplier's financial or management stability, or purchase and sale of supplier companies.

Physical plant risks: caused by the condition of a supplier's physical facility and regulatory compliance.

INTERNAL SUPPLY CHAIN RISKS

Manufacturing risks: caused by disruptions of internal operations or processes.

Business risks: caused by changes in key personnel, management, reporting structures or business processes, such as the way purchasers communicate with suppliers and customers.

Planning and control risks: caused by inadequate assessment and planning, which amounts to ineffective management.

Mitigation and contingency risks: caused by not putting contingencies (or alternative solutions) in place, in case something goes wrong.

Cultural risks: caused by a business's cultural tendency to hide or delay negative information. Such businesses are generally slower to react when impacted by unexpected events.

Source: Business Queensland, Queensland Government

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