

NORMAN

GLOBAL LOGISTICS



Introduction

Based on the impact on supply chain industry from the Coronavirus, our partners at Current Consulting share valued insights that apply to supply chain risks.

As China factories resume operations, we observe risks and specific issues in the wake of Covid-19, such as:

- Unstable supply of raw material
- Lack of skilled workers
- Logistic issues from sub-suppliers
- High pressure to produce quickly
- Increased scrutiny from the government and regulatory agencies

Due diligence is a term familiar to many. Organizations rely on this process and its various methods to determine the fidelity and reliability of potential or existing business relationships, operational processes, and people involved in both. This evaluation can be very useful, but sometimes may be missing critical pieces. This can increase risks and lead to unwanted consequences. So, what nuances should you concentrate on when undertaking Due Diligence? We won't overwhelm you with a huge list but focus on a few critical ones.

Reputation

Warren Buffett is alleged to have said that it takes years to build a reputation and only a few seconds to destroy it. The poor reputation of those with whom you do business may negatively affect the reputation of your organization as well. Reputation is typically related to brands and people who represent them. Anything from a news article or a social media post to past or ongoing litigation and official complaints can have a damaging effect on reputation. Some of these factors can be easily uncovered through the search of publicly available information. Others require either subscription to proprietary databases or access to people with knowledge inside a certain industry or professional community. One would have to know where to look and whom to ask to help complete an evaluation of reputation and help minimize negative impact in the future. It is important to remember that most reputation related issues can be resolved successfully through closer oversight and coordination with the third party.

Please remember that strong contractual language is most useful when it allows for stricter proactive control and oversight. Contract enforced after an incident is purely a reactive measure and cannot help with avoiding damage to reputation. Please also consider that while the organization's reputation may be in good shape, the reputation of one or several of its senior executives may be damaged.

In light of the current situation with the global spread of the coronavirus, it is important to continually understand the social sentiment in various geographies where your organization operates. This is necessary because this risk element is known to have negatively affected multiple brands in times of relative normalcy. Just imagine how social opinion could disrupt your brand in times of mass panic and uncertainty. All it takes is one viral comment or video – facts, sadly, are not important for such messages to proliferate and cause serious damage to your reputation.

Operations

Even small to medium enterprises are becoming increasingly complex. Consider for example increase in losses due to the so-called “CEO email” scam. This is when a finance person in an organization receives an email allegedly from their company’s senior executive with urgent instructions to immediately transfer funds to an outside party to help complete a commercial deal.

Scammers in these cases rely on lack of redundant controls (secondary approver) over the release of funds to outside parties. We have seen multiple cases where companies lose significant sums of money without much hope for recovery. It is prudent, therefore, to look at nuances of financial management and redundant approval processes if such could negatively affect reliability and operational stability of the organization with which you plan to (or already) do business. Several governments recently issued guidance to businesses to help increase their internal controls to help avoid such scams. However, the application is inconsistent, and losses continue. As you can see, the fix is easy, but verification is necessary.

The spread of the Coronavirus shut down production in most places in China for several weeks. Whereas this shutdown negatively affects all sides, there are other risks hidden within the process of getting production lines back online. The shutting down of supply-chain was a fairly binary process in China, but reversing that process can be a very different story and affecting different companies/regions/industries in very different ways. As a rule of thumb, smaller and less capitalized companies in China will struggle to cope with the simultaneous high demand of the product and lack of workers and logistics. In practice, some firms may be tempted to find creative solutions to deliver, may sub-contract production to unqualified local vendors, or tweak the specifications to increase output.

Some specific issues we’re seeing in the wake of Covid-19 are:

- Unstable supply of raw material
- Lack of skilled workers
- Logistic issues from sub-suppliers
- High pressure to produce quickly
- Increased scrutiny from the government and regulatory agencies

The current situation unfortunately also increases the risk of fraud: from price gouging and online scams to deliberate and unjustified interruption of agreed payments or delivery of supplies. One of the new vulnerabilities during the current situation is in remote work arrangements for millions of people supporting supply-chain. As teams and individual employees continue to optimize their performance while being physically separated, isolated decision-making and degradation of compliance with existing policies and procedures should be expected.

Compliance with standards

Organizations of all sizes and in many industries like standardizing their operations and processes. This is accomplished through initial alignment with international standards and then asking independent auditors to evaluate compliance and issue certifications.

Yet, because operations continue after receipt of certifications, compliance often starts to slip – sometimes inviting very high risks. Here, we recommend a tried and true “trust but verify” method of due diligence to help avoid losses and conflicts. It shouldn’t be difficult for you to determine which of the certified processes maintained by your partner company is most important to your organization.

Due diligence can hence be applied both momentarily as a one-time assessment and continually through process oversight. Please remember that it is less beneficial to wait for slip-ups because those could be costly financially, operationally, and from a reputation perspective.

Same goes for quality control in the supply chain. The more complicated and high-value your product is, the more scrutiny you should apply. This is especially necessary when third-party manufacturers are returning to normal production volumes after widespread shutdowns. This “return” will likely entail a lot of scrambling and cutting corners.

Make sure each manufacturer you’re relying on is aware of your concerns about consistent quality, and that this concern is forwarded downstream. Ask to see material bills and material samples. Don’t assume that they are putting extra scrutiny on materials. Ask for estimated delivery time of key materials, and make sure you are aware of what regions your key materials are shipped from so you can try and verify independently how likely issues are to arise with a certain vendor. Please also make sure you direct your questions not only to the English-speaking rep but that you have

an open line of communication with top management of your vendors and suppliers in their native language because that helps build trust and collaborate on solving problems. Hope you'll find these simple points useful. Just remember that many governments no longer tolerate the process of "ticking boxes".



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For questions or bookings, contact us at ngl_update@normanglobal.com. Thank you!