

## **Reputational Risk within Retail Supply Chains:**

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Managing the Responsibility of Cost and the Cost of Responsibility

On the contours of retail competitive advantage lie immense supply chain risks and responsibilities. Shijo Sunny Thomas writes about how recent events in South Asia have brought forth the need for an effective risk management approach supported by technology

Number "1,127" will weigh down morally on many global retailers for a long time to come. It represents the death toll from the collapse of the Rana Plaza building in Bangladesh. Evidently, it is said to be the deadliest garment factory accident in history and is a deep setback to the USD 19 bn earnings from Bangladesh's readymade garment exports. The tragedy has eventually set in motion, a wave of activism, right at the door step of many retailers who have sourced merchandise from these locations. Retailers in North America and Europe have gone on a PR overdrive to address protests outside stores, web commentary and social media criticism; a phenomenon that can aptly be described as "multichannel consumer activism."

It is premature to delve into the reasons behind the tragic incident and also comment on various issues plaguing the readymade garments industry in Bangladesh. Questions are being raised about wages, working conditions, quality of infrastructure and worker safety among many other factors. Queries on the native government's responsibility and accountability in taking care of its citizens are also being put up.

The responsibility of retailers towards these indirect workers is also being questioned in many forums including those within governments. In most cases, the retailers were not directly sourcing the merchandise from the firms involved in the mishap. These were the firms to whom the original retailer order had been subcontracted to, without the knowledge of the retailer. Despite not having a direct liability towards the incident, retailers have still been highly impacted due to the social implications of the mishap.

Retailer's reaction to these incidents does not only have to take into consideration the backlash from activists. The focus on the bottom line and responsibility towards shareholders also weigh into the decision-making factors. During the past few weeks, various steps have been initiated by a large group of retailers towards what is known as the Accord on Fire and Building Safety in Bangladesh. The five-year plan stipulates independent safety inspections and also a public reporting of the findings. Multiple retailers have committed to investments into improving the safety and work conditions.

This is the reality of the global nature of the retail supply chain and it extends even beyond a retailer's visible horizon. The identification and mitigation of risks in this form of opaque, muddled and extended supply chain relationships are very challenging. Yet, considering the social responsibility and legal ramifications towards incidents such as what happened in Bangladesh, it is extremely important for retailers to bring into place highly

effective and visible risk strategies and compliance processes. Effectively addressing supply chain risk can result in huge opportunities for retailers; on the other hand, it can also result in huge liabilities if risk is not properly managed.

In this context, the most prominent risk factors would be related to supply chain risk, the assessment of which has always been a strategic focus within global retail organisations. The dimensions of the supply chain risk can be classified into supply chain disruptions due to macro-factors, environmental, internal processes, regulatory compliance, etc. In the new scheme of things, each risk should also have a weightage for its impact on the organisation's reputation and potential liabilities. The assessment and management of risk should be a part of the organisation's strategic planning exercise. Retailers should not only take into account their internal risk perceptions but also consider the business environment, country assessment and the supply chain network levels for each risk element.

The enumeration and ranking of risks and mapping it to the various functions within the supply chain can be effectively achieved by risk management solutions. These solutions can effectively be tailored to embed the risk strategies into the supply chain planning functions. This is necessary to ensure that risks associated with each function are visible to the management and for them to ascertain if it has been addressed adequately through appropriate controls and procedures. The internal ownership and accountability should be assigned based on a business function's involvement in a specific business activity. Setting up such a framework ensures comprehensive identification, visibility, analysis, review and control of risk. The management will be able to view the risk factors in an integrated manner and the exceptions are aptly highlighted.

To each risk factor, the retailer will need to identify and define the control measures and the audit procedures. Depending on the activity, the entities involved and the countries within the supply chain map, retailers need to formulate the audit processes. The audit practices will need to be established for activities such as vendor contracts, capacity audits, safety audits, factory audits, environmental audits, country policy audits, and worker profile audits. The list is endless. What is important is that for each audit procedure, the retailer should have a defined process, the business rules for the information that needs to be collected and accountability allocated to those responsible for the audit. There should also be a hierarchy of responsibility from the process owner to the owner of the risk factor.

All would agree that the execution of procedures is far easier said than done. The global retail supply chain is built on an intricate network comprising of many entities. For fashion retailers, this consists of a complex ecosystem of designers, fibre producers, yarn mills, fabric manufacturers, CMT contractors, QC agents, packaging, forwarding, etc. To compound the complexities, some of these entities will be subcontractors of the direct vendors and will not be within a direct visibility of the retailer's sourcing department. Add to this the fact that these entities are located in a totally different country or even multiple countries. Many retailers will have their field offices where there will be specialised personnel to perform the audits. There are also specialised compliance agencies that perform the field audits for the retailers. These complexities often result in lack of communication, visibility, silos of information and conflict in messages.

Obviously, retailers will need to put in place highly effective control measures, signalling mechanisms, exception escalations and field audit processes at all outposts of their global supply chain. A risk mitigation solution should be viewed as a comprehensive framework and retailers should be aware that this will be beyond the purview of existing standard enterprise solutions. This will need to be a potent combination of business process management, partner portals and a robust mobility infrastructure to create a highly integrated and cost-effective mechanism to implement the requisite procedures. The solution should also be accessed by the extended supply chain ecosystem. This approach will ensure visibility and timely communication of any deviations that occur within the supply chain network.

In the light of the current events, it is absolutely necessary for retailers to invest in a risk management strategy and bring it at par with other strategic supply chain objectives such as improving supply chain visibility and collaboration. Countries such as Bangladesh are the hub of world fashion production and these will continue to remain so. The fashion retail industry has uplifted millions out of poverty and created a vibrant middle class economy in Bangladesh. It has also facilitated the availability of the finest fashion merchandise at affordable prices to customers across the world. The need of the hour is to establish the strictest controls and compliance mechanisms to ensure that business is accomplished in all fairness and with the highest degree of visibility. It is time for fast and responsible fashion.

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