

# Supply chain and supplier risk management: The challenges of the extended enterprise

Firms are more dependent than ever on their supply chains to deliver their services, and many have suppliers numbering in the hundreds or even thousands.

The growing number of incidents in company supply chains is evident; Microsoft, Atlassian, Salesforce, and CrowdStrike are just a few from 2024. The CrowdStrike incident following a botched update at Microsoft impacted health care providers, banks, insurers, schools, universities, and airlines, and served as a reminder of how interconnected and dependent we are as businesses, and as society.

As the supply chain becomes an increasingly complex web of relationships, including systemic dependencies for which an answer is yet to become clear, regulators are starting to respond with increased focus and scrutiny. But the case for good supplier risk management is not one of compliance and downside risk alone.

## **Making a return on supplier risk**

While outsourcing has been largely about cost in the past, perhaps it should be more about capability, capacity and strategic agility and acceleration. Beyond recent negative headlines, the extended enterprise should allow you to do things bigger, better, and more quickly. It can be a means of achieving strategic growth and is a driver of long-term value. But it can also trip you up. At its most basic: it's about trade-offs, and firms' ability to effectively balance risk, resilience and reward.

Getting these trade-offs right can be a powerful source of value for businesses. By leveraging outsourcing, companies can scale their business, access specialised products and knowledge that allow them to pursue new opportunities, enhance their resilience through cloud services, and do more with less. It allows organisations to focus on their core business activities, streamline operations and dedicate more time to strategic priorities.

## **What could go wrong?**

Outsourcing is a massive source of risk for businesses; operationally, reputationally, and strategically. A failed outsourcing arrangement could cripple your operations, damage your reputation, and cut your ability to execute off at the knees.

Financially, the cost of recovery can be significant, not to mention the impact on share price or investor relationships and capital plans, fines, lawsuits or potential lost business.

## **It's about trust and verification**

You've likely heard the words "trust is the foundation of any good relationship", and we have talked at previous meetings about how beyond contracts a strong working relationship with a supplier can make or break the response to an incident.

Good outsourcing and supplier risk management can enable trust to be verified and strengthened. Done well, effective supplier risk approaches supplement the need to 'trust' your suppliers with the certainty that if something goes wrong, you're well prepared to identify, respond, manage, and recover from it, and that your suppliers are equally well prepared.

Trust is required in your people and in those executives leading your business. The board and non-executives need to verify that executives have appropriately considered the trade-offs to enable strategic delivery while being able to mitigate risks and build the right level of resilience and preparedness.

## **An evolving challenge**

In our view, many organisations now accept that supplier risk management needs to be an increasing area of focus, but the question of who takes ownership, and where the boundaries between different functions should sit, is an area of challenge.



We also see an increasing set of demands, often landing at the door of procurement teams - the evolving risk landscape, including cyber and AI, firms' work on operational resilience, and their focus on sustainability-related risks and objectives through their supply chain, creates a challenge on teams historically focused on cost control. The sheer number of initiatives can lead to compliance-focussed point solutions in which process trumps outcome.

**We will discuss this challenging issue at our next NED Club meeting, including questions such as:**

- How are your executives engaging on supplier risk management? Is it seen as a 'burning platform' or is it "out of sight, out of mind"? Are solutions being considered holistically or in silos?
- Are organisations thinking about the strategic benefits of supplier risk management, or is cost still the primary driver of decision making?
- How does the board verify the effectiveness of strategies and approaches in relation to supplier risk management?
- How well equipped is management and teams across the lines of defence, especially procurement, to deal with the challenges of supplier risk management? How can procurement functions maximise their value? What skills do they need to respond to new challenges?
- What can firms do about systemic outsourcers?

## Start the conversation

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We look forward to sharing perspectives.

## About us

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