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…making excellence a habit.™

Hidden Supply Chain Risk
A Social, Quality, Environmental and Security Challenge

Verified by **bsi.**

David Horlock
Managing Director, BSI Asia Pacific
T: +852 3149 3340 | **M:** +852 9026 1325
Email: david.horlock@bsigroup.com

AGENDA - Hidden Supply Chain Risk

BSI, a Royal Charter Company

Introduction to BSI Group

Hidden Supply Chain Risk

BSI Solutions to managing supply chain risk

Differences between 3rd Party & 2nd Party auditing

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Who is BSI?

- **By Royal Charter –** focused on development of standards, training and certification activities designed to Improve performance, manage risk , reduce cost and enable sustainable growth

- **Leading Global Standards Creation Body:** British, European, ISO, Public & Private Standards

- **Global Network**: 70,000 clients in 150 countries

- **Experienced**: The world's first National Standards Body established in 1901

- **Thought Leaders**: Founding member of ISO and shaped the world's most adopted standards, incl. ISO 9001, 14001, 18001, Information Security, Business Continuity, Energy Management, FSCC 22000, Asset Management, Anti-bribery

By Royal Charter

7/23/2014

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Over 100 years expertise shaping global standards to facilitate trade and improve business

Product Specification Standards

- Beginning in 1901, initial Standards focused on product specifications to harmonize and facilitate commerce and reduce duplication
  - Railroad gauges
  - Steel specifications
  - Construction standards
  - Agricultural commodities
  - Consumer and electrical products
  - Personal safety equipment
  - Medical devices

- Product Specification Standards remain relevant today driving interoperability and innovation in areas such as smart cities and regenerative medicine (e.g. stem cells)

Business Process Standards

- The next generation of standards focused on business processes to ensure consistent quality output

- BSI shaped the original standards for:
- Quality Management (ISO 9001)
- Information Security (ISO/IEC 27001)
- Environment Management (ISO 14001)
- Health & Safety (OHSAS 18000)
- IT Services Management (ISO/IEC 20000-1)
- Business Continuity (ISO 22301)
- Sustainable Events (ISO 20121)

Business Potential Standards

- BSI's new generation of Standards are centred around people behaviour and values to help organizations reach their full potential and protect their corporate reputation

- Key standards include:
  - Anti-Bribery
  - Corporate Social Responsibility
  - Collaborative Business Relationships

Business Potential Standards

Business Process Standards

Product Specification Standards

Founded 1901

1950

2000

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BSI's end-to-end solutions make excellence a habit

Shape

Together with >10,000 independent experts, BSI leads the development of global standards

- Public Standards - PAS
- British Standards - BS
- European Standards - EN
- International Standards - ISO

Share

We share our standards and guidance documents in many formats, from paper to PDF or organization-wide licenses

- Online Standards Portal
- Network Licenses

Embed

Our tutors transfer the knowledge and skills needed to embed excellence

- In-Company Training
- Public Training
- Internal & Lead Auditor Training
- Self Assessment tools
- Gap Analysis
- Entropy Software™

Assess

Our assessors give you proven ways to measure, improve and confidently promote your organization

- Management Systems Certification
- Gap Analysis
- Verification services
- Supplier certification
- 2nd Party Assessment
- Self Assessment tools
- Product Certification
- Kitemark & CE marking

Support

We support you with the knowledge and business tools you need to continually improve

- Entropy Software™
- BSI Excellerator™ Report
- Supply Chain Solutions
- Six Sigma Training
- Business Improver Training

Risk Management Standards

Sustainability Standards

Operational Performance Standards

A truly global brand and network – trusted and recognized

- Clients in 150 countries
- 61 offices worldwide
- 3 regional hubs in UK, US and Hong Kong

- Global key account management
- Facilitating governance, risk & compliance
- Certifying and verifying global suppliers
- Stimulating international trade

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Hidden Supply Chain Risk
"A Social, Quality, Environmental and Security Challenge"

Qantas, British Airways headphones linked to Chinese prison labour

Agence France-Presse in Sydney

Wednesday, 26 June, 2013, 10:49am

SHARE

0

Everybody is talking about it

Reputational Risks

WORKPLACE CONDITIONS

POLLUTION

COUNTERFEIT PRODUCTS

SECURITY & CUSTOMS

WATER RESOURCES & CHEMICAL WASTE

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What is Governance, Risk and Compliance Today:

- GRC is about how you run your business the right way. Its about doing the right thing

- Ethics, Integrity, Employee, Supply Chain Community, Products, Services, Environmental Sustainability, Anti-Corruption, Tax Payment, Politics, Civil Society, Investors

- Everyone has a right to run a business and make a profit but not at the expense of others and the environment

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Changing Risk Landscape - Why is Complexity Increasing

Complex Networks
- Intermediaries & Subcontractors
- Agents, Domestic importers and Wholesalers

Constantly Changing
- Factories moving to new locations
- New products and innocvation
- Short term focus on cost
- Subcontracting & outsourcing

Organizational Alignment
- Procurement, Risk & Compliance
- Supplier Definition
- Business continuity

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Increasing Supply Chain Complexity

- **The Worlds Largest Shoemaker** doesn't actually make shoes, but only designs and sells

- **The Worlds Largest Personal Computer Direct seller** doesn't manufacture its products but assembles them from sourced components

- **The Worlds largest Beverage company** outsources most of its bottling

The key message is that BRANDS MATTER and that the value of organizations is no longer just in the factory, people and process but rather the BRAND

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Why Should All This Matter to You?

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Your **REPUTATION** is your **Brand**

87% of Executives say a strong corporate brand is just as important as strong product brand

60% of a company's market value is attributable to its brand reputation

70% of consumers avoid buying a product if they don't like or trust the company behind the product

Source Weber Shandwick 2012 *The Company behind the Brand: In Reputation We Trust*

"Stress Test"

Your CEO is at a Shareholder meetings together with stakeholders, media and NGO's and is going to be asked some questions following some recent supply chain issues which have put a number of Governance, Risk & Compliance issues under the spotlight

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Do you have the answers?

1. **How many suppliers do you have?**

2. **How many are direct vs. indirect?**

3. **Do you actively verify the living profiles of your suppliers?**

4. **Have you conducted risk assessments of all your suppliers?**

5. **How many have you physically visited?**

    a. **What are the issues and where?**

    b. **What improvements have you made?**

6. **Does your supply chain adhere to your corporate values?**

7. **Can you tell your supply chain story?**

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What Does Good Look Like?

1. **Ensures Corporate values are aligned with Supply Chain, R & D, Procurement, Risk and Compliance. Avoid opposing forces.**

2. **Keep an active database of living and approved supplier profiles**

3. **C**

4. **C**

5. **A**

6. **C** measure if they adhere to corporate values

7. **Measures, monitors and improves the performance of suppliers and supports those that adhere to corporate values**

> **Be in a position to articulate, explain and tell your supply chain story:**
>
> - **What are the issues and where?**
> - **Improvements made or plans to be made?**
> - **How your supply chain aligns with corporate value?**

BSI Solutions to managing supply chain risk

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BSI Supply Chain Solutions

BSI brings together a practice and economical toolkit supported with a global network of qualified auditors in multiple countries who can be your eyes and ears. BSI offering is based on 3 key objectives:

1. Determine Country Risk – SCREEN Intelligence
   - Country Risk Maps for Social, Environmental and Security issues

2. Identify and Manage Supplier Traceability and Risk – SCM Audit Platform
   - Know your suppliers capacity & capability, who are they?, where are they?, can they be trusted?

3. On Site Supplier Qualification or Verification – BSI Verifeye
   - On-site verifications based on Client specific protocols & checklist or BSI specific standards

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BSI Supply Chain Solution - Summary

Determine Country Risk

- SCREEN Intelligence

+

Manage Supplier Profiles, Traceability, and Assess Risk

- SCM Audit Platform

+

On Site Supplier Verification

- BSI Verifeye

bsi. SCREEN Supply Chain Risk Exposure Evaluation Network

Web based portal with living heat maps to identify country risk for Social, Environmental and Security issues.

---Your Supplier Countries---

No. of suppliers

bsi. scm Supplier Compliance Manager

Know your suppliers capacity & capability, who are they?, where are they?, can they be trusted?

QA spend

---Your Supplier Profiles---

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On-site verifications based on Client specific protocols & checklist or BSI specific standards

Your Key Suppliers
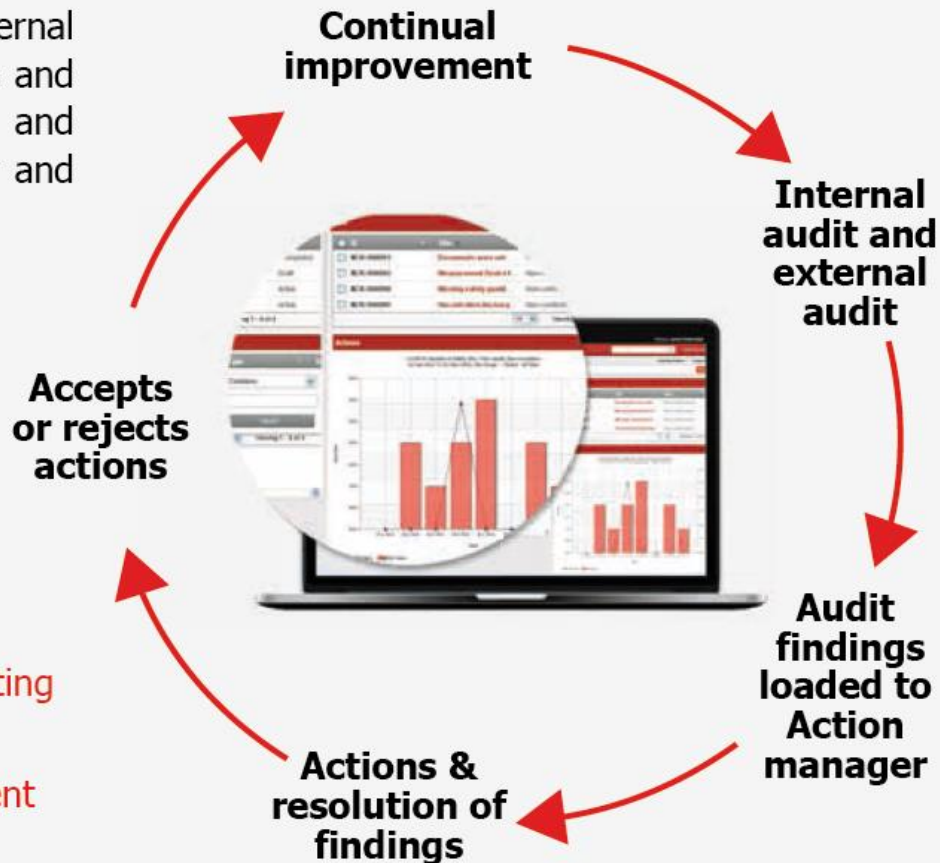
Business Improvement Tool

Action Manager

Suitable for managing internal and external audits. Automatic all your CAPA findings and action plans in a fully automated and controlled enviroment providing visibility and timely follow up.

- Online – web and tablet

- Saves time and cost

- Simplication and controlled process

- Dashboard visibility & status reporting

- On time delivery drives improvement

Continual improvement

Internal audit and external audit

Accepts or rejects actions

Audit findings loaded to Action manager

Actions & resolution of findings

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In Summary – Hidden Supply Chain Risk

- **Reputational Risk is becoming important**
- **The definition of quality is changing**
- **Supplier traceability is critical – who are they, where are they, can they be trusted**
- **Supplier living profiles, on-site capacity & capability assessment will be key**
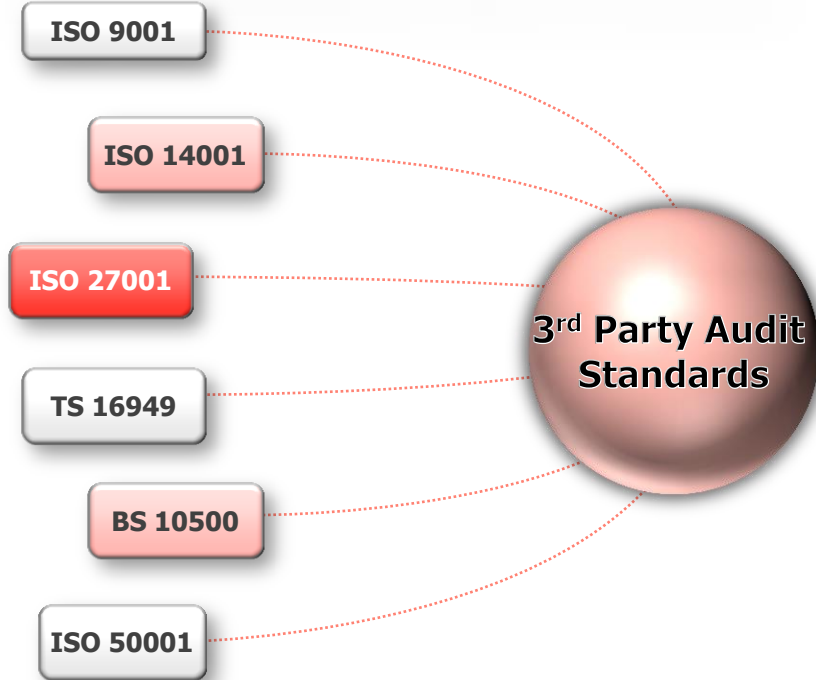- **BSI has the tools to help you protect your supply chain**

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Different Audit Approaches

3rd Party
Vs
2nd Party Auditing

7/23/2014

Audit Standards and Protocol

Certification Program - Granting a 3rd Party Certificate

Client Audit Program - Qualifying their Suppliers and Facilities

ISO 9001

ISO 14001

ISO 27001

TS 16949

BS 10500

ISO 50001

3rd Party Audit Standards

2nd Party Audit Protocol

CSR

Industry Association eg., EICC, Sedex

Supply Chain Security (C-TPAT)

Technical / Quality

Environmental

Client Combined Protocols

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3rd Party (Accredited) Audit

Environment
- Direct relationship
- Auditors are invited by the client

Failure Consequence
- Certificate is not granted
- Re-audit

Internal

Risk
- Limited loss on the application and audit fee
-

Low Risk

2nd Party (Non-accredited) Audit

Environment
- Indirect relationship
- Auditors are injected into facility by buyer / client

Failure Consequence
- On-hold shipment
- cancel orders
- disqualify

External

Risk
- Significant economic impact on business
- **Bribery** activity may arise

High Risk

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Difference between 3rd Party and 2nd Party

Issues	3rd Party (Accredited) Certification Audit	2nd Party (Non-accredited) Verification Audit
1. Client	Company or Facility	Global Brand with multiple 50 to 1,000+ Suppliers
2. Business relationship	• Facility by facility • Usually, one audit per contract • Local decision maker	• Master clients establish own audit programs & rules the to qualify suppliers/facilities • A lump sum of audits per master contract
3. Voluntary vs. Involuntary Environment	Voluntary – BSI is Invited by client	Involuntary – BSI is injected into supplier by the master client
4. Un-announced Audits	Uncommon	Common for CSR & Food hygiene audits
5. Payment	Payment after audits	Pre-payment before audits
6. Scheduling Turn-Around-Time (TAT)	3 Months	14 ~ 30 days

Difference between 3rd Party and 2nd Party

Issues	3rd Party (Accredited) Certification Audit	2nd Party (Non-accredited) Verification Audit
7. Progress & status monitoring	Usually not required	As master client has 'no visibility' on the progress, close monitoring and regular updates on the progress and status are essential.
8. Protocol or Checklist	ISO based Standard	Client specific, sector specific, industry association specific checklist – very detailed questions
9. Auditor Qualifications	P-code + T-code + S-code Bounded by accreditation rules	P-code only More flexible and scalable
10. Audit Process	Focus on Quality Management System	Focus on Process Control, Product, Management System & Reputational risk, Sector specific issues
11. Consequence of failing audits	<u>Internal</u> consequence: • Fail to get Certificates • Cost of application & re-audit	<u>External</u> consequence: •Cancel orders •Shipment on-hold (air freight charge) •Scrap the product •Disqualified

Difference between 3rd Party and 2nd Party

Issues	3rd Party (Accredited) Certification Audit	2nd Party (Non-accredited) Verification Audit
12. Integrity Management & Compliance	Not generally an issue. Environment not conducive to bribery	Facility Integrity Declaration Form to be signed. Environment very conducive to bribery as Factory may be frightened they maybe disqualified.
13. Meals & Transport & Benefits	Allowed and accepted as culture practice	Not accepted by master client - if accepted then must be declared
14. Reporting TAT	7 days	4~5 days
15. Report language	Mainly in local language	Over 95% of audit reports are in English due to International global clients
16. Photo report	Not required	A 'must'

Difference between 3rd Party and 2nd Party

Issues	3rd Party (Accredited) Certification Audit	2nd Party (Non-accredited) Verification Audit
17. # Findings & Non Conformities	Average 1 to 3 per audit	Average 10 to 50 per audit
18. Report writing	On-site reporting	Additional report writing (off-site)
19. Reporting Quality	Not detailed and refers to clauses of the standard. Factory knows the issues and has QA manager to resolve these issues. Report is written for the Factory management whom have their own resources to solve the problem.	Very details finding – what, issues, deviations, objective evidence, best practice suggestions, coaching encouraged. You are the eyes and ears of the master client NOT the facility being audited so reports have to be detailed and communicated to the master client. Reports are usually 2 to 3 times more detailed.
20. Report Review Function	No need to centralize report review because client is one off.	Good idea to centralize report review to ensure global consistency for the program and master client. Centralized report review will improve learning's, audit and report quality

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In Summary

Moving from 3rd Party to 2nd Party auditing:

1. Need to **change mindset** – the approach is very different
2. Be the **eyes and ears** of the Master client
3. Greater **focus on Master client needs** – product, process, reputational risk
4. Need **training & calibration** on client specific checklist and reporting needs
5. Change **meals & transportation habits** with STRICTER Integrity Procedures
6. Ensure the **Report Quality** meet the client expectations & specific needs
7. **Enhance communications** and reduce back & forth e-mails

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