Enterprises and supply chain risks

The successful provision of goods and services is based on a complex global network of innovators, producers, logistics providers and consumers. The number of agents and processes involved and their geographical location is getting ever more complex, which provides a challenge for enterprises to manage and increases the potential for weakness and failure in a vital link in the supply chain. Flexibility, resilience and constant review are required at all levels of supply chain management.

Enterprises and OSH risks in the supply chain

Supply chains are vulnerable to a range of potential events; some come with warning signals and others are unforeseen. However, failure in occupational safety and health (OSH) performance in the supply chain can be a particularly visible threat to business reputation as was seen in the Rana Plaza building collapse in Bangladesh in April 2013. Any OSH challenge to the supply chain can impose substantial costs on a business in terms of lost orders, compromised quality, dissatisfied customers and increased risk profile for investors. Enterprises audit the business-continuity capacity and OSH integrity of their supply chains to minimise any shocks to their own systems. Most companies, particularly larger ones, see supply chain management as business-critical and worthy of senior management attention.

Identifying, assessing and managing OSH risks

Effective management of all supply chain risks can prevent and minimise the impact of disruptions and also identify advantages and opportunities. There can be low probability but high impact events, as well as high probability events where the risks must be eliminated or minimised. **Managing occupational safety and health risk is a key component of general business risk assessment and management**.

For enterprises, dealing with suppliers is usually a matter of contract law and practice, but there is often an overlap with or relationship to other regulatory requirements. Enterprises evaluate the ability of their suppliers to deliver acceptable performance and compliance in these areas by examining the supplier organisations and operations before, during and after placing contracts. This can be done using a range of techniques, including pre and post-qualification questionnaires or physical audits. There may be a business case for the involvement of third parties in auditing. However, there is a growing involvement of intermediaries (either public or private) because

- businesses may not have the capacity or expertise themselves
- they see a need for independence and objectivity in the assessment process
- questionnaires are becoming more comprehensive and standardised
- suppliers, contractors and consultants need to manage the administrative and practical burdens of approaches from many buyers

Questionnaires to assess supply chain competencies usually request full company contact details, evidence of previous work and require answers particularly on the following topics:

- Financial Status
- Legal Status & Legitimacy
- Quality
- Health and Safety
- Environment
- Employment and Diversity Conditions

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This list is evolving as wider corporate social responsibility (CSR) and business and human rights issues impact on enterprise reputation management.

Action by enterprises if OSH challenges are identified in supply chains

Business action in supply chain risk management can focus on managing their own processes, inventories and finances as well as increasing collaboration and forward planning with others in the supply chain. The challenge is deciding what action can be taken when a significant threat to business has been identified in the OSH performance or integrity of a supplier. A wider evaluation of the root cause of the defects and the impact on other businesses may identify other interested parties, potential partnerships and opportunities for concerted action. There are limited options, and all should be evaluated, considering the threats and opportunities to the business and the amount of influence or leverage an enterprise may have with a supplier. Options to be considered may be:
- Termination of the contract
- Improve the defects to an acceptable standard by negotiation with the supplier as to how this is funded
- Involve other businesses and organisations to address the challenges if the defects affect them

Influencing and enforcing organisations' interest in supply chains

Reflecting the global nature of many supply chains, international instruments, such as international labour standards, World Trade Organisation rules, international environmental laws, ISO standards and guidance, International Financial Reporting Standards, UN Guiding Principles on Business & Human Rights are often used for evaluating the broad range of acceptable practices for business behaviour.
Influencing and enforcing authorities at national and international level increasingly need to manage their own resource constraints, gain more traction and achieve their objectives more quickly – and they are doing this, in part, by engaging with enterprises, particularly multinationals, either directly or through their supply chains. This may be by formal or informal agreements or by using intermediaries such as certification bodies. Other organisations such as NGOs, unions, investors, or other external stakeholder groups may not have formal compliance authority but do have great influence on enterprises which need to be seen to manage their reputation and resilience.

Public and private compliance initiatives in labour and OSH standards

Many models of private audit or compliance initiatives on labour standards have proliferated since the 1990s and are often linked to monitoring compliance with voluntarily undertaken CSR commitments. Occupational safety and health standards are particularly dominant within these. They are now supported by public and private stakeholders, including intergovernmental organisations like the United Nations (UN) and several of its specialised agencies as private, voluntary mechanisms for monitoring compliance with established public (law or regulations) or private (codes of conduct, etc.) standards. They exist in a variety of types, including self-assessment (management systems), auditing (internal and external), certification and labelling, and public reporting. Enterprises undertake them as part of their own due diligence to identify potential risks as well as to demonstrate transparency. These efforts usually use international labour standards and national labour and OSH laws as a reference point but do not intend to replace the work of labour inspectorates or certify compliance with the laws.

ILO standards define labour inspection as a public function. However the ILO and labour inspectorates recognise the efforts of private institutions and enterprises engaged in similar activities, and note the opportunity to promote effective and efficient cooperation with those institutions.

The employers' position on public and private compliance initiatives

Employers agree that ensuring compliance with national law is a public function and primarily wish to see an adequately-resourced, independent, efficient and effective governmental authority enforcing acceptable labour standards across all enterprises.
Employers recognise that there are opportunities for improving working conditions by targeted enhanced cooperation between the public and private sector initiatives.

For more Information and Answers to your Questions

Please visit the International Labour Standards, Occupational Safety and Health, and CSR sections of our website www.ioe-emp.org. If you do not find what you are looking for, please contact the IOE's Adviser Pierre Vincensini: vincensini@ioe-emp.com or call +41 22 929 00 15.