



# Managing Vendor Risk: The State of Supply Chain's Role and Responsibilities

## Introduction

As global supply chains become more extended and interconnected, the need for effective vendor risk management is growing exponentially. While a high percentage of supply chain leaders rank safety compliance as a top priority within their own organizations, a smaller number of companies are paying attention to the same metrics at the vendor level. Organizations don't operate in isolation, and their ultimate success rests on complicated networks of outside vendors. Failing to address the occupational health and safety compliance of third-party contractors and other vendors can increase companies' exposure to a number of risks, potentially causing harm to their security and reputation; diminishing the quality of their goods and services; and negatively impacting their bottom line, potentially due in part to fines and penalties incurred from wrongdoings involving third-party providers.

By ensuring that contractors and other vendors are thoroughly vetted, maintain appropriate insurance coverage, and are evaluated against an organization's standards related to safety and sustainability, supply chain professionals can play a critical role in mitigating supply chain risk. While effective contractor management and safety compliance is a "must have" for companies across industries, many firms rely on antiquated methods of vetting and managing vendors—an oversight that puts them in jeopardy of supply chain risks. Technology makes it easier by providing transparency into compliance status and offering modernized methods for monitoring and improving vendors' safety compliance.

## Managing Vendor Risk: The State of Supply Chain's Role and Responsibilities

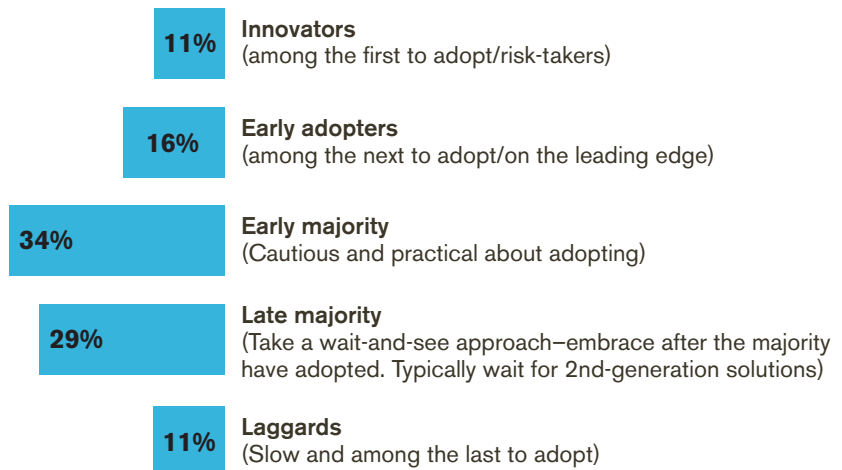
### Taking a Closer Look at Supply Chain's Role in Managing Vendor Risk

In a recent study presented by Veriforce® and Peerless Research Group (PRG), and conducted on behalf of *Supply Chain Management Review*, 140 top supply chain executives were asked about the criteria, processes, and tools that their organizations employ when vetting and prequalifying new vendors. This study further examined the importance that organizations place on their vendors' commitment to occupational health and safety practices and regulatory compliance, as well as organizations' use of technology.

It found that when adopting new technology, many companies take a cautious approach to the task, though there is also a highly-receptive contingency that's willing to embrace the most current solutions. More than one out of four companies surveyed is among the first to implement technology as it becomes available (11%) or quick to follow (16%) early innovators. (Figure 1)

FIGURE 1

#### Adoption of technology



**Understanding the Vendor Prequalification Process**

When organizations evaluate and select supply chain providers, most of them put a vendor’s track record related to areas of operational risk at or near the top of their priority lists. They consider whether they demonstrate a proven success rate regarding on-time performance and routinely comply with service level agreements. Other must-haves include the ability to demonstrate a thorough understanding of top prerequisite operational areas and strong technical proficiencies—both of which are scrutinized proof points in the evaluation process.

Curiously, potential concerns such as a vendor’s occupational health and safety history, observance of sustainability practices and perspectives, and whether a vendor shows up on regulatory watch lists rank lower on companies’ vendor consideration lists. (Figure 2)

**FIGURE 2**

**Criteria considered a high priority when vetting, prequalifying, and selecting a vendor**



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While organizations establish imperatives for prequalifying vendors, significant gaps in the evaluation process can impede hiring. Hurdles organizations commonly face involve:

- A lack of consistency in prequalification methods and a dearth of quality information
- Inability to evaluate start-up companies
- Decentralized processes that cause substandard cooperation and broken lines of communication
- A process that is too prolonged or time-consuming

*"We don't have a consistent method for scoring candidates so we can streamline and quantify the selection process."*

Director of Logistics and Distribution; Transportation & Warehousing; 1,000 – 4,999 employees

*"We need to come up with better sources for finding vendors to pre-qualify."*

Project Management; Transportation & Warehousing; Less than 50 employees

*"There are a large number of new vendors that appear over the course of a year, with most having no prior experience."*

Corporate Management; Manufacturing; 1,000 – 4,999 employees

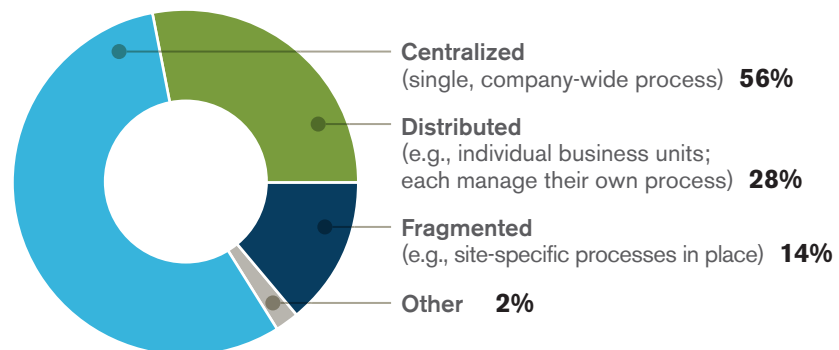
*"We just don't have the time required to analyze and implement supplier changes. Too much time is required to ensure consistency of the review and selection/implementation."*

Corporate Management; Manufacturing; Less than 50 employees

To better manage the vendor prequalification process and vetting of vendors, most purchasing, procurement, corporate management, and supply chain operations departments rely on a centralized, companywide strategy. Another 28% use a distributed approach to this process and 14% utilize a fragmented strategy. (Figures 3, 4)

**FIGURE 3**

### Approach to prequalifying vendors



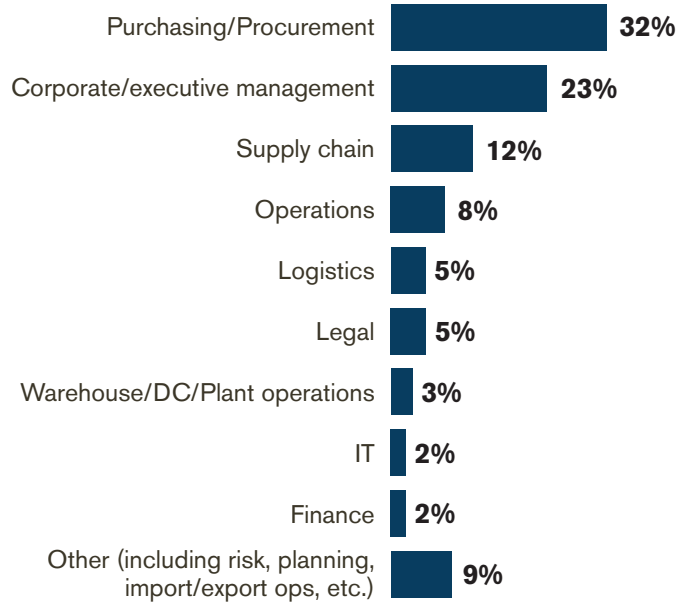
*"There's a need for a centralized process so that consensus doesn't have to be sold across multiple organizations and competing agendas."*

Vice President, Supply Chain Operations; Manufacturing; 1,000 – 4,999 employees

## Managing Vendor Risk: The State of Supply Chain's Role and Responsibilities

FIGURE 4

### Department primarily responsible for vendor prequalification process



In addition to purchasing, supply chain, and corporate management, other departments supporting the review and approval of vendor-submitted criteria often include: (Figure 5)

- Finance
- Operations
- Logistics
- Legal
- Risk

FIGURE 5

### Other departments involved in/supporting the prequalification process

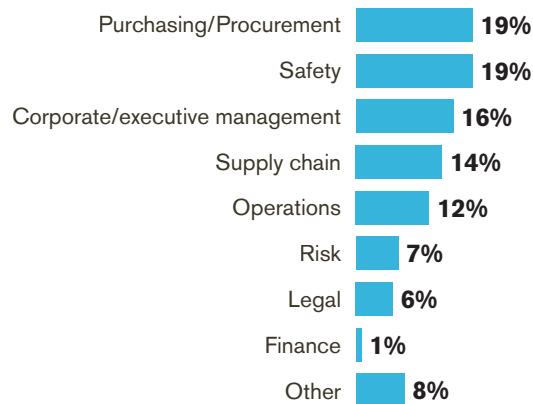


## Managing Vendor Risk: The State of Supply Chain’s Role and Responsibilities

When it comes to assessing a vendor’s occupational health and safety record, no single department stands out as being the primary gatekeeper. Procurement, safety, corporate management, supply chain, and operations may all play the leading role in handling these assessments for their organizations. This illustrates the need for close collaboration and clear role definition between these various departments, enabling each to bring its expertise to establish appropriate safety standards for vendors, set vendor expectations up front regarding their organization’s commitment to safety, and integrate a safety prequalification program into the overall vendor prequalification and onboarding process. (Figure 6)

**FIGURE 6**

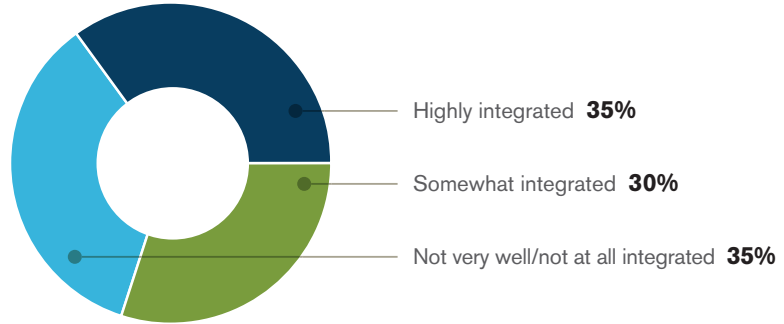
### Department primarily responsible for assessing and vetting a vendor’s occupational health and safety record



Not all companies can successfully integrate their safety prequalification programs with their overall vendor prequalification and onboarding efforts, often due to limited cross-departmental collaboration, siloed safety vetting efforts that occur only after a vendor has been onboarded, and/or a lack of technology support. Survey results reveal that roughly two-thirds (65%) of organizations lack cohesion when tying occupational health and safety prequalification programs into their overall vendor prequalification efforts. (Figure 7) To offset this challenge, companies can focus on opening the lines of communication – particularly between safety and supply chain/procurement departments – to embed safety vetting into the overall vendor prequalification process and set the tone that safety is a priority from the very beginning of the vendor relationship. Leveraging web-based technology to collect and centralize vendors’ safety performance data, as well as integrate it into other systems used to manage the overall vendor onboarding process, is another critical component of creating a cohesive process.

FIGURE 7

### Extent to which organizations' safety prequalification program is integrated with overall vendor prequalification efforts

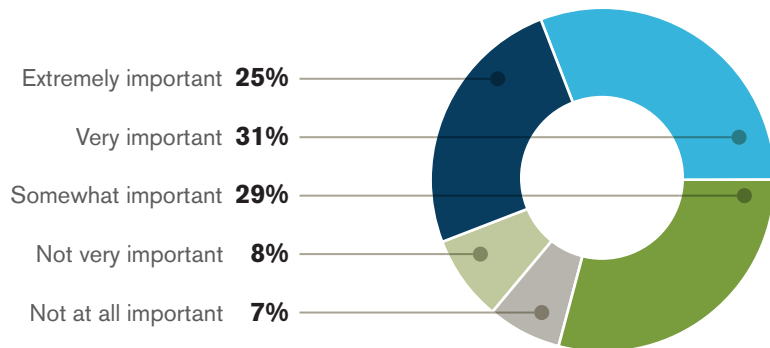


### Vendors' Occupational Health and Safety Performance

Evaluating a potential vendor's occupational health and safety performance plays an important role in the vendor prequalification process for the majority of supply chain executives. Just 15% of companies see this step as unimportant. (Figure 8)

FIGURE 8

### The importance of occupational health and safety when vetting vendors



"It's a priority for the business to have vendors who comply with all rules and regulations on occupational health and safety."

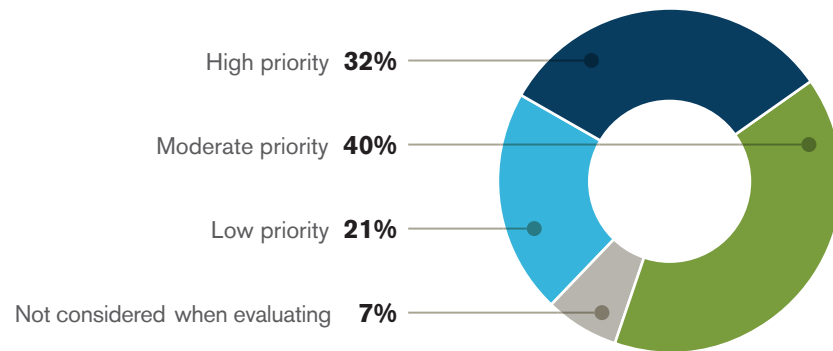
Sourcing/Procurement; Manufacturing; 5,000 + employees

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Despite this, as noted earlier in this report, assessing a vendor’s occupational health and safety record is a much lower priority during the prequalification phase than many areas of operational risk. While more than one out of four organizations (28%) admits that a vendor’s occupational health and safety record is either a low priority or fully immaterial—and four out of 10 (40%) indicate that this is of moderate importance—merely one out of three (32%) considers a vendor’s occupational health and safety information to be a top priority. (Figure 9)

**FIGURE 9**

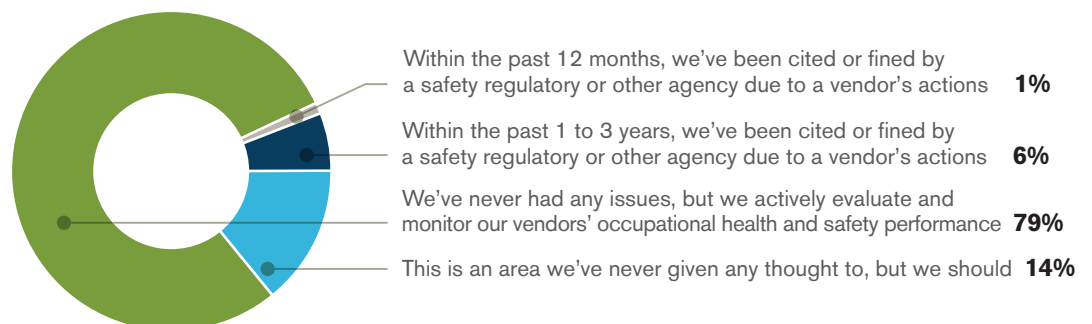
### The significance of a vendor’s occupational health and safety record



New companies argue the merits of evaluating and monitoring a vendor’s occupational health and safety record. Organizations that actively check safety performance claim to have never had any issues, likely because they’re actively managing this area of vendor risk and performance. A small percentage of companies (7%) have been cited for a violation as a result of a vendor’s action. Others admit that they’ve never given much thought to this area, but readily acknowledge that they should. The consequences of being cited for a failure to abide by safety regulations can be punishing and may result in a fine or lawsuit—not to mention a damaged reputation. The risk of reputational damage resulting from a vendor’s safety incident is particularly acute in the world of 24/7 news coverage where headlines that incorporate recognizable brand names will garner more “clicks.” (Figure 10)

**FIGURE 10**

### Organization’s history with supply chain occupational health and safety performance issues



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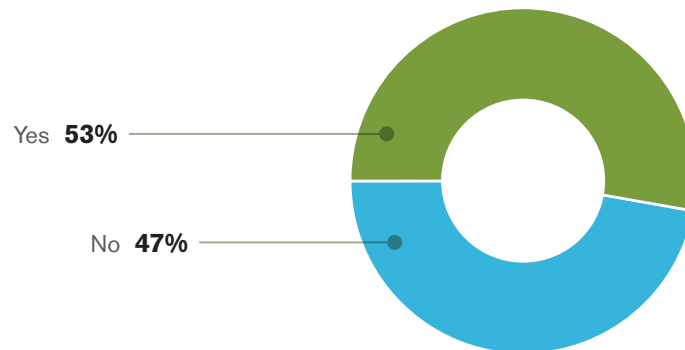
The primary reasons for watching over supply chain vendors occupational health and safety risks are:

• Protecting organization's reputation and brand	66%
• Maintaining the quality of products/services	61%
• Keeping organization's safety culture aligned	57%
• Supporting organization's CSR (Corporate Social Responsibility) goals	46%
• Adhering to regulations/avoid citations and fines	41%
• Workers will be better trained	39%

More than one-half (53%) of the organizations in this survey utilize a formal safety prequalification program that includes components such as reviewing vendors' OSHA statistics and other documented health and safety policies. (Figure 11)

**FIGURE 11**

### Organizations using a formal program to identify vendors' occupational health and safety risk

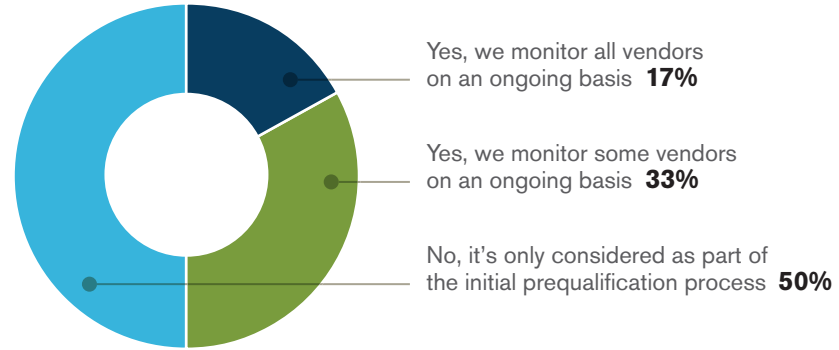


Of those companies that have yet to develop a formal vetting program to assess occupational health and safety, most have either considered it (but do not view it as a current business priority); rely on a pool of trusted vendors; or simply hadn't yet considered a formal vetting program.

Only one-half of the businesses surveyed monitor some or all of their supply chain vendors' occupational health and safety performance on an ongoing basis. As part of this practice, vendors are required to submit safety performance updates regularly, for example, on a quarterly, semi-annual, or annual basis. As a result, many organizations are flying blind with regard to which direction a vendor's safety performance is trending and missing opportunities to proactively head off a growing risk within their supply chain. (Figure 12)

FIGURE 12

**Level of visibility into vendors’ ongoing occupational health and safety performance**



Most companies include outside contractors and vendors that perform on-site services in their safety prequalification program. Vendors acceding to a Corporate Social Responsibility (CSR) agenda are also likely to be considered for such programs. (Figure 13)

FIGURE 13

**Types of vendors that organizations include in a safety prequalification program**



“The ultimate goal is to reduce risk within our supply chain. When dealing with suppliers with poor safety records you are asking for processes to be shut down or delayed due to accidents . . . not to mention that there is a strong moral obligation to protect people and the environment throughout the supply chain.”

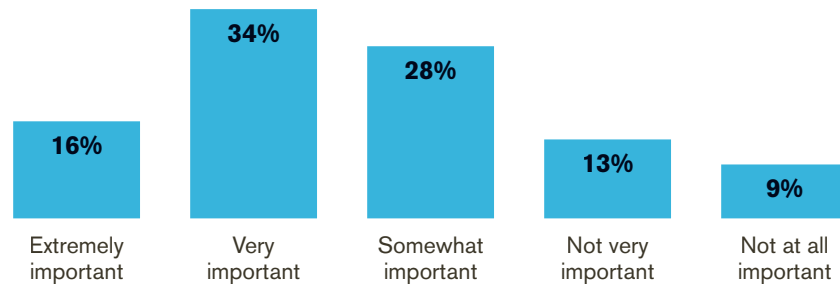
Procurement; Manufacturing; 100 – 499 employees

### Challenges Organizations Face

The biggest challenge organizations face when evaluating and selecting vendors based on occupational health and safety performance is keeping track of vendors' safety performance. In fact, more than three out of four executives (78%) acknowledge that occupational health and safety is an important concern when evaluating vendor performance on an ongoing basis. Of those surveyed, one-half emphasize that occupational health and safety is highly important. (Figure 14)

**FIGURE 14**

#### Importance of occupational health and safety as a concern when evaluating vendor performance on an ongoing basis



*"Safety First" is priority number one for our company.*

Vice President; Value-added Warehousing & Manufacturing; 500-999

*"We want to do business with vendors that take safety seriously."*

IT Specialist, Supply Chain; Healthcare; 1,000 – 4,999

*"We cannot afford an issue affecting our brand!"*

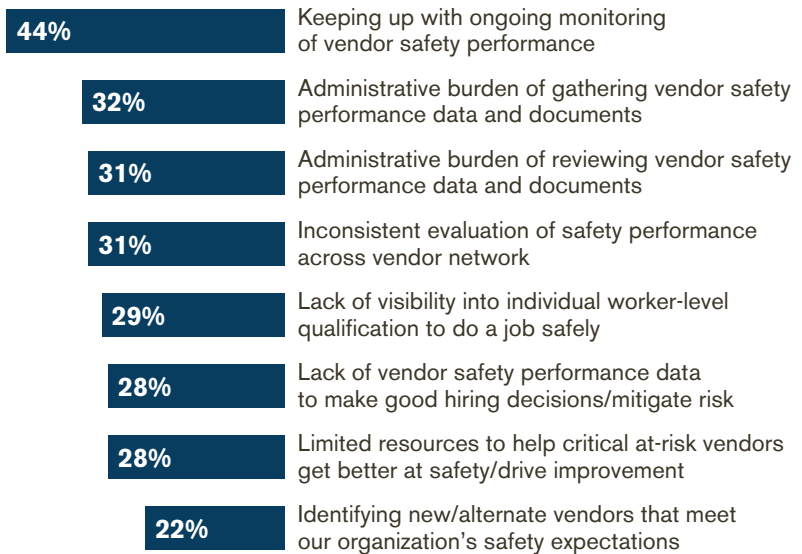
Sourcing/Procurement; Services; 50 – 99 employees

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In addition, time-consuming administrative tasks, such as gathering data and reviewing documents; inconsistencies in how vendors' safety performance is evaluated; a lack of visibility down to a worker level; and a lack of resources to help improve vendor-related safety issues are other critical challenges supply chain executives must address when vetting vendors from a safety perspective. (Figure 15)

FIGURE 15

### Organizations' top challenges when assessing and vetting vendors based on their occupational health and safety performance



### How Third-Party Software Providers Can Help with Safety Prequalification

Third-party software solution providers can help address the challenges that organizations face when managing a vendor safety prequalification program. By leveraging a solution provider's web-based technology to streamline program administration and the capture of vendors' safety performance data, outsourcing auditing and administrative tasks, and bringing in expertise that otherwise doesn't exist, supply chain operations can focus on improving process efficiencies and core competencies; facilitate an improved onboarding experience for vendors; and reallocate and optimize labor. (Figure 16)

FIGURE 16

#### How a third-party provider can help with a vendor safety prequalification program



"Ethical Supply Chain management is a corporate responsibility that we take across all dimensions."

Supply Chain Management;  
Global Consulting Services; 5,000 + employees

## Conclusions

### Safety is Top of Mind, Yet Often Left Unchecked

More than four out of five (85%) of supply chain executives rank safety as being important, yet assessing the safety performance of outside vendors is often overlooked as part of vendor risk management efforts or poorly integrated with overall vendor prequalification processes.

#### Other insights include:

- Nearly half of those surveyed operate without a formal vendor safety prequalification program, and the same number lack ongoing visibility into vendor safety performance.
- Ownership of safety prequalification varies widely across organizations and about two-thirds (64%) of organizations lack cohesion when tying occupational health and safety prequalification programs into their overall vendor prequalification efforts.
- The majority of organizations surveyed consider the occupational health and safety

metrics of their vendors because compliance affects company reputation and quality of its goods and services, as well as because it aligns with their organization's safety culture.

By leveraging technology to streamline the vendor prequalification process and monitor ongoing compliance with occupational health and safety regulatory requirements, companies can successfully integrate safety compliance into their overall vendor prequalification efforts and reduce the risks associated with running global, interconnected supply chains. The companies that take this proactive approach can enable stakeholders across the organization to easily identify which vendors and contractors meet the company's workplace health and safety standards, mitigating safety risk and helping to safeguard their brand and the quality of their products and services.

## Methodology

This research was conducted by Peerless Research Group (PRG) on behalf of *Supply Chain Management Review* for Veriforce®, a leading provider of supply chain risk management and compliance solutions that help bring workers home safe each day. This study was executed in April/May 2019, and administered over the Internet among subscribers to *Supply Chain Management Review*. All respondents were prequalified for being involved in the decisions related to managing the vendor prequalification and selection process for their organizations.

Respondents are predominantly top corporate management, top supply chain management, purchasing and procurement management, and logistics management. Respondents are employed in manufacturing, wholesale or retail trade, or warehousing. Companies of all business sizes are represented, with roughly one out of five respondents working for organizations employing 5,000 or more people.



### About Veriforce

Veriforce®, comprised of the Veriforce and PEC Safety organizations that merged in 2019, is a recognized leader in delivering supply chain risk management and compliance solutions that help bring workers home safe each day. The company's SaaS-based contractor management and compliance software solutions, along with its standardized safety training programs and library of over 400 training courses, empower leading organizations to drive safety and compliance down to the worker level and more effectively mitigate supply chain and regulatory risk. With the industry's largest safety and compliance network – comprised of 350 hiring clients, 25,000 contractor companies, 11,000 accredited safety trainers and authorized evaluators, and 1.5 million individual workers – Veriforce is relied upon for innovative risk management solutions that help connect safety-conscious companies with a safe and qualified third-party workforce and make jobsites safer, more productive, and more efficient.

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