Sustainability and Compliance in Supply Chains

Supply Chain Risk Management
Best Practice Guide

Executive Summary

Supply chain risk management has never been more important, especially in industries where regulations are continually changing and sustainability is top of mind. The ability to effectively identify, track and mitigate risk is now becoming a huge competitive advantage for the world's leading brands.

A sufficient level of insight was once nearly impossible for companies to achieve using traditional methods of managing supply chain risk. As you'll learn from the example of Clariant, organizations can now successfully integrate technology into the process to better map, assess and mitigate global threats.

In this e-book, you'll learn why Clariant is a model for supply chain risk best practices, particularly with respect to sustainability. From their example, you'll learn how you can implement a holistic risk management solution, involving all business units throughout an organization, to avoid devastating consequences like profit losses, reputational damage and compliance concerns.

CLARIANT

**We use The Sphera Solution for the full cycle of supply chain risk management:
to identify risk in the first place, to understand the impact of that risk and then to take action to mitigate it.**

Artur Kulawiński
Global Supply Risk Manager
Clariant

Who is CLARIANT

Clariant is one of the world's leading specialty chemical companies, contributing to value creation with innovative and sustainable solutions for customers from a variety of industries. Clariant's portfolio is designed to meet very specific needs with as much precision as possible.
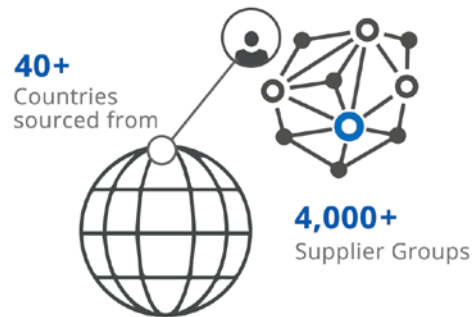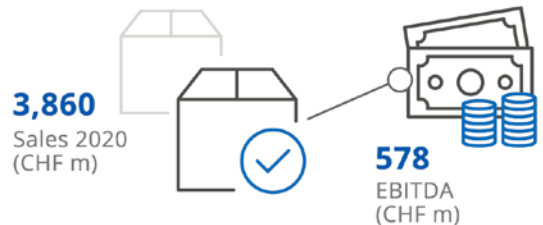
The organization's research and development is focused on addressing the key trends of our time, including energy efficiency, renewable raw materials, emission-free mobility and conserving finite resources. Clariant's business units are organized into three business areas: Care Chemicals, Natural Resources, Catalysis.
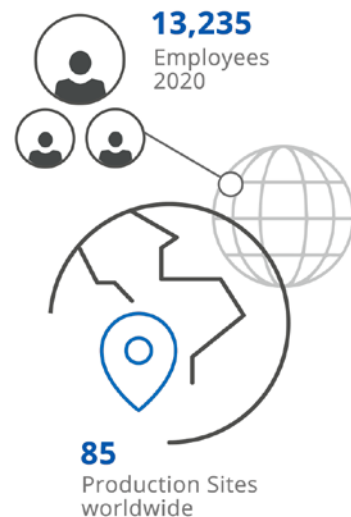
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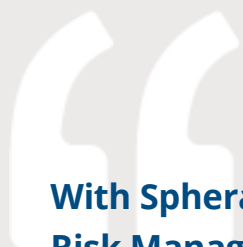
With Sphera Supply Chain Risk Management [formerly riskmethods], we only receive information that is relevant for our supply network. Whenever something happens that might have an impact on our business, we are alerted in real time so we can take immediate actions and avoid negative impacts.

Artur Kulawiński
Global Supply Risk Manager
Clariant

3,860
Sales 2020
(CHF m)

578
EBITDA
(CHF m)

40+
Countries
sourced from

4,000+
Supplier Groups

3
Core
Business Areas

13,235
Employees
2020

85
Production Sites
worldwide
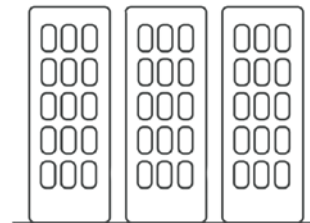
Why Clariant Made Proactive and Holistic Risk Management a Priority

In 2017, Clariant recognized that supply chain risk management is key to staying ahead of the competition. Regulations and other potential threats were more visible than ever, and Clariant understood that it was crucial to secure their market position by cooperating with the right suppliers who didn't pose a threat to their reputation, whether because of non-compliance with regulations, sustainability issues or other reasons. They also knew that if another type of risk threatened their supply chain, such as fires, explosions, or natural disasters, they needed to be able to react quickly in order to keep functioning and not lose revenue. As a chemical company, Clariant can't produce their products without all the required supplies, even if that supply is only one tiny component of a much larger product. Because of this, they knew that risk management had to be a priority for them.

Prior to developing a supply chain risk management strategy, Clariant managed risk in procurement by building relationships with suppliers and relying on them to keep them informed. However, this was a tactic that wouldn't scale, and didn't address the full scope of their concerns about risk. When it came to regulations, for example, they had to comply with a range of rules that was simply too large to track manually. These include automotive standards such as IATF, to country-specific regulations, like China's law about the distance that certain companies must be from a water source.

During their future planning, Clariant identified some key initiatives that they wanted to focus on as a part of their larger business strategy, and supply chain risk management played a big part in all of them. Accordingly, they turned to supply chain risk management for help with:

→ **Achieving sustainability**

→ **Addressing increasing regulations and requirements**

→ **Meeting demand for traceability and transparency**

→ **Protecting brand reputation**

CLARIANT

With Sphera Supply Chain Risk Management [formerly riskmethods], we are able to improve our category strategies by revealing hidden supply network risk such as single-source situations.

Artur Kulawiński
Global Supply Risk Manager
Clariant

Clariant's Pillars of Business Strategy

Focus on Innovation + R&D	Add Value with Sustainability	Repositon Portfolio	Intensify Growth	Increase Profitability
1	2	3	4	5

ACHIEVING SUSTAINABILITY

Among Clariant's five pillars of business strategy is adding value with sustainability. Clariant knows that in today's business landscape, the need for sustainability will only increase, especially in the chemical industry, where protecting natural resources and avoiding contamination is of critical importance. (In fact, Clariant has been included in the Dow Jones Sustainability Index for eight consecutive years.)

At Clariant, the goal of adding value through sustainability goes hand-in-hand with risk management. Key components of their risk management strategy include sustainable sourcing, understanding their value chain and keeping up with compliance regulations. Because Clariant's business often involves purchasing commodities and specialty products, the business' risk landscape is incredibly complex, further solidifying the case for Clariant to embrace sustainability along with risk management.

CLARIANT

Sphera Supply Chain Risk Management [formerly riskmethods] makes our jobs easier by improving the efficiency and effectiveness of our risk mitigation efforts.

Artur Kulawiński
Global Supply Risk Manager
Clariant

ADDRESSING INCREASING REGULATIONS AND REQUIREMENTS

The chemical industry is already a heavily-regulated market. And regulation in procurement continues to increase, adding to the complexity of Clariant's risk landscape. The increase in regulations relates mostly to environment, social, and governance (ESG) risks, which also contribute to Clariant's emphasis on sustainability.

Clariant works with a variety of industries, including food and beverage, medical, pharma and biotech, automotive and agriculture. What these industries have in common is that they, too, are heavily regulated, and that global, national and regional regulations continue to increase. For example, recent consumer concern around conflict minerals, palm oil and GMOs has sparked a need for organizations to be even more vigilant about evolving rules and regulations. It's not enough to ensure your organization is in compliance; ensuring your suppliers are also in compliance is equally as important.

As a mature organization, Clariant realized that if they kept up with the everchanging regulations and actively monitored for potential compliance risks, they could use this as a competitive advantage over companies who were not doing this.

MEETING DEMAND FOR TRACEABILITY AND TRANSPARENCY

Also contributing to Clariant's prioritization of a holistic risk management approach was the increasing demand toward transparency and traceability of supply chains from their customers. Consumers, now more than ever, want to know where exactly the products they're buying are coming from, especially the products they feed their families with and the medicine they're giving to their children. This means having full visibility and holistic monitoring along the value chain, including each and every supplier, sub-tier suppliers, manufacturing sites and logistics hubs.

PROTECTING BRAND REPUTATION

The need for Clariant to protect its brand reputation was also a key consideration when moving to a holistic risk management approach. With the rise of social media and the speed at which news travels, social and compliance risks can have a huge impact on a business. Even working with a supplier that is dealing with some sort of corporate social responsibility (CSR) issue can have a domino effect and negatively impact an organization (for example, by decreasing shareholder value).

To secure our market position, it's more important than ever to protect our image. With Sphera Supply Chain Risk Management [formerly riskmethods] we can make sure to cooperate with suppliers that are adhering to regulations and won't harm our reputation.

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Global Supply Risk Manager
Clariant
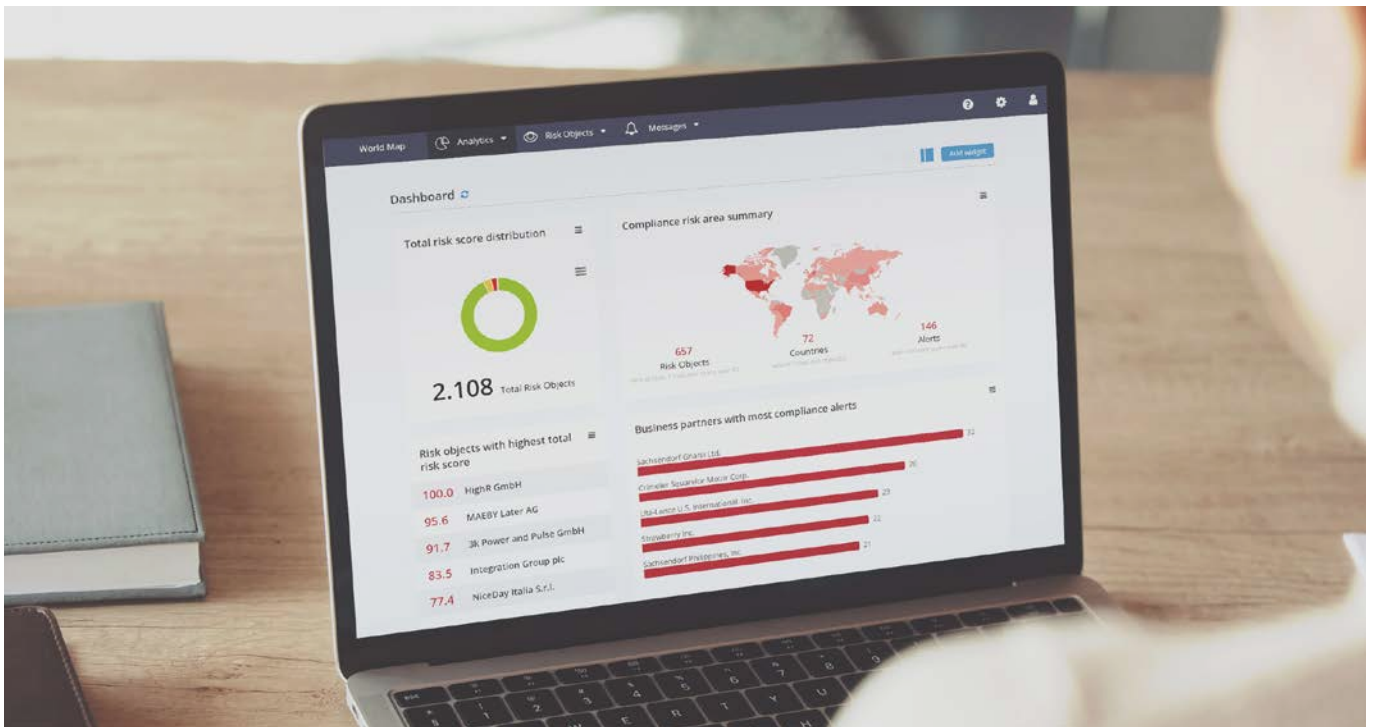
Risk Management Processes at Clariant

Implementing supply chain risk management resulted in some key changes to Clariant's processes. Most importantly, they prioritized risk management by implementing risk-related KPIs for the procurement organization, which was essential for changing the mindset of their category managers to focus not just on cost savings and supply development, but also to be proactive about risk mitigation. To this end, every category manager is now expected to consider risks as part of the procurement strategy and to report the corresponding key figures. These include, for example, the number of suppliers monitored, the number of risk action plans created and implemented, and the purchasing volume covered by the risk management program.

Once expectations were set, Clariant enacted their supply chain risk management program in the following steps:

1. **Identify the type of risks they want to focus on.**

2. **Define the suppliers, locations and ports they want to monitor.**

3. **Report on risk by business, business unit or even specific locations.**

4. **Rely on a central risk manager to monitor and manage all risk data.**

IDENTIFY RISK AREAS

Once Clariant realized the need for a holistic risk management process, they were able to narrow down the scope of risk they would be focusing on based on their specific needs and goals. Clariant divided its risk **management strategy** into **five categories:**

1. Environmental Risk
Environmental risk is the possibility that the supply chain is disrupted by a hurricane, earthquake or other natural hazard.

2. Financial Risk
Financial risk is the possibility that suppliers will encounter a business scenario that threatens their financial health. A financial risk event can occur as a result of a supplier bankruptcy, market volatility and much more.

3. Production Risk
Production risk includes anything and everything that can cause a supply chain disruption and prevent an organization from being able to deliver its products. This could mean the supply chain is disrupted by man-made risk, like a fire or explosion caused by a specific action, or inaction taken by a person or group.
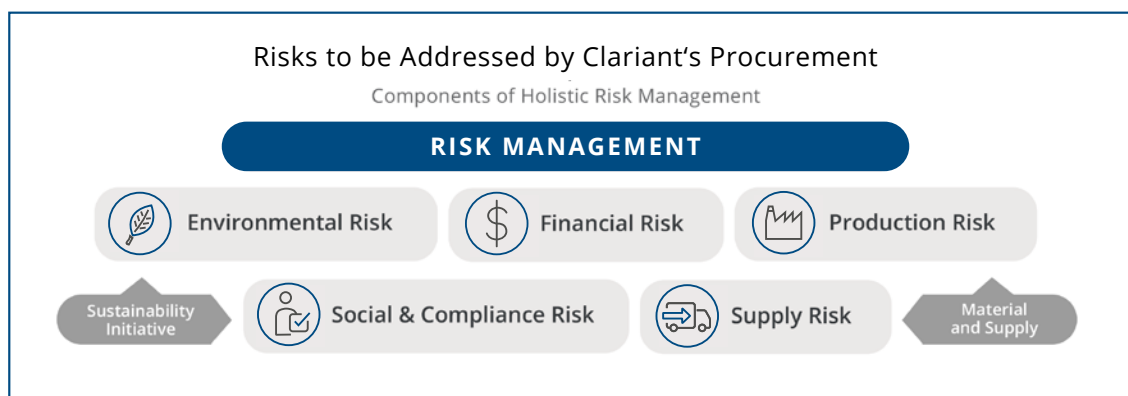
4. Social & Compliance Risk
Social and compliance risk can include issues around bribery, human rights issues, modern slavery, child labor laws, health and safety issues and quality management.

5. Supply Risk
Supply risk includes the possibility that an inbound supply issue will cause a business loss, stemming from a problem with a supplier, shipment or the unavailability of a necessary raw material, for example.

By monitoring for these risks, fully understanding their business impact and being alerted to any issues the moment they happen, Clariant knew they would ultimately be able to mitigate them, which is procurement's most important role when it comes to risk management.

Risks to be Addressed by Clariant's Procurement
Components of Holistic Risk Management

RISK MANAGEMENT

Environmental Risk   Financial Risk   Production Risk

Sustainability Initiative   Social & Compliance Risk   Supply Risk   Material and Supply

DEFINE SUPPLIERS, LOCATIONS AND MORE TO MONITOR

Once they defined the risk areas they wanted to focus on, Clariant defined the suppliers that were most critical to its business landscape, as well as specific geographical locations, production sites and logistics hubs in order to **prefilter the information** and narrow in on the **risk indicators** that potentially would have the **largest business impact**.

REPORT ON RISK FOR SPECIFIC AREAS OF THE BUSINESS

To make all this information accessible, Clariant maps out and **visualizes their entire end-to-end supply network** to help assess risk exposure. This way, category managers can **see at a glance where materials are sourced from, and they can identify and avoid procurement bottlenecks or site clusters**. In addition, Clariant monitors all relevant suppliers, business partners, and its own sites around the clock with the help of artificial intelligence (AI). The collected data is used to create risk profiles that take all defined risk areas into account. Specific analyses and detailed views for certain suppliers, regions, and risk areas can be displayed on a dashboard. To avoid weaknesses and surprises, the criticality of relevant suppliers is assessed against the respective risk profile, and action plans are created for proactive and reactive risk reduction.

When it comes to **sustainability and compliance insights**, Clariant conducts checks on anti-bribery, anti-corruption, human rights and labor, supply chain responsibility, conflicts of interest, environmental protection and more. Within a matter of just three weeks after launching their program, Clariant was able to run a compliance assessment of over 10,000 suppliers and found that 2 % of those suppliers triggered very critical alerts and 4 % of them triggered critical alerts, signaling that the company must take a deeper dive into these suppliers and perform audits. Now, Clariant has extended this **compliance assessment to all 20,000 of its suppliers not covered by any sustainability program**.
With the information gained from these assessments, Clariant is able to take follow-up actions to mitigate the potential risk, working with their suppliers to improve compliance when possible, or discontinuing relationships when absolutely necessary.

RELY ON A CENTRAL RISK MANAGER

With all this new information at their fingertips, Clariant decided to establish a central risk manager in Poland, where all data is now housed and screened before the relevant information is distributed to the business units. This risk manager not only constantly monitors for alerts, tailored to specific categories and countries, but also works with buyers to develop possible **action plans** and make **risk mitigation** recommendations in the event an issue arises. The central risk manager is also responsible for identifying suppliers, distributors and plants that must be audited to ensure there is always a safe and sustainable handling of products and raw materials before Clariant receives them.
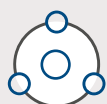
CLARIANT

"**Sphera Supply Chain Risk Management [formerly riskmethods] gives us a competitive advantage because we can convincingly demonstrate to customers that we have risk under control and operate within a sustainable supply network.**

Artur Kulawiński
Global Supply Risk Manager
Clariant

PROCUREMENT NEEDS TO

Make risk transparent

Share insights with business units

Mitigate against threats together with the business units, with their specific needs in mind

How Clariant Uses The Sphera Solution

Clariant uses Sphera Supply Chain Risk Management [formerly riskmethods] to **monitor** and **manage key risk areas** in its **supply chain**. Thanks to artificial intelligence and the centralized aggregation of first-class information sources, the solution provides Clariant with a total view of risk. For example, the company gains insights into the financial stability of its business partners and receives real-time alerts if deliveries are impacted by natural disasters, political unrest, material shortages, or force majeure. Clariant is also alerted to wage and currency changes, labor and safety issues, cybersecurity threats and environmental and sustainability concerns, where violations can affect brand reputation or compliance status.

The information on all these risk areas converges in Sphera Supply Chain Risk Management [formerly riskmethods] allowing Clariant to **easily evaluate and compare the data**. Important KPIs from monitored suppliers, and data from Clariant's supply chain management system are also taken into account. In addition, sustainability risk information from EcoVadis and compliance assessment insights from IntegrityNext are integrated. This gives procurement a complete picture of their data and highlights critical suppliers, which enables Clariant to act with greater risk awareness.

Without Sphera Supply Chain Risk Management [formerly riskmethods], it would be nearly impossible to **identify relevant information** from the amount of data available, let alone to understand the impact on the business. But with the solution, risk data can be processed in a way that allows Clariant's business units to identify risky situations, **often before a problem actually occurs**. Using this information, Clariant can respond proactively and quickly to risks. For example, if problems with a supplier become apparent, Clariant can qualify alternative suppliers in time to proactively **avoid production interruptions**.

The **transparency** Sphera Supply Chain Risk Management [formerly riskmethods] provides also allows the procurement team to work through mitigation plans with plants, laboratories and even customers, so they can make changes to specifications that help Clariant introduce new suppliers.

One example of a risk that Clariant was able to mitigate with the solution was a strike at one of their major ports. When they learned about the strike via **Sphera Risk Intelligence**, they were able to take quick, preventive action, and rerouted their suppliers through a different port to **avoid disruption to their supply chain**.

Sphera Supply Chain Risk Management [formerly riskmethods] has also helped Clariant identify potential weak links in their supply chain, such as when it comes to **single-source suppliers**. They realized after using the solution that there was a specific region in their supply chain that was vulnerable to disruption, and saw that the region contained an important single-source supplier. With this information, they were able to take proactive action to source an alternative supplier, and thus prevent the supply chain disruption that would have occurred if their other supplier had been affected by regional risk.

Clariant's business units rely on **real-time risk information** from Sphera Supply Chain Risk Management [formerly riskmethods] to make the supply chain more stable and reliable. They benefit from visualizing the entire supply network on a world map and by filtering **relevant messages** from the flood of available information (noise cancellation).

Clariant also uses the solution to **evaluate the impact of suppliers** on its business operations, so as to better assess the extent of risks and identify any vulnerabilities at the category level. The analysis and reporting tools provided by the solution are used to **identify irregularities** and **negative trends at an early stage**. To counteract any weaknesses, irregularities or negative trends that are uncovered, Clariant implements action plans.

Sphera Supply Chain Risk Management [formerly riskmethods] supports the smooth implementation of all mitigation measures and facilitates collaboration within the company and with suppliers. Responsibilities are clearly assigned so that all employees know what needs to be done. This also enables Clariant to **respond quickly and effectively to unforeseen disruptions in the supply chain**.

# Benefits Clariant Sees from Holistic Risk Management

The procurement function at Clariant, and within all organizations, is responsible for preserving and generating real business value and then sharing that value with executive leadership and stakeholders. This is not an easy feat, but with Sphera Supply Chain Risk Management [formerly riskmethods], Clariant is able to **minimize** its **risk** exposure to **avoid incidents** that would result in damaged brand reputation and therefore cause a loss in shareholder value.

Of course, Clariant can't completely prevent an issue from occurring, but the business can be alerted to potential issues, and hopefully mitigate them quickly so that the business impact is minimized.

Tractability and transparency of its entire supplier base is also a huge benefit Clariant has gained from implementing a holistic risk management platform, which is critical as **consumers continue to demand more visibility into where products are coming from**. Now, Clariant has much more control over its value chain, as the company is more engaged with not just immediate suppliers, but also with tier-two and tier-three suppliers as well.

Clariant also managed to **reduce costs** caused by issues with suppliers. For example, single-source situations were resolved to reduce the risk of disruption. Now, Clariant can **act faster** as a result of real-time risk alerts. In the event of an issue, they can get raw materials faster than the competition, or if there is a change in market, Clariant's buyers have the opportunity to identify savings opportunities or mitigate against cost increases quickly.

Ultimately, though, the chief benefit that Clariant gets out of supply chain risk management is exactly the one they aimed to achieve by implementing the program: a **competitive advantage**. Their supply chain risk management program allows them to **take action before their competitors**, which in turn enables them to obtain **better prices** than competitors, securing their business relationships with their customers. In addition, Clariant has even been able to use their supply chain risk management program to **gain new business**, because Clariant's customers want to make sure that their suppliers have processes in place around sustainability and risk management. Comprehensive supply chain risk management enables them to demonstrate that they do.
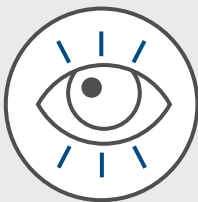
Be risk aware
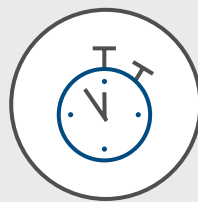
React faster

Be proactive

With Sphera Supply Chain Risk Management [formerly riskmethods], you can visualize your suppliers, sub-tiers, third parties, logistics hubs, and customers on a world map.

Conclusion

As Clariant has demonstrated, it is possible to implement a holistic risk management solution that allows the organization to successfully and quickly identify and assess potential risks and mitigate against them to avoid profit losses, brand reputation issues and compliance concerns.

However, it's important to note that supply chain risk management shouldn't just be considered on the island of procurement. Risk management is something all business units throughout an organization should be involved in. Completely preventing risk is impossible, but with the right technology and mitigation plans in place, procurement can work together with each business unit to successfully mitigate risk when a threat or vulnerability emerges.

Sphera Supply Chain Risk Management [formerly riskmethods] is a supply chain risk management solution that provides a competitive advantage, and helps win the trust of stakeholders and investors. For information on how to set up an AI-based supply chain management solution for your enterprise and suppliers, just contact us.

riskmethods was acquired by Sphera in October 2022. This content originally appeared on the riskmethods website and was slightly modified for sphera.com.

About Sphera

Sphera is the leading provider of Environmental, Social and Governance (ESG) performance and risk management software, data and consulting services focusing on Environment, Health, Safety & Sustainability (EHS&S), Operational Risk Management (ORM), Product Stewardship and Supply Chain Risk Management (SCRM). For more than 30 years, we have served over 6,700 customers and a million-plus users in 80 countries to help companies keep their people safe, their products sustainable and their operations productive.

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sphera.com/contact-us

Contact us to learn more about how Sphera can help your business meet its safety, sustainability and productivity goals.