Coordinate Risk & Compliance Activities – 17 Ways Finance Can Help Procurement: No. 16

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In this second part of a 17 part series on collaboration between finance and procurement, we start a countdown (from least important to most important) of the top ways that procurement would like finance's help to jointly improve spend/supply management. The rankings come from provisional results of a joint Spend Matters and Institute for Supply Management research study that is still open to practitioners (participants can win an Apple Watch or one of 10 Spend Matters PRO premium memberships).

Coming in at No. 16 is procurement's desire to have finance "help coordinate and prioritize risk/compliance activities out to the supply base."

In the world of customer relationship management (CRM), companies go through great pains to have customers experience their relationships with supplier in a coherent and coordinated way. For example, a customer has a single user sign on to the supplier system, and based on who they are, they can experience personalized content and support that is relevant to them. Suppliers, on the other hand, do not always experience such a seamless interaction with their customers who seem to hit them up with a never-ending set of changing expectations and personnel related to commercial changes, system updates, new regulatory compliance requirements and so on.

This is one of the great things – and horrible things – about supplier management. Just as customer management is not a one-off activity performed after a sale, supplier management is not a bolt-on activity to a sourcing event. Rather, supplier management must include a coherent method of tailoring the engagement of suppliers of various forms. This certainly includes tailored requirements coming from category management, but also the tailored requirements that tie back to higher-level mega segmentations stemming from regulatory compliance, supply risk and CSR-related needs.

Many progressive procurement organizations have sought to apply some governance to this process of managing supplier interactions across the enterprise, but their main challenges finding an overarching "platform" for engaging the huge number of stakeholders that all seek to extend their requirements at the supply base (i.e., risk management, EH&S, regulatory affairs, quality, sourcing, purchasing operations, A/P, business units, IT, etc.). This also drags down the speed of getting consensus in an implementation of supplier management, as we wrote about here.

So, procurement can try its best to "cat herd" these stakeholders and their requirements by itself, or it can engage finance (and/or risk management and EH&S groups if they exist and have real power) to help anchor a cross functional governance mechanism such as a supplier/supply risk council or a third-party management group (established primarily for strategic suppliers, but can then be used for others, too). Certainly, procurement can do much of this coordinated interaction on its own, but it always helps to be joined at the hip with finance, especially when commercially related changes are getting rolled out to suppliers (e.g., payment term changes). Suppliers can try to go over the CPO’s head, but it’s harder to do that with the CFO.

Of course, we’re making an assumption here that procurement and finance are on the same page with regards to the individual objectives being rolled out, and payment term extension programs are a perfect example of this. In the next edition of our procurement/finance series, we’ll focus on how finance can help procurement by not reducing working capital at the expense of supplier health and total cost of ownership.