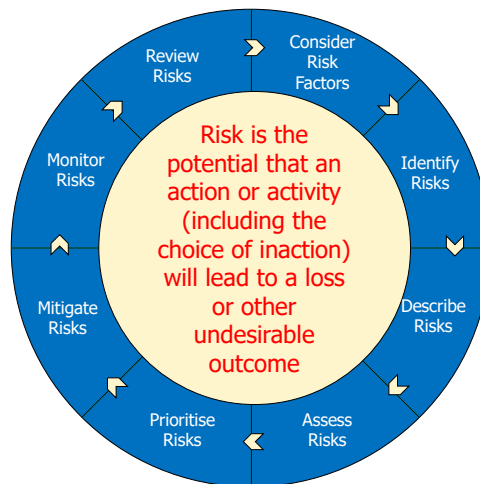


*Monthly reflections on the journey towards excellence in Procurement and Supply Management*

## Risk Management: a core capability or a periodic tick-box exercise?

Most organisations spend far more on suppliers than they do on their own staff. The fundamental role of Procurement is to not only unlock value but also mitigate risk in the organisation's supply market facing activity. Risk management should therefore be regarded as a sustainable core capability rather than a periodic corporate tick-box exercise.



A standard methodology is critical for underpinning both organisational and individual capability. It is cyclical given that the risk landscape is constantly changing. A logical set of steps ensures that all potential key risks are identified, assessed and prioritised, mitigating actions are established, and application of all aspects of the process is constantly reviewed and updated.

There are several sources of value from taking a systematic and cyclical approach to risk management:

- it challenges the organisation to broaden its search for **all** potential key supply risks
- it identifies and prioritises those risks that require the most management attention
- it ensures establishment of robust actions to reduce likelihood and/or impact
- it requires strong governance to update the risk landscape, and improve effectiveness of actions

“Front-end loading” is key to effective project management. The same principle applies to effective risk management. A cross-functional approach that takes sufficient time to probe all risk factors is vital. For example, have strategic and commercial risks been identified as well as operational and compliance risks? Has the entire value chain been considered, e.g.: internal capability, individual suppliers, supply chains, supply markets and the external environment? Too many organisations, intentionally or unintentionally, limit their risk management focus to a portion of this risk landscape.

Establishing robust mitigations is key to minimising losses. For manageable risks, focus should be primarily on pre-event mitigating actions to reduce the likelihood of the risk occurring. For non-manageable risks the focus should be on post-event mitigating actions to reduce their impact.

Having a coherent end-to-end process is insufficient by itself to establish risk management as a core capability. Many organisations have a process similar to the above, but it is applied once a year by a corporate department issuing information requests to business units and functions. This does **not** embed risk management as an ongoing capability. It simply results in a tick-box exercise that at best identifies and prioritises some top-of-the mind risks that can receive attention from senior executives.

In order to truly embed risk management as a core capability, the following additional steps are required:

- continually engage the whole procurement team and its stakeholders in the process
- position “risk coordinators” as facilitators, **not** owners, of the ongoing application of the process
- add risk management to competency frameworks such that it becomes a required skill for each role
- ensure that the risk register becomes a “living document” that is continually updated
- establish intermediate levels of governance, e.g. at the Procurement Leadership Team level

If this article triggers an “aha moment” that you wish to discuss further, please contact: