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Five Easy Steps to Risk Management in Procurement

There is no such thing as a risk-free business. Every department within an organization has to manage some form of risk every day. Risk management looks simple on the surface, but is a highly complex part of the organizational and procurement strategy. Controlling and mitigating the risks associated with business operations is one of the key pillars for success.

Though the actual process may differ from organization to organization, a true risk management process has a number of common steps. You may even recognize this as a process you are already doing, without even knowing what it really is.

Risk Identification

Risks can range from the major (a key supplier files for bankruptcy) to the less critical (a member of the project team moves to a new role). Every risk needs to be identified, no matter the size. Create a risk register to keep track of them.

Risk Analysis

Once identified, each risk is analyzed against two criteria – impact and likelihood (terms are interchangeable). This is usually graded on a numerical scale. Pro tip: Avoid using a scale where there is a middle option, as it's human nature to go for the middle ground if you are not one hundred percent sure.

Risk Ranking

Using a risk matrix, give the risk an overall score by multiplying impact by likelihood. This will provide a way to rank all the risks and identify which are the most critical for your organization or project. Where scores are equal, you may choose to favor impact over likelihood (or vice versa) to rank one above the other.

Risk Mitigation

Once you know the risks and have a ranking, you need to plan mitigation strategies or contingency plans for each. Make sure that you involve all key stakeholders in this and note roles and responsibilities in the event of these risks occurring.

Risk Monitoring

No risk register is set in stone. Impacts and likelihood will change over time; new risks will appear and some may even drop off. A robust monitoring plan is key to making sure your register is up to date and everyone continues to know what to do.

We will share more insights to you on mitigating risks in our upcoming newsletter.

Excerpts taken from:

https://www.scmr.com/article/five_easy_steps_to_risk_management_in_procurement