# Topic Guide: Managing procurement risk

What is risk? It can be defined as uncertainty of outcome whether positive or negative. Some risk is essential if a business is to grow and become more profitable or in the case of a public sector organisation, achieve its objectives. For an example of what is or isn't a risk take a look at Figure 1 below:

**Figure 1.**

| **Objective – to travel by train from A to B for a meeting at a certain time** | |
|---|---|
| **Potential outcomes** | **Risk – Yes/No** |
| Failure to get from A to B on time for the meeting | X This is simply the converse of the Objective |
| Being late and missing the meeting | X This is a statement of the impact of the risk, not the risk itself |
| There is no buffet on the train so I get hungry | X This does not impact on achievement of the objective |
| Missing the train causes me to be late and miss the meeting | √ This is a risk which can be controlled by making sure I allow plenty of time to get to the station |
| Severe weather prevents the train from running and me from getting to the meeting | √ This is a risk which I cannot control, but against which I can make a contingency plan. |

There are broadly speaking four stages to the management of risks:

- identification – detecting the risks and their potential impact
- analysis – assessing the probability, impact and tolerances
- ownership – allocating responsibility for the management of the risks e.g. supplier or customer
- response – the businesses response to each risk e.g. toleration, transfer or mitigation e.g. transfer to party best able to manage or mitigate in contractual terms

Risks should be identified at the earliest stages of procurement planning. However, the identification or existence of risk does not indicate that a particular procurement or contract should not proceed, just that it should be carefully managed.

The challenge to managers lies in deciding whether or not risks are acceptable and who is best placed to manage those risks, in this case the customer or the supplier and generally speaking risks can be categorised as being either:

- business risk – whatever affects your ability to meet business objectives. These risks are managed by the business and cannot be transferred
- service/operational risk – includes design/build/finance/operate; project risk; these are managed by the party best placed to do so e.g. the supplier or customer
- external risk – outside your control, such as legislation, changes in provider marketplace; both suppliers and customers must produce and maintain plans for mitigating these risks.

Figure 2 below illustrates the levels of risks and examples of typical risks at each level:

**Figure 2.**

| **Level** | **Examples of typical risks considered at this level** |
|---|---|
| **Strategic/corporate** | Commercial, financial, political, environmental, strategic, cultural, acquisition, political and quality risks<br><br>Programme, project and operational risks should be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, could affect strategic objectives |
| **Programme** | Procurement/acquisition, funding, organisational, projects, security, safety, quality and business continuity risks<br><br>Project and operational risks should be escalated to this level against set escalation criteria - e.g. not acceptable, outside agreed limits, could affect programme objectives |
| **Project** | Personal, technical, cost, schedule, resource, operational support, quality and provider failure<br><br>Strategic and programme related risks should be communicated to this level where they could affect project objectives.<br><br>Project managers should communicate information about project risks to other projects and operations as appropriate |
| **Operations** | Personal, technical, cost, schedule, resource, operational support, quality, provider failure, environmental and infrastructure failure. |

All risks are assessed and classified according to their likelihood and potential consequences. Figure 3 below illustrates a simple matrix commonly used to profile risks.

**Figure 3. Summary risk profile**

*Probability*

| | | | | | |
|---|---|---|---|---|---|
| Very High | | | | | * |
| High | * * | | * | | |
| Medium | * | | | *Risk tolerance line* | |
| Low | | * * | * * | | |
| Very Low | | | * | | |
| | Very Low | Low | Medium | High | Very High |

*Impact*

** = Risk*

In order to manage risks effectively the following elements need to be in place:

- nominated senior management individuals to support and own the risk management process
- risk management policies and procedures clearly communicated to all staff

- the adoption of a framework for managing risk that is transparent and repeatable
- existence of a culture that supports well managed risk taking and innovation
- management of risk fully embedded in the organisations management processes at all levels
- management of risk closely linked to business objectives
- risks associated with working with other organisations explicitly assessed and managed
- risks actively monitored and regularly reviewed.

**Next Steps**

For more information on how the **Buying Support Agency** can work with your organisation in the area of risk management, please contact us on **0845 555 3344** or by email info@buyingsupport.co.uk