CIPS KNOWLEDGE

Risk identification, evaluation and management in the supply chain

The document outlines the CIPS risk models to help you to identify, evaluate and manage the potential and actual risks that can impact your organisation and its supply chain, and help you to implement strategies to mitigate and manage those risks.

This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard

01 CPD HOURS

CIPS members can record one CPD hour

CIPS Risk Tools Guidance Notes

The following models will to help you to identify, evaluate and manage the potential and actual risks that can impact your organisation and its supply chain, and help you to implement strategies to mitigate and manage those risks. The following models will be covered and these can also be downloaded here.

Tools

1. Risk Identification Wall
2. Potential Risks
3. Risk Evaluation Matrix
4. Risk Severity Flow Chart
5. Risk Register Template
6. Risk Mitigation Mapping
7. CIPS Risk and Resilience Assessment Tool
8. Risk Protection

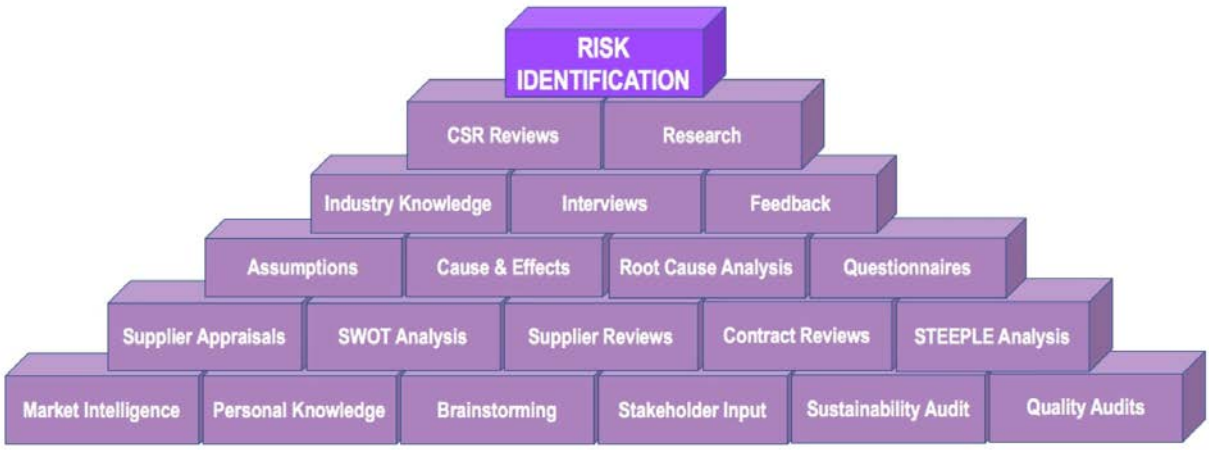
1. Risk Identification Wall

This model is designed to be used as a tool to help to understand where potential and actual risks may come from.

The bricks within the wall contain suggestions of methods to gather information, of analysis that can be conducted and forms of **primary and secondary data** that can be used to gain an insight into the areas which may be susceptible to risk.

The use of **SWOT** and **STEEPLE** analysis will aid in gathering information on the external factors to the organisation which will show if there are any **macro factors** that give reason for concern.

When the risks have been identified they can be recorded on a **risk register** and information added in support of the risks and their mitigation as the management process evolves.



(SOURCE: JARVIS-GROVE, 2020)

2. Potential Risks

Understanding where risks may originate from is important if procurement professionals are to be able to identify, record and mitigate against them.

The Potential Risks model outlines where risks may be derived from:

- Risks may come from the occurrence of **force majeure** such as an outbreak of a disease or virus, an eruption of a volcano or a flood.

- **Economic risks** can occur in relation to the occurrence of a global disaster or from other reasons such as changes to political parties or the slowing down of the economy which could be linked to a multitude of factors. Economic risks to be aware of include the rise in interest rates and the amount of money that has to be paid back in relation to credit, the amount of one currency that can be realised in return against another and also supply and demand. In a strong economic situation procurement would expect to see equilibrium but should the economic situation change this may change to scarcity or surplus.

- **Demographic risks** relate to the change in trends and the ways in which people within society conduct their lives. Risk could be attributed to a company, for example, that produces pens if all individuals opted to use technological methods to communicate.

  The ageing population needs to be considered – if a company or organisations within its supply chain manufacture products aimed at a lower age group this may be a concern to manage.

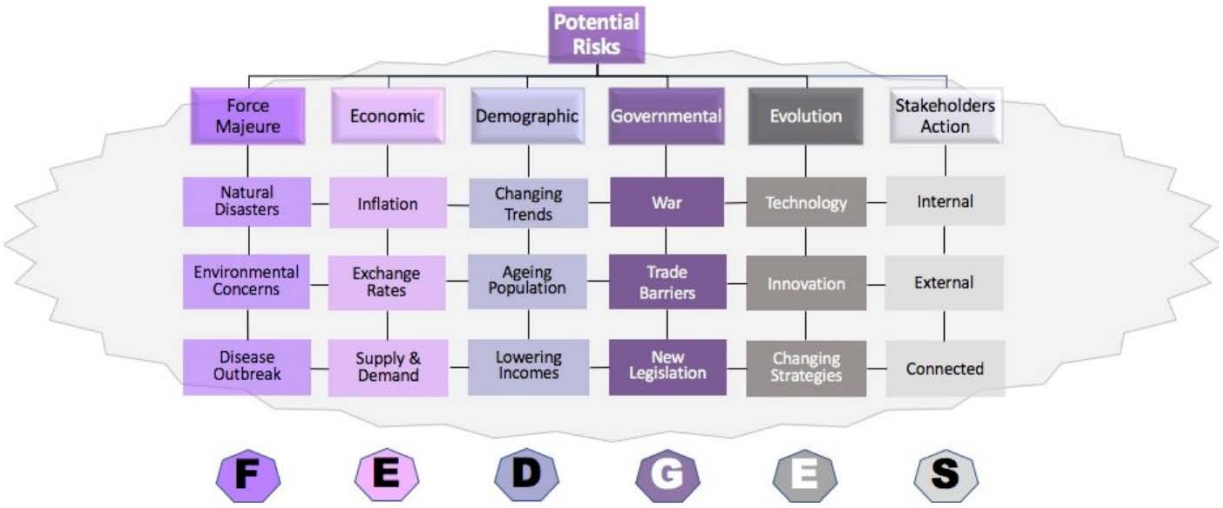
  Should an economic downturn occur, resulting from any of the aforementioned factors, it is perceivable that the incomes of individuals would be reduced – as such risk would need to be evaluated and considered with regard to whether people can afford to buy products or services directly or indirectly involved with the supply chain.

- **Governmental risks** could occur if there is an outbreak of war or a situation of force majeure which then results in changes in legislation to protect the people and the economy. These risks could be related to trade barriers being put in place or increased tariffs for the supply chain companies involves importing or exporting goods.

- **Evolution,** whilst a positive adaption to life in most situations, does not come with associated risk. As evolution occurs technology often replaces human input which could risk jobs and social interaction. Innovation of processes and procedures, and the generation of new and improved ways of working could be a risk to some companies in the supply chain which may leave them behind and cause concern which needs to be tracked.

  Strategies within business will constantly evolve which again could be a risk as some more antiquated systems get replaced. This could result in a risk throughout the supply chain if organisations are not aligned and up to date. Having transparency in the supply chain aids with the management of such risks by having the visibility of what each tier of the chain is doing.

- The actions and activities of **stakeholders** need to be understood and managed in order to be aware of any potential risks that they may cause. By mapping internal, external and connected stakeholders, a fuller vision can be gained as to the risks, if any.



(SOURCE: JARVIS-GROVE, 2020)

3. Risk Evaluation Matrix

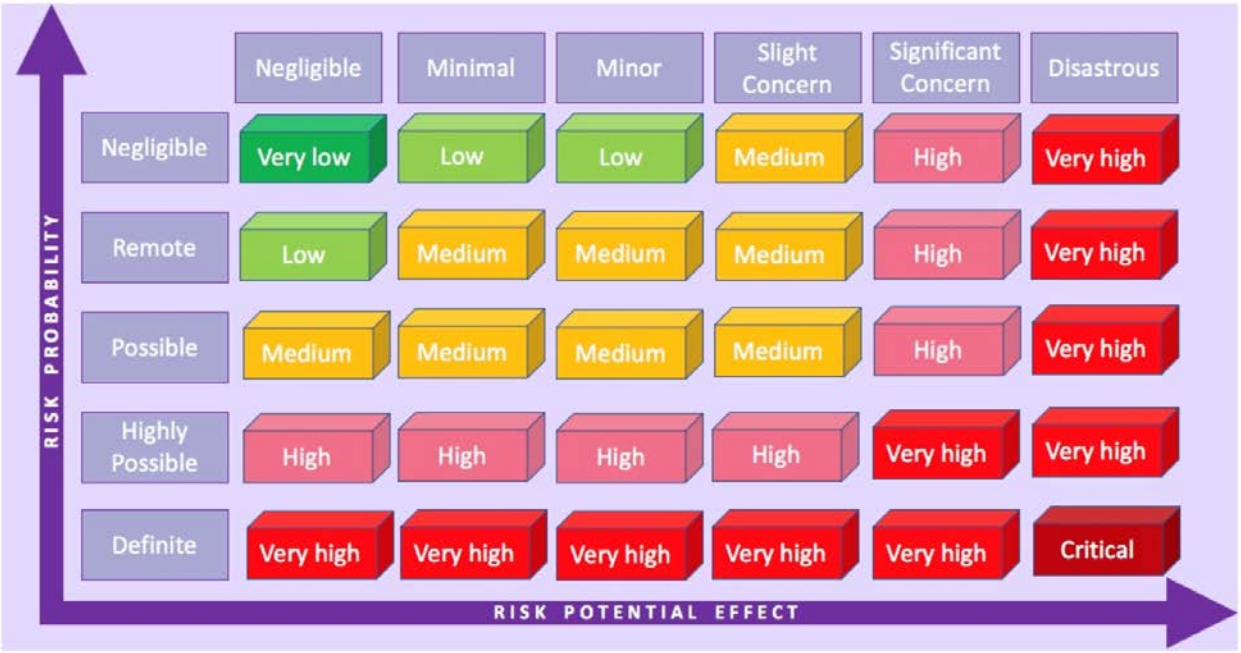
This matrix can help to establish the level of action that needs to be taken to help mitigate, manage or eradicate the risks that have been identified and documented.

The matrix has two axis – the probability that the risk will occur and the potential effect the risk could have if it presented itself.

By understanding these two factors and plotting them against each other, an outcome or rating of each identified risk can be ascertained.

Very low risks are the situations which require minimal attention whilst critical risks are the areas which need immediate and resource heavy attention.

When the potential or actual risk has a rating this can be entered in the **Risk Register Template**.



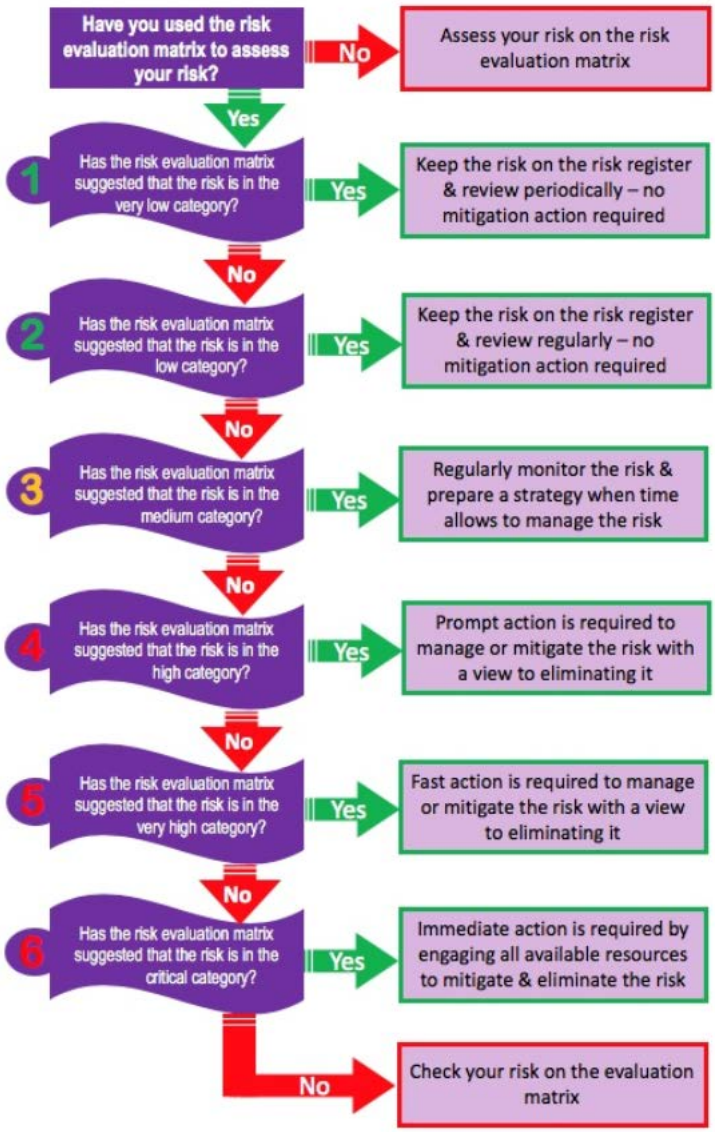
(SOURCE: JARVIS-GROVE, 2020)

4. Risk Severity Flow Chart

This flow chart is designed to be used in accordance with the **Risk Evaluation Matrix** above.

Once the risk has a rating, mitigating or management action can commence.

The flow chart provides guidance on how quickly a mitigation plan should be created, whether the risk needs to be eliminated and the amount of resource that should be deployed to assist with the work.



(SOURCE: JARVIS-GROVE, 2020)

5. Risk Register Template

This template is designed to allow the recording, management and review of all identified risks.

When a risk has been identified it should be recorded with the date it was discovered and somebody made responsible for that risk (owner).

The template has been designed so that the colour of the risk changes in alignment to the **Risk Evaluation Matrix** so that at a glance, the severity of the risks can be clearly seen.

The risk on the register should be monitored and reviewed regularly and frequent checks undertaken to ensure that the rating of the risk has not changed.

The Risk Register Template can be used in conjunction with health and safety policies and procedures, safeguarding and **CSR**.

	Risk				Evalution Matrix	Action	Date	
Date	Details	Owner	Reason/Cause	Potential Effect/Outcome	Rating	Details	Action Completed	Next Review
01/04/2020	Risk of Covid 19 affecting workforce	KJG	Global Pandemic	No workforce	High	Move to homeworking	05/04/2020	01/06/2020

(SOURCE: JARVIS-GROVE, 2020)

6. Risk Mitigation Mapping Model

This model demonstrates the pieces needed to mitigate against risk. If the pieces are connected, as per the puzzle, the avoidance of the effect of the identified risk is greatly reduced.

(SOURCE: JARVIS-GROVE, 2020)

7. CIPS Risk and Resilience Assessment Tool

This CIPS tool helps assess your organisation's resilience profile and provides guidance on mitigating key areas of risk. It will take about 15 minutes to answer all the questions. Upon completion you will be sent an email containing your report. Click here to access the tool.

8. Risk Protection

This model shows that if a process is created and followed, there should always be protection from risk.

Like rain falling from the sky, risk cannot be stopped, but as per the umbrella in the diagram, there are ways that protection can be gained.

(SOURCE: JARVIS-GROVE, 2020)