

Changing behaviours to better manage procurement risk

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Introduction

Policy for assessing risk in procurement exists in many organisations but risk assessment practice depends more on the skills, knowledge and experience of individual Procurement Managers. We differentiate between two risk assessments undertaken in a Procurement activity. The first is risk associated with the Procurement activity - **covered by this whitepaper**. The second is the assessment of risk posed by suppliers to an Approach to Market (ATM) - covered in our whitepaper '*Considering Risk when Determining Value for Money*'.

What is the problem we're attempting to solve?

Templates and tools for assessing risk in procurement are usually generic and rely on the user's skill and understanding (which is often variable) – **we consider there is a case for standardising the assessment of procurement risk to modify behaviour of staff and improve the awareness and treatment of procurement risk.**

What is risk?

The Australian/New Zealand Standard on Risk management - Principles and Guidelines

(AS/NZS ISO 31000:2009) defines Risk as 'the effect of uncertainty on objectives'. It notes that an 'effect' is a deviation from the expected and effects can be positive or negative. Objectives can have different aspects (such as financial, health and safety, and environmental) and can apply at different levels (such as strategic, organization-wide, project, product and process).

The level or magnitude of a risk or combination of risks is expressed by the function of consequences and their likelihood. Risk levels are traditionally determined through applying consequence and likelihood tables established at a corporate level or developed specifically for a large project or procurement.

The ISO 31000 Standard's Risk Process to evaluate and manage Risks is as follows:

1. Communicate and consult
2. Establishing the context
3. Identify the risks
4. Analyse the risks
5. Evaluate the risks
6. Treat the Risks
7. Monitoring and review

Over many years we've observed that few personnel tasked with a procurement activity have adequate experience in assessing risk. They see it as a box to be ticked so that a

procurement plan can be approved.

The solution

Our solution is to provide a tool specific to the risks associated with the procurement process. Based on 30 years' experience managing projects and procuring goods and services, we developed a simple questionnaire for staff undertaking procurement. They simply fill in the Excel-based template to obtain a Level of Risk for the procurement activity based on 19 common causes (situations) of procurement failure.

For example; the first situation: "The market is mature and able to supply the requirements". The user selects a statement ranging from 'Strongly agrees' to 'Strongly disagrees' or 'don't know'. A score based on a logarithmic scale is allocated to each statement with a negative statement attracting a high score. These are:

- strongly agree
- agree
- somewhat agree
- disagree
- strongly disagree
- don't know
- not applicable

The reason for the logarithmic scale is to highlight those risks that rate worse than 'somewhat agree'.

The challenge with determining an overall risk level is how the individual risk levels are aggregated.

By forcing the selection of a statement against each situation, a score can be allocated and summed to provide an aggregate overall risk value. Thresholds are then established to trigger the Risk Level for the procurement activity.

While a three-point analysis and a Monte Carlo simulation provides a more quantitative

assessment this approach is deemed suitable for procurement planning. Remember, the objective of this activity is not to assess the risk, but to change the behaviours of the procurement personnel.

Weighting

Reputation and environmental risks attract a higher Relative Importance value and risks associate with safety attract an even greater value. This is to ensure any moderate risks to safety will trigger development of a risk plan. All remaining risk area are evenly weighted.

Changing behaviour

The key to changing behaviours is to improve the User's understanding of the situation and topic, and to provide incentives or disincentives to change the way they act.

The Risk Profile Guide increases the User's understanding by identifying 19 causes of procurement failure and providing an easy process to compare these with the procurement about to be undertaken. Most staff undertaking procurement would not be aware of many of these situations. The opportunity for Users to assess against the situations allows them to reflect more objectively on their specific procurement context.

By having a policy stating that a high score requires additional effort to develop a Risk Plan, the Risk Profile Guide model encourages the User to research more about the specific procurement situation; and gives them an opportunity to mitigate risks. By mitigating the risks through improving their understanding of the situation, the overall risk value score is lowered, allowing the User to get on with the procurement activity with less overall risk. Figure 1 shows the simple one page questionnaire that Procurement Officers can complete and then append to their Procurement Plan.

Situation	Observation
1 The market is mature and able to supply the requirements	strongly agree
2 Sufficient competition exists in the market	agree
3 We have bought from this market before	somewhat agree
4 An existing arrangement is in place (such as a Panel)	disagree
5 Requirements are clearly defined and not subject to change	strongly disagree
6 No integration is required	don't know
7 There is no innovative or emerging technology	not applicable
8 There are no environmental management issues	strongly disagree
9 There are no safety issues or hazards	somewhat agree
10 Stakeholders have been engaged and are on board	strongly disagree
11 Staff have suitable procurement skills	strongly agree
12 Funds are available	not applicable
13 A confident cost has been estimated	somewhat agree
14 There are no constraints on access to Intellectual Property	strongly agree
15 Controls are in place against breach of security or fraud	somewhat agree
16 Minimal potential for negative impact on our reputation	somewhat agree
17 A realistic schedule or timeline has been developed	somewhat agree
18 There is minimal impact if delivery is late	somewhat agree
19 There is no need to transfer services or dispose of assets	somewhat agree

Level of Risk for this procurement activity: **MEDIUM**

Is a Risk Plan required? **No**

Figure 1 – Risk Profile Guide

Conclusion

By providing an elegant and analytical tool with easy to follow instructions that provides a quick result, the Risk Profile Guide is a valuable tool for any organisation attempting to apply effective risk assessment to Procurement.

The tool educates Users on the causes of risk and encourages them to undertake research about the procurement that will minimise the risk of failure. Where significant conditions exist, the User is prompted to undertake further investigation and analysis.

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David was previously the Director of Risk Management for the Defence Material Organisation. David's background is in project and contract management in the construction industry on large projects such as Loy Yang

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