

Chances are

by Jan Mattingly



The value proposition of risk management

QUICK. WHEN WAS the last time you found yourself identifying risks on your own or with others somewhere near the start of a procurement? Probably, it occurred recently.

Then what happens? The risk information you've thought of may or may not be documented, may or may not be provided to legal, to your management, to the client's organization or the project office and the procurement effort proceeds. About this time, the Request for Proposal (RFP) is drafted and may include some well-crafted words regarding 'risk' and of course a variety of clauses used to address certain 'risks.' The clauses you use might be based on some 'good ideas' from others, your own experience as a procurement officer and, if you're lucky, some *ad hoc* input from risk, legal or external procurement advisors.

The RFP may even require the contractor to identify major risks or provide a 'risk management plan.' Then what? If you are in a procurement unit, your bid goes out following legal review and perhaps some other quality checks. In the larger scheme of things, your procurement file is one of many bids that will be produced from the procurement unit over the course of time, all of which have a variety of approaches used to identify and communicate risk internally, and all of which have a variety of approaches used to obligate contractors to 'manage risk' and evaluate their responses. The contract award occurs, and for many procurement professionals that typically concludes procurement risk management activity.

Procurement professionals are always and naturally, very concerned about risk. Many procurement practitioners are fairly

emphatic in their belief that the very value proposition that underpins their own procurement function is really all about managing and leveraging risks in an effort to secure value for clients and taxpayers.

Get ready to be inspired to change the way you manage risk in procurement. The inspiration for change comes from several realities.

Procurement reality #1

The requirement to manage risk is escalating, broadening and now pervasive in the Canadian public service.

This is "you can run, but you can't hide" inspiration. If you need to see evidence of recent risk management trends that impact the procurement context, check out the following sample sources:

- International: *Procurement Excellence: A Guide to Using the EFQM Excellence Model In Procurement*¹
- Federal: PWGSC² *Supply Manual, Risk Management Section 6C, TBS Integrated Risk Management Framework*³
- Provincial: *OPS Risk Management Guide*, ITAC Ontario Procurement Risk Management Framework (CIO Feb/01) as one of five key elements of procurement reform
- Municipal: Municipal Affairs and Housing Branch, Ontario⁴ *'Guide to Developing Procurement Bylaws'*.

Procurement reality #2

There is a decreasing appetite for missteps in the conduct of procurement; integrity in procurement activity is the only acceptable result.

The role of procurement professionals is increasingly important to governments

as an exemplar of public interaction, including tenets of disclosure, transparency, ethics and parity.

Clearly, there is wide evidence of a decreased tolerance for procurement misconduct from such stakeholders as:

- clients who provide increased scrutiny on the procurement function, asking for demonstrated value of procurement to their businesses;
- internal and external auditors on the 'value for money' issue;
- from industry on fairness in competition; and
- from Canadians who regard procurement professionals as a nexus of vested public trust and fiscal accountability.

Procurement officers everywhere need to be able to be in a position where they can demonstrate that they have conducted their risk management activities in a consistent, reasonable and responsible way throughout the procurement cycle. This requires stronger risk management thrust at both the strategic and operational levels of the procurement organization.

In practical terms this means that at a *strategic level*, organizations need to be able to monitor and measure the effectiveness of their risk management policies and strategies and demonstrate how risk management activities have contributed to the mission, values and effectiveness of the overall organization.⁵ The strategic risk management approach also needs to link to ethics and integrity requirements. Our colleagues in the UK extend risk strategy to include procurement resources as part of their procurement excellence model to ensure that the organization has the people and skill sets to monitor how the procurement organization assesses and manages risk.⁶

In practical terms at an *operational level*, consistency, reason and responsible means simply that in fact procurement professionals:

- a) identify risks (don't rely solely on contractors or your clients; do it because *you should, and document it*);
- b) manage risks (manage the risks that matter most to the procurement objectives – not *all* risks);
- c) communicate and escalate risks (aside from drafted whistleblower legislation, ethics policies and codes of conduct, risk dialogue is just a natural part of any risk management approach);

Figure 1: Ontario's IT Procurement Risk Management Strategy



d) monitor priority risks; and finally,
e) do all of this continuously, throughout all procurement phases.

Raising the bar on procurement professional conduct may also mean increased use of independent fairness monitors as a means of mitigating many process-type risks in the procurement effort itself⁷ and going the extra mile to subject your own work to scrutiny that should result in continuous improvement and managed process risks.

Procurement reality #3

Stronger risk management will form a necessary foundation for procurement reform efforts that will occur as a result of many current events.

It was only three years ago that Scott Campbell, then Ontario's Corporate CIO, understood and publicly tried his hand at inspiring the IT procurement community. He articulated the need for a fresh, new, practical risk management approach for Ontario's IT community as a natural part of procurement reform. Now 3-years old, the original game plan to strengthen risk management in procurement still holds water but we understand from ITAC Ontario that little effective progress has been made by the province – a delayed opportunity for Ontarians. (See Figure 1.)

At a municipal level, there is some movement to strengthen risk management in a formal and explicit way as described in

the new *Guide to Developing Municipal Procurement Bylaws* (www.mah.gov.on.ca) in Ontario. The guide requires Ontario municipalities to develop procurement by-laws that should cover eight specific areas by January 1, 2005. One of those eight areas, 'Requirement #6' requires municipalities to describe how the integrity of each procurement process will be maintained. Ontario Municipal Affairs and Housing have publicly stated that a stronger procurement effort has several clear benefits for Ontario municipalities: providing accountability and transparency; avoiding misunderstandings, and ensuring the integrity of the process.

As federal procurement reform efforts begin to churn through once again in 2004, and procurement risks appear daily as we sip coffee over the morning news, we dare to dream; maybe this time we can include risk management guidance which is thoughtful, can be implemented, adds value to our clients and enhances integrity and organizational performance. Maybe this time we simply *have to*.

In summary, continued efforts are required to strengthen risk management activity in procurement conduct. The value proposition for doing so revolves almost entirely around integrity and trust in the procurement effort. Be inspired by the opportunity to improve procurement integrity and achieve better results by managing procurement risk.

Risk tips for the procurement executive

Scale, link and consult

Adopt a scaleable but consistent approach to how risk will be managed by procurement personnel.

- Ensure the approach scales to the relative overall 'risk profile' of a procurement to avoid burdensome and low-value process.
- Risk management is embedded into the other procurement methodology or processes in place at all stages, pre- and post-award.
- Enjoin your legal counsel in reviewing the scaleable approach.

Use risk as a management tool

Use risk as a tool to manage workflow and resource allocation.

- Establish a 'risk filter' – series of 10-12 well-formed and clear questions (See Figure 2.) that can be used by procurement personnel as part of your front-end procurement process to quickly and consistently identify and distinguish those requisitions that require more in-depth risk attention.
- Clearly understand the major risks that impact your client service objectives and communicate those with clients as part of service orientation (i.e., inadequate timelines, etc.).
- Adjust your monitoring and oversight activity in weekly management meetings to explicitly include regular tracking of procurements and awarded contracts that have documented significant or high 'risk profiles.' Increased auditor scrutiny and expectations means that the continuous oversight of explicit, documented risks in procurement and contracting is key to your responsibilities in ensuring taxpayer value and providing procurement excellence.

Risk-enable your organization

Make risk training, and a common and simple toolkit, available to staff. The training and toolkit should integrate and tie together discrete activities you may already do such as Risk Assessments for Cabinet or Treasury Board approval, Risk Assessments for Limitation of Liability sign-offs, etc. The toolkit should complement and enhance your existing procurement risk management policies.

Risk tips for the procurement professional

Be honest about your role in managing risk

The “buck” on many aspects of managing procurement risk may not stop with you, but it *starts* with you.

- Your role provides you a front row seat on client, contractor, internal and central agency activity. The responsibility to identify risks from any of these sources is a key element in your personal pursuit of procurement excellence, client service and in providing taxpayer value.
- Find training and tools that can help you take a stronger, smarter and consistent approach to managing risk (www.pmac.ca/education, Contract Risk Management Graduate Certificate, Royal Roads University, www.royalroads.ca).

Learn all you can about managing risk

This article contains numerous references and resources for you to follow up on to keep yourself current on risk management requirements at all levels of your profession. If you don't have a toolkit, get one, and adapt and ventilate it thoroughly within your organization.

Talk to your peers

Procurement professionals know that there is no substitute for experience. Most procurement units have a community of experienced procurement officers – some organizations even have internal risk resources. If you aren't doing it already, draw on the rich risk experience of your peers and those within your organization in an effort to help you consistently and systematically identify and manage risk.

Don't sit on risk information; document and escalate

If you aren't certain if your organization has a policy on who and how to document or communicate risk, consult your internal auditors or risk management resources. They need to know that you don't know, and you need to ask them for help on what to do with risk information you develop.

Don't wait to be told

If your organization has not yet established clear guidance on managing risk, start the conversation at the next staff meeting. In addition, each procurement

Figure 2: A “Risk filter” – Developing a procurement risk profile

LEGEND		
	DOES NOT MEET CRITERION	
	MINIMALLY MEETS CRITERION	
	PARTIALLY MEETS CRITERION	
	SUBSTANTIALLY MEETS CRITERION	
	FULLY MEETS CRITERION	
RISK EVALUATION CRITERIA ELEMENT (Using pre-defined criteria for each element of procurement risk)		REQUISITION RISK RATING
Procurement scope		
Procurement scale		
Criticality of procurement to client mandate		
Strength of supplier base		
Diversity of supplier base		
Client history of procurement issues		
Client tolerance for procurement risk		
External risks (Industry impact, etc.)		
Strategic risks (Political, impact to ministry, program, other objectives, openness, transparency, fairness, objectivity)		
Hazard risks (Physical assets, health and safety)		
Operational risks (Impact on controls, HR processes, adequacy of client or procurement personnel)		
Financial risks (Business case, affordability)		
Information risks (Privacy/security)		
OVERALL RISK RATING	<input type="checkbox"/> Acceptable <input checked="" type="checkbox"/> Unacceptable	
RISK SUMMARY (Description which summarizes the rationale for the overall risk rating by the procurement professional)		
RECOMMEND FOR SECOND STAGE RISK ASSESSMENT?	Signed: _____ Dated: ____/____/____ Peer Review: _____ Dated: ____/____/____	
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		

professional needs to make their own effort to improve how risk is currently managed. Make it your own professional commitment to procurement excellence to proactively improve your current risk efforts. *mm*

Jan Mattingly is President of RiskResults Consulting Inc. (www.riskresults.ca). As a risk management specialist, she has 18 years experience in helping major Canadian organizations and all levels of government manage risk.

¹ Government of UK – Procurement Excellence Guide ©1999

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² PWGSC Supply Manual Section 6C (www.pwgsc.gc.ca/sos/corporate/sm/pdf/ch06c-01-e.pdf)

³ IRM Framework (2001) and Implementation Guide (2004) Specifically the requirement for any Federal organization to possess the “ability to detect and communicate within the organization, as early as possible, significant risks, potential and actual control failures, and other significant management vulnerabilities”. (www.tbs-sct.gc.ca/rm-gr)

⁴ MAAH Ontario (2003) ‘A Guide to Developing Procurement Bylaws’

⁵ Indicators of Excellence include: Risk management practices used and Risk management programme documented – actions/ results assessed (Source: OGC Footnote 1)

⁶ Indicators of Excellence include: that Risk management techniques are defined and in use; that a risk management program is in operation; that procurement professionals have received training in risk management; and, that plans/actions to minimize/eliminate risk are available and are being implemented. (Source: OGC Footnote 1)

⁷ Summit Magazine, March 2004, *Fairness monitoring: past, present and future*, David Newman