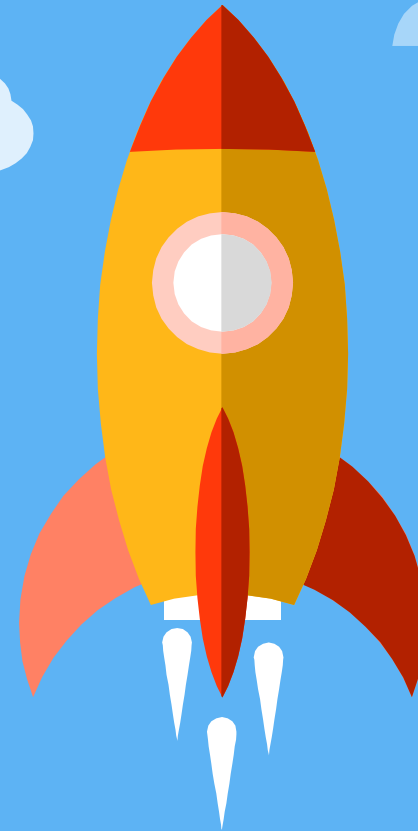


THE EIPM VALUE CREATION OBSERVATORY

2020

Risk Management



An EIPM Laboratory

The Value Creation Observatory is a research observatory to measure the progresses of the Purchasing profession towards Value Creation.

It consists of a series of surveys, workshops, webinars, case studies and publications.

The present document is one of the many output of the observatory





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The rationale behind this document



We all know the Butterfly effect, how the flapping of the wings of a distant Butterfly can create a tornado where you leave within few weeks! This is a famous metaphor used in Chaos theory. Well in 2020 we have seen a tiny virus creating a chaos all over the world within a few weeks.

In March and April 2020 procurement leaders have been called on the bridge. They have played a pivotal role in mitigating the impact of the virus on business activities. The complexity of supply chains coupled with the tremendous uncertainty created by this pervasive exogenous shock has given procurement a unique role in restoring continuity, recovering performance and regaining advantages for the business.

This was a unique event that helped us understand what works in our way of handling of supply chains. It is also a call for action as more is needed in the close future. Risk management will be on the business agenda for the months and years to come. So It is time to get the foundations right! It is the purpose of this document. We hope it can help every buyer understand how to address challenges ahead of them.

Who contributed to this document

This report was developed by the following group.

Hervé Legenvre

As the Director of the EIPM Value Creation Observatory, Hervé conducts research on innovation and purchasing and on how new technologies are changing industries. Hervé blends the best of academic and practitioner thinking to create a unique learning experience and engaging content. He acts as a Juror for the EIPM-Peter Kraljic Awards and regularly speaks at in-company and public events.

Philippe Armengaud

Philippe Armengaud earned a PhD from Dauphine University. He held various Executive positions in Arcelor as CEO of Tubeurop France and later VP Arcelor Purchasing. He was President of Extrusion division Europe of Alcoa. Later as CPO of Bekaert he won Peter Kraljic Award Twice. On top of his expertise in Purchasing he is specialist in restructuring and industrial marketing. He is Professor Emeritus at EIPM

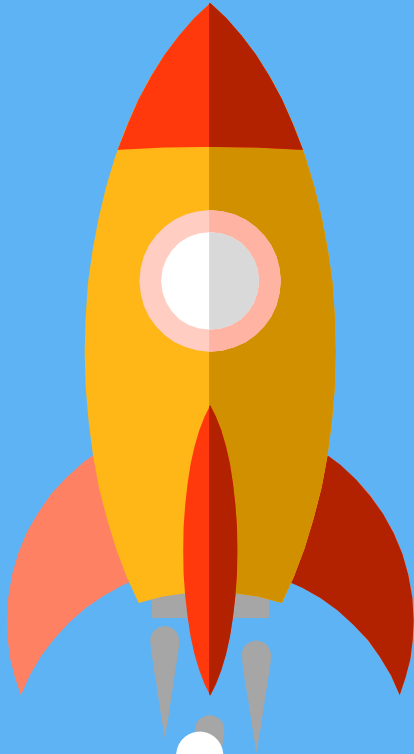
Jean-philippe Collin

Jean-Philippe Collin, graduated from Centrale/Supelec, earned a PhD in Solid State Physics . He has held several executive positions in the areas of technology, quality and Procurement at IBM, Valeo & Thomson. He founded, together with several multinational companies, Keymro in 2002, a procurement marketplace. Jean Philippe retired from Sanofi on June 2018 as a CPO and is currently managing a consulting practice around: Board Membership, Senior Advisory and Enterprise Efficiency including ... PROCUREMENT

Christian Kaemmerlen

Christian Kaemmerlen has graduated from Arts et Métiers ParisTech and from Université de CAEN Droits et Sciences Economiques. He has been working with Texas Instruments France Supply Chain and Logistics team before becoming member of TI World-Wide Procurement and Logistics Leadership team and Texas Instruments Europe Procurement Director. He joined EIPM to develop its maturity assessment and benchmarking tool for the organisations, and is the project manager for the Annual EIPM Peter Kraljic Awards for Excellence.

Findings were shared and discussed with a group of 20
Purchasing Executives in June 2020



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A Lack of
investment on risk
management is like
insurance, it does
not come for free!



Risk Management: The stakes

Risk is defined as **the effect of uncertainty on objectives**. Handling risks requires to understand their likelihood and their impact on the business. This is the foundation of a significant prioritisation exercise. However other factors such as the detectability and the time dynamic of a company's reaction also influence the outcomes.

When Purchasing teams get involved with risk management, their role is not to protect their own performance. Their role is to **ensure that the overall business performance is de-risked** and that global supply chain will be capable to deliver as anticipated within an uncertain world.

In **2013**, when EIPM surveyed procurement executives, only a few companies saw themselves as highly competent in managing supply side risks at that time. The focus of purchasing teams was often limited to checking some financial information, addressing dependencies issues and taking only into account in their decisions risks associated with quality and delivery performance.

In **2014** when we ran our observatory survey, **54%** of respondents indicated at least high levels of involvements of supplier in Risk management activities.

In **2018** this had fallen down to **38%**, as general business conditions were stabilizing after the subprime and Euro turmoil, and priorities had shifted to other topics.

So in **2020** not all procurement teams were in a good position to face the challenges that were coming their way. But some were and it is important to learn from them. The present reports-builds on insights from companies who won the EIPM Peter Kraljic award in the past years.



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What best practice companies experienced in the spring of 2020

We brought together 38 CPOs in May, during a series of virtual events. Most of them were from corporations who won the EIPM Peter Kraljic award in the past years. Listening to their experiences, we could see how much investing in best practices pays back during hard times.

Thanks to their investment in business continuity practices, these companies quickly adapted to the situation and enabled employees and partners to continue working in safe conditions. They indeed helped some of their immediate suppliers who faced challenges. They were rebalancing priorities on an ongoing basis and allocated people to address short term challenges while others were asked to anticipate future developments. They revised their decision making process and adopted digital tools rapidly to facilitate access to information and favour speed of decision.

They benefited from the relationships established with their suppliers who were addressing and tackling risks and issues for them. Thanks to the mutual transparency and established trust, immediate concerted actions were undertaken when needed. These companies leveraged multiple sources of data and their local contacts all over the world to identify, share and tackle issues appearing sometime very deep within their supply chains. Some lobbied governments to have their suppliers authorized to work, some sourced facilities and equipment for some of their suppliers so they could work safely and they made sure that supplies continued to flow across the world as transportations capabilities were affected. Adjustment to requirements were made rapidly as everyone was supporting the effort within and outside these companies.

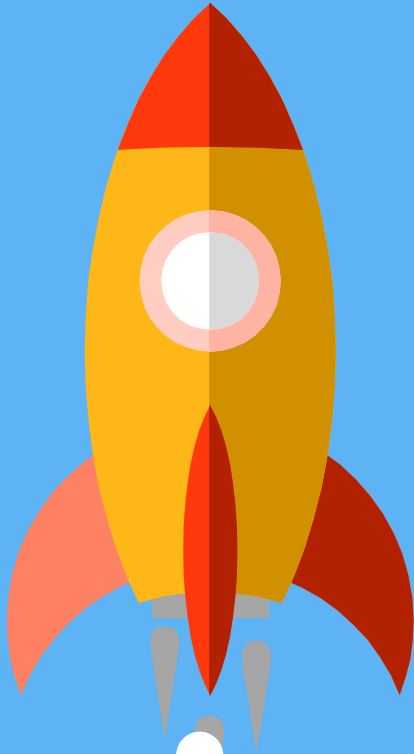
What did we hear leading Executives say?

“As we had invested in the development of our relationship with suppliers in the past we are now ripping the benefits from this; we are now treated as their preferred customer”

“The risk Management practices we had implemented in the past within the function are now escalated and reviewed at the company board level”

“All the preparation we did as part of the Business continuity plans have been helping us tremendously”

“We have in our team some data scientists. They were able to rapidly create tools that helped us to set daily priorities.”



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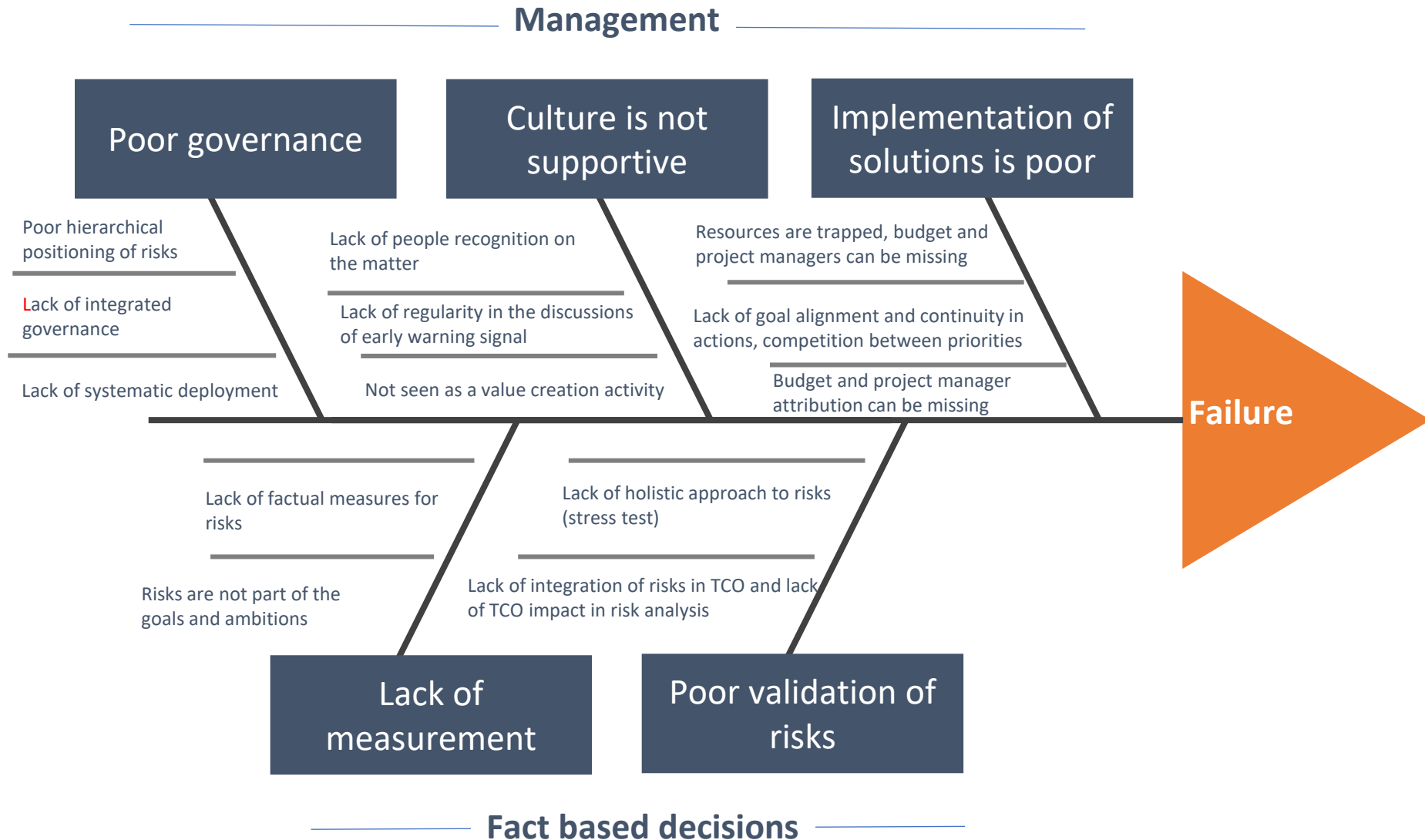
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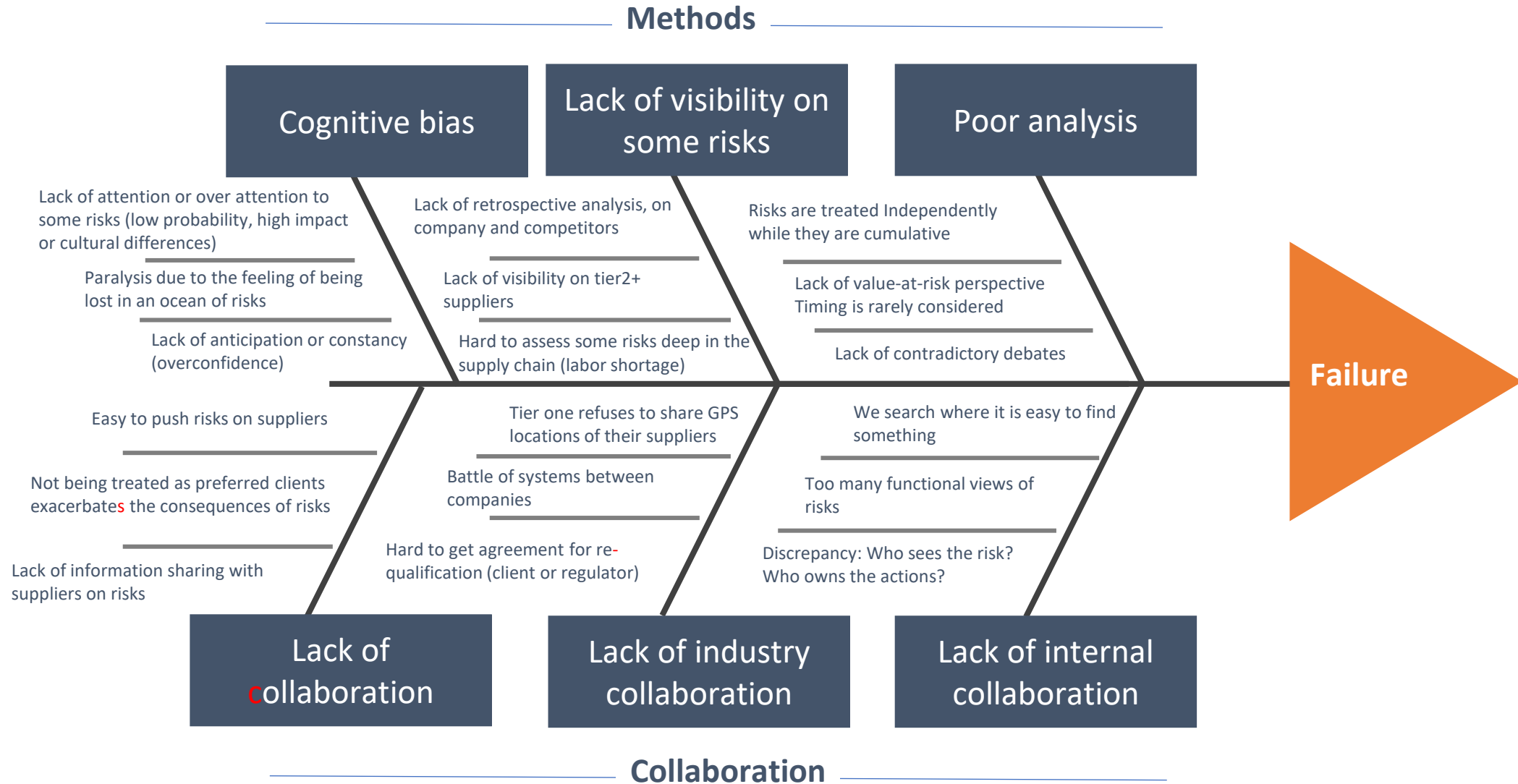
Why risk management fails?

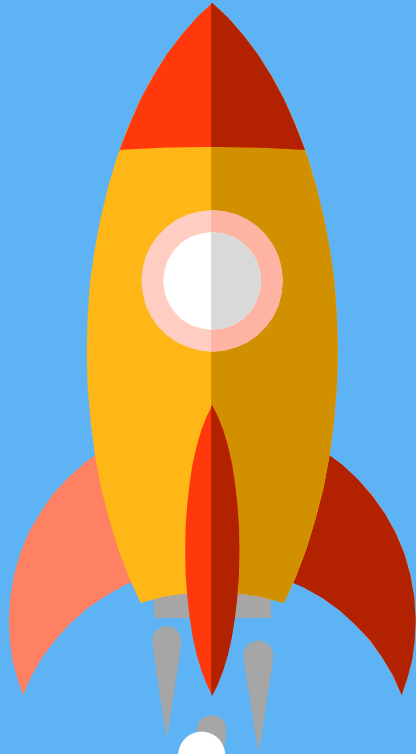
Going ahead!

Risk management practices are known but we often fail. Why?



Risk management practices are known but we often fail. Why?





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Going ahead!

Going ahead: a few principles

Solid accountabilities

Formalize governance rules for managing risks

Ensure that everyone is accountable on risks

Focus more on “fire prevention” than “fire fighting”

Collective intelligence

Make time for risk management and favour dialogues across functions and firms

Setup rituals where early warning signals are openly discussed and good stories are shared

Ensure people and suppliers share the same educations and practices on risks

Improved visibility

Use digital solutions complemented by solid relationships management skills

Leverage the internal and external network to gain insights on risks

Transform broader and deeper data sources into actionable information

Agility

Ensure both robustness and proactiveness

Consider all positive impacts and opportunities when addressing risks

Establish standard methods coupled with accountability and autonomy at local level



Twelve questions to prepare the future

- DO YOU HAVE A FORMALIZED RISK MANAGEMENT PROCESS : COMPANY AND PROCUREMENT WISE?
- DO YOU PRODUCE ON A REGULAR BASIS A PROCUREMENT RISK PROFILE?
- IS IT BUILT IN A COLLABORATIVE WAY WITH OTHER FUNCTIONS?
- IS THERE A RISK CHAPTER IN EACH OF YOUR MAJOR SOURCING STRATEGIES?
- ARE RISKS PREVENTIVE INVESTMENTS, COSTS AND BENEFITS PROPERLY ADDRESSED IN YOUR BUDGET AND STRATEGIC PLAN?
- ARE RISKS PART OF THE PROCUREMENT JOB PROFILES?
- ARE RISKS OBJECTIVES PARTS OF THE PROCUREMENT OBJECTIVES?
- ARE RISKS ACHIEVEMENTS PART OF THE PROCUREMENT INCENTIVES AND RECOGNITIONS?
- ARE RISKS METHODOLOGIES AND TOOLS ADDRESSED IN THE PROCUREMENT AND COMPANY EDUCATION AND TRAINING PROGRAMS?
- DOES YOUR COMPANY RECORD PAST RISKS NATURES, IMPACTS AND ROOT CAUSES?
- HAVE YOU EVER HAD THE OPPORTUNITY TO PRESENT YOUR PROCUREMENT RISK PROFILE TO YOUR COMEX ? TO THE BOARD OF DIRECTORS?
- IS THERE A BEFORE AND AFTER COVID 19 RISK SENSITIVITY STORY BY YOUR COMPANY?

Final thoughts

Addressing vulnerabilities coming from internal fragilities and external shocks is now more than ever on the procurement agenda. We need to take ownership of this major task: keeping corporate investment safe but also contributing to societal resilience. It will be our way to show our worth.

As procurement professionals, your decisions and actions will have major impacts well beyond the procurement circles of your corporation. Making a difference today will impact on the jobs and life of many people tomorrow. Your ability to persevere but also to adapt is central to this.

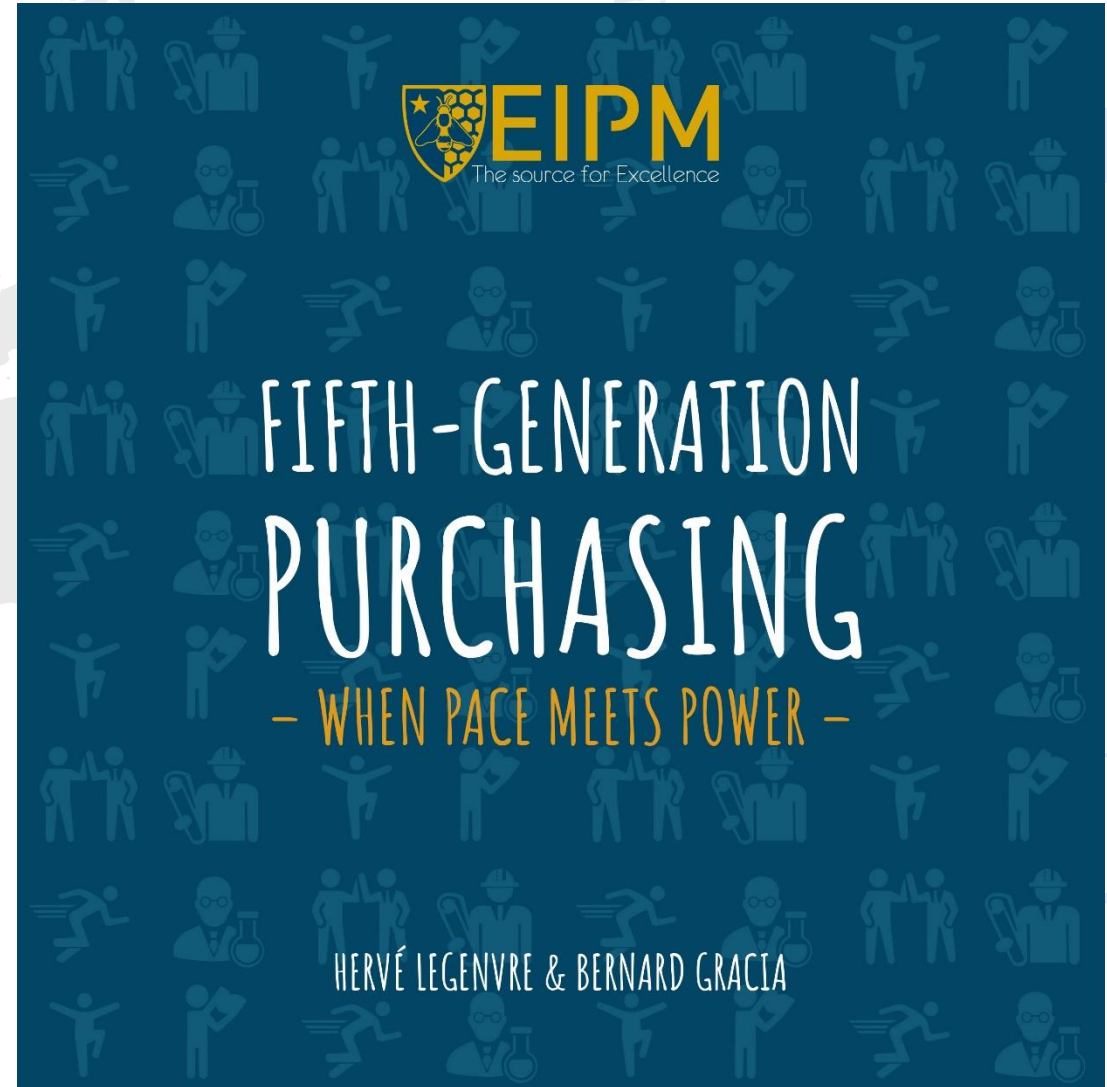
More than ever, education needs to be about helping people to reflect on experience and change their ways of acting. At EIPM we are committed not just to educate individuals but to enable the evolution and transformation of procurement organisations. Education is about mobilizing people so altogether we can do better!

Our new book

The world is continuously evolving. Purchasing teams are positioned at a nexus of tensions and need to overcome many paradoxes. This calls for continuous adaption, courage and perseverance.

Yes! We can deliver value. We have knowⁿ this for years, honestly! Now, we need to harness the values that will systematically make it happen and deliver the results. We hope the six work modes and the practices presented in this book will help with this. They create choic^es and options.

If we start by asking ourselves the right questions, we have a greater chance of finding the right answers.



Join us!





Thank You

Photos by [Sigmund](#) on [Unsplash](#)