Proactive Risk Management - Identifying And Avoiding Risks

Unlike most of the "p-terms" that get so much press in modern procurement—productivity, profitability, process automation, etc.—one term that often seems to get short shrift is *proactivity.*

With data analysis becoming an essential part of effective planning, promotion, and, yes, procurement, companies can no longer afford to take a reactive approach if they want to stay competitive and compliant.

Proactive risk management pairs well with other emerging technologies in making the switch to a digitally-driven, holistic approach to procurement that seeks to prevent, rather than ameliorate, problems that cost your company time, money, and resources.

Why Risk Management Matters

Managing risk is a crucial element of any successful procurement plan and overall business strategy. Identifying and mitigating risk helps businesses in a number of important ways, including:

- Greater agility and flexibility in addressing both opportunities and

challenges
- Loss prevention and mitigation.
- Efficient use of resources
- Maximum return on investment
- Greater confidence for stakeholders
- Continuous process improvement through analysis of historical, current, and predicted data sets
- Improved decision making through greater awareness and mitigation of risk drivers

Ultimately, the most effective approach to risk management lies in anticipating and planning solutions for risk, rather than attempting to minimize the damage after the fact.

To do so, organizations today need to migrate away from traditional, reactive risk management and toward technology-supported proactive risk management strategies.

> *To preserve competitive advantage, address safety concerns, and protect current and future profitability requires a more forward-thinking style of* procurement management. *Proactive risk management lets companies anticipate and control (or even eliminate) potential risks before they can damage the business, budget, or bottom line.*

Proactive Risk Management Versus Reactive Risk Management

Traditionally, risk management programs have taken a reactive approach to risk assessment.

These risk management programs were developed to assess, report, and mitigate risks as and after they happened, with an emphasis on reducing the fallout and minimizing damage to the company.

Reactive Risk Management:

- Is focused on events rather than causes and relies exclusively on fairly rigid accidental analysis of responses to risks that have already impacted the organization.

Note: *Accidental analysis*, in this context, refers to generation of accident scenarios based on proven or potential risk, and analysis of risk drivers that contribute to the likelihood of such an accident occurring.

- Does not incorporate predictive analysis or creative problem-solving, limiting its ability to address challenges.
- Is akin to closing the barn door once the horse has already left. Investigation and mitigation against future occurrences only take place *after* a negative impact on the company's health.

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Proactive risk management lets companies anticipate and control (or even eliminate) potential risks before they can damage the business, budget, or bottom line.

Proactive Risk Management:

- Incorporates and supersedes reactive risk management. Reactive risk management strategies are used to create preventative measures against known risks, but not relied on exclusively as a shield against future risk.
- Incorporates creative problem solving, predictive analysis, and a focus on root causes of risk, leveraging deep analysis of past, current, and future data sets to identify relevant risks before they occur, and develop contingencies for unforeseen as well as established drivers of risk.
- Is adaptive, leveraging tools such as artificial intelligence (AI), process automation, and data analytics, combined with "the human factor" of creative thinking and problem solving.
- Uses *closed loop feedback*, wherein a set of parameters are established for acceptable risk. Various scenarios are created and tested within these parameters to pinpoint root causes of risk and apply human intelligence as well as machine learning to create contingency plans that either eliminate the risks posed or reduce the risk they create to acceptable levels for the company.

Proactive risk management begins with assessing potential risks, identifying the drivers connected to their root cause, and then calculating the probability of:

- The risk event itself
- The probability of negative impact
- The damage created by said impact
- The forces driving the impact as an expression of unmanaged risk
- Total losses to the organization (reputation, competitive advantage, profits, etc.)

Once risks have been identified and traced to their root causes, contingency plans can be developed to prevent future risks that have not yet occurred as well as minimizing the likelihood of repeated risk impacts from the past.

Putting Proactive Risk Management to Work

Leaving reactive risk management behind to develop a risk management program for the modern business begins with the right tools.

Implementing a comprehensive, cloud-based procurement software solution like PLANERGY can make achieving optimal proactive risk management faster and easier to integrate with your existing workflows, policies, and software environment.

Using a centralized solution solidifies and simplifies risk culture company-wide and allows you to use risk management methods such as process automation and AI-supported data analysis across all business units to achieve:

- Complete transparency for spend data, eliminating rogue spending and inhibiting both invoice fraud and theft.
- Improved collaboration and communication between all stakeholders, from staff to suppliers.
- Better supply chain management, supplier relationship management, and reputation management through full visibility of vendor performance and compliance.
- Minimal human intervention in low-value, high-volume tasks while preserving invaluable human intelligence and creativity in planning,

analysis, and problem-solving.
- Improved decision-making through more accurate and complete business intelligence, further reducing risk while revealing areas in need of improvement and potential opportunities for growth, partnerships, and innovation.

Of course, even the most powerful tool can only do so much good without human guidance at high levels. In addition to the right tools, you need the right risk management strategy built on continuous improvement.

Data analysis and process automation support continuous improvement intrinsically, but to limit risk exposure, protect value, and reduce costs, you need a mechanism in place that allows for humans to take the insights mined from your data and put them to use with effective decision-making and planning.

To be effective, your risk management strategy should include:

- Constant and complete communication of risk exposure to all relevant parties to ensure total transparency with regard to the company's past, current, and potential risk exposure.
- Collaboration and consultation between all parties to develop as many contingencies as necessary to keep risk at acceptable levels, incorporating both hard data and creative feedback in tackling potential threats. Risk management should be connected with and essential to strategic planning for the organization as a whole.
- Education and training to ensure internal compliance with risk identification and mitigation strategies and ensure full buy-in for technological tools and software that support a proactive approach (e.g., purchasing software, data analytics suites, information management dashboards, mobile applications, etc.)

Take Action for Lower Risk and Higher Performance

No one wants to go through life one step behind. Reactive risk management strategies can cost your company plenty in the form of lost profits, damaged reputation, and impaired competitive performance.

By developing and implementing a proactive risk management approach, supported by the right risk management tools, you can identify and minimize the negative impact of risk on your organization’s productivity and profitability.

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