Risk management

The aim of risk management is to manage all potential risks involved in public innovation procurement. It helps you to quantify and monitor risks and to take measures to prevent negative consequences. One method of conducting risk management that is frequently used is by drawing up and keeping up-to-date a 'risk register'.

1. When is risk management useful?

Public innovation procurement involves various risks that you need to be aware of, especially if there is to be a tendering process. There are risks attached, for example, to technical, commercial, contractual and performance-related issues. The risks involved in the procurement of innovative products and services are greater, because innovation is often associated with trial and error, and by definition it comes with a greater risk of failure. Risk management helps you to manage these risks and reduce the chance of failure. In some industry sectors, such as construction, the analysis of risks is something that is already in the public arena.

By identifying risks, you contribute to the transparency of the tendering process. It gives the suppler and tenderer a better idea of where they stand, and these risks can then be shared, for example through the sharing of profits or intellectual property rights.

2. Step-by-step plan

You can begin to tackle risk management by conducting a risk analysis. This addresses questions such as what the risks are, what chance there is of a risk situation occurring, what the consequences of a risk situation are, how you can respond to this and what measures you can take to reduce the chance of this situation occurring and/or to minimise its consequences. Consequences can be minimised by, for example, spreading the risks by means of contractual terms or through an insurer. You could also avoid the risk altogether, choose other or additional suppliers or not enter into any deal. Alternatively, you can simply decide to accept a risk.

To manage your procurement risks you can use a risk register. This is a kind of dashboard in which you can see at a glance the current risks of public innovation procurement and how you can manage these risks.

Illustration of a risk management process (source: Self Storage Risk Management Association).

Step 1: Start by drawing up a risk register

When starting to draw up a risk register it is useful to have a basic structure in place. This example demonstrates the different components of the register. You then complete this Excel sheet in accordance with the following steps in order to obtain the most complete overview possible of your own risks.

Step 2: Identify possible risks

When identifying possible risks it is a good idea to distinguish between the cause of a risk, the situation and the consequence. For example: the cause may be that a bridge is open, the situation this creates is that the construction site is not accessible and the consequence (see also step 3) is that the parties cannot do their work and the project is thereby delayed.

Step 3: Brainstorm in respect of the consequences

Consequences describe the impact of a risk on components of the project. In the case of procurement, this might be negative publicity, a longer delivery time, lower quality or a higher price for the products and services purchased. What will go wrong if the situation occurs? You can find out by brainstorming internally with a group of relevant parties.

Step 4: Estimate the chance and impact of a risk

There is always a chance that a certain risk will occur. If you discuss this with others, you can make a more carefully considered assessment. You could first ask all relevant parties to make their own estimates and then discuss these together. For most goals it is sufficient to rate the risk according to a five-point scale (very low, low, average, high, very high). It is often better to estimate the impact: again, it is often sufficient to rate this according to a five-point scale.

Step 5: Decide on the measures

Decide on the measures you need to take to deal with various risks. When determining your organisation's response it is very important to weigh the costs of a response against the costs of any risk situation occurring. In other words: do you invest more, less or even no funding in order to prevent a risk? As a rule of thumb, responses should be:

- low risk – low impact → accept
- high risk – low impact → accept
- low risk – high impact → insure
- high risk – high impact → avoid

The measures that your organisation decides to take may be preventative, responsive or a combination of both. As well as deciding on the measures, it is important to decide who is responsible for monitoring the risk and who will take the measures to limit the risk (i.e. who does what). The possible measures include:

- obtaining information
- monitoring suppliers more regularly
- conducting external audits
- taking out insurance cover
- drawing up protocols

You can also involve suppliers in the task of 'obtaining information'. If, for example, your tendering process is to include a risk analysis, you should challenge suppliers to identify the risks. Ask your suppliers to compile a joint risk file.

Step 6: Determine the secondary risk, impact and risk

The measures you define have an effect themselves on the chance and/or impact of the risks of public innovation procurement. In this step you should estimate the consequences of this and decide on the chance and impact of the risk against which you are taking the measure. Furthermore, every measure can bring additional risks or increase the chance of another risk. This is known as a secondary risk.

Suppose a purchaser is worried about the risk of a late delivery. The measure the purchaser takes is to make the supplier liable for late delivery in the contract. This creates a secondary risk of the supplier going bankrupt as a result of its liability if this risk materialises. As a consequence of this, the product is not delivered at all.

At the end of this step the risk register is complete and a snapshot of the risks and responsibilities of the relevant parties is available. On the basis of these risks you can consider how you draw up a tendering process or procurement or which form of tendering process or procurement you choose.

Step 7: Monitor the risks and impact

By nominating a party to be responsible for monitoring a risk per risk situation, you can continually monitor risks and impact. The risk analysis will change continuously as the procurement process or innovation project progresses. By monitoring this you can also alter your responses in order to deploy your resources, such as insurance, buffers and labour, in the most efficient manner.

3. Further information

- Risk management in the procurement of innovation European Commission 2008
- Case Studies Public procurement of innovation
- Riskregister

4. Source

This information was taken from the “Innovation Procurement for Contracting Authorities” document that was prepared by PIANOo in 2017.