

## THE 4 PILLARS OF EFFECTIVE RISK MANAGEMENT

### THE RISK MANAGEMENT PROCESS GAP



- Does your organization have a **robust process to actively manage risk**?
- Do you manage your risks **in a systematic manner**, or is it primarily paper-based and ad-hoc?
- Are **periodic surveys** a primary source for your risk assessments?
- Does 'risk management' occur for your organization **in reaction to external and internal news** about risk issues and events?
- Does your organization **effectively define, execute, and track risk** mitigations, and document them comprehensively to enable future re-execution as needed?

While Risk Management is not an exact science, it is often left up to individual assessments or "gut reaction", without the benefit of real data driving the evaluation process. Where there are more formalized approaches, they often are not able to drill down to lower levels in the supply chain, such as to analyze the vendor's suppliers. The lack of the visibility to those risks, and then the ability to quickly follow those upstream to end products, creates blind spots when developing risk records and evaluations.

### SUMMARIZING THE NEED

It is an important step in formalization of an organizational risk management methodology to establish a robust, comprehensive risk management platform and automated risk identification functionality necessary to fill this risk management process gap. Records need to be setup for every unique combination of links in your supply chain network, thereby enabling your risk knowledge and awareness to be reflected within or across supply chains.

### PILLAR #1: DESIGN AN OPTIMIZED RISK MANAGEMENT PLATFORM

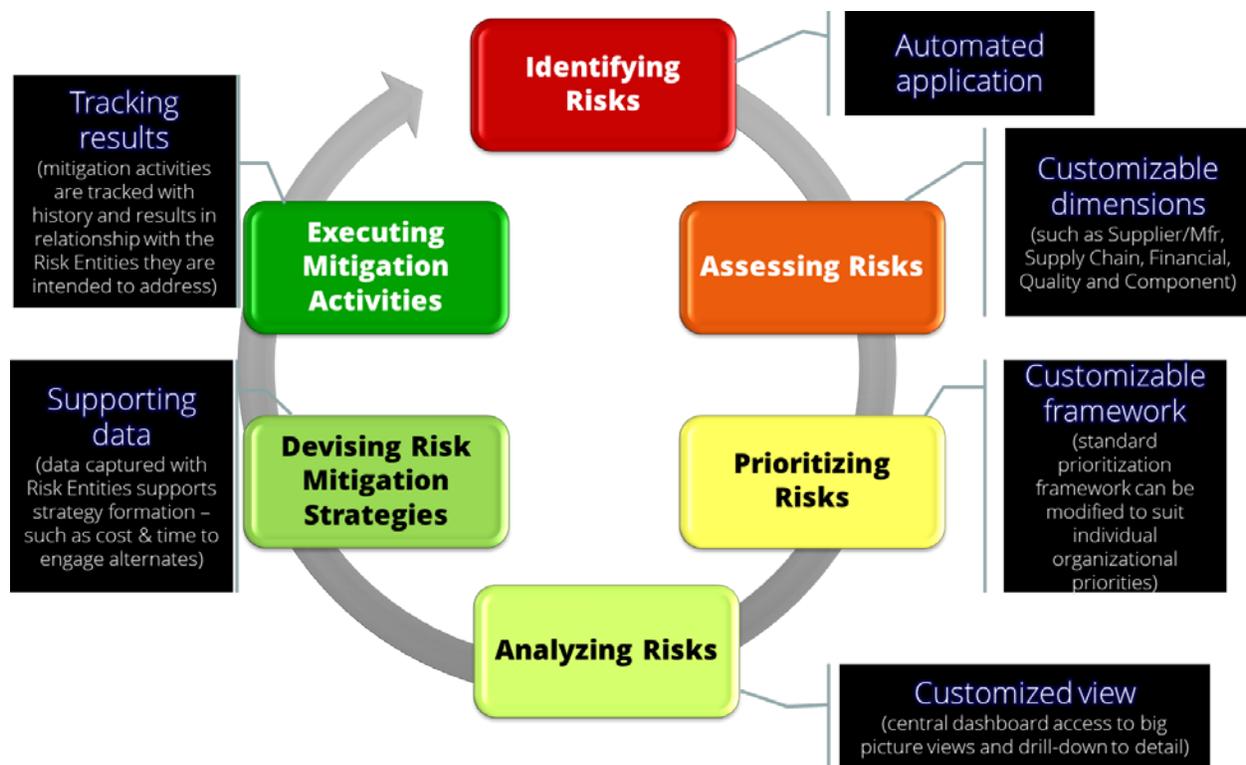
A source-agnostic design makes it the central hub for all risk management activities across the organization. Even before performing risk assessments, your organization needs a comprehensive, end-to-end model in which to present your end-to-end supply chain mapping... including every location, material, and partner required to make a product or deliver a service. In most organizations, this is a manual task which requires significant



time and effort, and which introduces significant chance of human error or omission. Systematic supply network map generation with automated updates will always be the optimal approach.

## PILLAR #2: FORMALIZE THE RISK MANAGEMENT CYCLE

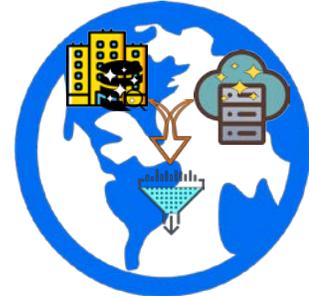
Risk management must follow a very logical process, focused on facilitating the achievement of key business outcomes. There must be recognition of the fact that the same exact set of risk perspectives, models, dimensions and appetites will not often suit the needs of your various organizational units, functions, and regions. They may each have their own unique requirements. However, the process flow will always have the same components:



The outcomes of the risk management cycle should include multivariant visualizations and reports to enable analysis of identified risks to organizational management from Director-level up to C-Suite level. To build confidence in the risk metrics and visualizations, it is a best practice to enable drill-down to details that provide more detailed tracking and analysis of risks. This is critical in supporting the key next step: organizational risk-mitigating activities.

## PILLAR #3: CONSIDER DIVERSE INTERNAL & EXTERNAL RISKS

A common mistake made by organizations is to focus too heavily on 'external' information sources to make judgements about risk. A comprehensive risk management platform must be 'source-agnostic', meaning that it receives information from a combination of external and internal sources. The kinds of risks should not focus solely on the elements internal to the supply chain itself. Instead, risks that are outside of the chain, but which can have significant impact on the organization's ability to operate must also be considered (i.e. risks that are regulatory, reputational, financial, IT/cybersecurity in nature).



To build a comprehensive, data-driven platform will require extraction from many different sources – both external news feeds, and internal enterprise data feeds. These should be automated, and have mapping rules applied, to attempt to reduce the potential for human error, misinterpretation, and 'data fatigue'.

Most importantly, there must be recognition that risk assessments are not 'one-size-fits-all'. There must be the ability to allow flexible assessment of risk based on the risk issues, categories, priorities, and sensitivities of the different parts of your organization.

## PILLAR #4: CONVERT AWARENESS INTO ACTION

Risk awareness alone is not enough – it must be converted into risk *understanding*. Risk understanding must then lead to risk **action**.



An optimized risk management process must tie risk records to one or more risk mitigation plans that can be designed, assigned, executed, and tracked in detail. All mitigations should be retained in a searchable database to ensure that organizational learning can replicate successful mitigations, thereby reducing future time-to-recovery.