



Cite this article as: Mchopa, A.D. (2019). Procurement Risk: Short Guide to Business Risk by Richard Russill. Ashgate Publishing Limited, Farnham – England, 2010. ISBN: 978-0-566-09218-3. 132 PP, *East African Journal of Social and Applied Sciences*, 1(2), 215-220.

BOOK REVIEW

PROCUREMENT RISK: SHORT GUIDE TO BUSINESS RISK BY RICHARD RUSSELL. ASHGATE PUBLISHING LIMITED, FARNHAM – ENGLAND, 2010. ISBN: 978-0-566-09218-3. 132 PP

Reviewer

Alban D. Mchopa

Department of Marketing, Procurement and Supply Management,

Moshi Co-operative University (MoCU),

E-mail: albanmchopa@gmail.com

ABSTRACT

Organisation procurements like any other functional dimensions are not immune to risks. There are a variety of risk factors that arise from external and internal sources that must be rigorously assessed, prevented and/or controlled. Thus, procurement risks management needs to be an integral part of existing procurement and organizational functions so as realise the maximum benefit. The author asserts that procurement risk exists for an organization when supply market behaviour, and the organization's dealings with suppliers, create outcomes which harm company reputation, capability, operational integrity and financial viability. The book further provides critical discussions topical-wise on a number of issues relating to procurement and supply risks such as big picture about the synergy between procurement and the risks; risk associated with external dependencies; market conditions and behaviours; procurement process; management controls; approaches on handling the unexpected and the integrated approach towards procurement risk management. Despite the remarkable discussions, the book has some flaws particularly the failure to provide rigorous discussions on the risks manifesting from global supply chains, contract management, and cyber attacks. Also, a meticulous discussion on the risk analysis techniques and tools is missing which could have provided more guidance to practitioners and managers. Even so, the book is very valid and useful to professionals, suppliers, managers, researchers and consultants who are involved with procurement and supply management.

Key words: Procurement, Supply, Risk, Remedies, and Supply Chain.

Paper type: Book Review

Type of Review: Peer Review

1. SYNOPSIS AND REFLECTIONS

The author eloquently remarks that executives across companies and organisations worldwide view supply markets as sources of competitive advantage and as means of achieving strategic objectives. Procurement is the management activity that makes things happen, and this process depends on a superior risk management capability if it is to be effective. Yet despite its importance, procurement risk management is surprisingly “under-developed” as little attention is given whereas risk exposures exist and can be just as damaging. A great emphasis is given on managing certain business aspects such as customers; operations; strategy and finances. Global risk surveys have pointed out supply chain vulnerability as one of the four key global risks for the next decade since no company is an island; it needs suppliers as well as customers. Thus, procurement and supply risks need a superlative attention since a risk-aware procurement process provides the bonus of competitive advantage through timely and quality delivery as well as cost optimisation.

The book chapters provide a synthesis of the topical issue at hand, outline the risks and the possible remedies that can be used to capitalise on the occurrence of unexpected risk events. The author cautiously puts it very clear that *“...it is dangerous simply to paste remedies over a risk problem if its underlying causes remain undisturbed...when this happens, risks that we thought we’d fixed come back and bite again and again...”* (p.01). Thus, understanding the context and content of the risks is vital prior to devising a remedy or strategies to deal with the event. Chapter one provides the big picture about the synergy between procurement and the risks arising by emphasising the procurement’s place in the business and the need to get it before it is too late basing on the business equation. Mostly, the equation in the companies is “we buy, we transform and we sell” the same in public sector could be expressed as “we buy, we add value and we deliver”. Regardless of the differences in business orientations, the basics of procurement are homogeneous since in both perspectives resources are needed at one end of the business just as customers¹ are required at the other. Thus, no procuring entity² is an island since they are all in the same business continuum and traditional procurements are no strangers to risk exposure and management. Hence, the chapter provided the pre-requisites for risk identification to be effective. This creates a comprehensive search for ‘at risk’ situation surveys in the critical landscapes where risks may lurk such as external dependencies (supply chain robustness and supplier viability); market conditions and behaviour (e.g. competitive or not; supply availability); procurement process; management controls; ability and agility to handle unexpected events (p.13).

The second chapter provides a critical analysis on the risk associated with external dependencies that mostly emanate when the customer company relies on suppliers to meet their obligations as set out in the purchase order or contract. Surveys have ranked the supplier failures as the main risks in procurement and supply chains. The author points out that it is important to distinguish between the physical means of supply and the ability or commitment of the supplier to supply...which all constitute potential risks due to piracy in high seas and company financial failures (p.21). More cautiously the companies should not allow the lurking risks which may destroy the procurement and supply initiatives. The potential risk situations as a result of external dependencies include poor supplier performance; damages and losses in the supply chain; supplier pre-occupation with major projects; supplier bankruptcy; frauds, over-dependence on too few sources of supply; as well as takeovers and mergers. Nonetheless, the chapter highlights the possible remedies just in case the aforementioned risks occurs whereby the procuring entities can map the supply chain in order to fix the weak links in the physical supply chains and if necessary going back beyond the supplier’s suppliers and right back to primary source of supply (p.22). Also, the use of insurance covers has been highly acclaimed to be a potential remedy in terms of indemnity to insure against poor performance and subsequent losses in transit. The risks of fraud can be dealt through application of consistent and firm procurement procedures which provide audit trails, ensure transparency and even-handedness but also provide steps to be taken if corruption in the bidding process is detected.

In Chapter three the author recounts the market conditions and behaviours since they affect the whole supply market sector rather than a particular supply chain and the vulnerable links in it. Therefore, the markets conditions and behaviours refer to the supply chain environment with which the company interacts via its procurement process before and after contact commitment. Unlike the previous chapter, the author stresses on the importance of the supply market to be viewed as a whole as distinct from focusing on individual suppliers and supply chains. Whilst some markets behave in a competitive way and follow shifts in supply and demand, others behave in a way that suppliers decide they should and predominantly in the form of “cartels” where suppliers have the power to set the process where they want them to be. As the case may be the author pose a great question that most procuring entities ask themselves “who exactly is running our business?” since there are potential risks situations including price and supply volatility; upward price pressures; supply shortages; being held hostage to

¹ In public procurement “a customer” means users in the departments within the institution or community members waiting to be provided with public services.

² An entity (whether public or private) engaged with the procurement of goods, works, services as well as disposal of assets in order to support operations and satisfy the intended needs.

monopolies; invoicing scams; information brokering; and loss of competitive sources because of mergers and acquisitions (p.39). Taking the potential risk areas in mind, the author identifies four potential priorities including price stability and predictability; supply chain security, supply sources and availability; as well as cost levels in procurement which collectively should be taken on board seriously in order to take precautions. Further, there is a call to strategise procurement operations in order to manage suppliers and influence supply markets so that they respond accordingly now, and in the future, in a way that the company needs them in order to achieve their objectives (p.52). Strategies should be developed collaboratively through cross-functional process that leads to co-ordinated commercially aware behaviours which is different from companies that do think only in terms of short-term muscle power and ‘piling higher, buying cheaper’.

The fourth chapter is about profiling the procurement process utterly and the need for the process to be done professionally and explore the full potentials by procurement professionals otherwise “...*the work will be done by lawyers and bankers...*” (p.55). Seemingly, procurement is failing to shine as brightly as it has the potential to do simply because its role is seldom associated with the goals of the business but is, instead, preoccupied with cost reduction throughout the process. The author on page 56 details the procurement process by pointing out that it covers all activities from deciding on a business need to committing a supplier to satisfy that need, and ensuring that the outcome is acceptable. Thus, the definition includes the information systems and decision-making tools which support the process if it is to be well-informed and effective while avoiding or hedging the risks associated. The key stages in the process include specifying need; searching the market and soliciting offers from suppliers; negotiating and awarding the contract; and finally keeping a commercial watch on overall contract performance. The chapter teasingly puts a question “...*so what can go wrong...?*” well a lot could possibly go wrong in the implementation of the procurement process such as poor specifications; insufficient standardisation; wrong supplier assessment; corrupted bid responses and tender evaluation; insufficient market analysis; and under-trained personnel (p.56). Hence, a great concern should be on ensuring delivery accuracy (timing and quantity); responsiveness towards variations; early buyer and supplier involvement; collaborations and innovations in order to deliver financial benefits, reduce exposure to risk, re-position procurement’s role and increase sustainability of the entire procurement process.

Chapter five captioned as “Management Controls” exposes some risks that lurk in the management controls whereby the author pinpoints procurement frauds mostly technological related which are picking up. For example, in the year 2008 the procurement frauds in the United Kingdom alone rose by 347 percent (p.75). The increased reliance on technologically-managed financial transactions is now so great that enormous frauds can be perpetrated as the flick of a switch, enabled by lax controls and driven by greed. Therefore, the chapter deliberately calls for business controls for risk prevention only when they are seen practical and relevant to the business risk exposure. The simple management control such as separation of responsibilities between budget holders (requisitioning authority) and buyers (commitment authority); contract terms and conditions, and goods received/invoice payment checks can prove vital towards hedging and controlling the risk exposures. However, rather than trying to anticipate every transgression and prevent it before it happens, it is better to create a culture where transgression is not contemplated in the first place. Therefore, building trust is vital to company high performance and effective controls since in procurement trust without control is naively irresponsible. Control without trust is self-defeating as demotivated individuals will beat the system, but trust with principled control empowers people and transforms their effectiveness.

Chapter six provides discussions and approaches on handling the unexpected through having contingency plans in place. Mainly, the chapter deals with company’s ability to handle the unexpected so that it survives the disruptions and resumes its progress towards desired goals. Success partly depends on the culture and agility of the company teams and partly on being able to demonstrate that ‘chance has favoured the prepared mind’. The author on page 95 argues that not all risky events can be accurately anticipated or realistically been foreseen. Thus, companies at all times should have risk assessment mechanisms in place so as not to increase the likelihood of failing to anticipate potential events. Arguably, the first step to handle the unexpected is to make the unexpected

smaller and having the right attitude. Thereafter, a creative risk identification and exhaustive data analysis will be useful as it might reclassify otherwise unforeseen events as being distinct, albeit unlikely, possibilities. Also, strategic planning creates the discipline of thinking things through beforehand, hence, in turn reduces the occurrence of ad hoc reactions to events which sometimes backfires.

The last chapter (seven) presents an integrated approach towards procurement risk management. Since it is the last chapter, the author recalls the focus on the 'impact' component of the risk equation that "*being at risk = impact x probability x no mitigation*" whereby "*impact = exposure x event*". Thus, companies should give special emphasis on searching out potential risks lurking in five landscapes namely external dependencies; market conditions and behaviours; procurement process; management controls; and handling the unexpected. Dealing with the lurking risks in the landscapes has been discussed in the previous chapters whereby a specific approach is required for each specific event regardless of whether the risk exists inside the organisation or in supply chains or supply markets. The chapter poses the obvious question that "*...how do we put procurement risk management into action?*" and the author provides a response (pg. 110) basing on the highlighted outline process. The process kicks off with gathering data on supply expenditure and thereafter goes on to determine supply categories particularly important to examine first; identify potentially disruptive events for each supply category; assess the impact of each event if it happened along with the probability of occurring. Afterward, the focus should be on those events which are deemed likely to occur and have harmful impact. These will call for contingency plans or taking actions to reduce the pain or probability. If the selected actions are only suitable in the short term then strategies should be designed to reduce 'at risk' situation in the future. Finally, the author emphasises regular monitoring should be instilled to re-visit and refine the overall risks analysis and its management conclusions.

2. EVALUATION AND DISCUSSIONS

The author provided a well-focused and rigorous analysis of the supply market risks basing on his enormous experience on procurement and supply chain more particularly in Europe. The book gives practical scenarios, remainders and experiences regarding procurement risks and practical ways of mitigating them depending on the topic at hand. Thus, the book helps to see beneath the surface of commercial business life so that procurement risk management is sustained and systemic, rather than superficial and temporary. Also, the author provides probing questions for the readers to ask themselves which will help them to probe things more deeply. The insights in the books are very resourceful to procurement professionals who are always challenged with the risks in their operations; managers who are involved with decisions making relating to procurement operations at tactical or strategic level; suppliers who are always expected to deliver the best regardless of the supply risks involved. Most importantly, the book is useful to researchers, trainers and consultants in procurement and supply management though more attention has been given to developed countries but not the developing ones where risks anticipation and prevention are hardly rigorous.

As the author puts it very clearly that "*...no company or public sector organisation is an island... (p.3)*" the same attention should have been given on the analysis of the global supply chain risks which 'know no boundaries' since their impact goes beyond the conventional national borders. Agreeably, globalisation has presented numerous opportunities in procurement to both the suppliers as well as the procuring entities since the business boundaries have been minimised if not eliminated, which means more supply destination avenues for suppliers. Also, the procuring entities are enjoying the global sources of supply which comes handy in terms on cost optimisation, reliable and quality supply as well as enjoying best practices through outsourcing. All these may become misfortunes since they are attached with severe risky scenarios if not handled properly the risk and misdemeanours are unthinkable. Therefore, the author should have gone far to highlight the major risks associated with global supply chains and the possible mitigation strategies since they are more risky than domestic supply chains due to numerous links interconnecting a wide network of firms. According to Manuj and Mentzer (2008) the links are prone to disruptions, bankruptcies, breakdowns, macroeconomic and political changes, and disasters leading to higher risks and making risk management difficult. Similarly, Barrios (2018) argues that global supply

chain risks such as political affiliations and government changes³; extreme weather conditions; connectivity and technological as well as cyber-attacks (CIPS, 2012) create pressure in procurement and supply chain operations. The risks if not well handled can tailspin organisation revenues, bloat costs and budgets but also threaten distribution of the procured products (Enyinda *et al.*, 2008).

Despite the aforementioned remarks, the author ought to have provided a meticulous discussion on the risk analysis techniques in order to guide those engaged with procurement operations. Being aware of the risk is not enough in the business perspective since a lot of strings are attached to it; hence a comprehensive risk analysis is decisive in order to understand its magnitude and ramifications. Though a bit of risk impact assessment and probability has been highlighted in chapter seven (p.117), the author could have done more in terms of providing a critical discussion on the risks analysis standpoints; techniques; as well as approaches to reduction and control of risks. Lysons and Farrington (2012) argues that risks can be assessed from three standpoints that include the likelihood of the risk being realised; the impact of the risk; as well as the cost and benefits of taking steps to reduce either the risk or its impact. Also, some approaches to the reduction and control of risk that include decision support modelling and information; probability analysis; sensitivity analysis; hedging; and satisficing whereby managers choose the acceptable solutions based on the information available. The techniques and tools that may be used to identify procurement and supply chain include brainstorming sessions; risk registers; SWOT analysis; balance sheet analysis (CIPS, 2012); and Kraljic portfolio matrix (Lysons and Farrington, 2012).

Despite a focused discussion on the procurement process risks events, contract management risks have not been given much attention in the book taking into consideration how erratic they are and the subsequent impact. Mostly in developing countries the executions of public procurement contract are unsuccessful endeavours mainly contributed by manifestation of contract management risks relating to cost, quality and time. For instance, the procurement laws and regulations emphasise the award of contract to local contractors using the margin of preference schemes. However, the contractors have limited access to funding sources, especially contractors in the small and medium bracket (Gyamfi *et al.*, 2016). This, in return prevents them from satisfying the financial requirements and the risks it poses to procurement (Zou, 2006) including the risks pertaining to supplies and prices of materials, obtaining interim payment, negotiating variation payment and technical know-how. At some point the contractor fails to perform the contract leading to liquidation of the firms (Badu and Owusu-Manu, 2010) in order to cover for the claimed damages. The aforementioned affects the effectiveness and efficiency of implementing procurement contracts especially in public procurement where there is a lot of legal and political pressure. Detailing the mitigation strategies such as submission of performance bonds and guarantees could have added more valuable discussion on the possible remedies and counter measures in the respective chapter.

Further, reading through the book the author gave a light touch on the risks associated with changes and developments in information and communication technologies (*e.g.* page 49 and 81). Practically, the risks, particularly those relating to cyber attacks are highly picking up and cost organisations dearly⁴. Porteous (2019) points out that with widespread adoption of digital solutions for the management of big data in procurement, organisations are prone to risks such as hacking; phishing over information, technology and communications systems; software counterfeits and tampering. Similarly, the supply market is full of tainted software that can fail to operate as designed or worse, contain rogue functionality, unstable configurations or undermined security mechanisms. Currently, public procurement systems all over the world are transformed from manual to electronic which poses more risks relating to cyber-crimes and frauds. Hence, the risks raise the concern on cyber security since confidential data relating to supplier contracts, financial information and many shadow budget procurement transactions are exposed. For example, coming January 2020, all procuring entities in Tanzania must be operating

³ In Western Europe for example the BREXIT has had an adverse effect on trading and supply chains, created volatility and weakened the British Pound.

⁴ Google and McAfee estimate there are 2,000 cyber- attacks every day around the world, costing the global economy about £300 billion a year.

under the Tanzania National Electronic Procurement System (TANePS). A new system procuring entities are not used to and the associated risks which manifest the risk potentials relating to data insecurity; inadequate internal authentication and access protocols leading to illegal access of system. Therefore, the procurement's interest in cyber-security must be in two-fold in terms of managing the myriad of potential security issues within the supplier community; and concern itself more with data security issues within its own operations (internal and external) (Porteous, 2019).

REFERENCES

- Badu, E. and Owusu-Manu, D. (2010). Improving Access to Construction Finance in Ghana: Empirical Descriptions of Constraints and Antidotes. *Journal of Business and Enterprise Development*, 2 (1):111-129.
- Barrios, K. (2018). *Top 10 Global Supply Chain Risks*. Available online at <https://www.xeneta.com/blog/global-supply-chain-risks> accessed on 10th December 2019.
- CIPS (2012). *Public Procurement Practice: Risk Management*. CIPS & NIGP. 4pp. Available online at https://www.nigp.org/docs/default-source/New-Site/global-best-practices/riskmanagement.pdf?sfvrsn=5d32e140_4 accessed on 12th December 2019.
- Enyinda C., Ogbuehi, A. and Briggs, C. (2008). Global Supply Chain Risks Management: A New Battleground for Gaining Competitive Advantage. *Proceedings of ASBBS*, 15(1): 278-292.
- Gyamfi, T., Boadaa, R. and Adu-Fosu, B. (2016). Risk Analysis of Procurement Options: Implications for Construction Firms in Ghana. *International Journal of Sciences: Basic and Applied Research*, 8 (1): 90-102.
- Lysons, K. and Farrington, B. (2012). *Purchasing and Supply Chain Management (8th edition)*. London: Pearson Education Limited. 687pp.
- Manuj, I. and Mentzer, J. (2008). Global Supply Chain Risk Management Strategies. *International Journal of Physical Distribution & Logistics Management*, 38(3): 192-223.
- PORTEOUS, E. (2019). *Cyber Security – What Does It Mean for Procurement in 2019?* Available Online At <https://www.procurious.com/procurement-news/cybersecurity-what-does-it-mean-for-procurement-in-2019>. Accessed On 12th December 2019.
- Zou, P. (2006). Strategies for Minimising Corruption in the Construction Industry in China. *Journal of Construction in Developing Countries*, 11(2): 15-29.