

The RISC Model

The RISC Model is a tool for assessing the capability of a procurement organisation and identifying areas for improvement.

Background

The RISC model was developed by a group of organisations brought together by the DPSS Best Practice Forum.

The group had a collective interest in developing a self-assessment model that could help them share best practice, enable them to assess the current performance capability of their own organisations and, most importantly, identify opportunities to improve.

The RISC model has been successfully used by a number of organisations.

How RISC works

Procurement is a complex “whole business” process. It touches most parts of an organisation. The RISC model attempts to capture this complexity by measuring performance against 14 different themes.

Each theme is divided into 5 levels. Level 1 represents basic practice. Level 5 represents “best in class” practice. A detailed description of each of the themes and typical evidence of what would constitute any given level is attached.

One way of using the RISC model is to assess performance for each of the themes in turn. On the attached example, each theme has been given 3 scores – the average position, the highest observed position and a future target of where the organisation wants to get to in 18 month’s time.

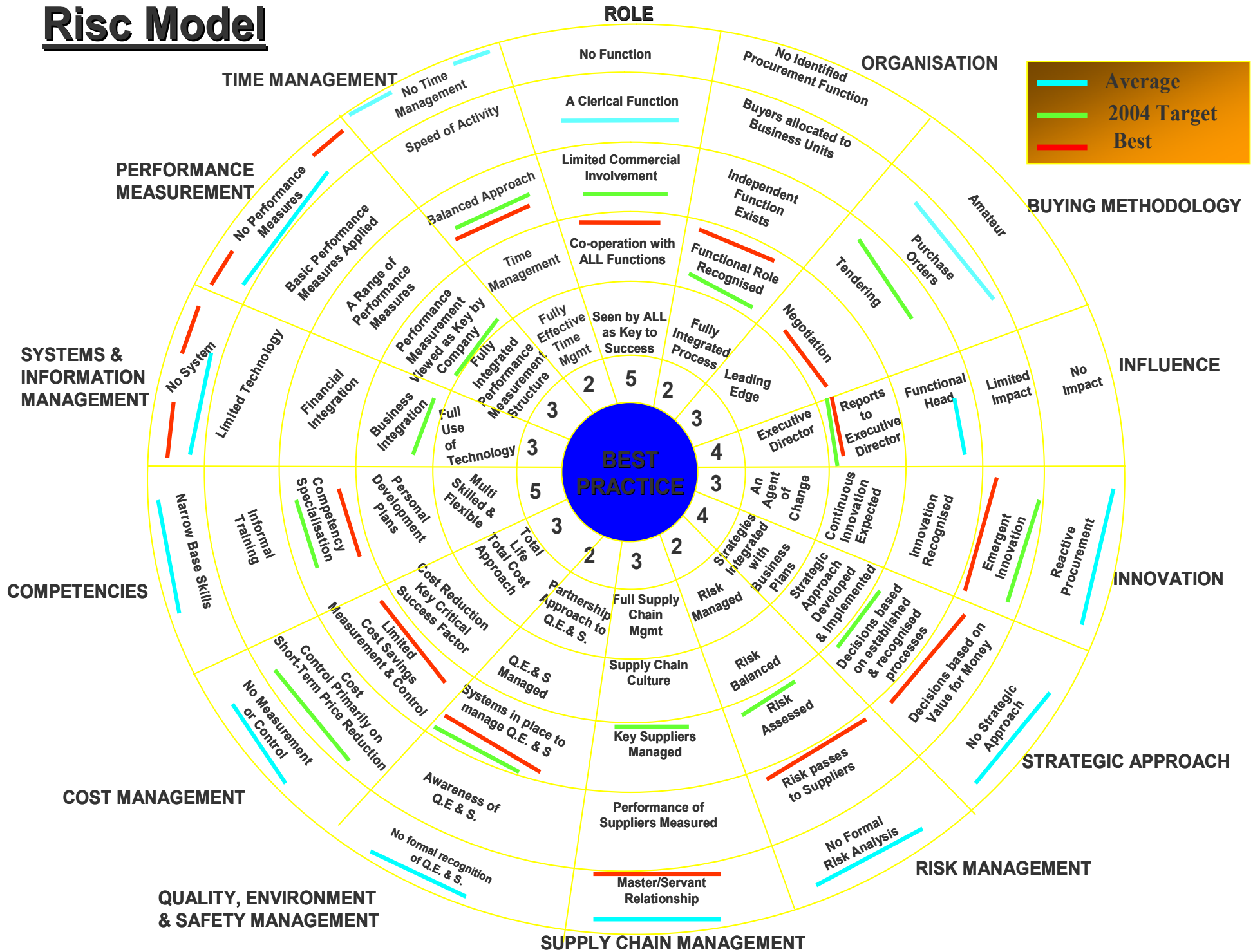
The scores at the centre of the diagram demonstrate the relative importance of the 14 themes. The Group considered **R**ole, **I**nfluence, **S**trategic Approach and **C**ompetencies to be the 4 most important themes – hence **RISC**. The weighting enables a scoring system to be developed – eg 12 points (Level 3 * weighting of 4) enabling easier comparison between different procurement departments within an organisation.

Making use of RISC

The power of the RISC model is that it is simple and easy to understand. Senior executives outside the procurement function tend to like the model because it provides a graphical representation of the gap between current performance and aspirations of the future.

The challenge is to honestly assess your current performance and then develop practical improvement plans.

Risc Model



RISC Performance Model

Influence

The ability of the procurement function to influence the organisation. The extent to which the Procurement function is integrated at all decision making points / levels across the organisation.

Level 1

No Impact

- there is no discrete procurement function
- the procurement activity is undertaken by disparate individuals
- no set company policy
- no procurement structure
- part of another department
- no recognition of procurement's value to the organisation

Level 2

Limited Impact

- a procurement function exists with policy and operational guidelines
- staff report into a low tier of company management
- possibly part of another department
- little or no input into broader commercial decisions of the company
- concentrates its activity on buying goods
- lacks authority to implement strategic sourcing policies

Level 3

Functional Head

- staff report to member of senior management team who is classed as "Head of function"
- procurement is a separate department within the company
- procurement policy is integrated within overall company policy
- some involvement in business decisions - but tends to be involved only when called upon by others

Level 4

Reports to Executive Director

- Head of Procurement reports to Executive Director
- seen as a key function that adds value to the company
- recognised throughout the company as providing valuable guidance on all supply management issues

Level 5

Executive Director

- Director of Procurement sits on Main board
- recognised as a vital function for the continued health of the company
- provides strategic guidance for the company across wide range of commercial activities
- involved at early stage in all of the key Company business decisions, not just supply management issues
- recognised as the centre of expertise on commercial issues in the company

Organisation

The effectiveness of the physical structure of the procurement department / function in delivering business needs

Level 1

No Identified Procurement Function

- procurement does not exist as a separate function / department
- procurement skills are uncoordinated
- professional knowledge is not captured or shared around the Business
- no specialist / professional buyers in the organisation

Level 2

Buyers Allocated to Business Units

- buyers located within individual Business Units
- buyers report through to non-procurement (general) management
- buyers have no accountability to meet defined professional standards

Level 3

Independent Function Exists

- procurement exists as a separate function
- some expenditure co-ordinated
- some co-ordination / control of standards and performance
- functional role not fully recognised / effective

Level 4

Functional Role Recognised

- central function determines strategic direction
- central function sets high level policy
- buyers devolved to separate Business Units but accountable to the function.
- full co-ordination of expenditure, standards and performance
- buyers communicate through professional networks.
- CLAN methodology utilised

Level 5

Fully Integrated Process

- procurement staff are fully integrated (parented) into projects / business processes
- staff resources are co-ordinated and managed for the Business as a whole.
- optimum balance between centralisation and decentralisation
- location of staff based on meeting business needs
- functional accountability fully defined, managed and effectively delivered

Role

The extent to which the procurement activity/function is integrated with other business processes. The perception of Procurement's importance and popularity with internal customers.

Level 1

No Function

- no separate function or department responsible for procurement
- procurement undertaken by end user
- no aggregation or co-ordination of expenditure

Level 2

A Clerical Function

- only working at a tactical level
- involved in procurement process on a small percentage of overall spend
- procurement merely receive requisitions and raise Purchase Orders
- responsibilities are (and are viewed as) primarily administrative / procedure policing

Level 3

Limited Commercial Involvement

- procurement is seen as a specialist function inside the organisation
- procurement only has input to insignificant commercial decisions
- procurement concentrates its attention on traditional "commodity"/repetitive purchasing

Level 4

Co-operation With All Functions

- procurement is held in high regard in the organisation
- procurement is seen as a value-adding function in most parts of the business
- procurement has continuous contact with its internal customers and is involved, early, in many areas of the business
- procurement is not just involved in traditional areas of activity and it acts as a consultant offering specialist skills

Level 5

Seen By All As A Key to Success

- procurement has a highly positive image as a value-added service provided
- procurement involvement seen by all as vital to business success
- seen as facilitators in delivering business solutions
- seen as the centre of excellence in guiding the style and managing the interface with all external partners - including joint ventures

Strategic Approach

The extent to which a strategic approach is taken to procurement decisions and the effectiveness of the Procurement function in developing and implementing procurement strategies.

Level 1

No Strategic Approach

- the company procures on an ad hoc basis with no defined strategy
- procurement has no/little influence over what is bought
- procurement provides an admin. service to effect needs determined elsewhere
- procurement decisions concentrate on price and delivery only
- no/little performance analysis of suppliers undertaken
- prime focus is on single transactions
- most procurement is low value/low risk

Level 2

Decisions Based on Value-for Money Considerations

- some limited planning of future procurement requirements
- procurement decisions include quality and specification conformance as well as price/delivery
- prime focus remains on single transactions
- procurement decisions made jointly with customers
- procurement has some influence over what is bought
- some framework arrangements/call-off agreements
- some procurement is higher value/higher risk

Level 3

Decisions Based on Established and Recognised Processes

- the procurement process is defined and procedures/guidance promulgated
- criteria for key decisions eg tenderer selection, contract award agreed jointly with customers
- most procurement requirements are pre-planned with customers
- supplier performance measurement fed into decision process
- key suppliers/products covered by long-term arrangements
- key procurement transactions include formal strategy development with Procurement input
- significant % of higher-value/higher risk procurement

Level 4

A Strategic Approach Developed and Implemented

- Procurement planned ahead and based on business needs analysis (eg Boston Square Value/Risks)
- key suppliers/products identified and contract strategies developed
- procurement based on long-term strategies eg Lifetime costing, cultural compatibility
- majority of procurement effort spent on higher value/higher risk
- many framework arrangements and some partnerships/alliances
- procurement involved in business critical decision on 3 to 5 year plan

Level 5

Strategies Integrated with Business Plans

- procurement strategies recognised as critical to the business
- strategies developed by taking account of wider supply chain
- procurement strategies contribute to overall business development strategies
- all procurement based on a clearly defined and implemented strategic analysis
- strategies continually reviewed and performance measured in depth
- continual development of best practice approach to all procurement strategies
- business goals of company and key suppliers shared and harmonised

Innovation

The level of innovative activity in the Procurement function. The extent to which Procurement is an initiator of innovative business solutions.

Level 1

Reactive Procurement

- procurement is told what is needed
- Organisation does not encourage movement from long standing procedures and suppliers
- buyers are not allowed and "innovative time"
- buyers do not have the skill / confidence to be innovative
- buyers do not want to try innovative solutions

Level 2

Emergent Innovation

- buyers have some impact / influence in developing procurement solutions
- minor changes to long-standing policies, procedures and supply routes
- new practices adopted in limited instances
- procurement staff have innovative skills /ideas but they are not recognized

Level 3

Innovation Recognised

- innovative procurement recognized as important
- buyers have some influence over the development of innovative business solutions
- customers make use of procurement skills from the inception of a project
- buyers involved in Change and Business re-engineering projects
- organisation recognizes the need to challenge long standing procurement practices
- ability to innovate is a competence requirement for procurement staff

Level 4

Continuous Innovation Expected

- suppliers have an equal or even leading role in developing strategic and innovative solutions
- procurement is continually challenged within the organisation to look for new techniques and practices to meet business needs
- creative skills seen as an important prerequisite in the recruitment of procurement staff
- time built into the procurement process to enable innovative thinking time

Level 5

An Agent of Change

- procurement is seen as an important contributor within the organisation of innovative business solutions
- procedures in place to continually review practices against "best in class"
- procurement anticipates demand for its services and changes / adapts accordingly
- procurement organisation is sought out by external bodies to provide advice and guidance

Supply Chain Management

The extent and depth of the Procurement function / department's relationship with its supplier base and the type of contracts that it enters into.

Level 1

Master / Servant Relationship

- a traditional arms length relationship
- discussions / meetings are superficial and concentrate on price and availability
- limited appreciation of the importance of the Supply Chain
- limited appreciation of suppliers' businesses, market positions and drivers

Level 2

Performance of Suppliers Measured

- supplier performance is analysed in some areas
- appreciation but no proactive management of the impact of the longer supply chain
- strategies implemented to reduce costs or minimise risk from limited supply chain management
- some indirect action taken to reduce costs/ risks from the supply chain

Level 3

Key Suppliers Managed

- the supplier base is rationalised
- spend is maximised with a limited number of key suppliers
- supply chain issues are reasonably well understood for these key suppliers
- some direct evaluation of sub-contractors producing supply chain improvements

Level 4

Supply Chain Culture

- monitoring / management of the supply chain occurs systematically for all key suppliers
- supplier performance monitoring systems implemented
- traditional supply routes are reviewed / changed to reflect improved appreciation of supply chain importance
- direct evaluation of sub-contractors occurs in the majority of instances
- cost removed from the supply chain following re-engineering

Level 5

Full Supply Chain Management

- consideration of the whole supply chain is deeply embedded in Procurement's methodology.
- long term partnerships (shared objectives) are in place for high value / strategic commodities
- flexible strategies are employed to reflect different levels of supply chain sophistication in various markets
- systems are in place to efficiently gather full supply market intelligence
- significant evidence of achieved benefits from supply chain management

Systems and Information Management

The extent to which a system based approach is used throughout the business for all elements of the Procurement cycle.

Level 1

No System

- use of PCs limited to clerical tasks
- no procurement systems
- no electronic linkage between procurement and the rest of the organisation

Level 2

Limited Technology

- some specialist Procurement software is in place in the business
- primarily centred around the procurement function and not covering all transactions and not linked with payments
- buyers have limited access to financial information

Level 3

Financial Integration

- full integration between purchase ordering and invoice processing
- no link with suppliers or customers in the business
- system provides basic management information
- system used to provide input into decision making

Level 4

Business Integration

- procurements systems are fully integrated with all other business systems (eg MRP2)
- electronic relationships with outside suppliers
- comprehensive electronic information for the company's users of Procurement
- comprehensive database of corporate expenditure

Level 5

Full Use of Technology

- Internet, Intranet, Extranet, EDI, Procurement cards CD Rom
- any other new technology is considered and used wherever relevant
- processes have been fully engineered and waste eliminated

Buying Methodology

The measurement of the level of sophistication applied by Procurement to achieve strategic objectives. The achievement of optimum value by applying these methodologies.

Level 1

Amateur

- no methodology exists in the organisation
- an "amateur" status applies, whether or not a Procurement department exists
- letters of intent & verbal contracts
- no understanding of contract law
- contracts on supplier T&Cs

Level 2

Purchase Orders

- clerical "order placers"
- no opportunity sought to optimise value
- basic understanding of contract law
- limited recognition of "Battle of the Forms".
- limited use of competitive tendering

Level 3

Tendering

- using RFQ, RFP, ITT and tendering methodologies
- a competitive bidding process applies to all significant purchases
- a moderate level of sophistication is used to analyse and negotiate significant purchases
- some evidence of acquired skill being applied to the methodology

Level 4

Negotiation

- the Procurement team makes a difference in the acquisition process by using a full range of techniques
- negotiation is used extensively and is seen as a key skill in the procurement team
- most purchases have this methodology applied to them

Level 5

Leading Edge

- leading edge skills exist to make a profit affecting difference
- where Procurement is not personally involved in a process they are used as "gurus" and facilitators so that methodology applies to all spend areas even those not traditionally handled by the Procurement "Centre of Excellence"

Cost Management

The extent to which Procurement measures and controls the organisation's major cost drivers both internally and externally

Level 1

No Measurement or Control

- internal costs of procurement not measured
- procurement's contribution to external cost reduction not measured
- no cost reduction targets deployed
- prices rarely challenged/negotiated by buyers
- any price challenge undertaken on a single transaction basis
- procurement staff not trained in negotiation techniques

Level 2

Cost Control Primarily on Short-term Price Reductions

- limited knowledge of internal costs of process
- external price reductions measured only at transaction level
- buyers focus is on short-term/single transaction price reductions
- procurement staff trained only in basic negotiation skills
- no measurement of procurement effectiveness in reducing costs
- cost reduction targets applied only at single transaction level
- no understanding of major cost drivers

Level 3

Limited Cost Savings, Measurement and Control

- price reductions achieved by Procurement recorded
- internal process cost measured and savings recorded
- some target setting based on historic performance
- procurement staff trained in negotiation techniques
- some cost savings from longer-term contracting
- cost savings achievements not recognised widely across company
- external savings based primarily on initial acquisition cost
- limited understanding of major cost drivers
- procurement is measured on total cost of acquisition methodology
- procurement "pays its way" via cost reduction/savings

Level 4

Cost Reduction is a Key Critical Success Factor

- external cost savings measured and value-added recognised across company/by directors
- full understanding of internal process costs and measurement of improvements
- targets set by company for cost reduction achieved by procurement
- procurement staff deploy advanced negotiation techniques
- strategic level reporting of achievements and opportunities
- longer-term view taken of cost reduction achievements and opportunities
- some control/management of major cost drivers

Level 5

Total-Life/Total-Cost Approach

- external cost savings based on full lifetime ownership costs of goods and services
- all upstream and downstream costs of acquisition and ownership taken into account
- procurement has responsibility to make decisions on total ownership/lifetime cost basis
- measurement and targets focused on long-term
- strategic approach taken to identify/deliver cost savings
- cost savings achieved by shared objectives with suppliers
- best practice approach used to seek continuous improvements
- full identification/management of major cost drivers
- suppliers incentivised to implement efficiencies/improve effectiveness of the goods and services that they provide

Risk Management

The level and extent to which Procurement recognises the importance of risk management strategies. It is the extent to which Procurement assesses risk and the methodology employed.

Level 1

No Formal Risk Analysis

- risk is given little consideration when purchases are made
- no risk assessment are undertaken
- processing orders with no time to consider risk issues
- organisation does not recognise the risk from poor procurement

Level 2

Risk Passed to Suppliers

- risk aversion is controlled solely through conditions of contract
- risk on contracts tends to be placed on suppliers
- little assessment on cost implications of risk

Level 3

Risk Assessed

- risk assessment are undertaken on ad hoc basis
- cost of risk recognised as factor in assessment of purchase activity
- buyers recognise and accept increased risk in return for improved pricing from suppliers

Level 4

Risk Balanced

- risk assessment are undertaken on regular basis
- risk is assessed as important cost element in purchase decisions
- risk sharing between buyer and seller is an as important element in achieving an overall cost of purchase savings

Level 5

Risk Managed

- risk is recognised a key factor in Purchase decisions
- every effort is made to minimise risk by innovative supply solutions
- risk strategies between purchasers and sellers are in place and jointly owned
- continual process of risk assessment and apportionment
- procurement seen by the business as a centre of excellence for company risk management

Quality, Environment & Safety Management

The extent to which Quality, Environmental and Safety considerations are integrated into the procurement process.

Level 1

No Formal Recognition of Q,E and S

- limited appreciation within Procurement for these issues
- requisitions are turned into Purchase Orders without consideration of these issues
- orders are placed on the assumption that the description of the item is adequate in ensuring Q,E & S of the delivered item.

Level 2

Awareness of Q,E & S

- simple QA systems in place
- various internal specifications developed by users
- specifications tend to be prescriptive

Level 3

Systems in Place to Manage Q,E & S

- use of performance specifications leads to improved 'fit for purpose' quality
- Q,E & S considerations built into design
- Q,E & S issues included in specifications and tender documents
- Q,E & S performance monitored and assessed

Level 4

Q,E & S Managed

- procurement has detailed policies and procedures for Q, S & E
- TQM / TQC processes in place
- supplier performance on Q,E and S is measured
- supplier base is actively managed to improve performance
- traditional suppliers removed on the basis of failures in these areas

Level 5

Partnership Approach to Q,E & S

- the Business and the Supplier Base jointly work to improve quality, environmental & safety performance
- specifications are developed jointly or based on industry standards
- environmental and safety issues figure as strongly in supplier assessments / appraisals as quality and performance

Performance Measurement

The extent to which procurement's strategic objectives are identified and their achievement is systematically measured.

Level 1

No Performance Measurement

- buyers are not given measurable objectives
- the performance of procurement is not measured in any way
- the contribution of procurement to the company is subjectively and variously viewed
- customer requirements not defined

Level 2

Basic Performance Measures Applied

- simple objectives and targets based on eg. price/delivery
- some crude performance measures eg savings achieved
- performance measures for procurement use and not widely distributed in company
- customer requirements broadly agreed but not linked to performance measures

Level 3

A Range of Performance Measures

- various measures used which reflect clearly defined Procurement objectives
- targets set in a structured way against the range of measures applied
- performance reported outside procurement
- measures reflect defined customer requirements (eg Service Level Agreement)
- measures are consistently applied

Level 4

Performance Measurement Viewed as Key by the Company

- formal measurement structure in place covering full range of requirements
- reviews/reports on performance used at strategic level (eg business plan)
- performance measurement used as basis for setting challenging targets
- customers input to measurement and target setting

Level 5

Fully Integrated Performance Measurement Structure

- comprehensive performance measurement system underpins all activities
- measures and targets benchmarked externally
- measurement based on continuous improvement to best practice
- senior management and customers integrally linked into the measurement process
- performance measurement focused on delivering best practice
- measurement is against improvement in overall business objectives

Competencies

The level of technical and behavioural skills of the personnel within the procurement function. It is the extent to which improvement in individual's development is encouraged and the level to which this development is linked with the organisation's key development strategies.

Level 1

Narrow Skills Base

- staff are low skills level with little or no formal training undertaken
- little or no formal qualifications held
- range of skills and experience of procurement staff is very limited

Level 2

Informal Training

- some training exists - but tends to be procedural and undertaken "on the job"
- minority of staff have formal qualifications
- some limited varied levels of skills and experience
- staff not encouraged to undertake personal development

Level 3

Competency Specialisation

- staff undergo formal training programmes in Procurement activity
- majority of staff have formal qualifications
- training not always linked to individual development needs
- varied range of skills and experience within the procurement function
- procurement staff specialise in particular field but there is some skills transfer

Level 4

Personal Development Plans

- all staff have Personal development plans
- company has formal Procurement training programme linked to the personal development needs of each individual
- staff within the procurement function are multi-skilled, flexible with wide ranging skills and expertise
- progression strategy within the procurement function
- frequent instances of job-sharing, job-swapping, both into and out of Procurement

Level 5

Multi Skilled & Flexible

- very high level of professional qualification within the function
- staff are encouraged to undertake personal development activities
- personnel are multi-skilled
- staff have wide range of experience of procurement and other environments
- personal and professional development of procurement staff is at the forefront of the culture of the organisation

Time Management

The extent to which Procurement effectively manages its activities within various time constraints.

Level 1

No Time Management

- activities are rushed
- no time available to implement new methods of working or undertake reviews
- procurement often seen as a bottleneck
- pressure of time determines priorities

Level 2

Speed of Activity

- procurement is measured by internal customers on administration speed (how quickly requisitions are processed)
- management effort is directed at speeding up the procurement process and reporting improvements to internal customers

Level 3

Balanced Approach

- internal customers recognise need to balance speed with quality input
- standards of service agreed & published for activities that require fast response
- time targets are agreed with customers on a case by case basis for activities not identified as fast response..

Level 4

Time Management

- procurement activity is focused on true 'value added activities' such as meeting internal customers & suppliers and training.
- non value added activities such as administration and order / documentation processing are minimised or contracted out.

Level 5

Fully Effective Time Management

- procurement's early involvement in the procurement process allows resources to be identified or other workload moved
- staff activity on true 'value added' work maximised
- all systems run efficiently
- prioritisation of time fully effective and recognised by internal customers.