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Gartner for Supply Chain

4 Steps to Write a Supply Chain Risk Appetite Statement

**Guidebook for supply chain
risk management**



Introduction

In an era of continuous disruption, a nonexistent or ill-defined risk appetite can create an environment of ad hoc, siloed decisions based on short-term targets.

Only 35% of companies reportedly have a formalized overarching risk appetite statement, and even less (11%) have reached the maturity level of function-specific risk appetite statements.*

Leading companies adopt an organizational risk appetite to support the overarching risk posture of the company and cascade it to the functions so they may adapt to their unique requirements, setup and processes.

An important concept of guiding the most effective and efficient supply chain initiatives is defining and utilizing a supply chain risk appetite.

A formalized supply chain risk appetite statement aids in supply chain risk management by establishing accountability and readiness for managing supply chain risk to drive business success and value creation.

For a supply chain risk appetite to be successful, it has to be relevant and reflective of the stakeholder's need and targets, which is cascaded down from the overall business strategy, vision and mission. It is critical to understand what it is not, as expectations should be made clear to all participating parties. It is not just a high-level statement to satisfy reporting needs for a financial statement to shareholders. An effective supply chain risk appetite statement will have measurable indicators that are directly connected to the value chain and can impact strategy, competitiveness and innovation.

*Source: 2018 Gartner State of ERM Survey

Gartner recommends following these four steps to prepare, draft and operationalize a successful supply chain risk appetite statement.

01

Develop risk appetite buy-in

With increasing complexities and value chain dependencies with internal stakeholders and external partners and suppliers, it is important to have full alignment on business goals across functions. Supply chain leaders are connected to almost all cross-functional outcomes through the value chain, especially for growth and competitiveness and in more detail in cost optimization, innovation and risk management. A business without a deep understanding of its risk appetite will face misaligned priorities and program failure, cost increases, and ineffective innovation and risk management. Before drafting the supply chain risk appetite statement, the objective is to educate the organization on the risk appetite concept and get alignment.

02

Assess risk preferences

Many supply chain leaders fall into the trap of developing a risk appetite statement that includes too many risks, which can limit decision makers' ability to analyze and prioritize the most significant risks. In order to assess an organization's and stakeholders' risk-taking preferences, workshops are an effective tool to utilize. In a workshop, you can document top risks from business unit (BU) leaders and which risks guide their decision making. This ensures risk appetite guidance is more relevant to the real-world decisions business leaders encounter and fit for purpose.

03

Gather business input and draft appetite statements

Failure to provide guidance on how to act in uncertain situations often results in business decisions that fall outside the range of acceptable risk. Supply chain leaders should collaborate with BU leaders to craft specific actions from a high-level risk appetite statement. They must validate the risk appetite statement by testing whether it is clear and useful to supply chain, especially to roles facing existing and potential suppliers such as category managers and buyers.

04

Communicate the supply chain risk appetite

Often, risk appetite guidance is cascaded from leadership, which results in inadequate information — or an overload of information — for the risk appetite end users and hinders decision making. It is pivotal to create a risk appetite communication plan based on stakeholder designation, how stakeholders are expected to interact with the risk appetite framework and expected risk appetite use. It starts with identifying critical risk appetite information to communicate to the stakeholders and continues with reinforcing how and when to apply risk appetite guidance. A continuous review of the efficacy of the supply chain risk appetite and adjustments based on changes to ensure maximum value creation completes the implementation and operationalization.

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Supply chain risk management: How we help

Key tenets of supply chain risk management are enhancing resilience and improving competitiveness. But supply chain risk management today must account for unprecedented, fast-developing market disruptions as well as transformation inside the organization, making it difficult to achieve agility and competitive advantage. To succeed, supply chain risk management must be a collaboration between supply chain, procurement and enterprise risk management (ERM) managers. Innovative technology solutions and advanced analytics enable continuous review and integration of supply chain risk management with the business. Gartner provides supply chain leaders with insights, advice, data and tools to increase supply chain risk readiness. Visit gartner.com to learn how we enable supply chain risk management to combat disruption.



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