

CIPS L5M2

Managing Supply Chain Risk

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Question: 1

Which of the following statements are true about risk management? Select TWO.

- A. the goal of risk management is to reduce risks to 0
- B. risk management is a continuous process
- C. risk management is an activity that is conducted by a business once a year
- D. risk management can help companies ensure the smooth and successful running of purchase and supply operations
- E. risk management is the process by which all risks are either treated or transferred

Answer: B, D

Explanation:

The correct responses are 2 and 4: risk management is a continual process and helps companies ensure the smooth and successful running of P+S. These are direct quotes from p.3 of the study guide. The other answers are wrong- if risk management is a continuous process it's not something that is done once a year- so this option is automatically discounted. Option 1 is also wrong as you can never reduce all risks to 0, and option 5 is also wrong- risks can be treated and transferred, but they can also be tolerated and terminated.

Question: 2

A company with a large risk appetite would do which of the following?

- A. take all risks
- B. take risks where it feels it will win more than it loses
- C. take few, well calculated risks
- D. avoid taking risks

Answer: B

Explanation:

2 is the correct answer. Risk appetite is the level of risk that an individual or organisation is comfortable taking (p.4). Having a large risk appetite does not mean that you want to take every risk (as that would be irresponsible), rather, a large risk appetite means you're more likely to gamble and take calculated risks, even though they might not pay off. A small risk appetite would describe options 3 and 4 - taking few risks, or none at all.

Question: 3

Chloe is a procurement manager at Ruby Company. She has been asked to join a cross-functional team to review the company's risk appetite, potential risks within the supply chain and brainstorm mitigating actions. Chloe has suggested that the cross-functional team should first draw up a list of potential supply chain risks and potential strategies to overcome the risks. Is Chloe correct?

- A. yes- the first thing the team should look at are the risks and categorise these by topic
- B. yes- the team should focus on creating a risk register and strategies for mitigating risks as quickly as possible
- C. no- the team should review the company's risk appetite before creating a risk register
- D. no- Chloe should first speak with suppliers before drawing up the list of potential supply chain risks

Answer: C

Explanation:

The correct answer is 3 'no- the team should review the company's risk appetite before creating a risk register'. This question tests to see if you understand what risk appetite is and when this should be reviewed. Risk appetite is the first stage in developing any plan as it will influence the next stages. For example if the company has a large risk appetite, this would affect how they would classify risks and what mitigating actions they would take. Risk appetite is explained in chapter 1.1 (p.4) but it also comes up in Learning Outcome 3

Question: 4

John is a mid-level manager and has created a risk / reward matrix about four potential opportunities at his company White Ducky Limited. He will present his research to a board meeting next week. He has categorised the four opportunities as the following. Which of these opportunities should John recommend the board 'consider'? Select TWO.

- A. low risk / high reward
- B. high risk/ high reward
- C. low risk/ low reward
- D. high risk/ low reward

Answer: B, C

Explanation:

High risk/ high reward, and low risk/ low reward are the options that should be CONSIDERED. This is according to the risk/ reward matrix on p. 6. Items that are low risk/ high reward should be PROGRESSED and items which are high risk / low reward should be AVOIDED.

Question: 5

Company DDD has recently seen a drop in share price and has high levels of Work-in-Progress (WIP) due to late supplier deliveries. Which of the following is the type of risk the business facing?

- A. financial
- B. logistical
- C. opportunity
- D. reputation

Answer: A

Explanation:

This is a financial risk. A drop in share prices is a huge financial risk for a company. Having lots of items as WIP is also a financial risk as this signifies that a lot of money is tied up in stock being held on site. Types of risk are very popular exam questions for this module- for a full list of these and see p.11

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