

ISCRIM Members

Björn Asbjörnslett
*Norwegian University of Science and
Technology, Trondheim, Norway*

Clare Brindley
University of Central Lancaster, England

Simon A. Burtonshaw-Gunn
University of Salford, England

Lars Bøge Sørensen
Copenhagen Business School, Denmark

Martin Christopher
Cranfield University, England

Joanne Ellis
Chalmers University, Sweden

Barbara Gaudenzi
University of Verona, Italy

Jukka Hallikas
*Lappeenranta University of Technology,
Finland*

Michael Henke
*European Business School, Wiesbaden,
Germany*

Uta Juettner
Cranfield University, England

Robert Lindroth
Lund University, Sweden

Steven Melnyk
Michigan State University, USA

Marco Moder
*European Business School, Wiesbaden,
Germany*

John Morris
*Manchester Metropolitan University,
England*

Arben Mullai
Lund University, Sweden

Andreas Norrman
Lund University, Sweden

Ulf Paulsson
Lund University, Sweden

Helen Peck
Cranfield University, England

Bob Ritchie
University of Central Lancaster, England

Paul Schönsleben
*Swiss Federal Institute of Technology,
Zurich, Switzerland*

Yosef Sheffi
*Massachusetts Institute of Technology
USA*

Michael Smith
Western Carolina University, USA

Veli-Matti Virolainen
*Lappeenranta University of Technology,
Finland*

George Zsidisin
Michigan State University, USA

Who cares about infrequent multi-billion risks?

Risk analysis is by Kaplan & Garrick (1981) described as fundamentally an answer to the following three questions:

1. What can happen? (i.e. what can go wrong?)
2. How likely is it that it will happen?
3. If it does happen, what are the consequences?''

Suppose that we are interested in the following four risks in a company:

Event	Probability	Consequence	Expected Value
A	0.5	20	10
B	0.1	100	10
C	0.04	250	10
D	0.01	1,000	10

The expected value is the same for each of them and consequently should they attain equally much attention. But will they?

My experience is that seen from an action perspective, i.e. we do not only want to know about the risks we also want to handle them, something is missing. And that is the manager and his time horizon. Does he believe that he is going to stay in that company and in that position for the rest of his professional life or does he believe that he will have another job in three years time? If the latter is the case then it is rational to act upon risk A because that event is likely to happen at least once during those three years but should he really bother equally much about risk D?

If it is a family-owned company where the manager owns all the shares himself – the answer is yes. But if he is employed – probably not. Simply because the manager will not have to take all the negative consequences himself – only a small fraction of them. The worst case situation for him is probably that he can get fired. That is not so great but it is likely that he will find a new job. Let us further assume that the limit for getting fired is when the negative consequences are over 150. It means that seen from his point of view event C and D are equal – he will get fired and you can only get fired once.

The logic is then that the faster changes are in a certain industry/company the more attention will the frequent disturbances/risks get and the less the infrequent – even if the negative consequences are huge. In such companies it is relevant to ask: Who cares about infrequent multi-billions risk?

Best regards

Ulf

Articles, papers and literature

Printed articles

Chapell, A. & Peck, H. (2005): "The Application of a Six Sigma Methodology to Military Supply Chain Processes", *Operations and Global Competitiveness: Proceedings of the Euroma Conference*, June 19th -22nd, 2005, pp 809-818.

Peck, H. (2005): "Drivers of Supply Chain Vulnerability: An Integrated Framework", *International Journal of Physical Distribution and Logistics Management*, Vol. 35, No4, 2005. pp 210-232.

Sutton, S. (2006): "Extended-enterprise systems' impact on enterprise risk management", *Journal of Enterprise Information Management*, Vol. 19(1), pp. 97-114.

Wu, T., Blackhurst, J. & Chidambaram, V. (2006): "A Model for Inbound supply Risk Analysis". *Computers in Industry*. Volume 57 (2006). Pp 350-365.

Articles in process

Berg, E., Knudsen, D. & Norrman, A. (2006?): "Assessing Performance of Supply Chain Risk Management Programmes – A Tentative approach", Accepted for publication in *International Journal of Business Performance Management*.

Borghesi, A. & Gaudenzi, B. (2006?): "Managing risks in the Supply Chain using the AHP method", Accepted for publication in *International Journal of Logistics Management*.

Peck, H. (2006?): "Reconciling Supply Chain Vulnerability with Risk and Supply Chain Management", Accepted for publication in *International Journal of Logistics Research and Applications*.

Reports

A new report has recently been completed by the Resilience Centre at Cranfield University with the Chartered Institute of Purchasing & Supply (CIPS), to be available in the near future from Cranfield:

Peck, H. (2006): "Opening the Way to Successful Risk Management in Purchasing and Supply: A Cranfield/CIPS Study". Resilience Centre, Cranfield University.

Two older reports from the Cranfield Supply Chain Resilience project can be downloaded via the web page, www.som.cranfield.ac.uk/som/research/centres/lscml/risk.asp The reports can also be ordered in paper format from the web page.

- "Creating Resilient Supply Chains: A practical Guide" (Peck et al. 2003)
- "Understanding Supply Chain Risk: A Self-assessment Workbook"

Special issues

International Journal of Physical Distribution & Logistics Management, Vol. 34(5) and Vol. 34(9), 2004. Two special issues on "Logistics and Supply Chain Risk and Uncertainty". Guest editor: Prof. Joseph L. Cavinato.

International Journal of Operations & Production Management. Special issue on "Supply Management: The Emergence of an Academic Discipline?". Guest editor: Prof. Paul D. Cousins.

Operation Research (Journal of Operations Research Society). Special issue on "Risk based methods for supply chain planning and management". Editors: Poojari, Lucas & Mitra. Call ended July 8, 2005.

Books

Brindley, C. (ed.) (2004): *Supply Chain Risk: A Reader*, Ashgate Publishing Limited, UK.

Kleindorfer, P.R. & Van Wassenhove, L.N. (2004): "Managing Risk in Global Supply Chains", chapter 12 in Gunther, R.E., Gatignon, H. & Kimberly, J.R. (2004): *The INSEAD-Wharton Alliance on Globalizing: Strategies for Building Successful Global Businesses*, Cambridge University Press.

Peck, Helen (2006) "Supply Chain Risk", chapter in Walters, D. (ed) (2006): *Global Logistics (5th ed.)*, Kogan Page.

Pfohl, H-C. (ed.) (2002) *Risiko- und Chancenmanagement in der Supply Chain: proaktiv - ganzheitlich – nachhaltig*, Erich Schmidt Verlag, Berlin, Germany.

Sheffi, Y. (2005): *The Resilient Enterprise – Overcoming Vulnerability for Competitive Advantage*, The MIT Press, London, UK.

Coming conferences

ECR Europe conference. Stockholm, Sweden. May 29-31, 2006.

<http://conference.ecrnet.org/ecrfolder/index.cfm>

NOFOMA 2006. Oslo, Norway, June 8-9.

www.nofoma.org

SCMIS 2006. Taichung, Taiwan. July 5-7, 2006. 4th International Conference on Supply Chain Management & Information Systems.

www.nchu.edu.tw/SCMIS2006

LRN 2006. Newcastle, UK. September 6-8.

www.lrn2006.com

Complexity and Risk Management in Supply Chains. Hamburg International Conference of Logistics 2006. Hamburg, Germany. September 15-16, 2006.

www.hicl.org

The 6th International Research Seminar on Supply Chain Risk Management. University of Wiesbaden, Germany. September 18-19, 2006. (NB: Open only to ISCRiM members and invited guests).

Conferences/work-shops that have taken place

IPSERA 2006. San Diego CA, USA. April 6-8, 2006.

www.ipsera.org

IPSERA 2005. Archamps, France. March 20-23. Among the topics were "Supplier risk management".

www.ipsera.org

NOFOMA 2005. Copenhagen, Denmark, June 9-10. Special track for "Supply chain risk management".

www.nofoma.org

ISL 2005. Lisbon, Portugal, July 3-5.

www.isl21.org

ICSEng05 - 18th International Conference on Systems Engineering. Las Vegas (NV), USA, August 16-18. One of two main themes was "Risk management".

www.icseng.info/strm.htm

LRN 2005. "International Logistics and Supply Chain Management". Plymouth, UK. September 7-9.

www.lrn2005.com

Effective Disruption Management Seminar. Stanford University, September 8, 2005.

The 5th International Research Seminar on Supply Chain Risk Management. Centre for Supply Risk and Resilience, Cranfield School of Management. September 12-13, 2005. Cranfield University.

Exchanging Knowledge; Coping with Supply Chain Risks. Vienna, Austria, October 11-13, 2005. Arranged by the Supply Chain Council.

www.supply-chain.org

Interesting Internet links

ASIS – An almost 50 year old organisation for the security profession with 33'000 members worldwide. www.asisonline.org

CAPS - Centre for Advanced Purchasing Studies. www.capsresearch.org

Centre for Supply Risk and Resilience at Cranfield
www.som.cranfield.ac.uk/som/research/centres/lscml/risk.as

Globalcontinuity.com - A portal for business continuity and disaster recovery.
www.globalcontinuity.com

The Institute of Risk Management. www.theirm.org

IRMI.com - The homepage for International Risk Management Institute, Inc.
A database over risk management articles and other useful information.
www.irmi.com

Procurement Strategy Council. www.psc.executiveboard.com

Risk Transfer Magazine. Useful links to organisations, conferences, books and articles. To get full access to the articles you have to subscribe to the Risk Transfer Magazine. www.risktransfermagazine.com

ROSS (Reliability, Safety and Security Studies). Norwegian University of Science and Technology. www.ntnu.no/ross

SCOR - Supply-Chain Council. www.supply-chain.org

SOLE - The International Society of Logistics. www.sole.org or
www.soleurope.org (European partner organisation)

SURVIVE - The Business Continuity Group. An international, industry-wide group for business continuity practitioners with 3000 members.
www.survive.com

Wharton School, Risk Management and Decision Process Centre
Working papers and newsletter to download. <http://grace.wharton.upenn.edu/risk>

International journals on risks

- Enterprise Risk. Informa Professional, London.
- Journal of Risk and Uncertainty. Kluwer.
- Journal of Risk Research. (The official journal of the society for Risk analysis Europe and the Society for Risk Analysis Japan). Carfax Publishing.
- Risk Analysis – an international journal. Blackwell.
- Risk Transfer Magazine. Ark-group Publishing. London.
www.risktransfermagazine.com
- Risk Transfer E-bulletin. Ark-group Publishing. London. (Free)
www.risktransfermagazine.com/newsletter.asp
- Risk Management. Gale Group. Thomson Corporation Company.
- Security Management
- Treasury & Risk Management

ISCRIM News

Editor

Ulf Paulsson
E-mail: ulf.paulsson@fek.lu.se

Design & Layout

Robert Lindroth
E-mail: robert.lindroth@tlog.lth.se

Download old issues from
www.iscrim.org. There you will also find some information about the ISCRiM Network.

ISCRIM – The International Supply Chain Risk Management Network

Contact

info@iscrim.org

Web site

www.iscrim.org

Issue plan 2006

Issue	Deadline for Contributions	From Print
2006:1	January 10	January 20
2006:2	April 10	April 20
2006:3	July 10	July 20
2006:4	October 10	October 20

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