

Contract Risk Assessment Matrix

Classify and prioritize contract risks to implement targeted risk mitigation strategies

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Introduction

Did you know that nearly 30% of businesses face financial losses due to contract-related risks each year?

Before entering into a contract, it is essential to consider your interests, potential risks, and the allocation of those risks. Contract risk assessment matrix is an effective tool, which should be used before initiating negotiations. Albeit Contract risk measurement is needed at various stages of the contract lifecycle to ensure effective risk management. However, during the negotiation, renewal and termination process, it is crucial to thoroughly review the allocation of risk clauses within the agreement.

To navigate the complex terrain of contracts and to proactively safeguard against potential risks, the **Contract Risk Assessment Matrix** emerges as an indispensable tool. It categorizes risks based on impact and likelihood, empowering organizations to customize risk management strategies, enhance decision-making, and protect their interests. Explore its components to see how it strengthens contract management and fortifies organizational resilience in dynamic business environments.

Contract Risk Assessment Matrix: Enhancing Negotiation and Decision-Making

This tool categorizes contract-related risks based on impact and likelihood for prioritized focus.

- **Streamlined Risk Evaluation:** Systematically assesses each contract's risk profile, considering obligations, compliance, financial aspects, and operations for informed decisions.
- **Tailored Risk Mitigation:** Allows personalized strategies that optimize risk management efforts based on risk severity and likelihood and enhances the overall contract portfolio's resilience.
- **Data-Driven Insights:** Helps gain valuable data-driven insights for resource allocation and compliance across the contract lifecycle.
- **Collaborative Decision-Making:** Fosters collaboration between Contract Managers and CLOs for transparent discussions on risk exposure and mitigation.
- **Seize Control Over Contract Risks:** Elevates your contract management with this structured tool for confident decisions, enhanced risk mitigation, and strengthened practices.

	High Impact	Low Impact
High Likelihood	**Critical Risks**	**Operational Risks**
	• Regulatory Non-Compliance • Supplier Bankruptcy • Data Security Breach	• Routine maintenance delays • Data entry errors • Minor quality issues
	Require comprehensive risk mitigation strategies (Refer Appendix for the clauses that can be incorporated for the mitigation of Critical Contract Risks)	*Require automated compliance checks and streamlined operational contracting processes (Refer Appendix for the clauses that can be incorporated for the mitigation of Critical Contract Risks)*
Low Likelihood	**Strategic Risks**	**Routine Risks**
	• Global Economic Recession • New Regulatory Requirements • Market Disruption	• Minor Supplier Changes • Routine Market Fluctuations • Equipment Maintenance Schedules
	Require strategic planning and contingency measures (Refer Appendix for the clauses that can be incorporated for the mitigation of Critical Contract Risks)	*Require ongoing monitoring and periodic reviews for proactive contract risk management (Refer Appendix for the clauses that can be incorporated for the mitigation of Critical Contract Risks)*



Here is the comprehensive list of contract management risks and their classifications, prepare your own matrix and choose the right Contract Risk Mitigation Strategy for your organizations and for your vendors.

Critical Risks	Operational Risks
• Regulatory Non-Compliance • Supplier Bankruptcy • Data Security Breach • Contract Termination by Key Counterparty • Force Majeure Events Impacting Deliverables • Reputation Damage • Cybersecurity Threats	• Inefficient Approval Workflow • Missed Contract Renewals and Expirations • Poor Reporting and Analytics • Hidden Obligations • Delayed Service Delivery • Inadequate Document Management • Miscommunication or Lack of Clarity in the Contract • Lack of Proper Contract Management Systems • Non-Compliance with Contract Terms
Strategic Risks	**Routine Risks**
• Market Downturns • New Regulatory Requirements • Economic Recessions • Change in Competitive Landscape • Technological Disruptions	• Minor Supplier Changes • Routine Equipment Maintenance • Currency Exchange Rate Fluctuations • Seasonal Demand Variations • Routine Market Fluctuations

This list provides a range of contract-related risks, each categorized into one of the Contract Risk Assessment Matrix categories based on their potential impact and likelihood. Contract Managers and Chief Legal Officers can use this list to assess and classify the risks associated with their contracts effectively.

Controllable Risks:	Non-Controllable Risks:
• Inefficient Approval Workflow • Missed Contract Renewals and Expitions • Poor Reporting and Analytics • Hidden Obligations • Delayed Service Delivery • Inadequate Document Management • Miscommunication or Lack of Clarity in the Contract • Lack of Proper Contract Management Systems • Non-Compliance with Contract Terms • Seasonable Demand Variations • Routine Equipment Maintenance	• Regulatory Non-Compliance • Supplier Bankruptcy • Data Security Breach • Contract Termination by Key Counterparty • Force Majeure Events Impacting Deliverables • Reputation Damage • Cybersecurity Threats • Routine Market Fluctuations • Currency Rate Exchange Fluctuations • Minor Supplier Changes • Technological Disruptions • Economic Recessions • New Regulatory Requirements

Operational and routine risks are more directly controllable through internal processes and procedures, whereas critical and strategic risks are influenced by both internal decisions and external factors, making them less controllable to some extent. Effective risk management strategies involve a balance of control and preparedness across all risk categories.



Contract Risk Management and Mitigation: Moving Beyond Contract Risk Assessment Matrix

To ensure the legal protection of your agreements, make sure to incorporate the allocation of risk clauses and contractual risk transfers: These clauses are essential as they transfer the responsibility for risk exposure to one or more parties involved in the agreement.

Aavenir's Contractflow offers comprehensive risk management capabilities to effectively mitigate contract-related risks across all categories by helping you assign role-based access. Top of it, Contractflow streamlines contract management processes, automates compliance checks, and provides insights through robust reporting and analytics, making it ideal for managing operational risks like missed renewals, miscommunication, and lack of proper contract management systems.

Moreover, Contractflow utilizes advanced AI-enabled detection of varying clauses and employs AI-enabled smart search and natural language processing (NLP) to enhance contract risk identification and mitigation. Many of Aavenir Contractflow templates include multiple clauses designed to mitigate contract risks effectively, while also allowing for easy extraction and deviation analysis to ensure your contracts are in compliance and well-managed.

Additionally, through its connected ecosystem, it helps manage suppliers and related information, which is crucial in mitigating risks associated with supplier bankruptcy and disruptions. On the other hand, Obligationflow ensures that contractual obligations are tracked and met, reducing the risk of non-compliance with contract terms. Together, these solutions empower organizations to proactively address critical, strategic, operational, and routine risks, enhancing overall contract risk management and ensuring the protection of organizational interests.

Elevate your contract management game and practice proactive risk management with Aavenir's Connected Contract Management Experience

Book a Demo

Appendix A- Risk Mitigation Strategie

Critical Contract Risk Mitigation :	Operational Contract Risk Mitigation:
• Strengthen contract review and compliance. • Add clauses to the contract. • Use AI and advanced software for risk detection. • Create contingency plans for key contract scenarios. • Maintain transparent stakeholder communication. • Apply comprehensive risk transfer in contracts. • Regularly assess and analyze risks. • Build reserves for contract-related losses.	• Standardize and automate approval workflows. • Utilize contract management software for alerts and reminders. • Conduct regular contract reviews and audits. • Improve reporting and analytics for insights. • Train employees for better contract understanding and management. • Create clear and concise contracts with defined terms.
Strategic Contract Risk Mitigation:	**Routine Contract Risk Mitigation:**
• Diversify investments and partnerships. • Stay updated on regulatory changes. • Create contingency plans for market downturns. • Develop competitiveintelligence capabilities. • Embrace technological advancements and innovations. • Conduct scenario analysis for strategic planning. • Maintain open communication with stakeholders.	• Develop maintenance schedules and routines. • Hedge against currency exchange rate fluctuations. • Implement inventory management for seasonal demand variations. • Use risk-sharing agreements with suppliers. • Monitor market fluctuations and adjust strategies accordingly.

Appendix B - Clauses to safeguard contract risks

Operational Contract Risk Mitigation:	Routine Contract Risk Mitigation:
• Service Level Agreements (SLAs) • Change Control Clause • Continuous Improvement Clause • Audit and Reporting Clause	• Maintenance Schedule Clause • Price Adjustment Clause • Inventory Management Clause • Supply Chain Contingency Clause
Critical Contract Risk Mitigation:	**Critical Contract Risk Mitigation:**
• Force Majeure and Contingency Clause • Risk Allocation Clause • Business Continuity and Contingency Clause • Disaster Recovery and Security Clause • Legal and Regulatory Compliance Clause • Insurance and Indemnity Clause • Exit Strategy and Termination Clause	• Supplier Bankruptcy Clause • Force Majeure Clause • Change Management Clause • Exit and Termination Clause • Renegotiation Clause • Key Performance Indicator (KPI) and Benchmarking Clause • Business Continuity and Contingency ClauseRisk Allocation Clause • Dispute Resolution Clause • Change Control and Communication Clause • Exit Strategy Buyout Clause

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Are you willing to transform the contract process for faster time-to-signature, greater obligations compliance, and reduced business risks?

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About Aavenir

Aavenir revolutionizes age-old procurement processes with AI-enabled Source-to-Pay solutions, including RFPflow, Onboardingflow, Contractflow, Obligationflow, and Invoiceflow. Built on ServiceNow, Aavenir solutions streamline procurement, legal, and accounts payable work processes using the latest technologies such as AI, ML, and NLP to eliminate manual work, accelerate cycle time, and reduce dependency by offering smart suggestions based on historical data.

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