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Be responsible and effective

Strike a balance

Extended enterprise risk management (EERM)
Third-party risk management (TPRM) global survey 2020

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Foreword

Welcome to our fifth annual global survey on extended enterprise risk management (EERM), also known as third-party risk management (TPRM) in many organizations. For the purpose of this report, we use the terms interchangeably.

I am proud to say that participation has grown greatly over these five years to a record high of 1,145 responses across 20 countries. Over the same period, we've seen our clients place greater emphasis on EERM programs and take steps to address the concerns reflected in response to our previous surveys.

Survey results in this report reflect responses gathered from participants between November 2019 and January 2020. Since our survey closed, the risk landscape changed significantly with the COVID-19 pandemic impacting organizations globally and across industries. In keeping with these changes, our points of view (including COVID-19 commentary) set out in this report reflect the changing circumstances, which are primarily based on our subsequent conversations and engagement with our clients. It is now clearer than ever how important it is to prioritize TPRM. Early indications show those that made appropriate investments in EERM programs are faring better in their response to the crisis than those that did not. Yet, at the time of writing this report, one in two respondents were yet to recognize business continuity and resilience as a top risk for their critical commercial relationships. They had not allocated EERM budget for this purpose.

We anticipate that many organizations will reevaluate how they position TPRM to cope better with high-impact events, such as this pandemic. As a result, we expect a rapid acceleration up the TPRM maturity curve in the next 12 months.

This year's key findings are:

- Organizations are **increasingly concerned about the rising cost of getting third-party risk management wrong**. This reflects the trend of a growing dependence on critical third-party relationships.
- Organizations are **more aware of the need to be a responsible business**. This is now one of the top drivers of investment in EERM. However, budgets are not allocated to embed responsible business initiatives across third-party relationships in many organizations.

The COVID-19 pandemic has reinforced more than ever how important it is to prioritize TPRM.

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- **A rise in regulatory activity related to EERM has put pressure on organizations** across all industries and countries. This has rapidly raised benchmarks and expectations as to the definition of mature TPRM. Organizations that have failed to respond to this are now considered less mature, because the peer benchmarks are higher.

- Organizations are **developing a vision to transform EERM over the next two to three years**. This long-term outlook focuses on efficiency and effectiveness, enabled by changing delivery models and technology. In particular, survey respondents are largely dissatisfied with their EERM technology. Organizations struggle to understand and keep pace with the rapidly evolving technology landscape, and are particularly concerned that EERM systems do not seamlessly integrate with each other.

- More organizations are **exploring and engaging external support for their EERM programs** to achieve their developing vision. This includes more frequent uptake of external risk intelligence, utility models, and managed service assistance.

- Senior executives are **extending their focus beyond risk to encompass a broader view of third-party management**. This includes other sub-disciplines such as contract management, performance management, financial management, and sourcing activities. This broader focus is a sensible way forward, but currently some organizations struggle to coordinate their approach and access the necessary decision-making data in a timely manner.

We hope that you enjoy reading our publication and find it both interesting and insightful. Our TPRM professionals across the globe can help you understand how this survey's findings relate to distinctive opportunities for your organization. To learn more, please contact your local expert **here**.

Kristian Park
Partner and Global Leader,
Extended Enterprise Risk Management,
Deloitte LLP

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Navigating the impact of COVID-19 on the extended enterprise

COVID-19 has tested every organization's approach to TPRM

Our research suggests that most organizations were unprepared to manage third-party risks in the event of a large scale disruption like the COVID-19 pandemic, despite growing strategic dependence on critical third parties in supply chain, support services, sales and distribution, joint venture partners, subsidiaries and affiliates.

Over the last few years, organizations have increasingly used third parties to meet strategic objectives, rather than just tactically achieve cost-reduction or other short-term objectives. This progressively led organizations to face a newer spectrum of risks across a growing number of risk domains and aggravate the consequences of failure. Some of these risks were consciously embraced with adequate risk-management but some were ignored.

COVID-19 has highlighted the huge strategic impact of third-party failures and how quickly some risks can strike. Particularly those accelerated by real-time technologies in a connected world.

What was going wrong?

Our survey results reconfirmed, year-on-year, that it was becoming more and more critical for organizations to have a stronger, holistic and integrated approach to TPRM. Yet organizations struggled to make the required investments due to an uncertain economic and macro-environment.

Piecemeal investments

Organizations instead made piecemeal investments in EERM which impaired growth in organizational maturity, neglected certain risks, and adversely affected core basic tasks between 2015 and 2020.

Even the most mature EERM program cannot eliminate the risk of loss completely. But, beyond the growing losses from COVID-19, we see evidence of a lack of extended enterprise intelligence and planning necessary to respond to high-impact events such as this pandemic. In looking at our prior research, we see that year-after-year, many organizations self-identified gaps in their extended enterprise management that now create challenges as these same organizations respond to this global event.

Lack of maturity in TPRM

Only 15% of organizations integrate or optimize their approach to managing risk with their third parties. This means that the vast majority of organizations (85%) do not develop the appropriate capability and capacity to manage the entire spectrum of third-party risks in an integrated and holistic manner across all third-party types in their ecosystem.

Focus on largest regulatory issues of the year

Many respondents over the years report that they tend to focus annual investment mainly or solely on the largest regulatory issues of the year. In 2018 and 2019, for example, that was data privacy, information security and cyber risk. Many organizations neglected risks such as business resilience and continuity. In our current survey, nearly one in two respondents do not allocate material EERM budgets to address third-party continuity and resilience.

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Not "brilliant at the basics"

By 2019, respondents had realized their piecemeal approach to EERM investment weakened their ability to do basic or core tasks well, such as understand the nature and criticality of third-party relationships (50%) and understand related contractual terms (43%). This, in turn, adversely impacted their ability to ensure that TPRM efforts, including ongoing monitoring of third parties, were proportionate to the risks involved – a vital need in a time of crisis.

Under emphasis of exit plans and concentration risk for critical third parties

Even in 2020, only 40% of respondents believe they have appropriate exit plans for critical third parties. Thirty-three percent lack such plans, and the remaining 27% did not know if they had them or not.

Concentration risks, including those related to critical third parties, are typically assessed reactively at less than annual intervals for almost half of the respondents. Less than one in three respondents (31%) assign funding in their EERM budgets to manage such risks. Concentration risk is the fourth least invested in risk domain out of the 20 we asked about.

Neglect of subcontractors

Over the last two years, our surveys identified that subcontractor risk, also referred to as fourth and fifth party risk, does not attract the appropriate level of attention from organizational leadership. In 2020, only 20% of respondents said they effectively monitor either all or their most critical subcontractors. We believe this lack of attention is driven by a number of highly disparate factors including not knowing who subcontractors are and the risks they pose, and lack of adequate budget for this important activity. In some cases, organizations see subcontractor management as the sole responsibility of their third parties that engaged these subcontractors.

Challenges keeping pace with rapidly evolving EERM technology

Only 28% of respondents in 2020 are satisfied with their EERM technology solutions. Forty-eight percent are partly dissatisfied, and 24% dissatisfied. Thirty-nine percent want to explore a different technology solution. This is fueled by a backdrop of rapidly evolving technology solutions and minimal barriers to entry for new innovative solutions. The greatest worry about technology is that systems do not seamlessly integrate with each other and 61% of organizations complain about this issue.

Respondents believe the reporting capability of their existing technology solutions to be inadequate for:

- making critical business decisions about third parties;
- visualizing risk-management data related to criticality or concentration of third parties, for instance with geospatial dimensions; or
- creating management dashboards that provide real-time intelligence which could be meaningfully interpreted and actioned without delay.

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Responding to the crisis

Our experience indicates that organizations initially responded to the situation by identifying and assessing the impact on their most critical third parties and subcontractors through enhanced monitoring.

Although each organization's response to third-party risk is driven by its specific circumstances, we note several commonalities in early approaches.

Criticality assessment

Most global organizations have tens of thousands of third parties. Managing risk at any time requires focus on those that present the highest risk; this is even more important in a crisis where time and resources are limited. It is critical to quickly and efficiently focus on where you have genuine exposure, based on the known criticality of the supplier and likelihood of impact. Our survey recognizes that many organizations did not have this comprehensive understanding of their third parties readily available and so lost precious time building this picture as the pandemic took hold.

Emerging good practice related to critical third parties

The more responsive organizations took the following steps earlier than others. Early on they:

- Identified overall business-critical activities, products, services, business processes and systems.
- Determined which of these has a high degree of dependency on third parties and who these third parties are. Which ones are truly business critical third parties?
- Included intra-group arrangements, subsidiaries and affiliates in this analysis. This is where the enterprise response to the pandemic met the extended enterprise response.
- Understood what data was already available internally with regard to critical third parties to identify areas of potential risk. For example, where you have sole supply, low inventory levels, and so on.
- Used external sources to fill gaps in internal information, specifically in relation to relevant attributes such as supplier delivery locations and financial health. They also engaged quickly and personally with their critical suppliers instead of relying on their normal data collection processes or doing inwardly focused analysis. Having a good understanding of delivery locations and other key nodes related to third parties is insightful as mapping headquarter locations does not always identify the right level of geopolitical risk exposure.

It is important to recognize the benefits that the more proactive organizations realize. Ongoing management of critical third-party relationships provides real-time knowledge of what is happening on the ground. Unsurprisingly, the stronger the relationship, the more transparent the discussion and a more accurate reflection of reality is shared.

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Proactive dialogue and monitoring

For third parties where the initial assessments identified a heightened concern, organizations needed to:

- Understand the true exposure and determine where action was needed.
- Look at alternatives to traditional methods for engaging with third parties, such as the use of supplier questionnaires. These were not likely to get the desired level of insight or quick enough results.
- Consider a more hands on, personal approach to engage with critical third parties and fully understand their situation.
- In parallel, contingency plans needed to be revalidated (or developed if they did not already exist) for the third parties identified as representing the greatest risk.

Related actions vary depending on the underlying issue. For example if the challenge is purely related to financial health, solutions range from changing payment terms (for example offering pre-payment) to complete acquisition of the supplier. Where the root cause is the inability to obtain services or products from a particular geography, an alternative sourcing strategy is considered, with a rapid market analysis, contracting and on-boarding process needed.

Subcontractors (fourth and fifth parties)

Organizations are compelled to seek visibility into subcontractor dependencies and impacts in their extended enterprise.

Once they grasp who their critical subcontractors are, they need to understand what assurance their third-party obtains about the subcontractors engaged by them, supported by evidence. Some organizations, primarily driven by the criticality of these relationships go further and form combined inspection teams with their third parties to undertake specific assessment and monitoring activities on fourth parties as described above. Where external risk intelligence is available, some organizations adopted a quicker initial approach to assessment by using risk intelligence tools to understand critical fourth party control environments including financial solvency.
The impact of failures in the third-party chain from subcontractors at various levels must be evaluated. Contingency plans must be revalidated (or developed if they do not already exist) for critical relationships with subcontractors representing the greatest risk.

Visualization

The use of tools to visualize risk management data related to third parties has significantly increased in organizational responses to the COVID-19 pandemic. Specifically, many organizations are embracing visual solutions to map the spread of the virus and overlay critical third-party locations to model potential impacts and failures. EERM teams carefully consider the most appropriate attributes for visualization such as the increasing use of geospatial data.

Some examples include risk informed decision-making (location considerations related to global supply chains) and resilience (scenario planning and modelling through use of geospatial maps and data layers in response to crises). The modeling of trends can assist organizations to predict where it may experience a third-party failure and enable it to take proactive action.

Organizations also developed new executive dashboards for organizational leadership and members of the board to support regular dialogue and communication on impact and response.

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2020 key themes

Cost of failure

The financial impact of a failure by a third-party or subcontractor has at least doubled over the past five years, according to almost half of respondents. One in five believe the financial impact has multiplied tenfold.

Balancing responsibility and cost

The desire to be a responsible business has become one of the top drivers of investment in EERM. But because of cost pressures, many organizations do not have sufficient budgets to embed responsible business initiatives across all their third-party relationships.

Wider focus

Senior executives are extending their focus beyond risk to include a broader view of third-party management. This will enable synergies in the long term but creates coordination challenges during the transition.

Increasing regulatory activity

A rise in regulatory activity encourages nimble organizations to progress towards a greater EERM maturity. Those unable to keep pace with changing expectations fall behind their peers on the maturity journey.

Leveraging external assistance

A growing number of organizations use external support to improve and supplement their EERM programs. That includes assistance with risk intelligence, utility models, and managed services.

Vision for transformation

Organizations are developing longer-term visions of EERM transformation for the coming two or three years. This involves holistic rather than piecemeal management of third parties, enabled by a "single source of the truth": a centralized repository of intelligence built on cutting edge technology.

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Cost of failure

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01 Cost of failure

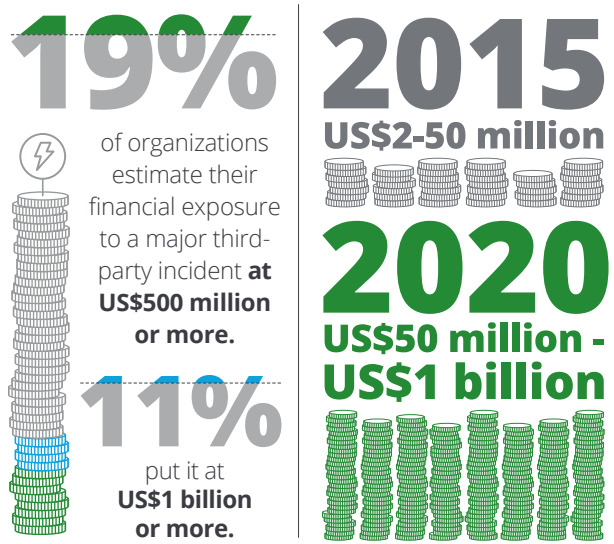
At the time we surveyed organizations for this report, between November 2019 and January 2020, respondents were already concerned about an uncertain business environment. Our Global CFO survey, conducted in Q3 2019, showed a continuing decline in business optimism in many countries, but an improvement in sentiment in the US and China. However, shortly after the survey was completed, sentiment in every country was dealt a sharp blow by the rapid spread of COVID-19.

When it comes to risk taking, our survey found that business leaders around the world favored offensive strategies to address the dramatic shifts in their particular markets, regardless of the future economic picture. This has encouraged organizations to reinforce the alignment between their strategy and their risk management, and to recognize the surging cost of getting things wrong. As a result, organizations seek a deeper understanding of the risks involved, and how these can be mitigated.

Our survey responses reconfirmed this heightened recognition of third-party risk, even before the recognition of COVID-19 as a pandemic:

Almost half of organizations (46%) surveyed believe the financial impact of a failure by a third-party or subcontractor has at least doubled over the last five years, with a tenfold increase for one in five. That financial impact includes fines, direct compensation costs and lost revenue.

This contrasts with our research in our first-ever report five years earlier, when large multinational businesses estimated their direct financial exposure at US$2-50 million. Five years on, nearly one in two respondents believe their exposure has at least doubled. This includes the impact of legislation and regulation around the world with heavier penalties for protracted and systemic breaches.



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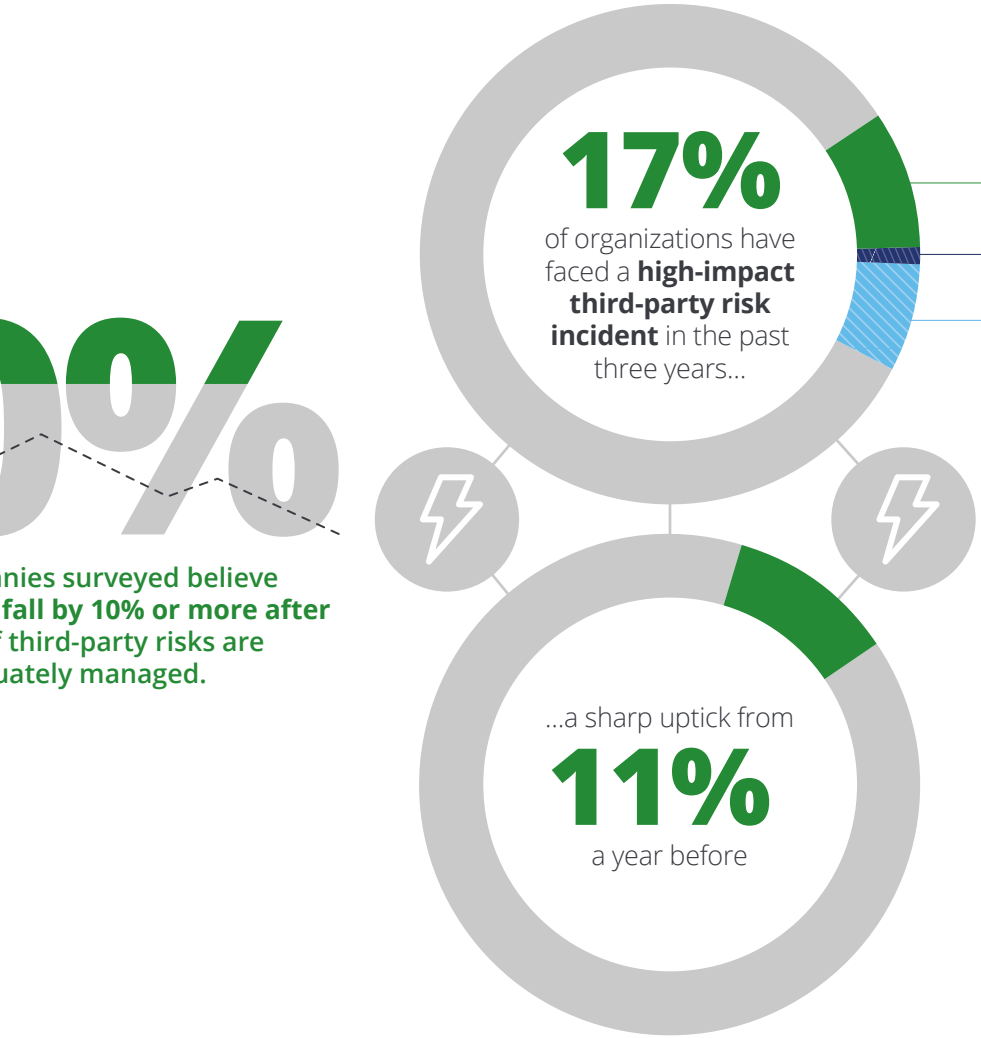
30%

of listed companies surveyed believe share prices could fall by 10% or more after an incident, if third-party risks are not adequately managed.



Third parties 9%

Subcontractors 1%

Third parties and subcontractors 7%

Respondents say these incidents had a severe impact on customer service, financial position, regulatory compliance and/or reputation.

More than half of organizations that have faced a high-impact third-party risk incident (9% of all respondents) believe they were caused entirely by third parties. A small number of respondents (1%) identified high-impact incidents caused entirely by subcontractors (fourth or fifth parties) and the remaining 7% consider that third parties and subcontractors share the blame.

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Figure 1.1. Financial exposure to a major third-party incident

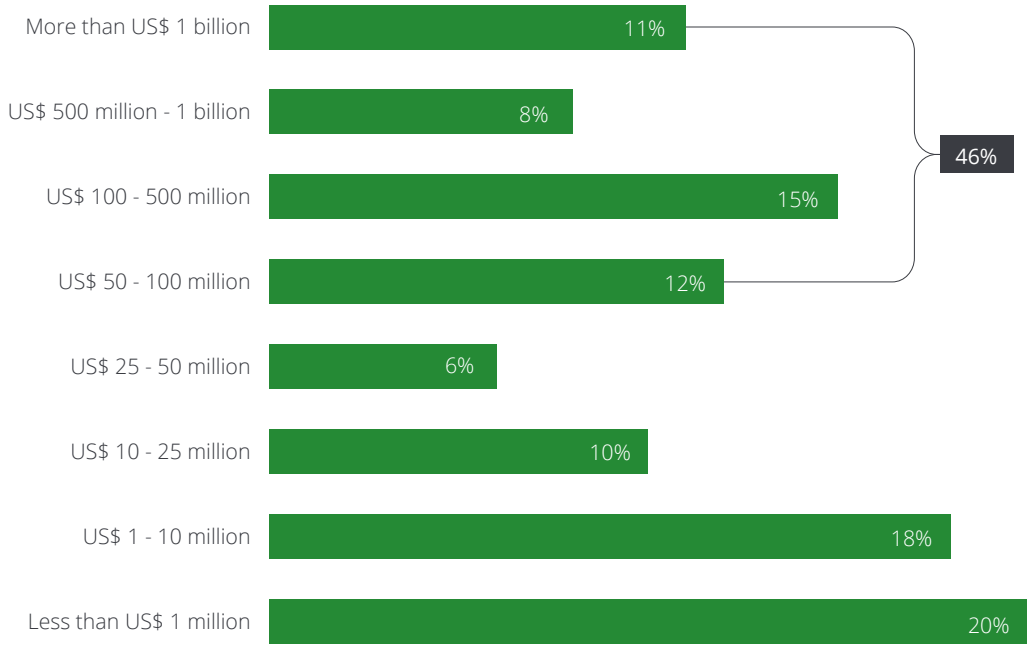

Figure 1.2. Share price impact related to major third-party incident

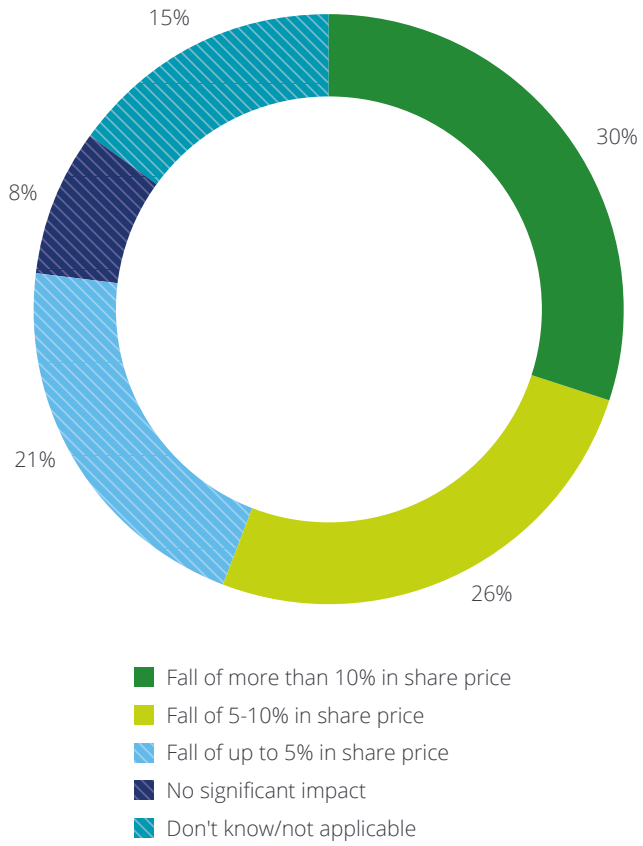

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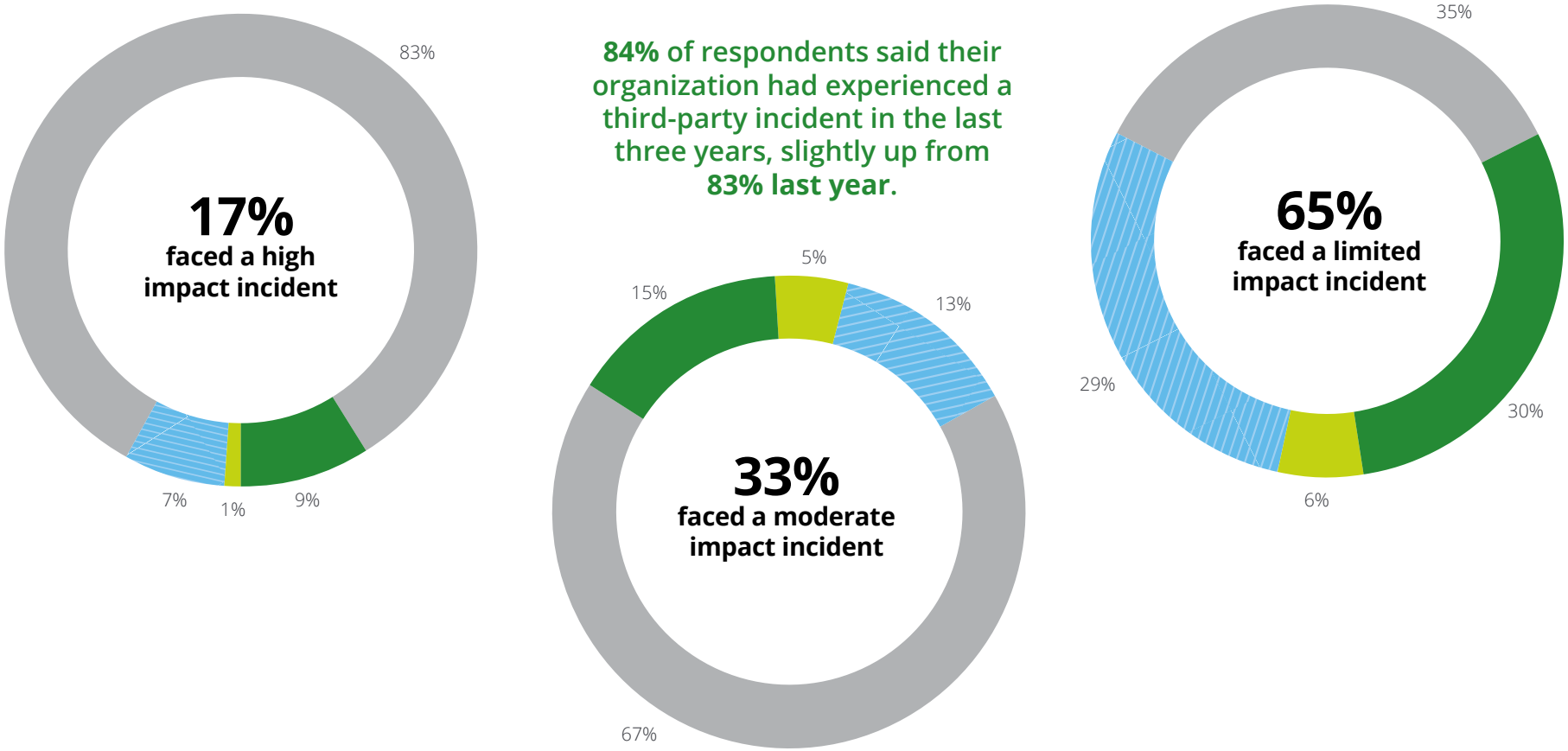
Figure 1.3. Occurrence of third-party incidents by impact levels



For industry comparisons of the cost of failure data see page 56.

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Deloitte point of view

With rapid expansion and critical dependence on the extended enterprise, risks continue to increase along with the strategic rewards. Inappropriate action or failure of third parties creates new risks that significantly impair the achievement of strategic objectives, compromise organizational reputation, break down business continuity and resilience and even attract substantial penalties and regulatory enforcement action.

COVID-19 highlights the huge strategic impact of third-party failures and how some risks could strike quicker than ever before, accelerated by real-time technologies in a connected world. But even before COVID-19, several examples of high profile business failures during late 2019 and early 2020 highlight that EERM is not always given the strategic attention it deserves.

Crises tend to reinforce the need to invest in good risk management, as we have seen in the aftermath of the global financial crisis and are likely to see during the recovery from COVID-19. We believe the growing appreciation of the potential damage caused by third-party failures throughout the COVID-19 crisis will increase leadership attention on the value of TPRM, supported by tangible investments in resources, capabilities, technology and reporting.

Organizations that are more proactive in their response, and that reflect on lessons learned during the crisis, will develop capabilities that set them apart from the competition. Such capabilities could ensure better outcomes for the workforce, optimize mid-crisis financial outcomes, and make organizations more resilient and prepared to tackle future crises.

It is relatively easy to quantify the explicit impact of losses caused by third-party failure in terms of fines, compensation and any direct expenditure to mitigate the impact of the loss. However, the implicit loss caused by reputational damage and lack of business continuity, is often much higher and more difficult to quantify.

We predict that listed organizations will increasingly measure and benchmark these losses by the fall in their share prices, market-capitalization and market-share, following third-party related trigger-events, we have captured through our survey.

Crises tend to reinforce the need to invest in good risk management.

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Balancing responsibility and cost

The desire to be a responsible business has become one of the top drivers of investment in EERM. But because of cost pressures, many organizations do not have sufficient budgets to embed responsible business initiatives across all their third-party relationships.

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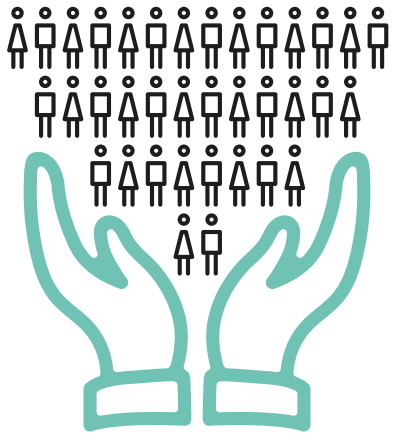
02 Balancing responsibility and cost

This year's survey shows a much stronger emphasis on social purpose from boards and c-suites. It encompasses a broad spectrum, including human rights, governance and the environment. Social purpose has become an important element of integrated business strategies, and organizations now want to apply it to their extended enterprise as well.

For the first time in the past five years, being a responsible business, and building a reputation for being one, is a top motivation for EERM investment.



Top EERM investment drivers

01 Response to third-party incidents

47%

02 Regulatory requirements and scrutiny

45%

03 To be a responsible business

43%

04 Cost reduction

39%

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Despite an increasing desire to be a responsible business, a significant proportion of organizations do not invest in the risk domains associated with being one. Organizations are not investing in the following third-party risk domains:

Climate risk
74%

Environmental risk (air pollution, water waste)
57%

Labor and modern slavery risk
54%

Financial crime (money laundering, sanctions)
51%

Financial crime (anti-bribery and corruption)
45%

Health and safety
43%

Data privacy
40%

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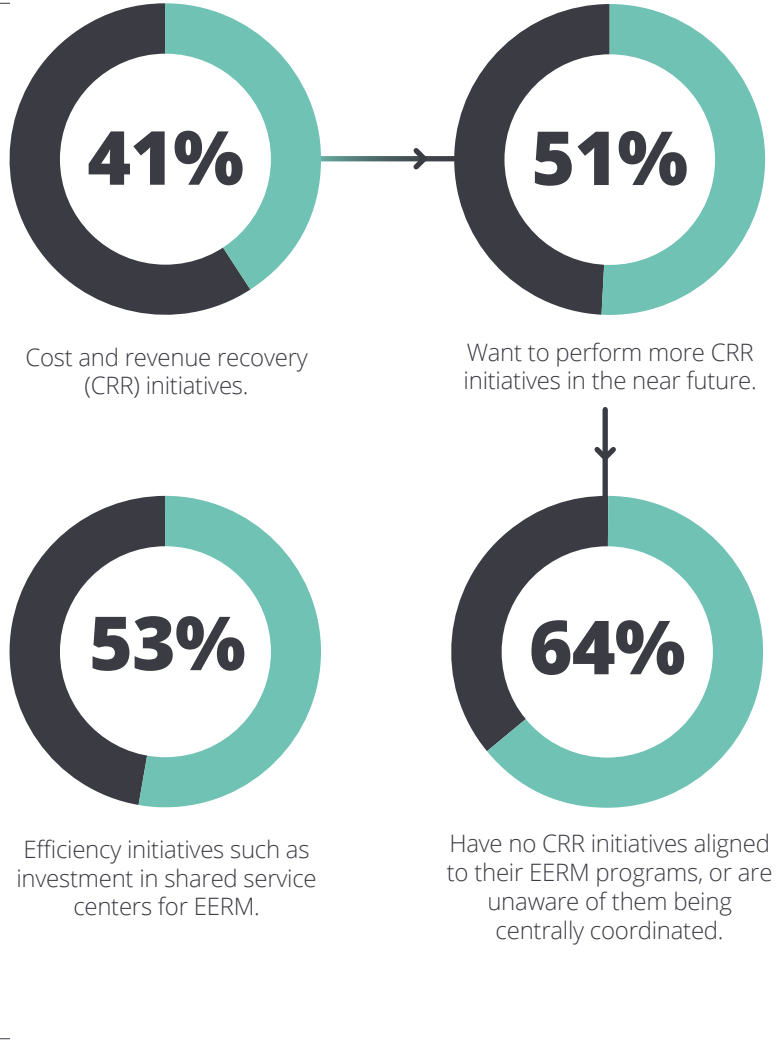
Investing in EERM to reduce costs is still important. But it's no longer the top reason.

Even before COVID-19 was declared a pandemic, the desire to develop capability and capacity to respond to third-party related incidents (47% of respondents) was this year's biggest driver for investment in EERM.

Last year, however, cost reduction was the dominant motivation as organizations were uncertain and not optimistic about the wider business and macro-economic environment. This year, organizations still want to realize efficiencies (as long as they do not harm competitive advantage), but cost reduction is now the fourth biggest driver, at 39%.

Where does cost reduction come from?



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EERM investment remains skewed towards certain risk domains

Budget for managing third-party risk is more likely to be allocated across a greater number of risk domains than last year, however, investment is still skewed towards:

- Information security **65%**
- Cyber risk **60%**
- Data privacy **60%**
- Health and safety **57%**
- Anti-bribery and corruption **55%**
- Regulatory non-compliance **55%**

This is not surprising given the largest third-party risks are considered as:

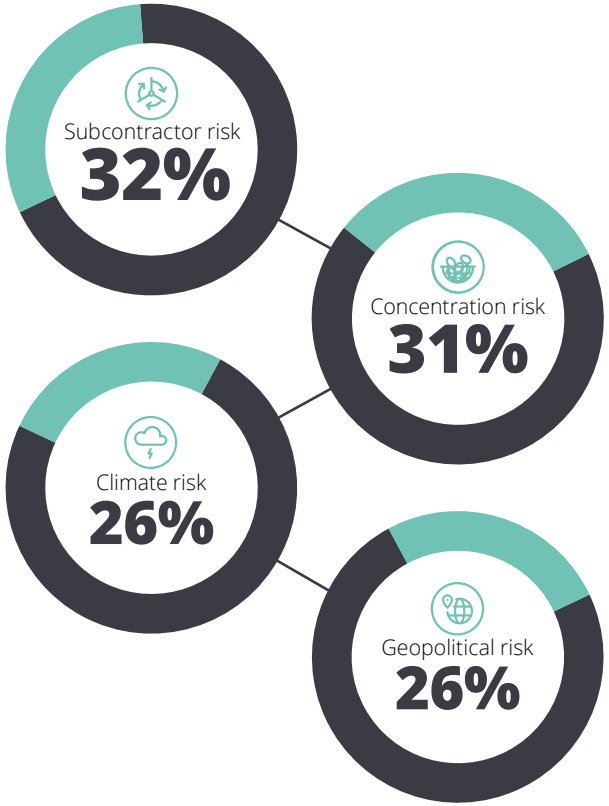
- Cyber risk **23%**
- Information security **13%**
- Anti-bribery and corruption **10%**

And the largest proportion of third-party incidents were related to:

- Cyber risk **11%**
- Anti-bribery and corruption **10%**
- Information security **9%**

These risk domains are also more universally applicable to organizations across industry sectors and have been the focus of regulatory attention over the last few years.

Budget is not prioritized, and organizations potentially risk underinvesting, in the following risk domains:



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Most respondents believe their organizations under-invest in EERM

59%

of respondents still believe they under invest in EERM, although this is quite a considerable fall from 70% last year.

58%

think **budgets** for managing third-party risk are inadequate.

57%

feel that **internal independent reviews of third-party risk frameworks** are not hitting the mark. Such reviews are often done by internal audit teams.

62%

think **ongoing monitoring** of third parties is inadequate. This monitoring includes audits (remote or onsite) by first line or business unit personnel, reassessments of the checks performed at onboarding, tracking of insights from risk intelligence solutions or adverse media alerts, and requiring self-certification by the third parties.

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Figure 2.1. Top drivers for investment in EERM

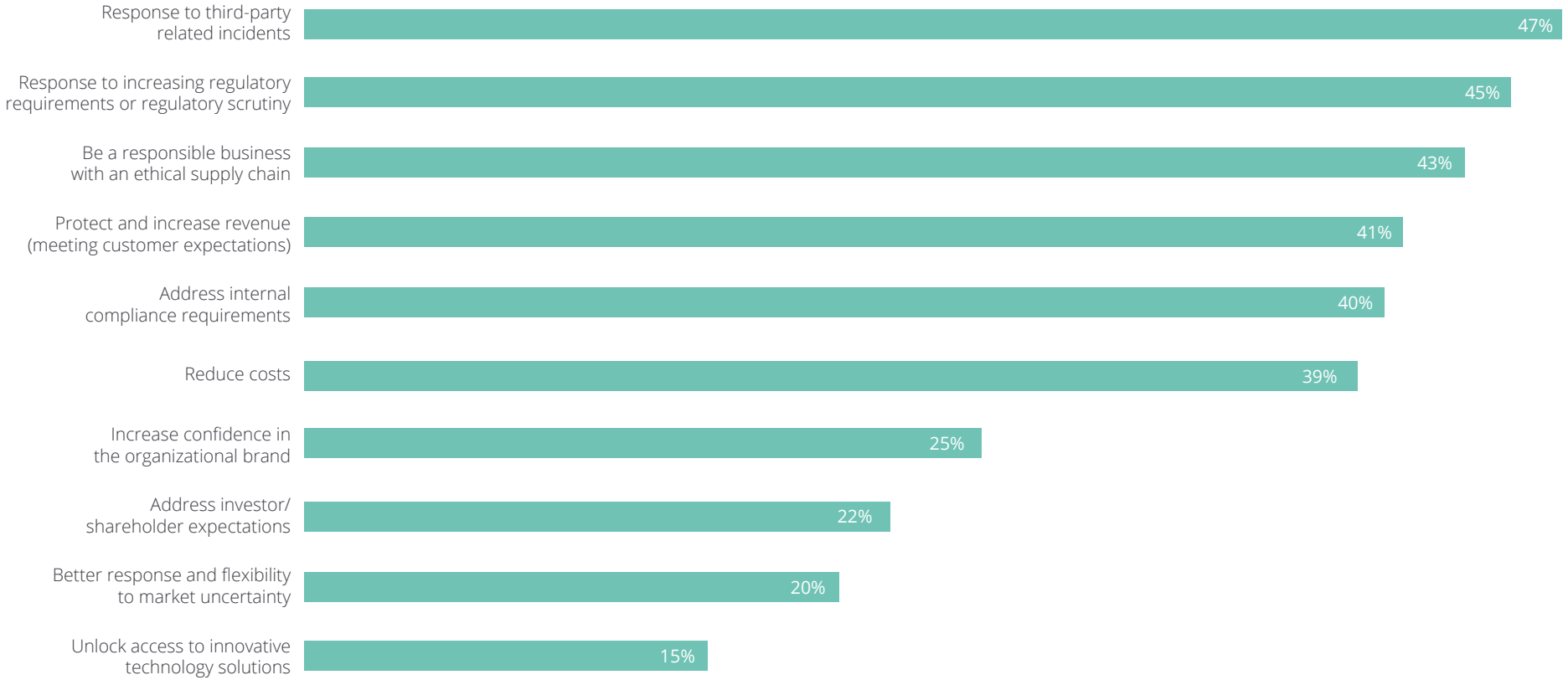

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Figure 2.2. Cost and revenue recovery for margin improvement

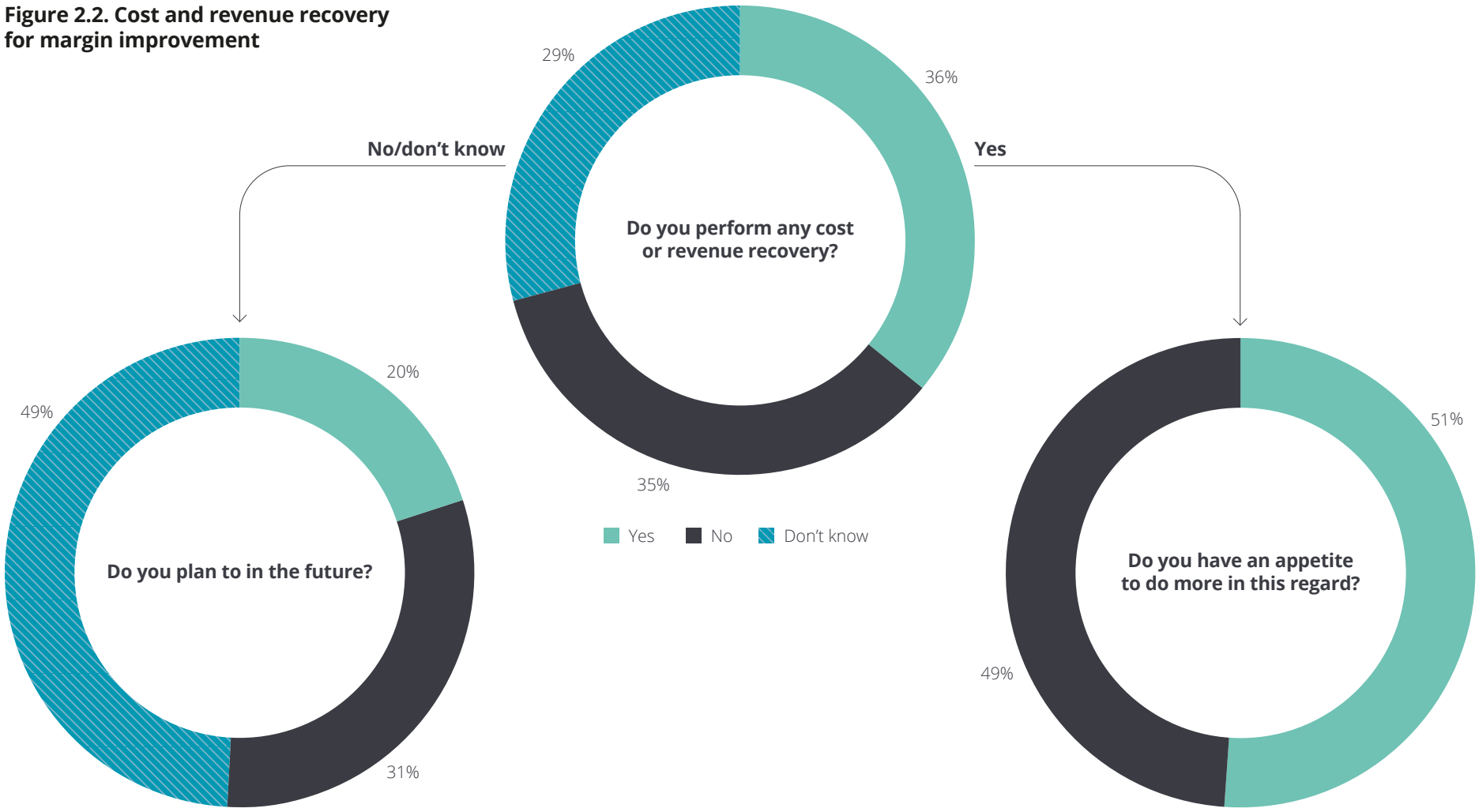

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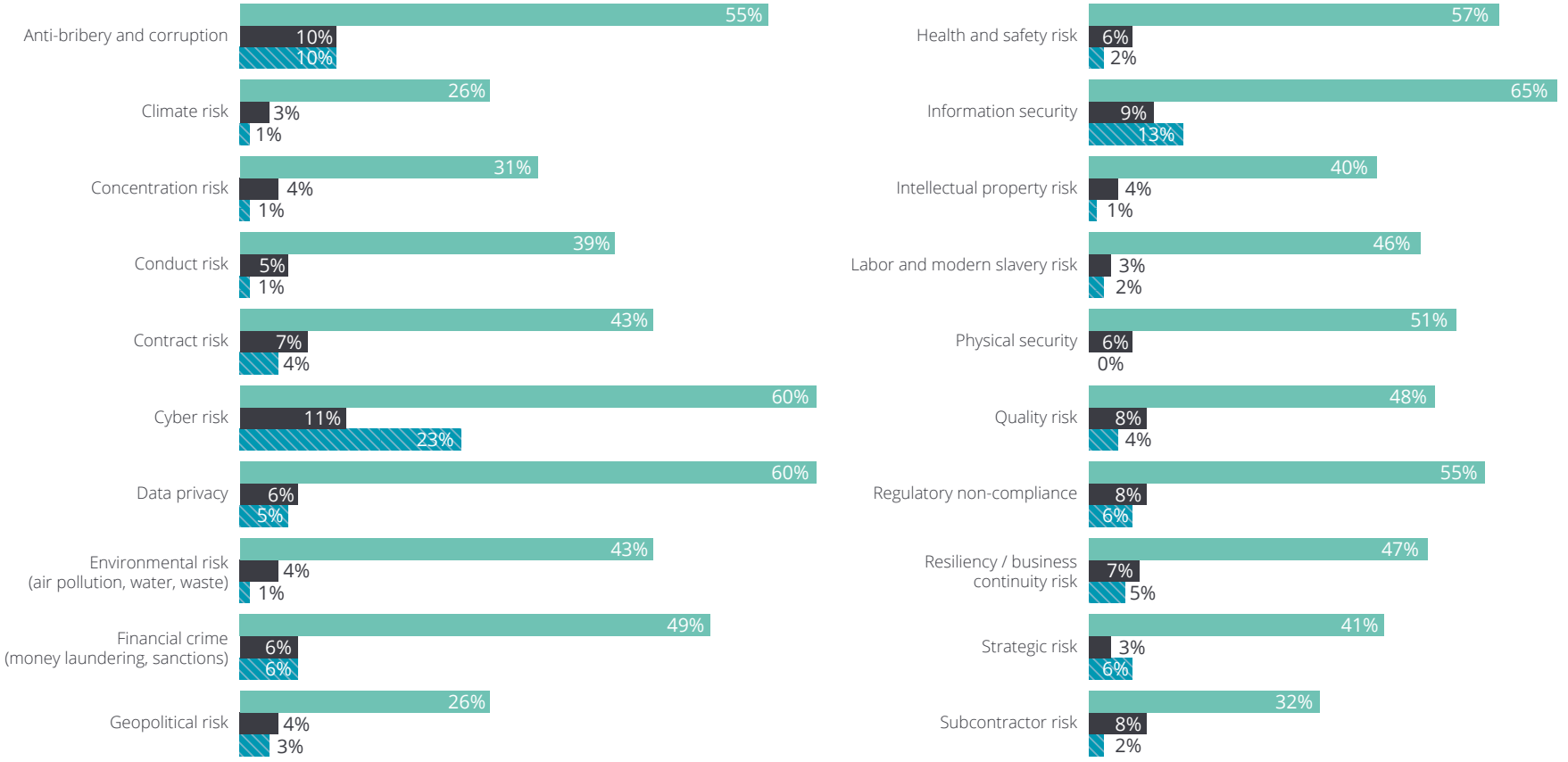
Figure 2.3 . Risk domains impacted by incidents and emerging risks compared to budget-allocations



For industry comparisons of balancing responsibility and cost data see page 58.

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Deloitte point of view

Limited piecemeal investments in EERM have impaired growth in organizational maturity and made it harder to adopt a strategic, longer-term perspective to EERM. For instance, the lack of investment in core risk domains associated with being a responsible business, despite the desire to operate and be perceived as one, is a clear fallout of this myopic approach.

We expect organizations to be more responsive to global issues such as climate change, sustainability, food and product safety, and the need to be ethical. Customers' growing activism will play a much more significant role in setting organizations' agendas for third-party management in a responsible way. We expect the desire to be, and be seen to be, a responsible business to feature more regularly in the business case for investment in EERM, both to unlock budgets and enable organizations to demonstrate return on investment through these activities (or risk potential reduction in returns if you do not).

Despite cost-pressures in funding EERM initiatives, our survey clearly shows that organizational leaders overlook or under-value the role a sound cost and revenue recovery (CRR) program can play in optimizing their extended enterprise. A robust CRR program can invigorate or reinvigorate, as well as help fund, an organization's journey toward EERM maturity by recovering overpayments and revenue leakages identified. Our experience indicates that organizational leadership can be reluctant to commission rigorous reviews of third parties, fearing they signal lack of trust or a need to "police" the relationship.

However, in practice, CRR findings are rarely employed in a confrontational manner. Rather, they are used to demonstrate good governance, drive the right behaviors, and facilitate renegotiation of an existing contract or to negotiate more favorable terms upon renewal.

In parallel, we predict that responsible organizations will rapidly expand their business continuity planning to include the impact of third parties on the well-being of employees, customers, and the general public in the events such as a pandemic, even if this incurs higher costs.

Our experience indicates that organizational leadership can be reluctant to commission rigorous reviews of third parties, fearing they signal lack of trust or a need to "police" the relationship.

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03

Increasing regulatory activity

A rise in regulatory activity encourages nimble organizations to progress towards a greater EERM maturity. Those unable to keep pace with changing expectations fall behind their peers on the maturity journey.

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03 Increasing regulatory activity

Nearly half (45%) of respondents have stepped up their investments in EERM due to tightening pressure from regulators.

Regulators are increasingly influential: broadening their remit to address emerging risks and imposing their power beyond national borders. The impact of regulators has spread far beyond the historically regulated industries into risk domains not previously considered. In addition to long-standing legislation on bribery and corruption, such as the US' Foreign Corrupt Practices Act, there are fresh rules to prevent sanctions violations. Organizations must also cope with statutes for protecting the conditions of workers, such as the UK Modern Slavery Act and similar labor laws in other countries. They also have to consider privacy rules such as the European General Data Privacy Regulations (GDPR) and upcoming regulation of cloud-based outsourcing, and new or more explicit demands covering climate change and operational resilience.

This widening remit is coupled with greater regulatory scrutiny.

Stronger regulatory activity is changing expectations on EERM maturity

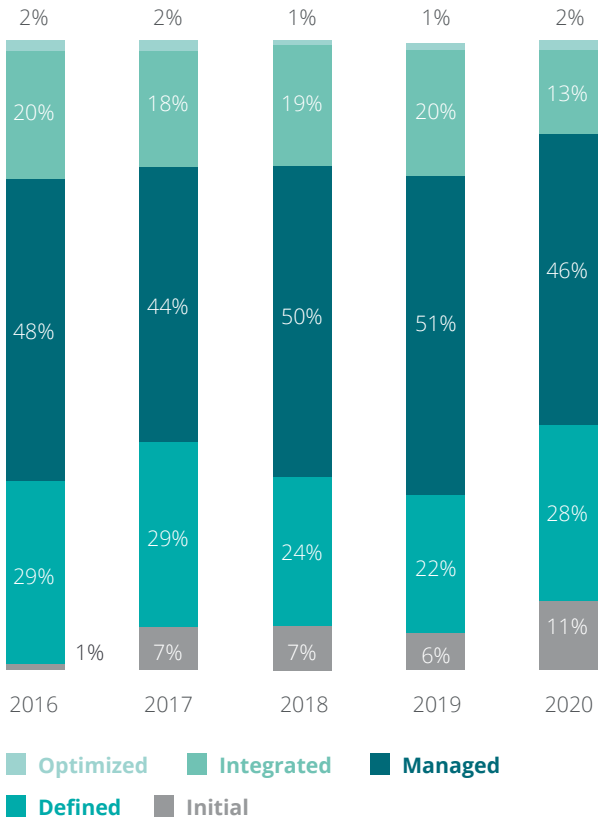
Regulated organizations are responding by pushing or re-defining the boundaries of EERM maturity. Some organizations struggle to keep up with these elevated expectations and risk falling behind, which is a perilous position to be in.

This could explain why the overall proportion of organizations at each stage of EERM maturity (based on the same five-point scale used consistently since our survey began – see Deloitte EERM maturity model on page 27) has remained fairly static over the last year.

- Only 15% of organizations consider themselves to be **integrated** or **optimized**. The greatest proportion of organizations (46%) assess themselves to be **managed**.
- Only a small proportion of organizations (11%) are in the **initial** stages of the journey. The remaining 28% are in the next stage: **defined**.

This means the vast majority of organizations still have significant room to improve their approach to TPRM.

Figure 3.1. Change in level of maturity in approaching third-party risk management (2016–20)



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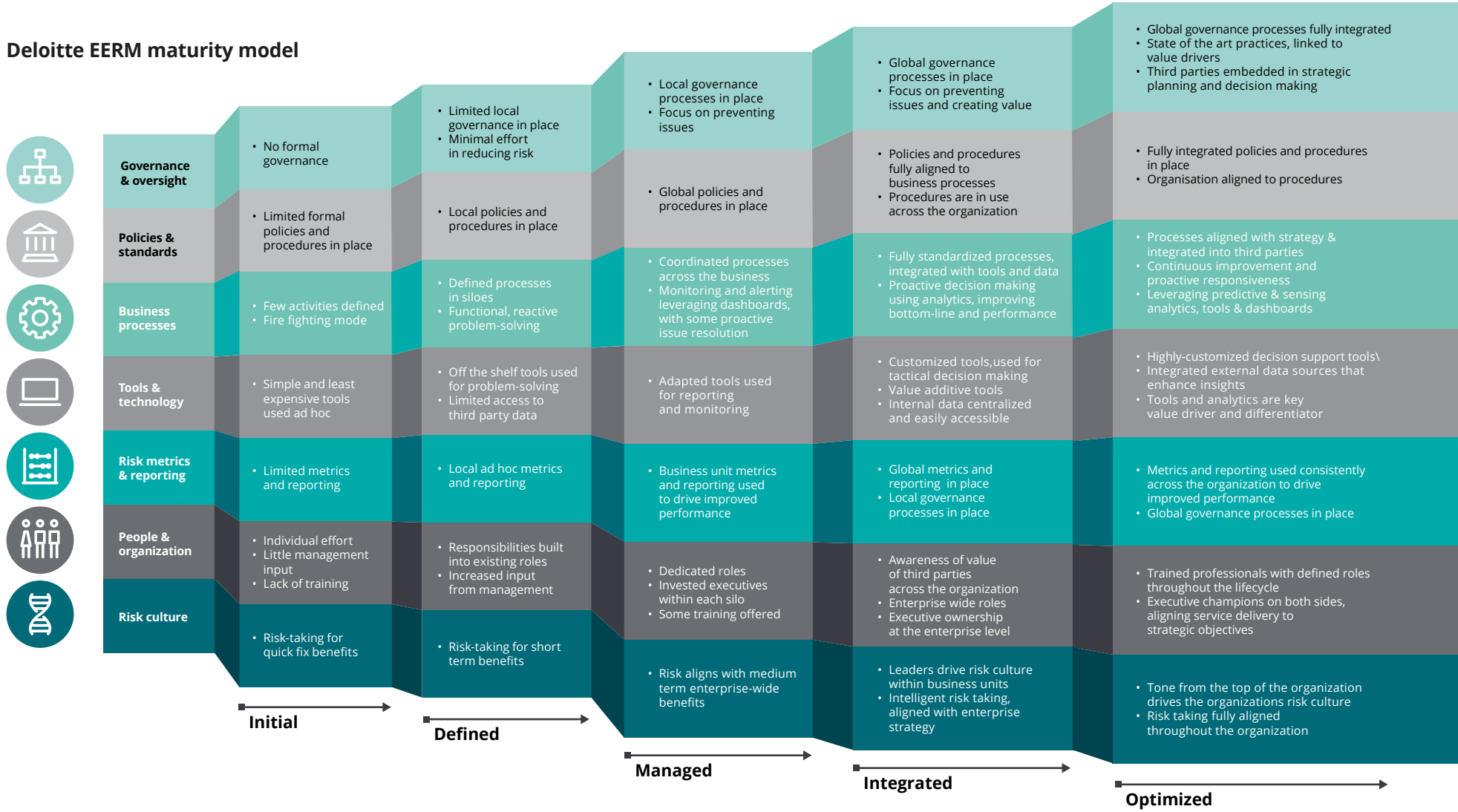
Deloitte EERM maturity model



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Top areas requiring focus and improvement are:

- Real-time information, risk metrics and reporting — **68%**
- Tools and technology for managing third parties — **63%**
- Governance and holistic oversight of third parties by leadership — **61%**

EERM maturity is also impeded because many organizations do not cover or consider all third-party relationship types in their programs.

There are gaps in EERM coverage for:

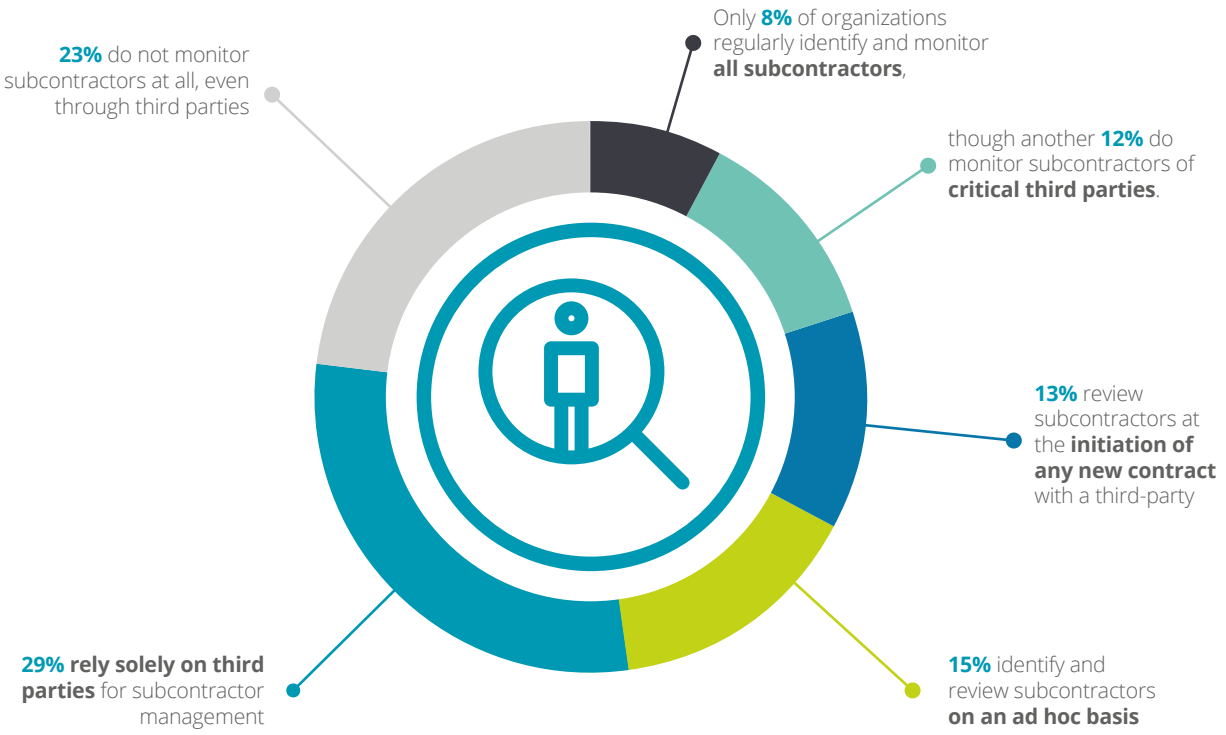
- Licensees and joint venture partners — **20%**
- Sales agents, distributors and franchisees — **19%**
- Group companies, subsidiaries and affiliates — **15%**

This shows that oversight of third parties is often not comprehensive.

Subcontractors

The lack of adequate coverage of subcontractors (fourth or fifth parties) still presents a compelling challenge: only 20% of respondents say they can effectively monitor either all or even just the more critical subcontractors.

We believe this lack of attention is driven by a number of highly disparate factors. These include a lack of knowledge of who the subcontractors are and what risks they pose, and a lack of capacity (time, people and budget). In some cases, organizations don't want to over-step and perform a role they expect their third parties to perform, often citing liability concerns.



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Inconsistent monitoring of subcontractors will come under further scrutiny because organizations acknowledge there are significant risks generated by their dependencies on parties beyond those they directly contract with.

COVID-19 compelled organizations to better understand their critical subcontractor dependencies. This ranged from becoming familiar with what assurance their third-party had to forming combined inspection teams with their third parties to assess and monitor fourth parties. Some organizations also used risk intelligence tools to understand critical fourth party control environments including financial solvency.

Concern with subcontractors has also increased because of regulation and legislation, such as the UK's Modern Slavery Act, which requires an organization to consider its entire supply chain when assessing this particular risk, and GDPR. If there is a data breach two or three levels removed from your organization, you are still accountable for the data breach of your proprietary or customer data.

Such under-investment impairs an organization's ability to monitor their third parties effectively, either continuously or through independent review that includes internal audit teams. Under-investment is also reflected in the lack of adequate exit plans in place for relationships with critical third parties. This in itself presents challenges to business continuity and operational resilience.

The importance of operational resilience

Less than half

47%

of organizations allocated budget to third-party business resilience and continuity. Many organizations have only initiated robust business continuity planning with their third parties as they respond to COVID-19.

For many, COVID-19 has highlighted the lack of organizational readiness to respond to a pandemic situation. The pandemic has triggered a number of third-party disruptions and failures around the world. Organizations impacted by these disruptions are realizing that the lack of formally maintained continuity or exit plans are stifling their ability to act.

COVID-19 has highlighted the lack of organizational readiness to respond to a pandemic situation. Third-party failures started emerging around the world as a result of the pandemic. Organizations impacted by such failures are realising that they had no immediate recourse to alternative actions in the absence of continuity or exit plans.

The emergence of operational resilience as an area of regulatory focus is also underscoring this concern. In the UK in December 2019, the Bank of England, Prudential Regulation Authority (PRA) published a consultation paper on new requirements to strengthen operational resilience in financial services. This proposal underlined the regulators' stated view that operational risk and resilience is as much of a priority issue for them as financial stability. The European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA) have also recently increased their focus on this area.

40%
of respondents believe they have appropriate **exit plans for critical third parties.**

33%
lack such plans.

27%
don't know if they have them or not.

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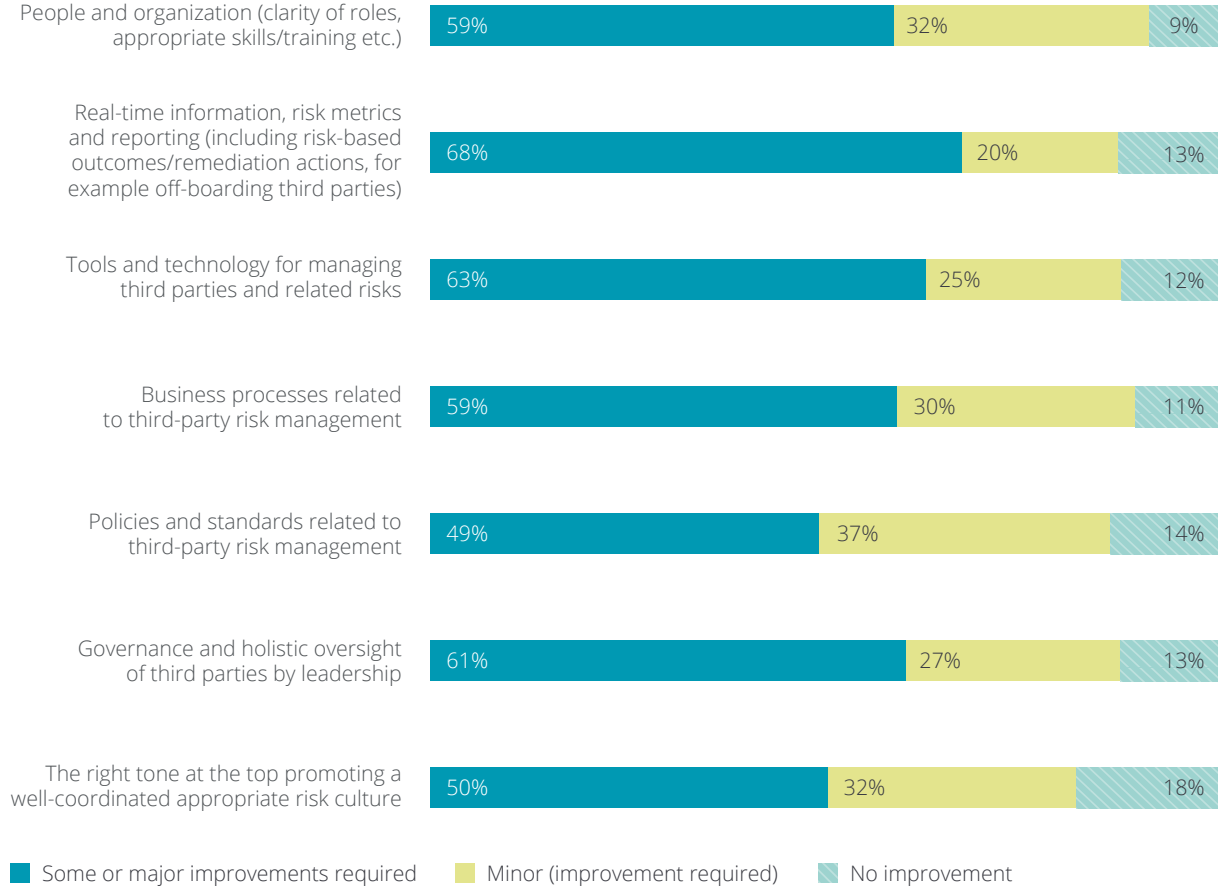
Agility to assess smaller third parties

59%

of respondents believe their EERM procedures are not flexible enough to proportionately and suitably assess smaller third parties, such as start-ups, sole traders, and the contingent workforce.

This could mean a lost opportunity to use niche expertise or other sources of strategic advantage. It could also increase risk exposure through a "one-size-fits-all" approach that does not take into account the particular circumstances of different types of third-party relationship, such as the labor rights and tax implications.

Figure 3.2. EERM areas requiring improvement



For industry comparisons of increasing regulatory activity data see page 60.

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Deloitte point of view

Our experience continually indicates that a rise in regulatory activities encourages nimble organizations to progress towards greater EERM maturity. And those unable to keep pace with the changing expectations, fall behind their peers. The growing proactivity of regulators presents an ever stronger deterrent to non-compliance.

We expect this trend to continue and predict that regulatory principles will also converge around the world, as more regulators start or continue to focus on third-party risk. One area where we expect this to happen more rapidly is in operational resilience and continuity, reinforced through senior management accountability around the world, as organizations recover from the COVID-19 pandemic.

We believe the optimum state of EERM will continue to be a moving target for many organizations. These organizations will continue to play catch-up with rising expectations. Concepts of good practice, technology solutions, utilities, and managed services will continue to evolve and consequently, organizations will need to reevaluate their earlier self-assessments of maturity at periodic intervals.

We believe COVID-19 will compel organizations to better understand their critical subcontractor dependencies across the entire third-party ecosystem which includes not just their supply chain but also licensees and joint venture partners; sales agents, distributors and franchisees; as well as group companies, subsidiaries and affiliates. Critical subcontractor risks, including concentration risks, typically reside in the depths of a third-party ecosystem, where lack of visibility can impair an organizations ability to apply the appropriate discipline and rigor to managing the risk.

We believe the optimum state of EERM will continue to be a moving target for many organizations.

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04 Vision for transformation

Organizations are developing longer-term visions of EERM transformation for the coming two or three years. This involves holistic rather than piecemeal management of third parties, enabled by a “single source of the truth”: a centralized repository of intelligence built on cutting edge technology.

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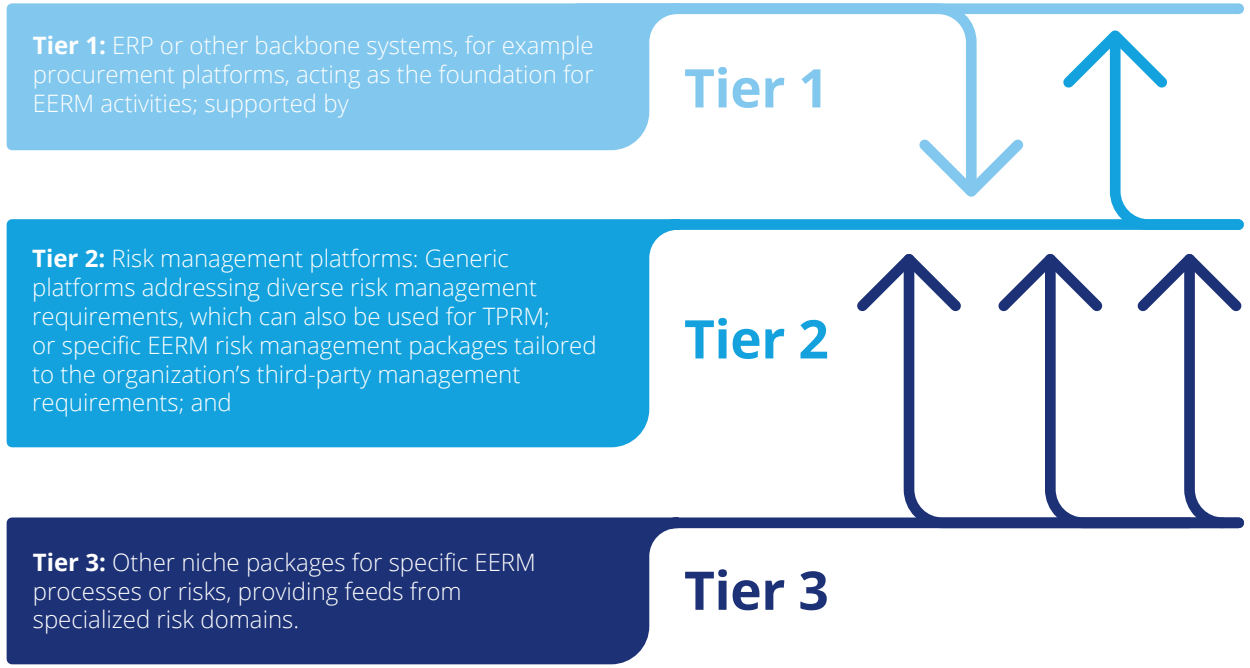
04 Vision for transformation

Respondents aspire to a “single source of the truth” as a key component of their two to three year transformation vision for EERM.

Organizations desire a centralized source of information (that is accessible locally), which enables real-time monitoring and decision-making. Crucially, it must be enabled by appropriate, practical processes and robust governance. There is currently no single technology solution available. Respondents are aligned in their view that there is no single technology solution available that meets a growing list of stakeholder requirements, so the vast majority have taken to stitching different technologies together. As a result, ‘ease of integration’ and ‘flexibility of reporting’ are regularly cited as the most important requirements when selecting technology to underpin EERM.

Over the last few years we’ve seen the emergence of a three-tiered technology structure for EERM comprising:



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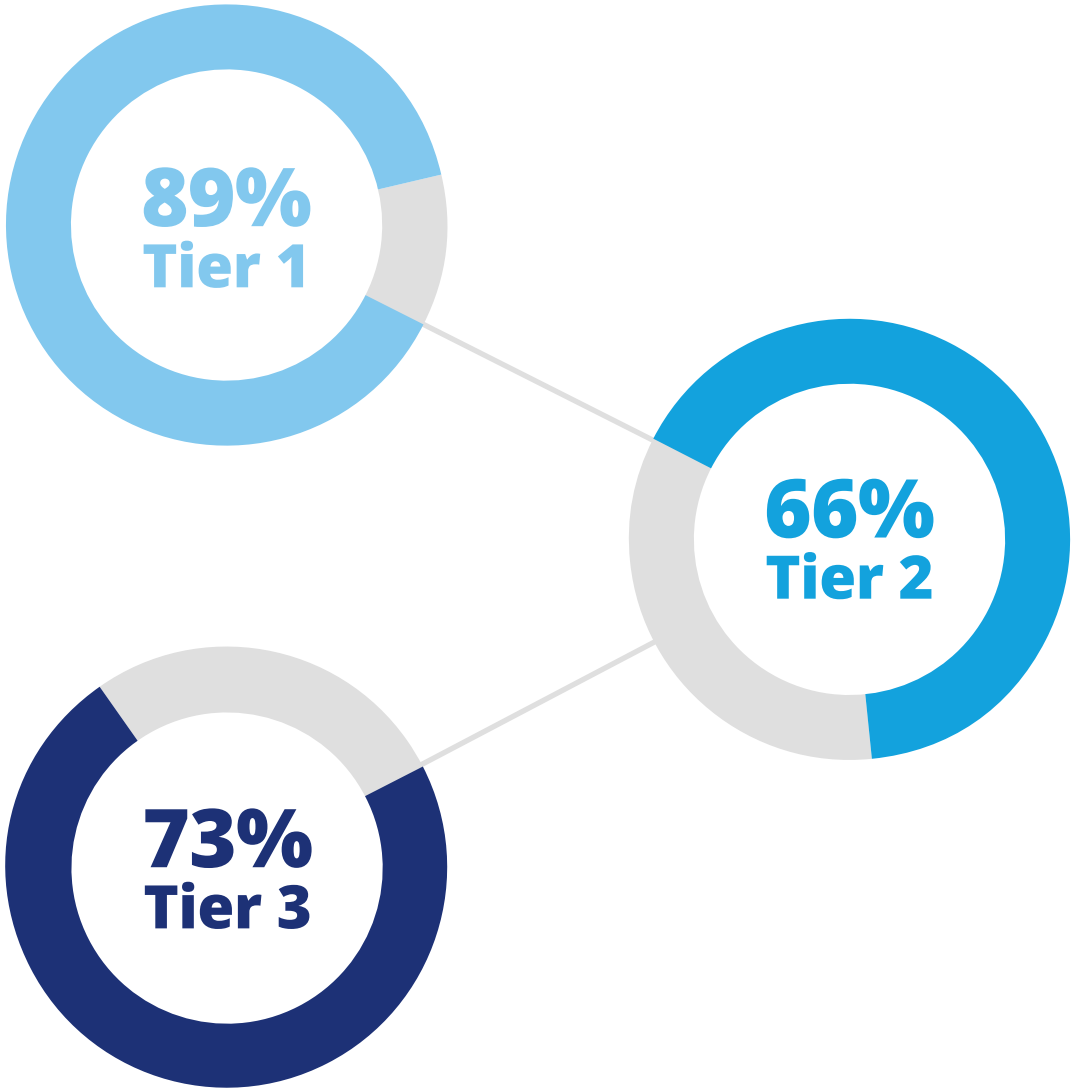
Our earlier surveys showed organizations' want a strong foundation as the master source of third-party relationships. This explains the rapid adoption of **tier 1 in the last year, up to 89% from 59% last year.**

We understand anecdotally that although many organizations use tier 1 platforms as a foundational layer, the vast majority do not rely on them alone. Instead, **66% use tier 2 to complement their tier 1 solutions.** The more generic governance, risk and compliance (GRC) platforms serve as the most popular risk management solutions so far. But those with more tailored functionality specific to EERM are becoming more popular.

Seventy-three percent of organizations use tier 3: domain-specific risk solutions or feeder systems. This is because organizations want to acquire risk intelligence without investing in an army of in-house resources. Their popularity continues to grow in risk domains such as financial solvency, financial crime, sustainability and cyber threat prevention. To monitor the impact of COVID-19, some organizations also incorporated information published by the WHO and local governments on the spread of the pandemic and lockdowns into their TPRM tools.



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Organizations are not satisfied with their EERM technology

24% are dissatisfied

48% are partly dissatisfied

28% of respondents are satisfied with their EERM technology solutions

39% want to explore a different technology solution

46% are unsure of the way forward for EERM technology

This sense of dissatisfaction and confusion is not a surprise. Many organizations struggle to understand the rapidly evolving technology landscape. In response, they seek expert advice and support to settle on a long-term technology strategy for their EERM solutions.

We still see a significant opportunity for one technology platform to provide an integrated single-solution for third-party management rather than use a combination of tools across the three technology tiers.

The challenges with EERM technology have been further highlighted during the response to COVID-19. Many respondents found that the reporting capability of the technology solutions was inadequate for: making critical business decisions about third parties; visualizing risk-management data related to criticality or concentration of third parties, for instance with geospatial dimensions; and creating management dashboards that provide real-time intelligence which could be meaningfully interpreted and actioned without delay.

Respondents biggest technology concern is that EERM systems do not seamlessly integrate with each other

61% of organizations

In addition:

34% say their technology's reporting capability is inadequate for making critical business decisions about third parties

32% say the data's integrity is questionable

In response, forward-thinking organizations have established data management and reporting work streams within their EERM programs

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Reasons organizations are dissatisfied with EERM technology

72%

of respondents are dissatisfied or partly dissatisfied with their EERM technology. The reasons they are dissatisfied are:

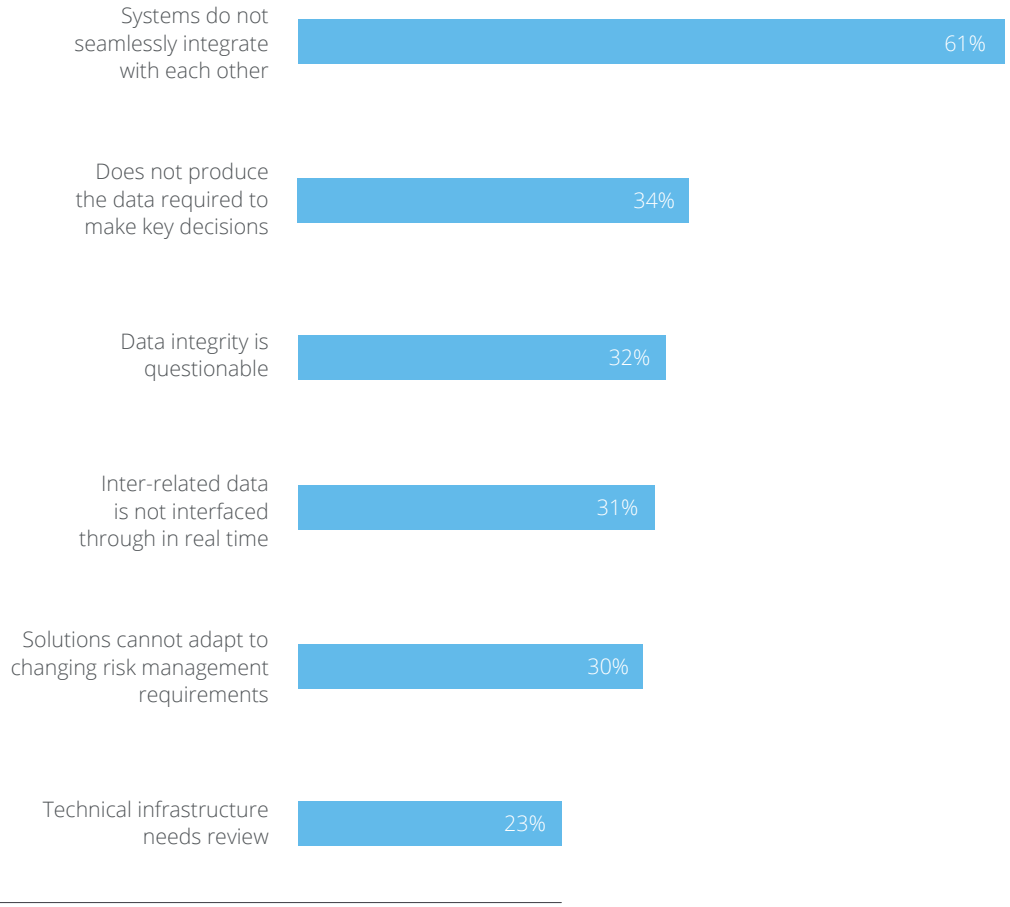

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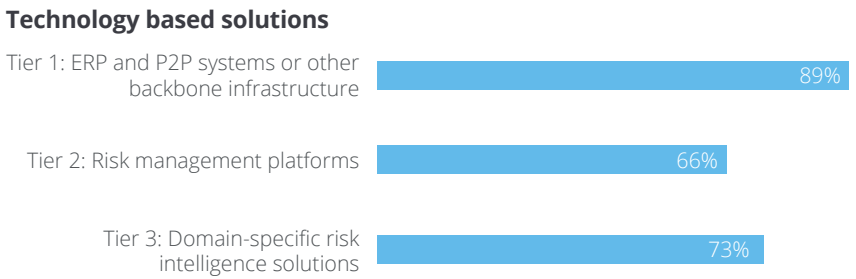
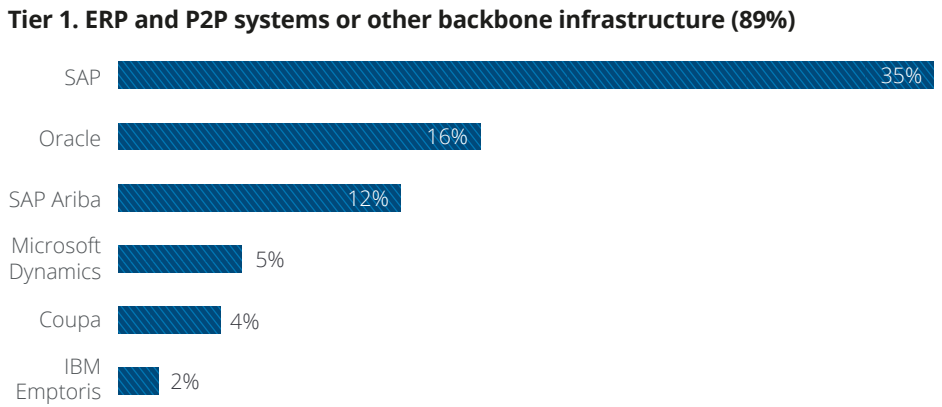
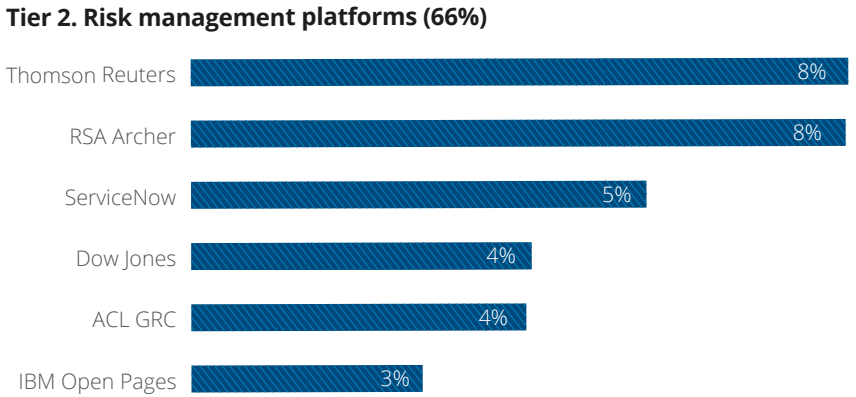
Figure 4.1. EERM technology used







For industry comparisons of vision for transformation data see page 63.

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Deloitte point of view

Accelerated by the need for a rapid response and recovery related to the global pandemic, we expect continued investment in tech-enabled transformation initiatives in pursuit of the twin objectives of efficiency and effectiveness. We believe this will increasingly be driven by the need for holistic, rather than piecemeal, management of third parties, enabled by a "single source of the truth": a centralized repository of intelligence built on cutting-edge technology.

In line with survey respondents, we do not see a 'stand-out' technology solution that has differentiated itself as the 'go-to' solution for TPRM. Thus the opportunity still exists for the major ERP, P2P and risk management platform vendors to upgrade the functionality and coverage of their solutions. This, in turn, will continue to prompt the major ERP, P2P and risk management platform vendors to upgrade the functionality of their solutions. This improved functionality will not only cut across the three-tiered technology architecture but addresses the broadening focus of EERM to include various aspects of third-party performance, both contractual and financial.

There is, no doubt, an urgent need for the boardroom and top executives to obtain actionable intelligence to manage the extended enterprise on a real-time basis. COVID-19 has enhanced the desire for better visualization of data and online alerts to enable action and make top-level reporting more succinct and smarter.

These developments are expected to influence the longer-term visions of EERM transformation for the coming two or three years. We anticipate that COVID-19 will drive many organizations to a period of reflection whereby they fully evaluate their TPRM frameworks, building lessons learned into their vision for realization and embedding over the years that follow.

There is, no doubt, an urgent need for the boardroom and top executives to obtain actionable intelligence to manage the extended enterprise on a real-time basis.

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Leveraging external assistance

A growing number of organizations use external support to improve and supplement their EERM programs. That includes assistance with risk intelligence, utility models, and managed services.

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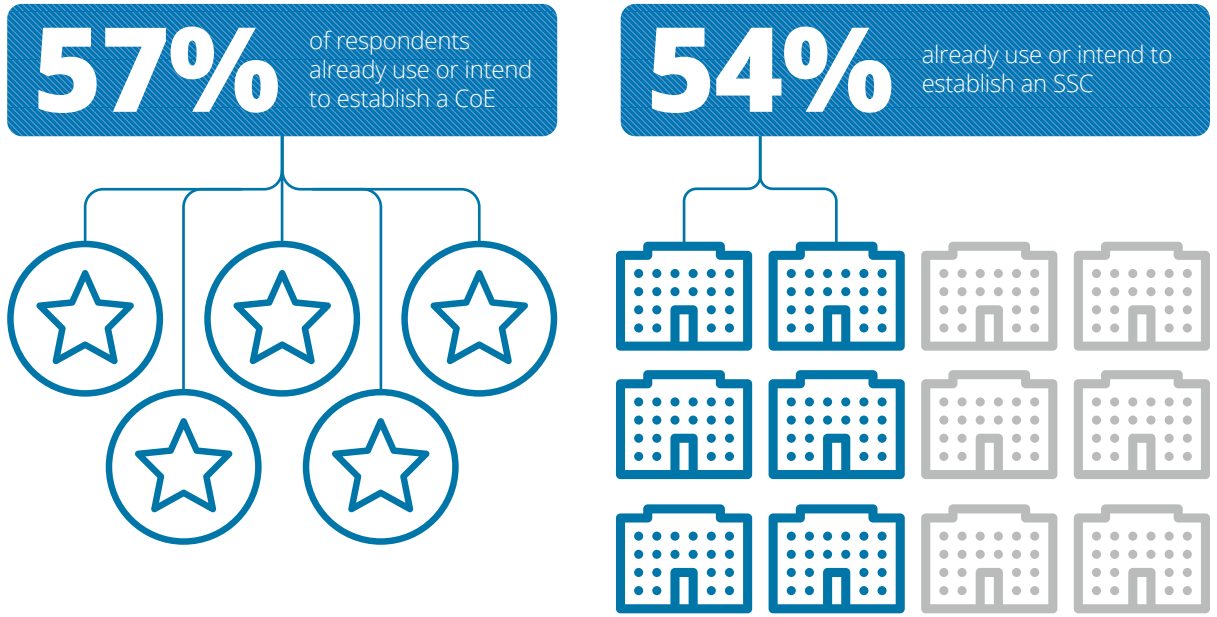
05 Leveraging external assistance

Our surveys identify increasing centralization of risk management and control over the past five years. This is interesting because it runs counter to the generic trend of geographical decentralization of market-facing activities within the same organizations. Centralization of TPRM, however, generally leaves business units and country heads with responsibility for boosting risk awareness and efficiency.

By last year's survey, more federated EERM models had started to dominate, underpinned by a center of excellence (CoE) or shared service structure (SSC) for TPRM. This trend has continued this year.



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Federated models with underlying centralized support structures also lend themselves well to embracing outsourced models.

External providers can often deploy trained workers and specialist technology faster to address organizational EERM challenges more efficiently and effectively. This year's survey also shows a continued interest in community and utility models.

A rising number of organizations embrace external support to improve their EERM capability. This includes increasing assistance with external risk intelligence, utility models and managed services.

No fewer than 22%

of CoEs and SSCs are partially outsourced

2% are fully outsourced

Nearly a quarter of organizations (24%) at least partially outsourcing CoEs and SSCs is very different from five years ago, when our first survey found that nearly all CoEs and SSCs were fully in-house.

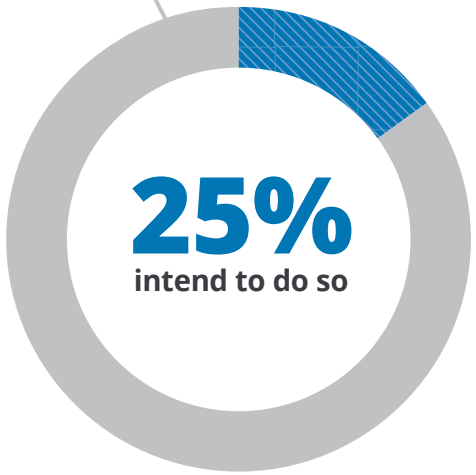
15%

of organizations use talent from an external provider of managed services. A further 16% intend to do so.

16% use an external managed services provider's EERM technology solution as a service

25% intend to do so in the near future

18% supplement available EERM resources through membership of a specialist community or utility where EERM data is shared



However, only 5% of respondents are fully confident that community or utility models can improve efficiency and reduce costs. Forty-eight percent are only somewhat confident and **47%** are not confident at all or don't know.

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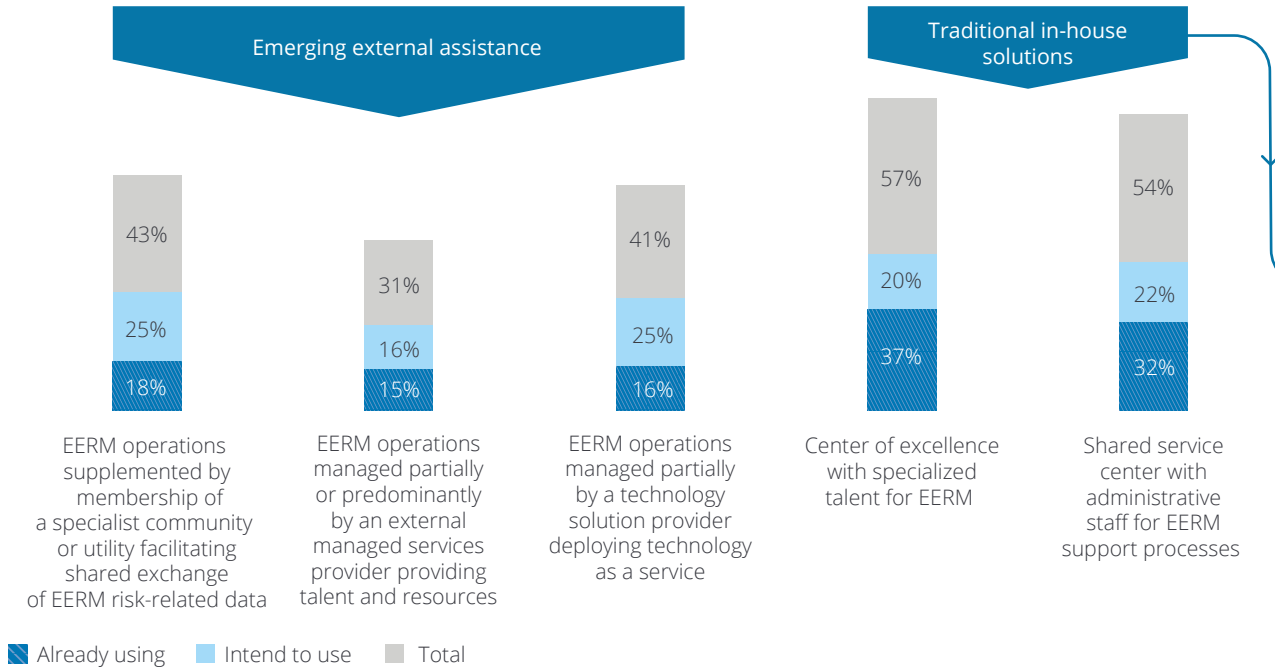
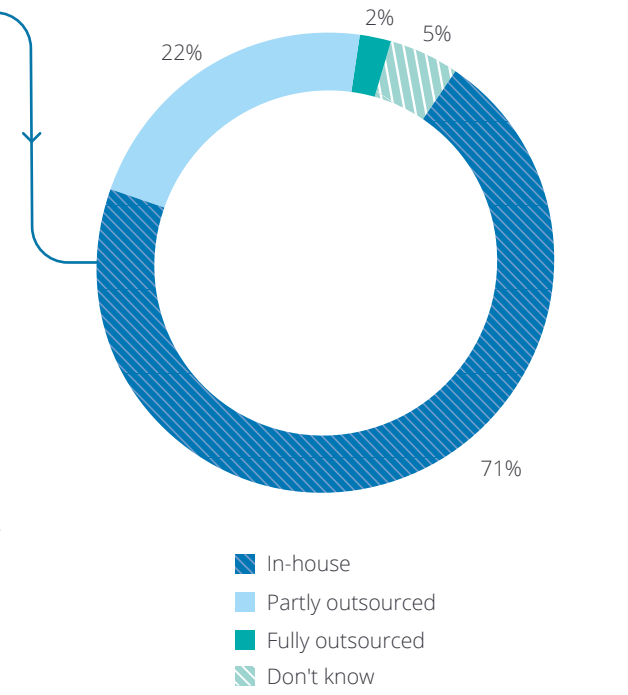
Figure 5.1. EERM operating models



Are these centers of excellence or shared service centers in-house or partly/fully outsourced?



Utilities and managed service solution providers used:

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Deloitte point of view

In the short-term, insourcing may be an attractive option to consider where the immediate need is to maintain direct control over critical operations and processes while invoking contingency plans. However, we believe the use of external support for improving organizational EERM programs will be judicious in the months ahead.

This will include assistance with risk intelligence, utility models, and managed services in addition to engaging with trusted advisors to recover and thrive after the COVID-19 pandemic.

The availability of specialist skills and relevant expertise enables external providers to deploy trained workers and technology efficiently and effectively. External providers can also help a particular industry align on an agreed set of risk domains if they have expertise in managing third-party risks in that specific industry segment.
In parallel, the interest in community and utility models will continue to rise, but the adoption rate may remain slower for some time until organizations are convinced that these models can fully address their specific requirements.

We believe the growing use of technology-based managed services models and utilities will drastically reduce EERM capital costs, and to a lesser extent operating costs while improving the quality and rigor of risk-management efforts. Organizations will prefer providers of managed services solutions that have a trusted brand and operate globally to be able to serve them across the breadth of their global third-party ecosystem.

We believe the growing use of technology-based managed services models and utilities will drastically reduce EERM capital costs.

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Wider focus

Senior executives are extending their focus beyond risk to include a broader view of third-party management. This will enable synergies in the long-term but creates coordination challenges during the transition.

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06 Wider focus

Stronger CEO and board involvement is accelerating the evolution of EERM into a broader platform in a slim majority of respondent organizations (52%).

This goes beyond risk management to include boosting the general effectiveness of third-party relationships. In other words, it changes from extended enterprise risk management (EERM) to extended enterprise management (EEM). This includes centralizing and coordinating a number of inherently related activities. It can also include using dedicated relationship management teams for the most critical and strategic third-party relationships in the management of risk, contracts, performance, finance, and other areas.

In other organizations the management of performance and contracts is still relatively decentralized. In these cases, management is devolved to business units, although the central team will generally give guidance, standards, templates and support.

Last year's survey identified how, to gain better risk insight, boards and top executives were starting to move from static dashboards, which are often out of date, to more succinct, actionable intelligence, provided online in real-time. Organizations continue to invest in emerging technologies such as cloud-based platforms, RPA, cognitive analytics and visualization. This year's survey shows that using these newer technologies to monitor third parties has become the second most important leadership priority (35%). The technology for risk intelligence has improved exponentially in response to this need.

Stronger CEO and board involvement accelerates the evolution of EERM into EEM. Emerging technologies enable it.

52% of organizations believe that EERM is turning into a broader concept that includes:

30% contract management

26% performance management

24% financial management

Creating actionable intelligence in organizations

45% use or plan to use cloud-based platforms for EERM

36% focus on RPA

25% use or plan to use cognitive analytics or visualization techniques

One of organizations' highest priorities is enhancing the monitoring of third parties by using emerging technologies, such as real-time ongoing monitoring and risk sensing, to provide actionable intelligence.

35% **say it is one of their top three priorities**

The use of tools to visualize risk-management data related to third parties has significantly increased as organizations respond to the COVID-19 pandemic. Specifically, many organizations are embracing visual mechanisms to map third-party delivery locations against meta-data on the spread of the pandemic. These geospatial solutions, when combined with the appropriate meta-data on third parties, can be predictive and is incredibly powerful.

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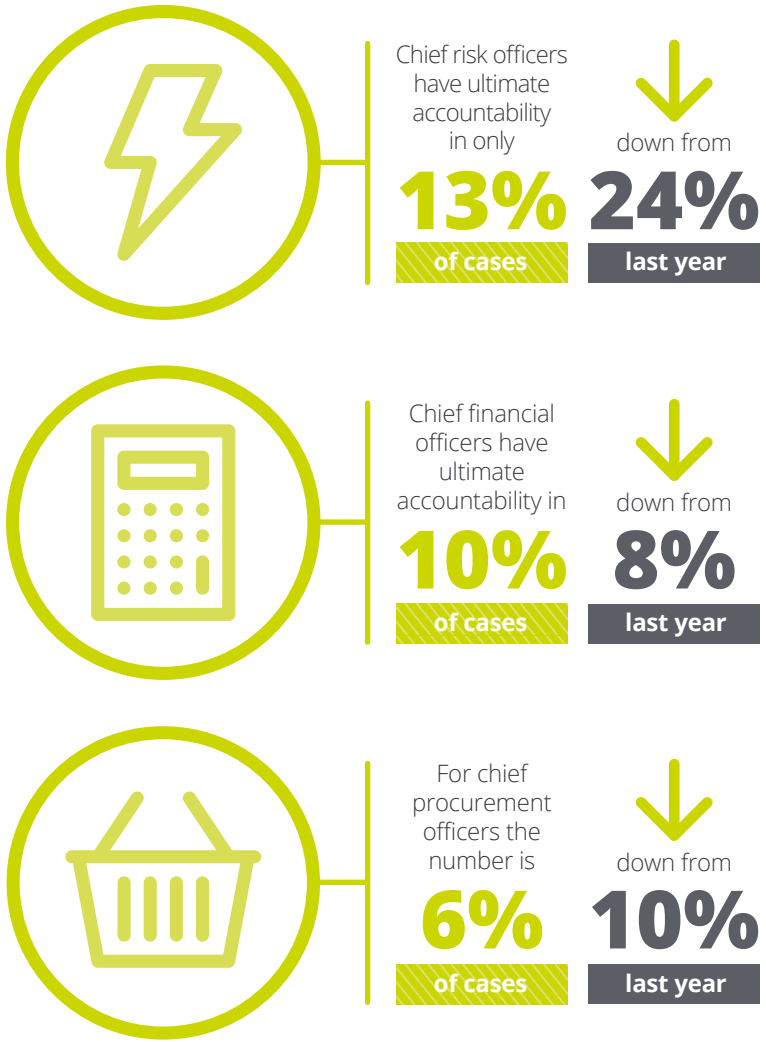
CEOs and board members are increasingly accountable for EERM. But because of the wide range of duties of these senior executives, they're not always the people tasked with taking action, a responsibility generally held by other members of the c-suite or business unit leaders. That creates a novel separation of roles when it comes to EERM.

The passing of accountability to the very top of the organization reflects a growing commitment to align ultimate accountability with strategy. Comments by respondents suggest the shift happens faster when market forces are particularly disruptive. This underscores the importance of linking risk management to strategy-setting.

The trend for ultimate accountability to travel to the very top of the organization will improve coordination: it will make it easier for people in charge of different risks, business unit leaders, functional heads, legal teams, internal audit, and so on, to work together. This remains the top priority for leadership, as it was last year.



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In the bulk of organizations, budgets are still primarily held by the first line of defense, but there is increasingly some co-ownership with the second line, most commonly by risk teams. In addition to them, the buy-in of business unit leaders and country heads is also often required, to address specific nuances of their business units and national markets.

Budget ownership for EERM is spread more broadly to improve the coordination of third-party management.

83%

The first line is the primary owner of budgets is present in the bulk of organizations (83%), but co-ownership with the second line is becoming more common

54%

The need to improve in-house coordination remains the most common concern for leadership, it is ranked as one of the top three priorities by 54%

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Figure 6.1. Widening EERM focus

Figure 6.2. Use of emerging technologies for EERM

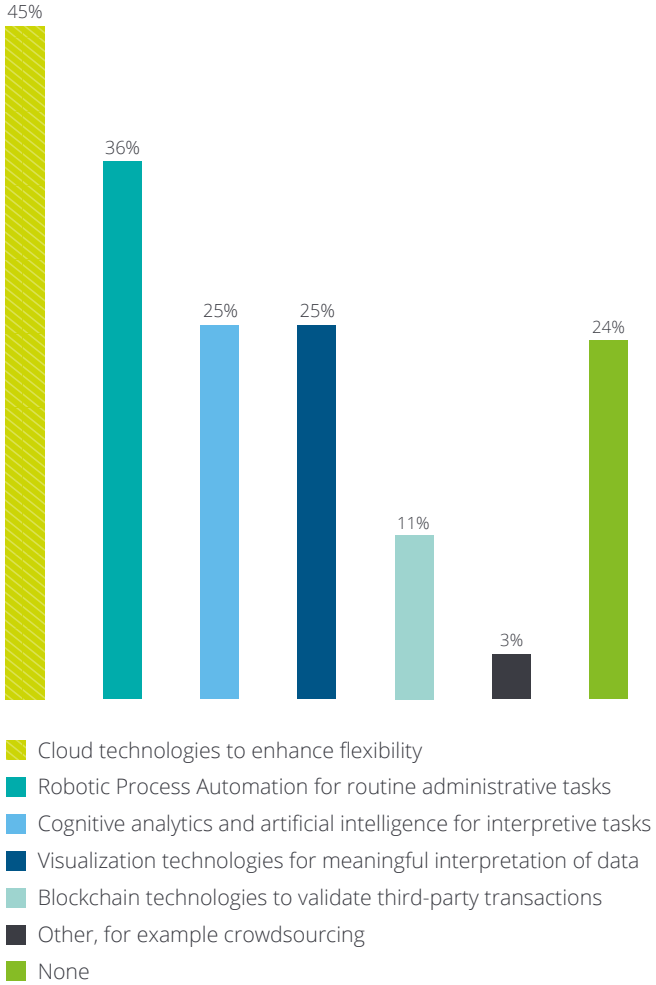

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Figure 6.3. Leadership priorities for EERM

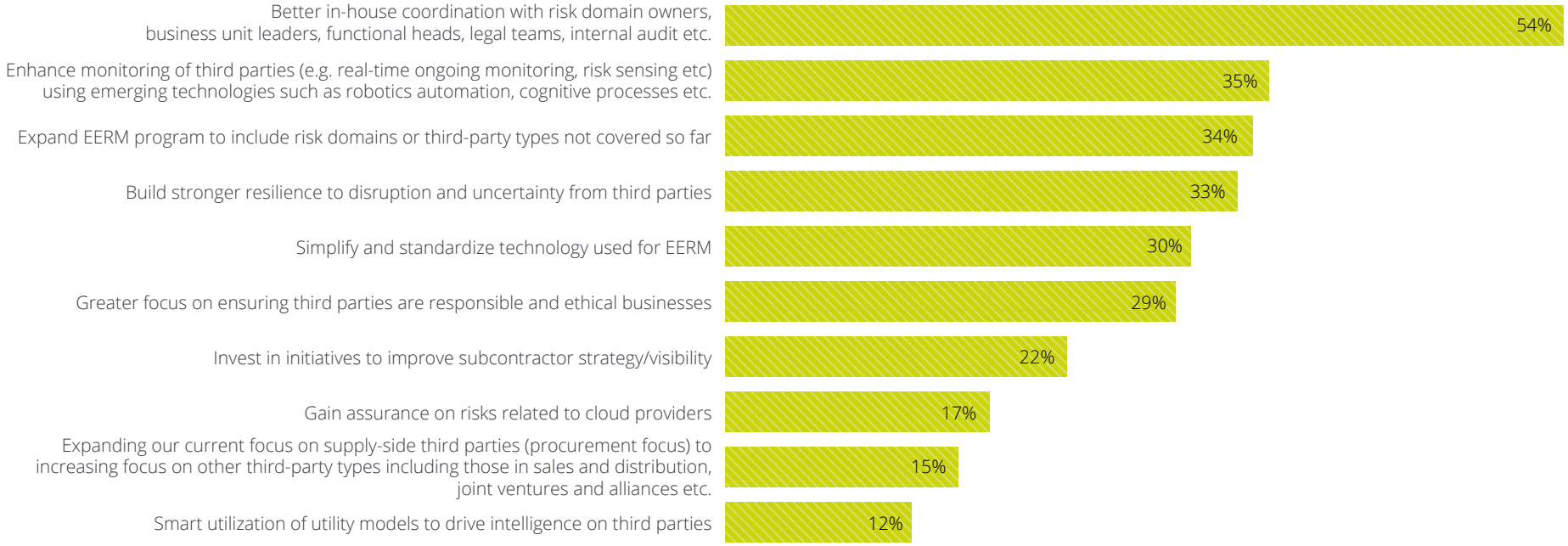

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Figure 6.4. Growing leadership accountability for EERM

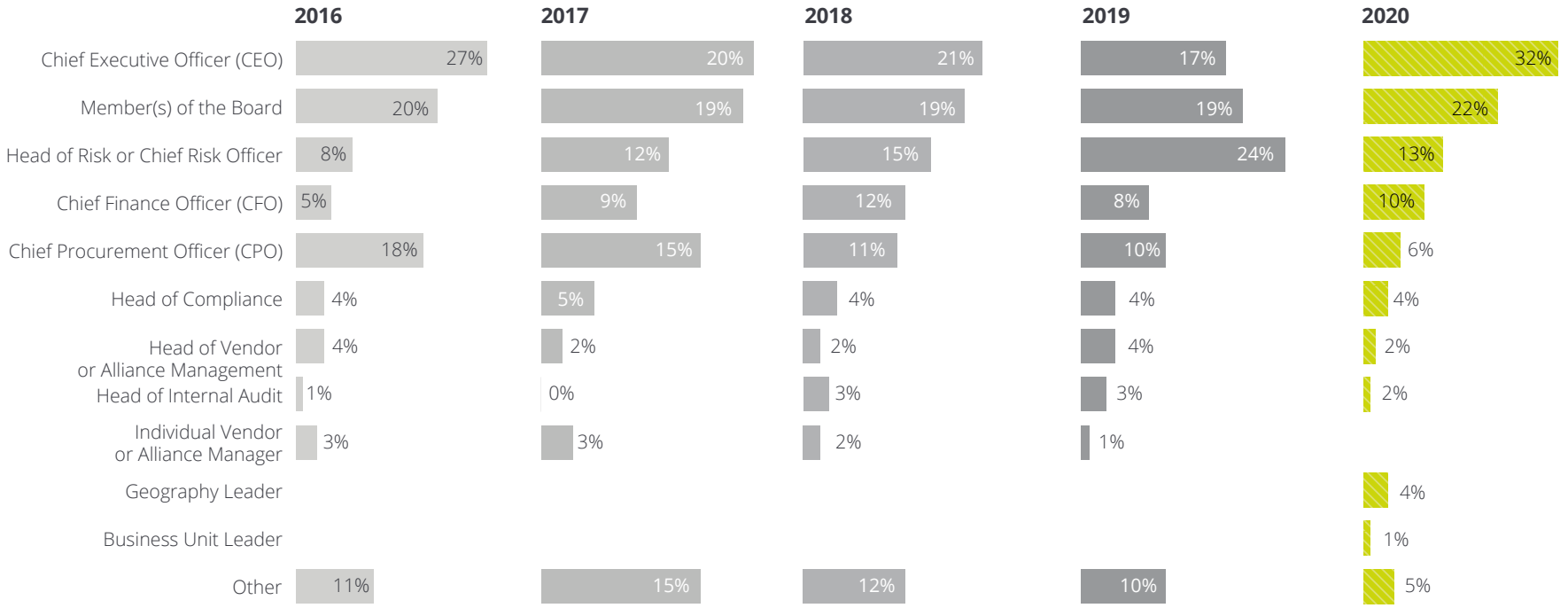

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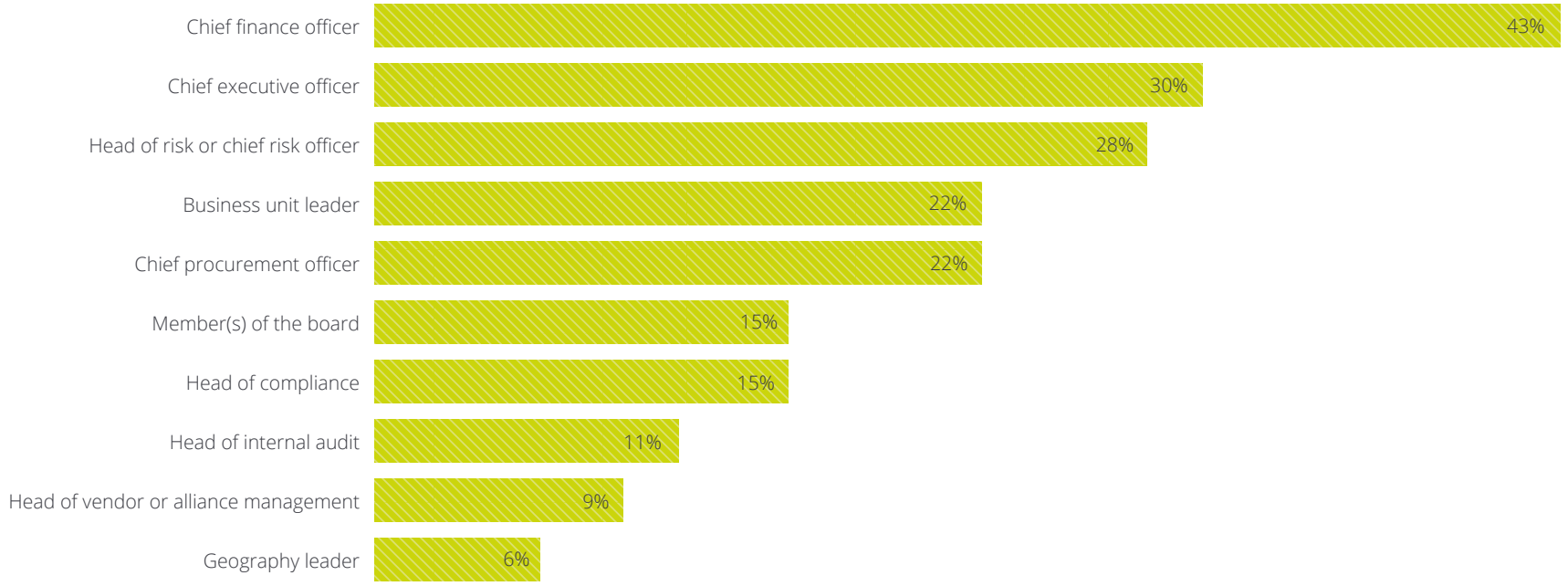
Figure 6.5. EERM budget ownership (including co-ownership)



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Deloitte point of view

The evolution of EERM into a wider discipline is the next logical step to establish holistic mechanisms that manage all types of risks across all categories of third parties.

Our earlier surveys between 2015 and 2019 captured how organizational focus on third-party risk had traditionally been reactive and determined by who was driving the activity. This had typically been procurement teams focused on suppliers and vendors, brand and intellectual property protection functions focused on non-authorized manufacturers or distribution channels etc. Such a fragmented approach to third-party risk led to micro-focus on risk areas that interested certain parts of a business or certain functions, for example, operational performance from a supply chain perspective or information security from a corporate security angle.

This wider approach started to emerge from 2019 and goes beyond risk management to further boost the general effectiveness of third-party relationships. It comprehensively integrates all other inherently-related key activities such as contract and finance management, or monitoring of operational and financial performance. We believe that organizations will try to increasingly achieve this through centralization, coordination or integration of these activities, leveraging the common third-party risk management infrastructure they have started to establish. This can include common organization structures, processes, technology platforms and people. Alternatively, organizations can better coordinate with central EEM teams providing common guidance, standards, templates and support to different teams embedded within various business units.

We predict this evolution of a more strategic and broader view of third-party management will continue and be driven by executive leadership and boards who are increasingly ultimately accountable for EERM. The evolution will be enabled by emerging technologies described previously.

We believe the trend for ultimate accountability to travel to the very top of the organization will improve coordination, which could otherwise prove to be a significant challenge. Top-level accountability will make it easier for people in charge of different risks, business unit leaders, functional heads, legal teams, internal audit, and so on, to work together.

We believe the trend for ultimate accountability to travel to the very top of the organization will improve coordination, which could otherwise prove to be a significant challenge.

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The cost of failure

Crises tend to reinforce the need to invest in good risk management, as we have seen in the aftermath of the global financial crisis and are likely to see after COVID-19.

Organizations with a global third-party ecosystem could potentially face a significant detrimental business and financial impact from COVID-19. Conversely, those that are proactive in their response and navigate actively with success will develop capabilities that set them apart from competition. Such capabilities could ensure better outcomes for the workforce, optimize mid-crisis financial outcomes, and make organizations more resilient and prepared to tackle future crises.

We believe the growing appreciation of the potential damage caused by third-party failures throughout the COVID-19 crisis will increase leadership attention on the value of TPRM, supported by tangible investments in resources, capabilities, technology and reporting. In addition to high-impact incidents, low or medium-impact incidents will also become more common. What is likely to be different in the fallout from the pandemic is that organizations will consider the aggregated impact of the growing number of low or medium-impact incidents, particularly where the root-causes are related to each other or likely to be recurring.

This will require new dimensions of analysis that include a higher extent of visualization of data across geography and other attributes not considered earlier. At the root of this will be a progressively stronger sense of the cost of getting things wrong, and a more activist approach from stakeholders.

We believe that more progressive organizations will strengthen what we call their "consequence management" standards. For instance, one survey participant said their board remuneration committee reviews all significant breaches of regulatory requirements, all internal policies, and all significant financial losses. These breaches and losses affect the performance-based remuneration of the people responsible, specifically including those representing executive leadership and members of the board.

Balancing responsibility and cost

We predict that in response to the COVID-19 pandemic, organizations will widen their business continuity planning to consider the consequences of third-party actions during similar such high-impact events in the future. This may increasingly include banning travel and ordering employees to work from home where possible to limit risk, restricting visitors on manufacturing sites, and reducing shifts and controlling sizes to allow for adequate space.

In parallel, we expect organizations to be more aware of the implications of third-party actions at the time of addressing global issues such as climate change, sustainability, food and product safety, and the need to be ethical, as societal expectations of corporations are reframed to ensure the viability of all stakeholders. Customers' growing activism will play a much more significant role in setting organizations' agendas for third-party management in a responsible way.

Our sustainable consumer survey found that 43% of consumers already actively choose brands due to their environmental values, with 34% of consumers choosing brands based on their ethical credentials. As such, we expect the desire to be, and seen to be, a responsible business to feature more regularly in the business case for investment in EERM, both to unlock budgets and enable organizations to demonstrate return on investment through these activities (or potential reduction in returns if you do not).

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Maturity journey

We believe the journey towards full EERM maturity will remain slow in 2020 and 2021, as organizations work to get through the COVID-19 pandemic, amid changing expectations that continue to shift the goalposts. Emerging risk factors will make it even harder to reach full maturity, no organization can be deemed fully mature until it has addressed these new risk factors. In any case, not all organizations will aspire to reach the final two points on the maturity journey: "integrated" and "optimized". That's because reaching these elevated heights on the maturity curve can't be done without a great deal of investment in time and money.

For this reason, some organizations will choose to remain in the middle stage of the five-point journey which we identify as "managed" status. In parallel, organizations will try to address all risk elements, but they do so by acquiring ready-made risk intelligence from external sources and consultants, rather than build deep in-house expertise. The trend already shows in this year's survey: organizations use third parties for managed services and utility models, and to buy in domain-specific feeder technologies, subject to financial constraints.

Insourcing as a more attractive option

COVID-19 has led many organizations to evaluate fully or partially insourcing business or IT processes from their overseas service providers in distant geographies to in-house teams. This came at a time when the traditional IT and business process outsourcing providers are challenged by margin pressures, together with digital transformation and automation providing further alternatives to traditional outsourcing.

Insourcing often emerges as a more attractive option (at least over a specific time-frame) where the immediate need is to maintain direct control over critical operations and processes while invoking contingency plans. It also addresses the need to focus on cultural differences of the overseas workforce in times of distress. Such insourcing strategies will also enable employees to feel more integrated and loyal to the organization. Global Business Services (GBS)-type structures can be leveraged where services are being brought back in-house, to quickly integrate governance mechanisms and good practices into these processes.

This is increasingly true even for the supply-chain, where organizations are adding in-house manufacture or even local sourcing to their list of options in responding to the COVID-19 pandemic.

Other temporary solutions to consider include:

- relaxing specific aspects of service level agreements; and
- prioritizing certain aspects of the service as may be appropriate.

Technology developments

There is, no doubt, an urgent need for the boardroom and top executives to obtain actionable intelligence to manage the extended enterprise on a real-time basis. In addition, COVID-19 enhances the desire for better visualization of data and online alerts to enable action and make top-level reporting more succinct and smarter.

There is a desire for more automated solutions and intelligence around supply chain illumination and provision of intelligence on third parties without needing to rely on them for information. That, in turn, requires investment in robotics and AI. All these investments make strategic decisions timelier throughout the organization. To fuel this, organizations increasingly need to incorporate a data workstream within their TPRM programs. They should consider data sources, integrity and storage.

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Accelerated by the need for a rapid response and recovery related to the global pandemic, we expect continued investment in tech-enabled transformation initiatives in pursuit of the twin objectives of efficiency and effectiveness. The desire for seamless integration across technology platforms used for EERM prompts the major ERP, P2P and risk management platform vendors to upgrade the functionality of their solutions. This improved functionality not only cuts across the three-tiered technology architecture but addresses various aspects of third-party performance, both contractual and financial.

This will also better address the broadening executive focus beyond risk to include diverse components of third-party management. That includes the management of contracts, performance, finance and sourcing. As discussed in our 2019 survey, the evaluation criteria for technology solutions will evolve beyond "cheaper, faster, better" to include:

- Seamless integration with other systems;
- Support in emerging markets;
- Embracement of robotics and cognitive automation; and
- Alignment with the shared and managed services platforms of the future.

Regulatory activity

We predict that regulatory principles will converge around the world, as more regulators start or continue to focus on third-party risk, specifically including the need for resilience and continuity reinforced through senior management accountability. Despite this convergence of principles, actual procedures may remain very different between different regulatory regimes in the medium-term. That underscores the need for senior liaison roles to align requirements across multiple regulatory regimes, particularly those based more on procedures than principles.

In general, the role of regulators is likely to become more important, as they broaden their remit to address newer forms of emerging risk. An example is the UK Financial Conduct Authority's October 2019 announcement that it will crack down on greenwashing by financial services firms. This is relevant to EERM because financial services firms often use third parties for the marketing and investment aspects of green-themed products. The growing proactivity of regulators will present an ever stronger deterrent to non-compliance.

We predict that regulatory principles will converge around the world, as more regulators start or continue to focus on third-party risk, specifically including the need for resilience and continuity reinforced through senior management accountability.

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Cost of failure

Figure 7.1. Proportion of respondents who estimate their financial exposure to be more than US$500 million following a major third-party incident

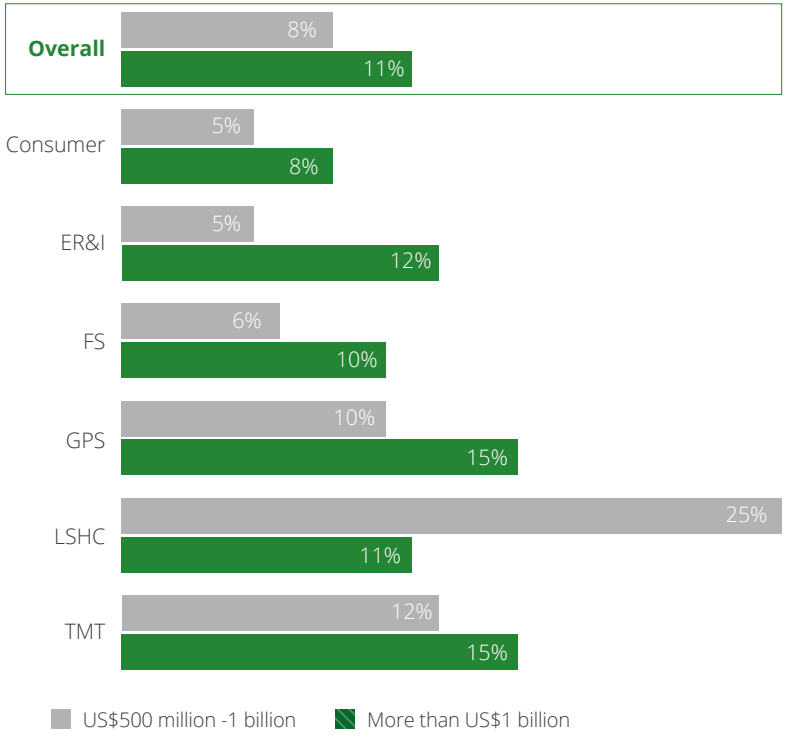
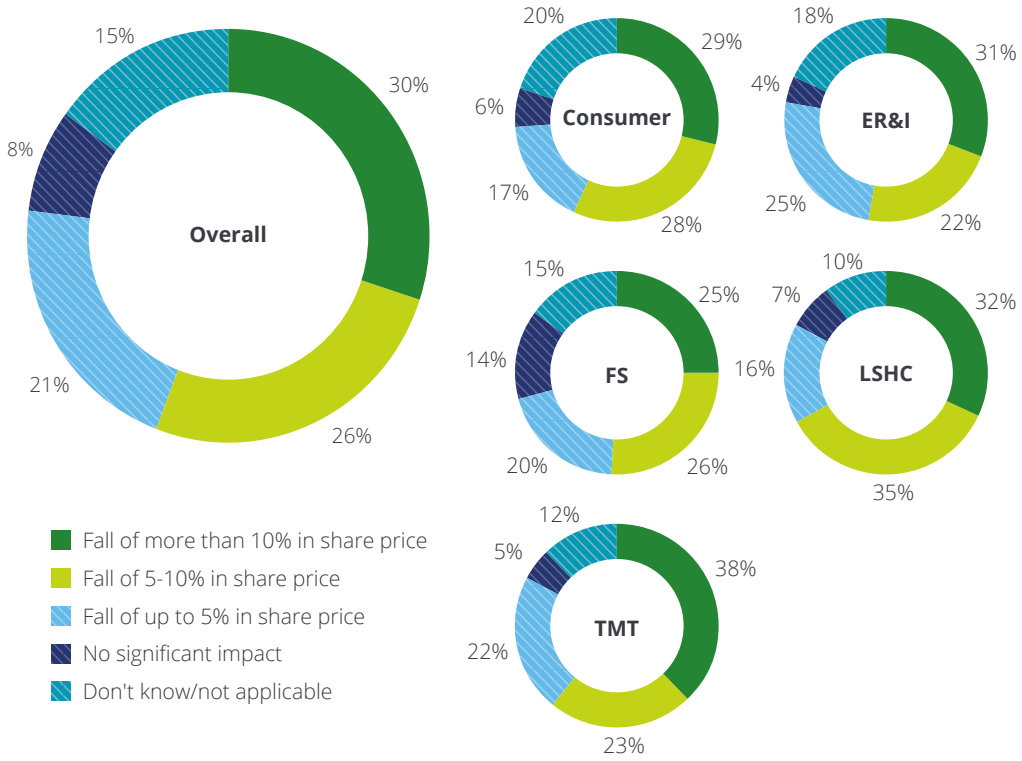


Figure 7.2. Potential impact on share price following a major third-party incident



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Cost of failure

Figure 7.3. Proportion of respondents who faced high-impact third-party incidents in the last three years

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Third-party	**9%**	8%	8%	10%	21%	5%	4%
Third-party subcontractor	**1%**	3%	2%	0%	11%	0%	0%
Third-party and third-party subcontractor	**7%**	8%	7%	5%	16%	5%	9%
No	**83%**	81%	83%	85%	52%	90%	87%

Note: green highlighted cells represent the industries which faced the highest proportion of third-party or third-party subcontractor incidents.

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Balancing responsibility and cost

Figure 7.4. Business case drivers for investment in EERM

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Response to third-party related incidents	**47%**	42%	45%	48%	61%	50%	49%
Response to increasing regulatory requirements or regulatory scrutiny	**45%**	33%	37%	58%	39%	56%	41%
Be a responsible business with an ethical supply chain	**43%**	47%	50%	31%	44%	65%	45%
Protect and increase revenue	**41%**	44%	42%	35%	26%	44%	50%
Address internal compliance requirements	**40%**	35%	37%	43%	30%	52%	45%
Reduce costs	**39%**	39%	38%	39%	35%	39%	44%
Increase confidence in the organizational brand	**25%**	28%	30%	18%	22%	39%	23%
Address investor/shareholder expectations	**22%**	29%	23%	15%	13%	30%	23%
Better response and flexibility to market uncertainty	**20%**	20%	20%	20%	22%	33%	13%
Unlock access to innovative technology solutions	**15%**	16%	10%	18%	17%	20%	10%

Note: drivers in light grey relate to opportunities for value-creation and drivers in cream relate to value preservation.
Green highlighted cells represent the industries which are most likely to use each business case driver for investment in EERM.

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Figure 7.5. Top five risk domains where budgets are allocated by the largest proportion of respondents

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Information security	**65%**	59%	66%	67%	56%	76%	61%
Cyber risk	**60%**	57%	55%	64%	56%	68%	56%
Data privacy	**60%**	58%	56%	63%	50%	76%	56%
Health and safety risk	**57%**	56%	58%	53%	67%	76%	53%
Anti-bribery and corruption	**55%**	55%	45%	60%	61%	58%	58%

Figure 7.6. Top five risk domains where budgets are not allocated by the largest proportion of respondents

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Geopolitical risk	**74%**	78%	72%	74%	78%	73%	68%
Climate risk	**74%**	83%	65%	73%	83%	73%	71%
Concentration risk	**69%**	73%	77%	61%	72%	76%	68%
Subcontractor risk	**68%**	70%	66%	71%	56%	71%	58%
Conduct risk	**61%**	67%	62%	56%	72%	51%	61%

Note: green highlighted cells represent the industries which are most and least likely to allocate budget to these risk domains.

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Increasing regulatory activity

Figure 7.7. Level of organizational maturity for EERM

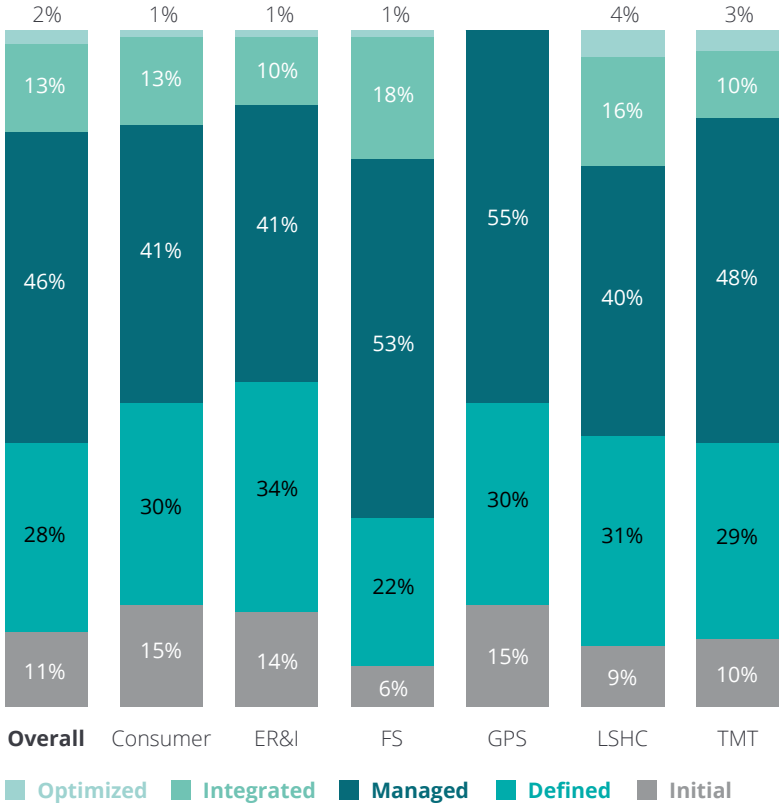

Figure 7.8. Adequacy of exit plans for critical third parties

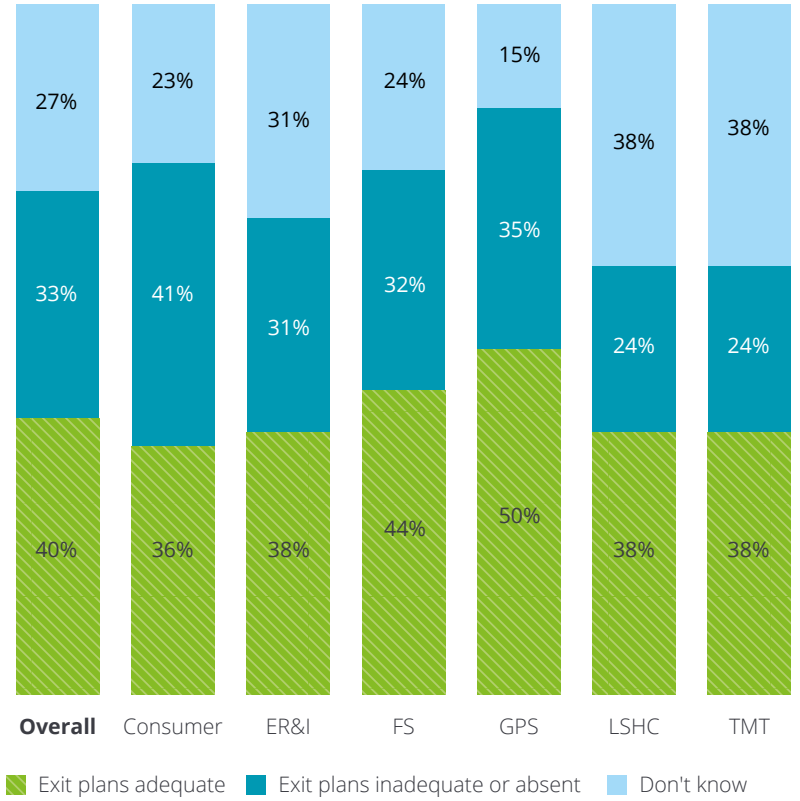

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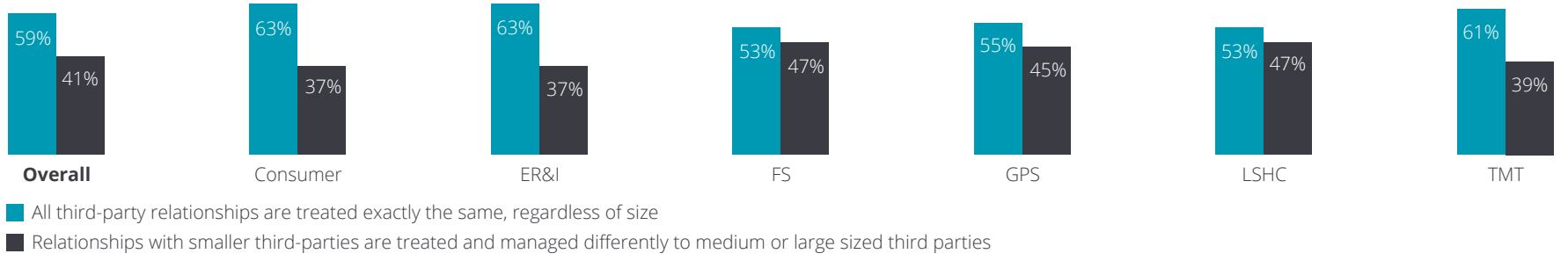
Figure 7.9. Areas requiring at least some or major improvement to enhance organizational EERM maturity

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Real-time information, risk metrics and reporting	**68%**	69%	58%	72%	75%	74%	62%
Tools and technology for managing third parties and related risks	**63%**	66%	56%	67%	50%	67%	61%
Governance and holistic oversight of third parties by leadership	**61%**	62%	55%	59%	60%	74%	62%
Business processes related to third-party risk management	**59%**	66%	49%	60%	70%	65%	57%
People and organization (clarity of roles, appropriate skills/training etc.)	**59%**	65%	49%	61%	60%	66%	56%
The right "tone at the top" promoting a well-coordinated appropriate risk culture	**50%**	56%	49%	46%	80%	53%	47%
Policies and standards related to third-party risk management	**49%**	59%	45%	44%	50%	58%	48%

Note: green highlighted cells represent the industries which are most likely to require some or major improvement in these areas.

Figure 7.10. Organizational agility to assess risk in smaller third parties



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Increasing regulatory activity

Figure 7.11. Gaps in coverage of organizational EERM programs

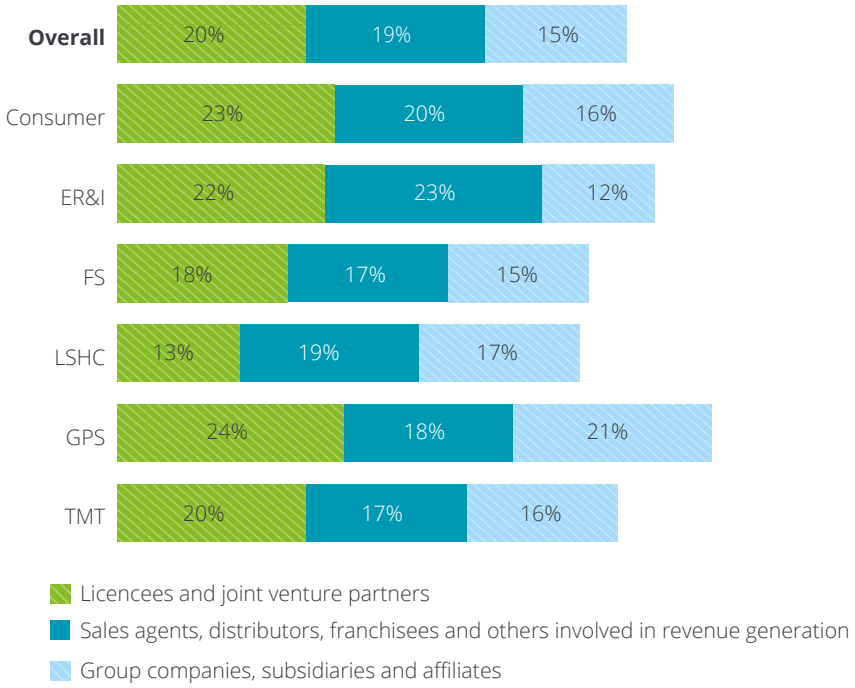

Figure 7.12. Subcontractor management

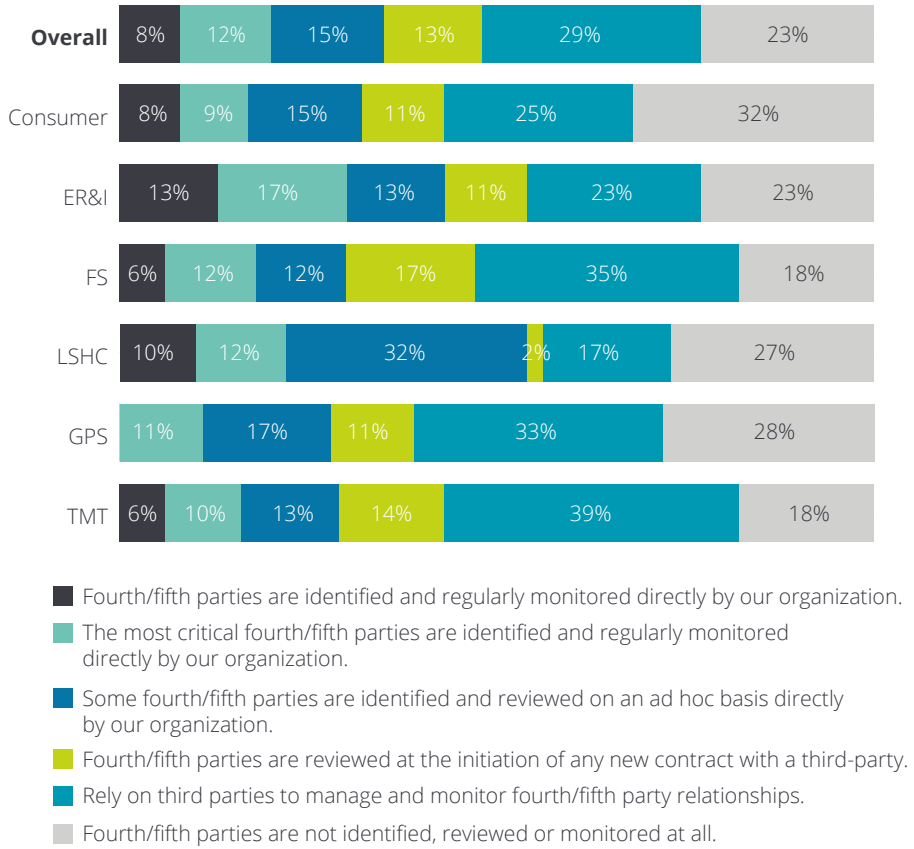

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Figure 7.13. Proportion of respondents who leverage various tiers of EERM technology solutions

	Overall	Consumer	ER&I	FS	GPS	LSHC	TMT
Tier 1: ERP and P2P systems or other backbone infrastructure	**89%**	96%	94%	77%	82%	100%	94%
Tier 2: Risk management platforms	**66%**	63%	57%	69%	59%	71%	73%
Tier 3: Domain-specific risk intelligence solutions	**73%**	72%	66%	77%	53%	77%	80%

Note: blue highlighted cells represent the industries which are most likely to use each technology tier.

Figure 7.14. Actual or intended use of emerging technologies for EERM

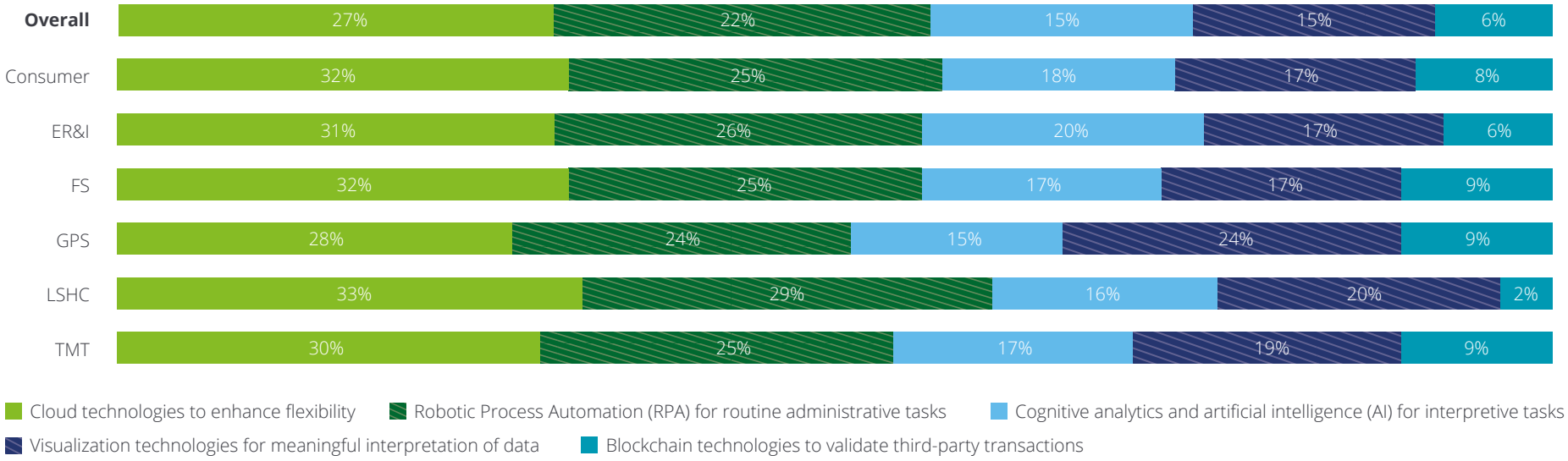

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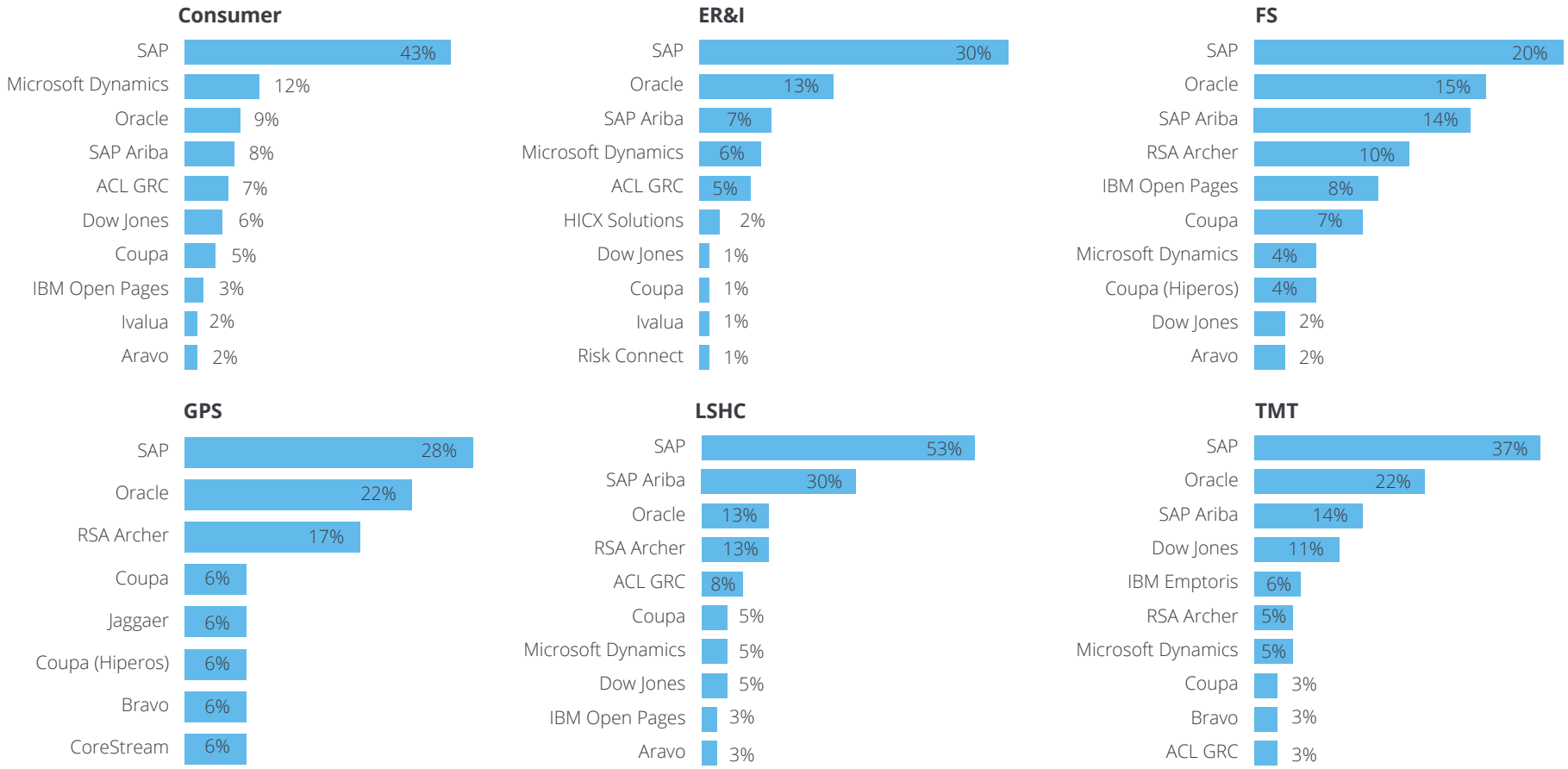
Figure 7.15. Top technology-based solutions used by respondents across industries



Please refer to page 37 for analysis of technology solutions used across all industries and technology tiers.

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Consumer

Third-party collaboration and dependence accelerate

Organizations in the consumer sector emphasize their increasing dependence on their network of third parties, as they set out to explore the opportunities of a new industrial revolution. This revolution is based on technology that uses the interconnections and information of the digital world to communicate, analyze and then propel intelligent action back in the physical world. This new digital landscape combines the Internet of Things, robotics, cognitive technologies and other artificial intelligence, and digital reality.

The macroeconomic environment is uncertain, with concerns about a long-term downturn following COVID-19. Despite this, consumer-facing organizations continue to invest in collaboration with third parties. They don't want to fall behind competitors in innovation, since this could hit top and bottom lines.

Social responsibility and revenue protection and growth are top investment drivers

Industry regulators are working hard to keep pace with the rapidly changing environment. And consumers are more knowledgeable about issues such as climate change, sustainability, food and product safety, and other ethical behavior. As a result, being a responsible business is the most common trigger for investment in EERM for the consumer industry (47% against 43% overall). Next is the need to protect and grow revenue (44% versus 41% overall). See figure 7.4.

Cost reduction is still important

Cost reduction remains an important reason to invest in EERM. Fifty-eight percent of consumer industry respondents (compared with 53% overall) believe they can do this through digital efficiency initiatives, enabled by technology. There's also stronger appetite from this sector to invest in cost and revenue recovery initiatives to facilitate cost reduction (67% versus 59%).

This cost pressure explains why a larger proportion of consumer organizations believe that overall budgets for managing third-party risk are inadequate (67% versus 58% overall), see figure 7.5.

In particular, a higher proportion acknowledge the gaps in independent reviewing of third-party risk frameworks to ensure they remain fit-for-purpose (65% versus 57%). That includes reviews by internal audit.

The desire for responsibility is not matched by budgets

The comparative analysis of EERM risk domains in figure 7.16 shows that although organizations want to be responsible, they often do not apply budget for this to their third-party relationships. For example, only 17% of consumer-facing organizations allocate to a climate risk budget, compared with an overall survey result of 26%. The same is true for domains including bribery and corruption; health and safety; environmental risk; and data privacy. Other sectors are guilty of this too, but the consumer sector is weaker than the average sector when it comes to managing labor and modern slavery risk (only 41% of consumer respondents allocate budgets, versus 46% overall). Bribery and corruption feature strongly in the list of top third-party risks for this sector (15% versus 9%). Respondents regard bribery and corruption as the most common cause of major third-party incidents.

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Consumer industry lacks focus on third-party resilience and continuity

EERM capability in organizational resilience and continuity is often lacking, despite the critical dependence on third parties. Figure 7.8 shows that a higher proportion of consumer-facing organizations do not have adequate exit plans for critical third-party relationships (41% versus 33% overall). Another one in four consumer-facing organizations don't know whether they have such exit plans – a fairly typical number for the survey.

A late start to the EERM maturity journey leaves much room for improvement

A larger proportion of consumer industry respondents have only just commenced their EERM journey. Figure 7.7 shows a higher slice of consumer-facing organizations in the "initial" category (15% versus 11% overall). There's a slightly higher number in the next stage, "defined" (30% versus 28% overall). A smaller proportion (41% versus 46%) have therefore reached the third stage, "managed". However, industry regulators are much more proactive in this sector, so organizations are under more pressure to show progress in the future.

Reflecting the relatively slow rate of progress, the need to address fundamental organizational processes is the second highest priority for improvement (66% of respondents). It ties in second place with the desire for technology improvements (also at 66%). But the need for real-time information, risk metrics and reporting remains the top priority, with data at the heart of transformation initiatives in this sector, see figure 7.9.

The consumer sector has a wider focus on EERM beyond risk management, but bemoans the lack of real-time decision-making data

Figure 7.13 shows that foundational (tier 1) systems for managing third parties are even more dominant in consumer industries than in other sectors. Ninety-six percent of respondents depend on them for third-party management, compared with 89% overall. These systems include organizational ERP and procurement. 74% of consumer industry respondents are partly or fully dissatisfied with their technology solutions (versus 72% overall). In reaction to this, the vision for transformation includes risk management platforms (tier 2) and acquiring risk intelligence from feeder-systems or other external sources. Such is the case with other sectors too.

However, consumer industries' source of dissatisfaction is different. Forty-two percent complain about the unavailability of data to support real-time decision-making, compared with 34% overall. Thirty-eight percent fret about challenges with data integrity in the underlying platforms, compared with an overall survey average of 32%.

Consumer-facing organisations are more likely to see an extension of executive focus beyond risk to include broader components of third-party management, including contracts, performance, financial issues and sourcing (58% compared with a survey average of 52%). We believe this aggravates concerns about the availability of credible and timely data.

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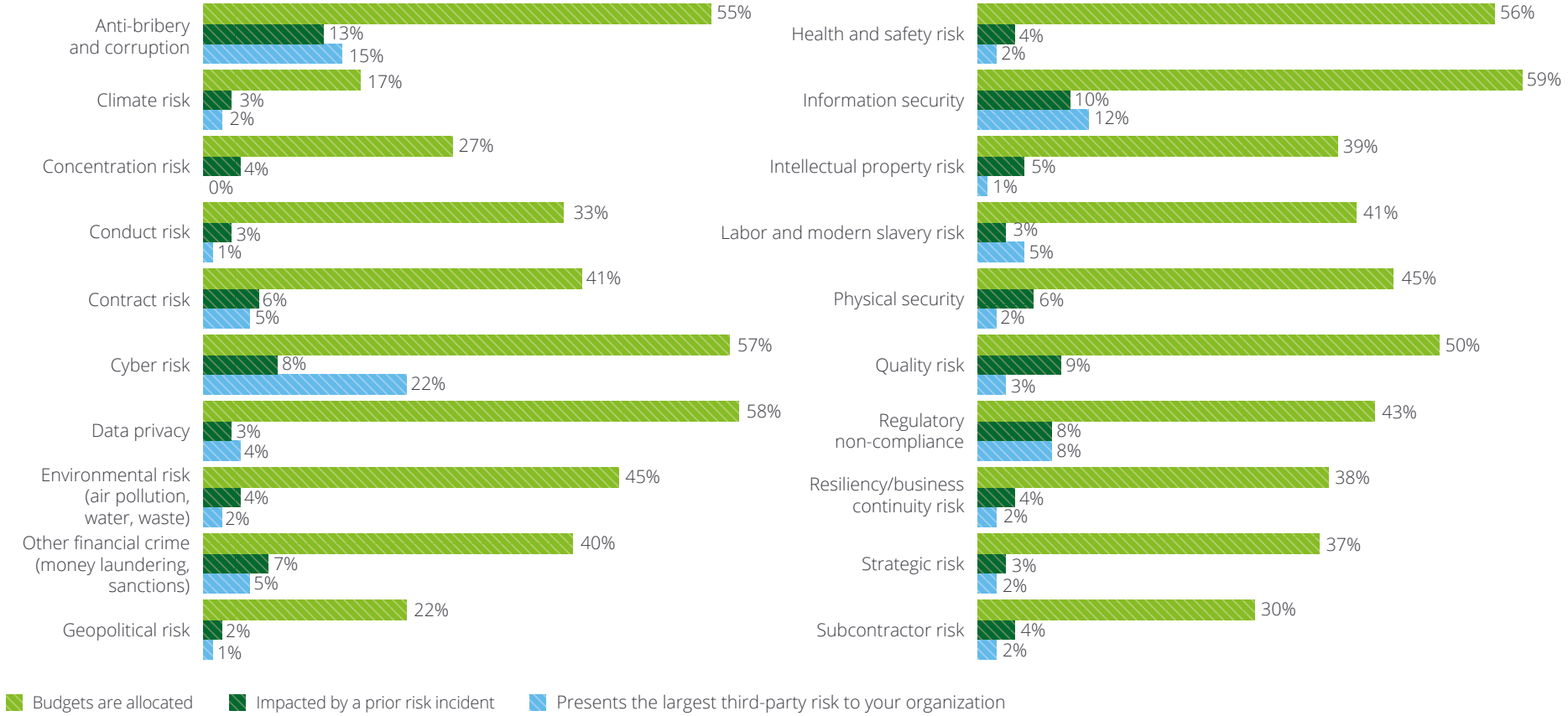
Figure 7.16. Comparative analysis of EERM risk domains for consumer industry



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Energy, Resources & Industrials

Innovating with third parties for value creation and performance

Energy, resources and industrials (ER&I) includes diverse sub-segments. These range from industrial products and construction through to energy, mining and chemicals. A common theme underpinning these organizations is their focus on innovation to optimize value creation and performance.

This innovation involves capitalizing on the digital revolution across the entire value chain, and increasingly calling on third parties to help achieve this ambition. That requires a more intense concentration on productivity, cost-effectiveness and customer-centricity than ever before.

Operating responsibly, and responding to third-party incidents, are top investment drivers

Sustainability and carbon mitigation are increasingly central to investment and operational strategies across all sub-sectors. This runs alongside a stronger imperative to communicate progress in these areas to customers, investors and other stakeholders. Fifty percent of ER&I organizations regard the need to be responsible businesses as a driver of investment in EERM – a higher figure than for any other driver. ER&I organizations are particularly prone to regard this as important: looking across all sectors, only 43% of organizations cite this. Only organizations in the LSHC sector are more likely to see this as a stronger trigger for investment.

The second most common motive is in response to third-party incidents, at 45% of respondents. This compares with an overall average across sectors of 47%, making it the most commonly quoted reason among survey respondents as a whole, see figure 7.4.

Revenue protection and cost reduction remain key to managing important commercial relationships

Innovation presents opportunities, as discussed before. But there are countervailing risks, including the danger of a longer-term economic slowdown beyond the short-term shock generated by COVID-19. This could reduce demand for both energy and manufactured goods, as well as putting the brakes on new investment until the macroeconomic outlook is clearer. As figure 7.4 indicates, even before the COVID-19 pandemic this had driven organizations to focus on protecting and increasing revenue (42% of respondents) – the third most common driver of investment. This was followed by reducing costs (38%) – a close fourth.

The ER&I sector stands out for its belief in cost and revenue recovery initiatives within the extended enterprise: 50% of organizations have such initiatives, versus 41% overall. Another efficiency initiative, using managed services solutions for specific risk management processes, is the next most common source of EERM cost reduction (42% of respondents versus 28% overall).

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More ER&I respondents believe EERM budgets are inadequate

Cost pressures appear to have had a stronger impact on EERM budgets in ER&I compared to other industry segments. Sixty-three percent believe that overall budgets for TPRM are inadequate, compared with 58% overall, see figure 7.5. Sixty-eight percent of ER&I respondents (62% overall) believe specifically that budgets for monitoring third parties are insufficient.

But when it comes to specific EERM risk domains, a larger proportion of ER&I organizations invest in environmental risk (56% versus 43% overall). The same is true for climate risk (35% versus 26% overall).

Reflecting the particular nature of ER&I organizations, quality risk is the biggest cause of third-party incidents (11% of respondents). This is followed by bribery and corruption, subcontractor incidents and health and safety (all at 10%). This list of top causes is very different from the overall survey results, where cyber risks and information security breaches predominate. The sole exception is bribery and corruption, a common cause of incidents both within ER&I and for respondents as a whole.

ER&I organizations are less advanced in their maturity journey

Only 11% of ER&I respondents have advanced to the "integrated" or "optimized" stage of their EERM maturity journey, see figure 7.7. This compares with an overall survey result of 15%. Forty-one percent (compared with 46% overall) have reached the mid-point of this five-point scale: "managed" status. The remaining 48% are still in the first two stages, compared with only 39% overall.

As can be expected, the areas for improvement are wider than merely addressing governance and information needs across the organization – the picture for other industry segments. ER&I organizations do regard these two areas as important. But they also feel they need an appropriate tone at the top to drive the desired risk culture, adequate processes, and the right people and organizational structure. Forty-nine percent of ER&I respondents highlight each of these as areas of improvement, see figure 7.9.

ER&I organizations need to address gaps in EERM programs and focus more on subcontractors

One in four ER&I organizations want to address gaps in EERM coverage by widening their EERM programs to cover all categories of supplier, as well as all sales agents, distributors and franchisees, see figure 7.10.

As in other sectors, in many cases ER&I organizations either rely on contractors to monitor subcontractors, or don't identify, review or monitor subcontractors at all. But more ER&I organizations work to bridge that gap than the survey average. Only 70% regard it as a gap, versus a survey average of 80%, see figure 7.11.

ER&I organizations want to develop risk management in fast-moving environments

In ER&I, as in other sectors, organizations dearly want to transform and improve their EERM. But in ER&I, the drivers for change go beyond improving reporting capability and data integrity. One in three ER&I organizations regard the need to adapt to fast-moving changes in risk management as a key requirement for this transformation. Many also desire better access to real-time risk intelligence, to help make timely decisions about risk with better information.

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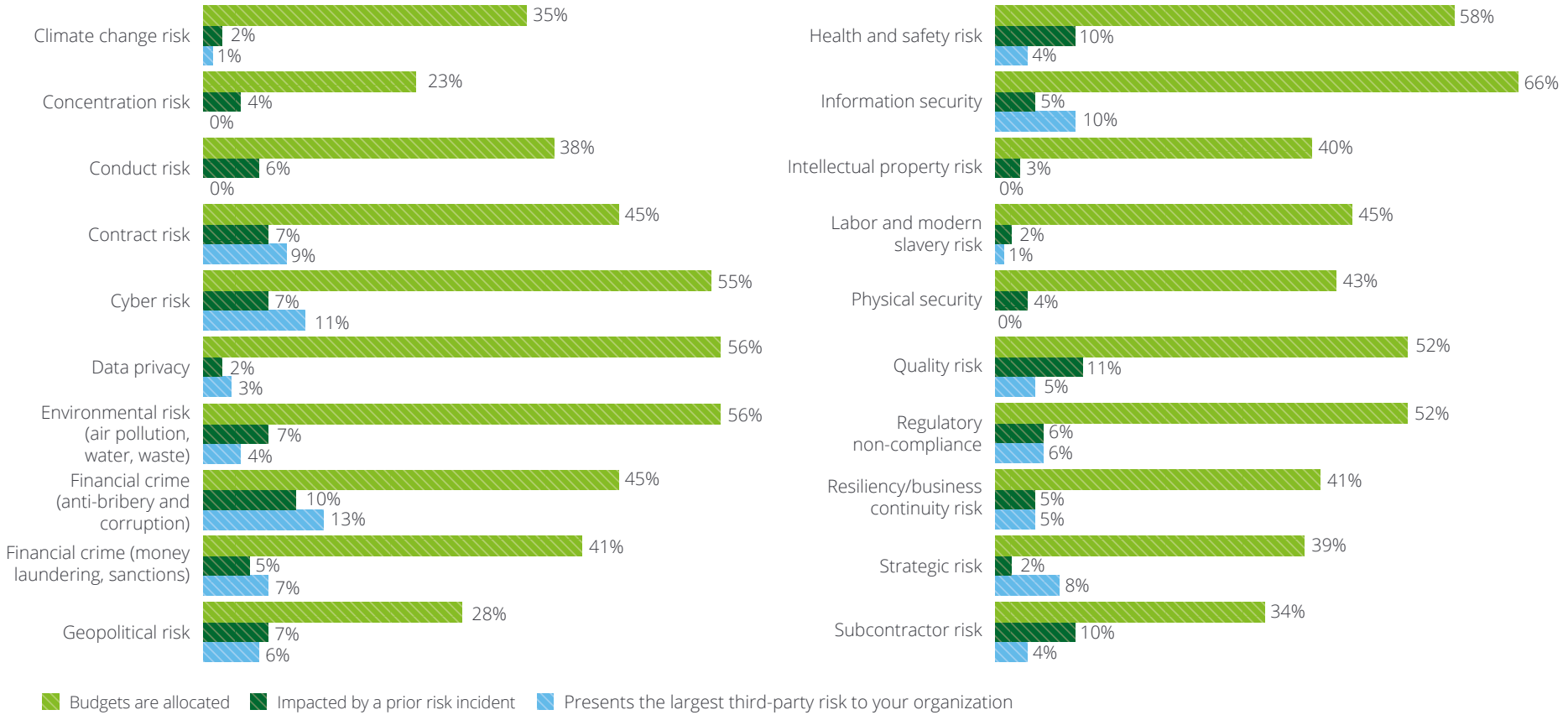
Energy, Resources & Industrials

Figure 7.17. Comparative analysis of EERM risk-domains for respondents from E&RI industry



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Financial Services

In the last few years the financial services (FS) industry has seen a large amount of disruptive change, created by the combination of technology, regulation and changing economic models. Organizations have responded to this disruption not just with short-term reaction but with deep-rooted strategic shifts.

Our survey results reflect these changes: they show that FS organizations are growing increasingly dependent on third parties for strategic advantage. At the same time, respondents manage the risks of this third-party reliance. In dealing with these issues, they strive to balance efficiency and effectiveness.

Increasing regulation is the top driver of EERM investment

Unsurprisingly, the most common driver of investment in EERM for the FS sector is increasing regulatory requirements and scrutiny (58% versus 45% overall), see figure 7.4. Furthermore, 43% of FS organizations invest in EERM to address evolving internal compliance requirements, a response to the stricter guidance of outside regulators. Protecting and increasing revenue through better third-party management is another top five driver. It's cited by 35% of FS organizations.

Belief in cost and revenue recovery is lower in FS, but the sector wants to do more

As with non-FS respondents, cost reduction remains important. However, it has been supplanted as the most common driver of investment. FS organizations are more likely than other organizations (60% versus 53%) to believe that cost reduction can come from investment in shared service centers for EERM, using market utilities to acquire readily available risk management intelligence. However, only 29% of FS participants believe that significant cost reduction or margin improvement is possible through cost and revenue recovery (CRR) initiatives. That compares with 41% in the survey overall. As a result, 69% of FS respondents do not have such initiatives aligned to their EERM programs. But 53% want to do more about this.

FS organizations are ahead of their peers on their EERM maturity journey

FS organizations are further ahead than the average in their EERM maturity journey, likely a result of responding to the regulators. Nineteen percent of FS respondents consider their EERM "integrated" or "optimized" (against 15% overall), see figure 7.7. FS respondents are also more agile in assessing the smaller third parties in their ecosystem. These lesser contractors are increasingly strong sources of strategic advantage in their sector, see figure 7.12.

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Chronic underinvestment in EERM prevails, with a skew towards specific risk domains

FS organizations remain chronically underinvested in EERM, even though the picture is slightly better than the overall average across all respondents. Fifty-eight percent of FS respondents report underinvestment, compared with a survey average of 50%. The comparative analysis of EERM risk domains in figure 7.18 shows that investment is still skewed towards specific areas: cyber risk, information security, data privacy and financial crime. This is underscored by the heightened focus on bribery and corruption among FS respondents (60% versus 55% overall). In contrast to a number of other sectors, being a responsible business is not a top three driver of investment among FS respondents. But, the focus on business continuity and resilience features more strongly than in other sectors.

Chief risk officers are more likely to have ultimate accountability for EERM (21% in FS versus 13% overall) and be responsible for EERM budget (34% against 26% overall). The picture is similar for other highly regulated industries.

FS organizations need to address EERM technology problems

Thirty-three percent of FS respondents say technology harms their ability to adapt to changing risk management requirements in fast-moving environments. Sixty-four percent complain about legacy technology platforms for EERM that do not seamlessly integrate with each other, and 33% have concerns about data integrity in their underlying databases. Organizations want to address these fundamental elements before rewards from technology investments can be reaped. For instance, many FS organizations actively incorporate data cleansing, enrichment and management work streams as part of their TPRM programs.

FS respondents are particularly interested in external EERM support

To complement internal capabilities, FS organizations are more likely than average to use third parties to help with EERM in two specific ways, they are more likely to:

- employ external managed services solutions involving technology as a service (22% compared to 16% overall);
- use outside EERM specialists (22% versus 18%).

FS respondents say they do not use third parties to assist with EERM to reach a certain level of maturity in the field before they consider outsourcing. This is because the ability to understand and make the fullest possible use of the external information is very important.

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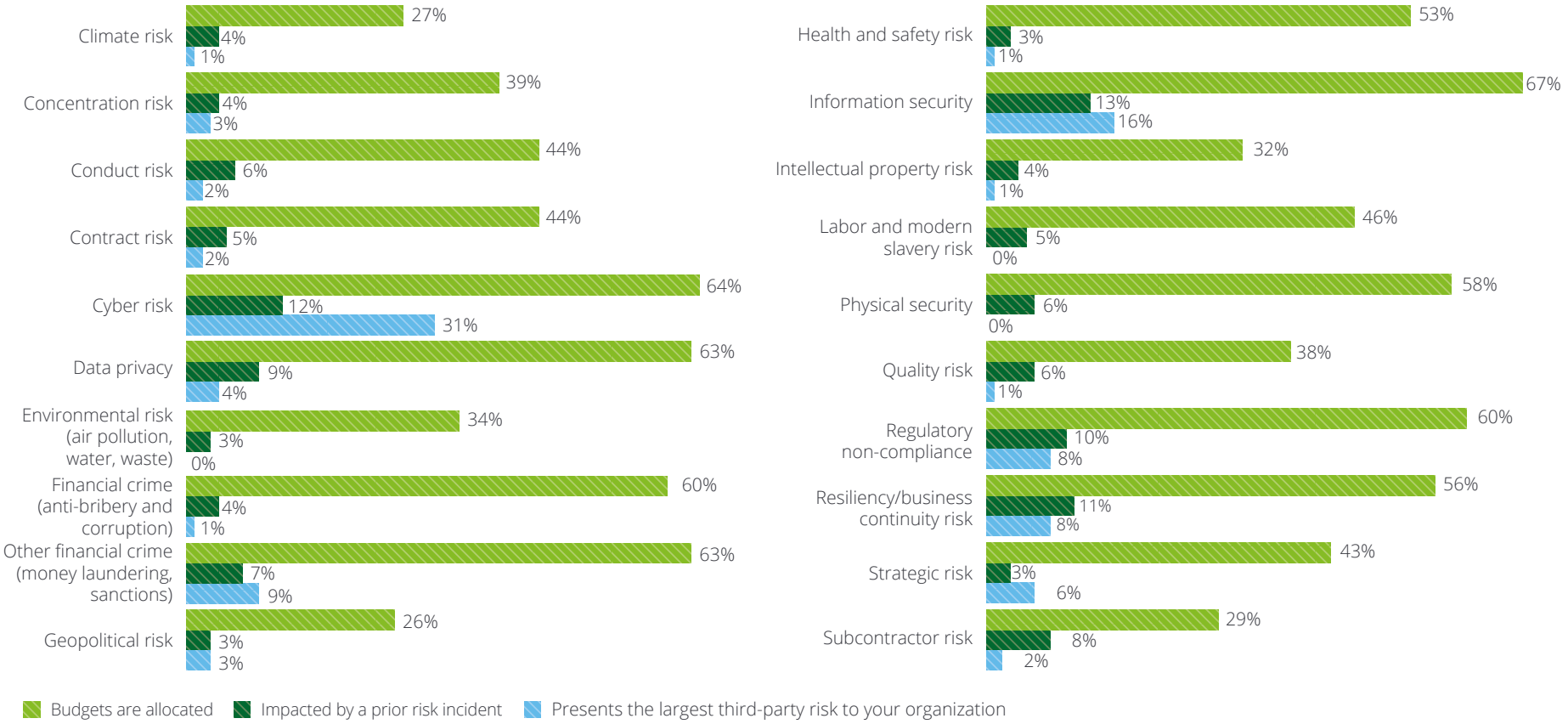
Figure 7.18. Comparative analysis of EERM risk domains for financial services industry



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Government & Public Services

Government and public services (GPS) organizations are typically highly visible and accountable to the public

This often motivates organizational decision-makers to play safe. This, in turn, leads to a stronger focus on mitigating the potential adverse consequences of risks. Sometimes it even means avoiding any conscious risk-taking.

Our survey reflects this heightened recognition of the consequences of getting things wrong, when managing extended enterprise risks.

Major third-party incidents have made GPS more conscious of their potential impact

Twenty-five percent of GPS respondents (compared to 19% overall) believe the hit to their organization following a major third-party incident could be US$500 million or more, see figure 7.1. The top 15% (11% overall) estimate this could be more than US$1 billion. These concerns are valid: respondents from this sector are almost three times as likely to report a high-impact third-party incident in the past three years (48% versus 17%), see figure 7.3.

Subcontractors are implicated in third-party incidents more often

The role of subcontractors in these incidents is also much higher than for other sectors. Eleven percent of GPS respondents attribute such incidents solely to subcontractors, compared with a survey average of only 1%. A further 16% (against 7% overall) believe these incidents are caused by the combination of third parties and their subcontractors, see figure 7.3. Unsurprisingly, responding to third-party incidents is the top driver for investing in EERM (61% of GPS respondents against 47% overall). The need to operate as a responsible organization is second (44% against 43% overall), see figure 7.4.

Regulatory pressure is growing

Survey results also highlight growing regulatory pressure, with regulators increasingly using risk-based approaches. Regulators such as the National Audit Office and Ofsted in the UK, and the National Institute of Standards and Technology (NIST) in the US, now exert a greater impact on GPS organizations than before. Response to such regulatory scrutiny is the third top driver for investment in EERM in this sector, albeit for a smaller proportion of GPS respondents (39%) when compared to the overall survey results (45%), see figure 7.4.

GPS organizations invest most in financial crime and health and safety risk

Financial crime and health and safety and are the risk domains which GPS organizations are most likely to have a specific EERM budget, (67% in each case – see figure 7.19). This is different from the overall survey results, which show information security and cyber as the most invested in risk domains (65% and 60% respectively). These considerations are important in GPS too, just less so: 56% of organizations allocate a budget to each of these domains.

GPS is less likely, when compared to the overall survey results, to allocate budget to third-party compliance with labor and anti-modern slavery laws (28%), climate risk (17%) and environmental issues (28%).

The sector is also more likely to regard quality risk as the one of the greatest extended enterprise risks to their organization (17%), and cite contract risk incidents (17%) as a top cause of third-party incidents. It also cites cyber and anti-bribery and corruption as a top cause, but these are in line with overall results.

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GPS organizations' obsession with risk avoidance has narrowed their focus and slowed progress towards EERM maturity

The sector's greater focus on risk mitigation and avoidance is at the cost of more strategic considerations. The potential upside from embracing risks, which can be realized through engaging with third parties, is often not considered. The necessary bigger-picture mindset tends to be limited, or lack coordination. This mindset includes broader considerations, such as business continuity and resilience, across the wide community of stakeholders. It also includes an analysis of concentration risk that could trigger systemic failures. This limits efforts to integrate risk management more directly with strategy, or to adopt more innovative approaches to risk management.

Our prior research notes the tendency to stick to procedural rules that may be out-of-date or ill-adapted to address specific challenges of third-party management. This flawed approach is reflected in our survey. None of the GPS respondents say they are "integrated" or "optimized" in their EERM maturity, compared with 15% overall. Fifteen percent of GPS respondents say their organizations are in "initial" stages (against 11% overall), while a further 30% (28% overall) have reached the next stage, "defined". The vast majority (55%) are in the "managed" stage of maturity, as against 46% overall in the survey, see figure 7.7.

The biggest challenges to a more mature approach to EERM are:

- the tone at the top (80% of respondents), followed by
- the need for real-time information, metrics and reporting (75%) and
- the need to improve business processes for EERM (70%). See figure 7.9.

It's particularly striking that the biggest challenge identified for this sector, the tone at the top, did not feature in the top three areas of concern for any of the other industry sectors.

The sector's greater focus on risk mitigation and avoidance is at the cost of more strategic considerations. The potential upside from embracing risks, which can be realized through engaging with third parties, is often not considered.

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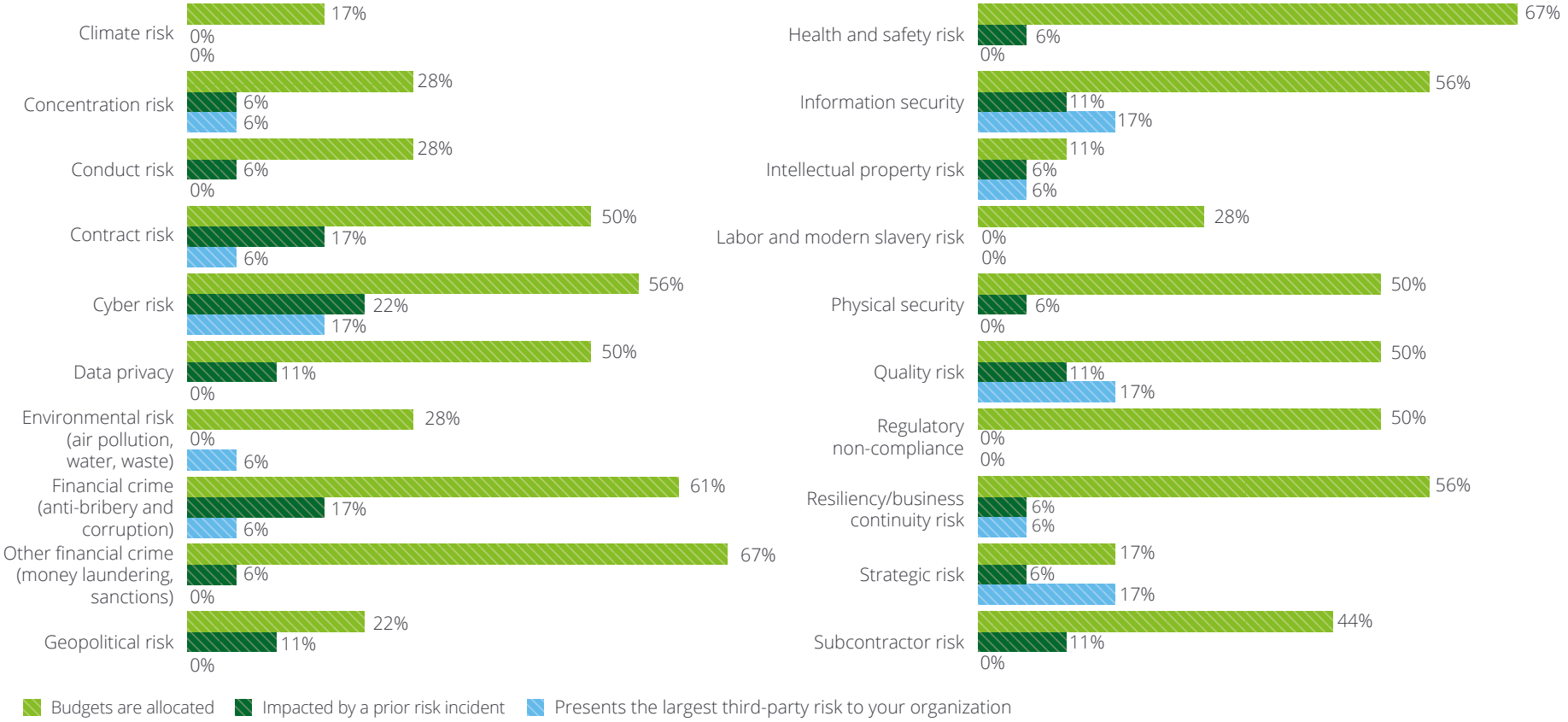
Figure 7.19. Comparative analysis of EERM risk domains for GPS



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Life Sciences & Health Care

Third-party collaboration is strengthening in a rapidly changing environment

Demand for LSHC products and services is increasing. Populations are growing and ageing, leaving more people with chronic diseases and conditions, and LSHC is responding with innovative but costly solutions. But this higher cost to society also pushes organizations to work with their third parties to find innovative ways to increase access and affordability, improve quality, and lower costs. These partnerships extend beyond customer-facing processes to include critical infrastructure and back-office systems. These systems are designed to make pricing, product availability, logistics, quality control, financial management, and other core processes more efficient.

At the same time, regulatory requirements for clinical innovations, digital interconnectivity, as well as increasing market complexity reinforce the need for robust risk management frameworks. These should include clear policies, standards, processes, guidelines and training.

LSHC is more realistic about the potential damage of third-party actions

LSHC respondents are impressively realistic about the potential damage of third-party incidents. Thirty-six percent (as against 19% overall) put the potential financial exposure to their organization from a major incident at more than US$0.5 billion, see figure 7.1. Sixty-seven percent from LSHC (versus 56% overall) also believe that share prices could fall at least 5-10% following such an incident. Thirty-two percent even put this at more than 10%, see figure 7.2. The good news is that heightened recognition of the potential consequences appears to have reduced the occurrence of high-impact incidents in this sector. Ten percent of LSHC respondents have experienced such incidents, a much lower number than the overall survey average of 17%, see figure 7.3.

Being a responsible business and tougher regulation are top drivers of EERM investment

Fifty-six percent of LSHC respondents (compared with only 45 % overall) are pushed by tougher regulation to invest in EERM. But the top investment driver is the desire to be a responsible business with an ethical supply chain (65% of respondents versus 43% overall), see figure 7.4.

LSHC respondents consider CRR the best way to reduce costs

The need to protect and increase revenue, and to reduce costs, are critical for four in ten respondents, a similar proportion to the overall survey average. But LSHC organizations are much more likely to believe that cost and revenue recovery (CRR) initiatives are the most effective source of cost reduction (69% versus 41%). LSHC organizations are much less likely to believe that costs can be reduced through efficiency initiatives such as shared service centers for EERM (39% versus 53%).

LSHC invests most in regulatory compliance and quality management

The comparative analysis of EERM risk domains below shows that regulatory compliance and quality management attract the highest proportion of investment across EERM risk domains. More than three-quarters of LSHC organizations focus on these topics. As in other sectors, LSHC organizations invest strongly in information security, privacy and cyber risk management, but less in subcontractor, concentration, geopolitical, and climate risk.

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There are gaps in the management of third-party sales and distribution, and in awareness of exit planning for critical third parties

In other industries, the greatest gap in existing EERM coverage is joint venture partners and licensees. But LSHC organizations' biggest deficiency is in managing sales agents, franchisees, distributors, group companies (subsidiaries/affiliates) with the same rigor as other third parties. However, some respondents report significant progress, while accepting that more needs to be done, see figure 7.10. Our experience is that some of the bigger LSHC companies have put distributor management frameworks in place, but the others are quite far behind.

Thirty-eight percent of LSHC respondents don't know if exit plans are in place for all critical third-party relationships, compared with only 27% overall. However, the number of respondents that say they do have such plans is, at four in ten, in line with other sectors, see figure 7.8.

The scope of TPRM is widening even more in LSHC

LSHC organizations feel that EERM is evolving into third-party management more broadly. Fifty-six percent (versus 52% overall) believe their third-party risk management is starting to include the management of contracts, finances and performance in addition to risk. To enable this evolution, LSHC organizations are more likely to use robotics process automation (RPA) (45% of LSHC respondents versus 36% overall) and visualization techniques (one in three respondents in LSHC versus one in four overall), see figure 7.14.

A striking difference between LSHC and other sectors is the role of the CFO. In LSHC they are the dominant figures in budget ownership for EERM (56% versus 7% overall). This reflects the broadening of scope already described into areas of CFO concern. However, ultimate ownership remains concentrated in the CEO and board, as in other sectors.

Third parties are becoming an integral part of EERM

Our survey reflects how third parties are becoming part of the solution as well as the problem. LSHC organizations are keener to use third parties to implement EERM. Thirty-seven percent of CoEs and SSCs in LSHC are partly outsourced, compared to 22% overall. A further 5% of such centers (versus 2% overall) are fully outsourced. LSHC organizations are also more likely to use external managed services solution (MSS) providers already:

- Twenty-five percent already use people from an external MSS provider. A further 25% intend to (versus 15% and 16% respectively overall).

- Twenty-two percent already use technology from an MSS provider (16% overall). A further 30% (25% overall) intend to.

However, LSHC organizations are half as likely as the survey average to use specialist EERM community or utility (9% in LSHC versus 18% overall). Having said this, a higher proportion than others (34% versus 25% overall) intend to in the near future. LSHC are more likely to lack real-time data interfaces in EERM technology, LSHC respondents are more likely to lack real-time data interfaces across multiple systems (40% versus 31% overall). Otherwise, their issues are similar.

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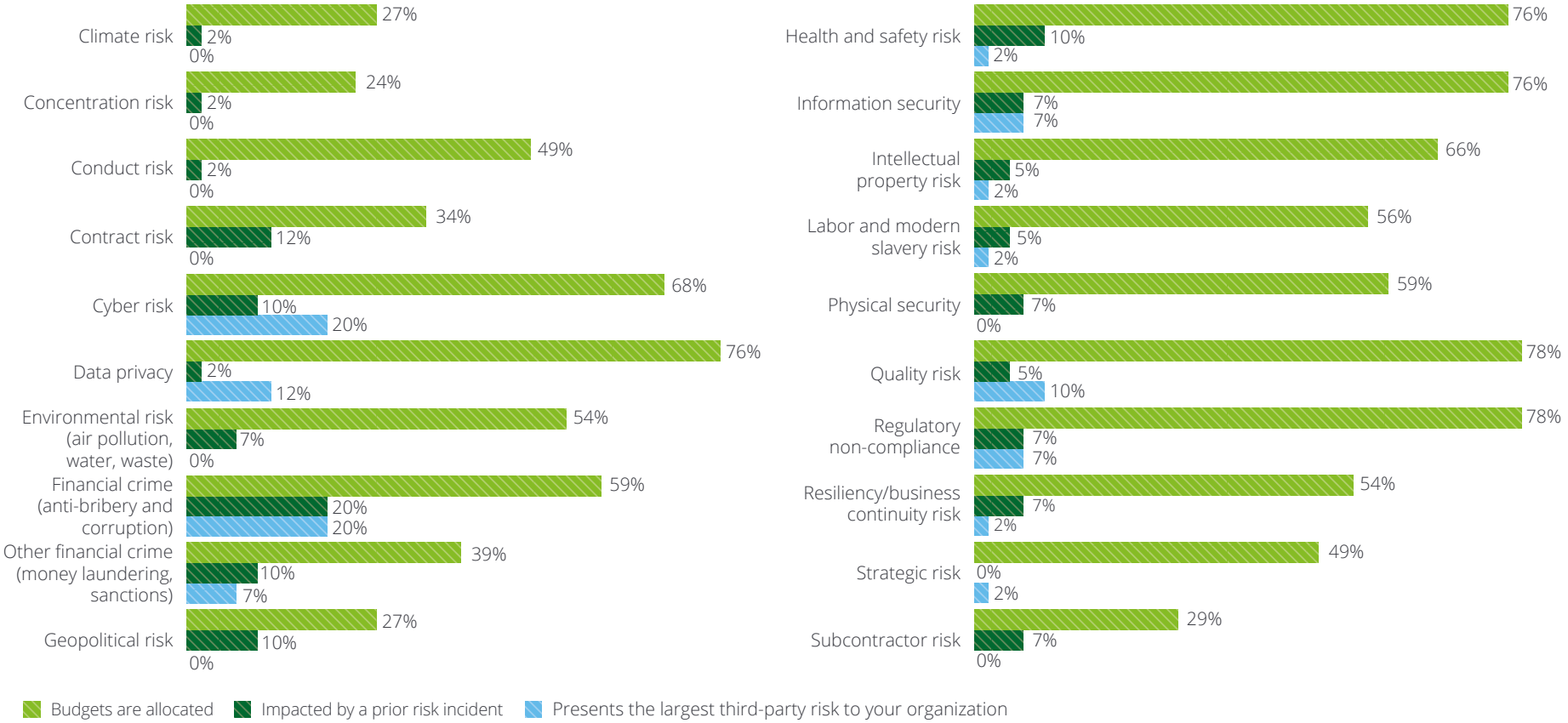
Figure 7.20. Comparative analysis of EERM risk domains for LSHC respondents



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Technology, Media & Telecommunications

TMT third-party environment

In technology, media and telecommunications (TMT), third parties often lie especially close to the core organization, bringing in niche skills, lower costs, access to new markets or resources, and other valuable sources of competitive advantage. TMT is also more likely to have virtual third-party relationships that are connected by online rather than physical interactions, have real-time links and form a digital ecosystem. This has advantages. But it also means that problems and failures involving third parties can emerge, escalate, and run out of control more quickly.

Our survey highlights how TMT organizations have started working hard to make these digital third-party environments safer. They're also exploiting the many opportunities that third-party relationships can offer, and keeping a close eye on rapidly changing regulation.

TMT organizations fear high cost of failure of key third-party relationships

The cost of failure is high in TMT: 27% estimate the likely financial exposure to their organization following a major third-party incident at US$500 million on more. This compares with an average of 19% across all sectors, see figure 7.1. TMT organizations are also more prone to feel that share prices could fall by 10% or more after such an incident (38% of respondents, compared with an overall average of 30%), see figure 7.2.

The particularly high cost of failure in TMT may have concentrated minds. Only 13% of TMT respondents have experienced a major incident in the last three years, compared with an overall average of 17%. But the actual number of minor or moderate impact incidents is higher than in other sectors.

Cyber incidents and data privacy are top concerns
Cyber incidents are the most common third-party problem for TMT organizations, as well as for survey respondents as a whole. But they are particularly common in TMT: 17% of all instances against 11% overall. Data privacy is another especially significant risk: 13% of TMT respondents had experienced a data privacy breach related to third parties, against 4% overall.

TMT invests in EERM to grow revenues and margins responsibly

The need to protect and increase revenue by meeting customer expectations is the most common driver of investment in EERM (50% of TMT respondents versus 41% overall), see figure 7.4. Organizations don't want poor EERM to affect the quality of the goods and services they provide, particularly at a time when their growth outlook is uncertain.

Increasing demands for greater social accountability have sharpened TMT organizations' focus on ethical third-party relationships, and on promoting this image in the market. This demand also drives investments in EERM (45% for TMT versus 43% overall), see figure 7.4.

The uncertain growth outlook has intensified the TMT focus on using better management of third-party relationships to improve margins through cost reduction. But unlike their counterparts from other industry segments, more than four in ten TMT organizations (41% overall) believe that most of this is likely to come from cost and revenue recovery initiatives. Despite this, a similar number (two-thirds of respondents) either have no such initiatives aligned to their EERM programs, or are unaware of any.

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In TMT organizations, the CFO is twice as likely to be in charge of EERM initiatives, when compared with the survey's overall average (21% versus 10%). This may reflect the growing focus on top and bottom lines.

TMT organizations are relatively less advanced in their maturity journey

TMT organizations are slightly less likely to have mature EERM: 13% identify themselves as "integrated" or "optimized", versus 15% overall, see figure 7.7.

The two areas most commonly earmarked by TMT respondents as in need of improvement are:

- Governance and holistic oversight of third parties by leadership 62%; and
- Real-time information, risk metrics and reporting 62%. See figure 7.9.

Forty-two percent of TMT respondents (versus 35% overall) believe that existing systems do not support decision-making, with heightened concerns about the integrity as well as the management of EERM data.

TMT-specific challenges for effective EERM

TMT organizations face even more challenges in managing subcontractors than organizations in other sectors. Only 16% identify and regularly monitor the most critical fourth and fifth parties at the very least, compared with an overall average of 20%. This is because they're more likely than average to rely on their third parties to manage fourth and fifth party relationships, instead of doing it themselves (39% against 29% overall), see figure 7.11.

Thirty-seven percent of TMT respondents (versus 34% overall) recognize the need to expand their EERM programs to include emerging risk domains or third-party types that are currently out-of-scope. These include subsidiaries, affiliates and joint ventures.

TMT organizations face even more challenges in managing subcontractors than organizations in other sectors. Only 16% identify and regularly monitor the most critical fourth and fifth parties at the very least, compared with an overall average of 20%.

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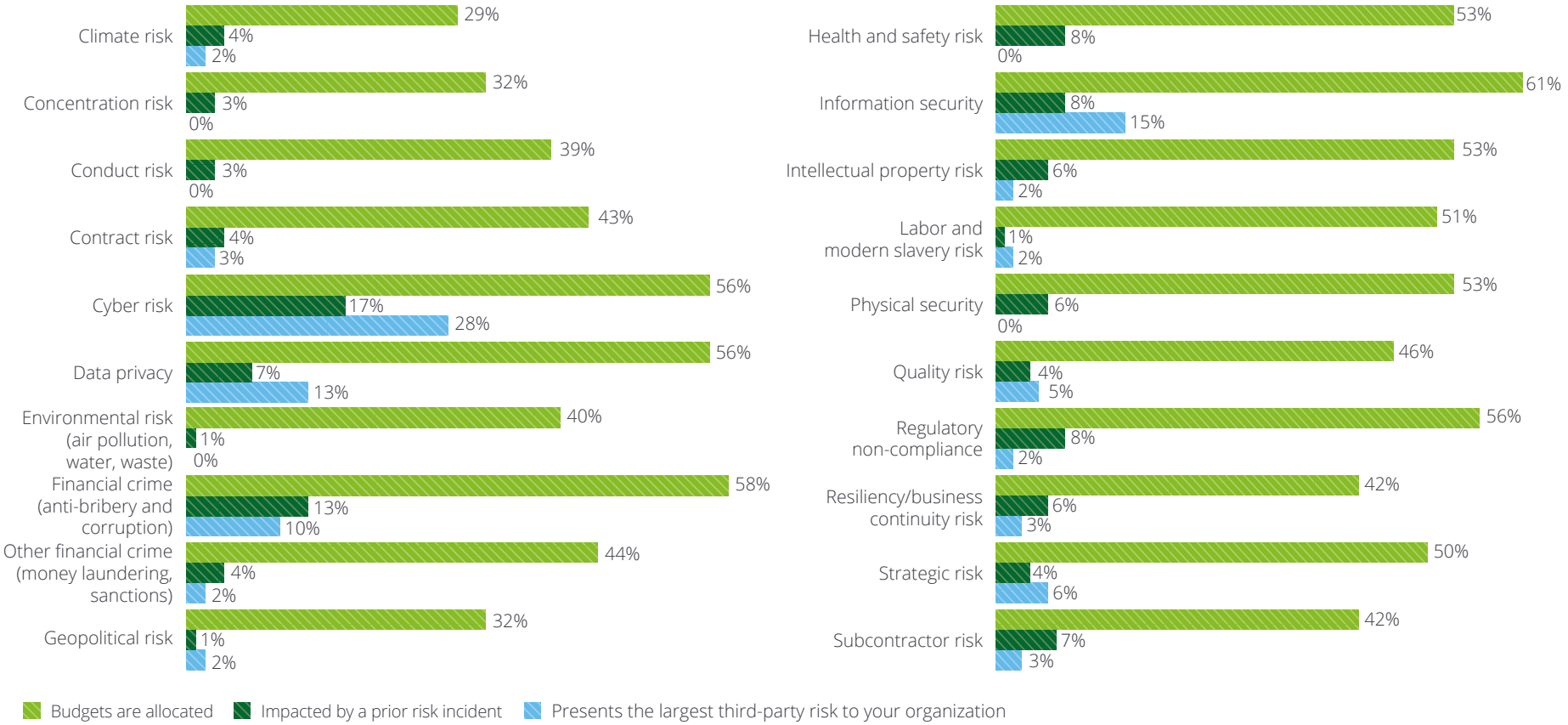
Figure 7.21. Comparative analysis of EERM risk-domains for TMT respondents



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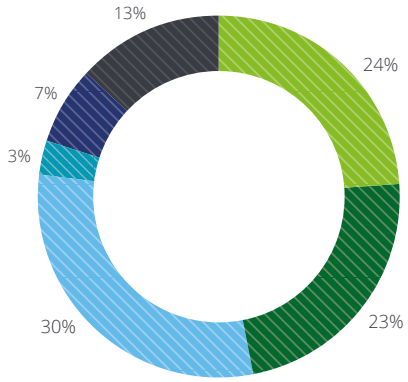
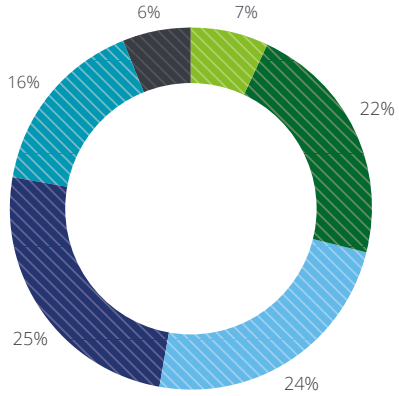
This year we received 1,145 responses from participants in 20 countries around the world, covering all the major industry segments. Respondents are typically responsible for governance and risk management of the extended enterprise in their organizations.

Primary industry of respondents



- Consumer
- ER&I
- FS
- GPS
- LSHC
- TMT

Respondent job titles or their nearest equivalent



- Board member
- C-suite
- Senior management
- Head of specific functional area
- Middle management
- Other

Size and turnover of respondents

- Small or medium-sized organization (less than 250 employees)
- Large organization (250 or more employees) with turnover less than US$1 billion
- Large organization (250 or more employees) with turnover between US$1-5 billion
- Large organization (250 or more employees) with turnover more than US$5 billion

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Kristian Park is global leader for extended enterprise risk management at Deloitte. As a partner in Deloitte UK, Kristian works with his clients to develop governance frameworks to identify and manage all types of third-party risk. He looks at both process and technology solutions, performs inspections of third-party business partners on his clients' behalf, and assesses third-party compliance with contractual terms and conditions.

Kristian is also responsible for Deloitte UK's software asset management and software licensing teams, assisting clients in managing their software licensing obligations to generate efficiencies and savings. He has experience in a variety of industry sectors including life sciences, financial services, energy and resources, sport, technology, media, and consumer & industrial products.

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Danny Griffiths is a director in Deloitte's London based EERM team. He has 13 years of experience providing assurance and advisory services relating to third-party risk. Danny leads the third-party advisory proposition within Deloitte's UK EERM team, and specializes in supporting clients to develop and implement technology-enabled third-party governance and risk management frameworks.

Danny also has significant experience leading compliance programs for large national and multinational organizations, assessing third-party compliance against contractual obligations. He has led inspections across a range of third parties including suppliers, outsourcers, marketing agencies, distributors, resellers, and licensees. He has experience working in a broad range of industries including financial services, telecommunications, media, technology, consumer, sports, energy and utilities, real estate, and public sector. He has led projects in multiple countries within EMEA, the Americas, and Asia Pacific, and regularly hosts roundtables and presents at forums on third-party risk.

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He has a doctorate in business administration from Aston University in the UK based on his global research on the third-party ecosystem. He also holds the honorary title of visiting senior fellow in strategy and governance in the school of business and economics at Loughborough University.

Since 2014, Sanjoy's work has been cited in various global academic and professional journals, newspapers and conference papers.

Sanjoy has extensive experience advising boards, senior leadership, heads of risk, and internal audit on strategic governance and risk management of the extended enterprise, outsourcing, and shared services. He has worked across the UK, Gibraltar, India, and various countries in the Middle East. He is a chartered accountant (FCA), cost and management accountant, and certified information systems auditor (CISA) with over 30 years of experience, including 17 years of partner-level experience at Deloitte and another big four firm.

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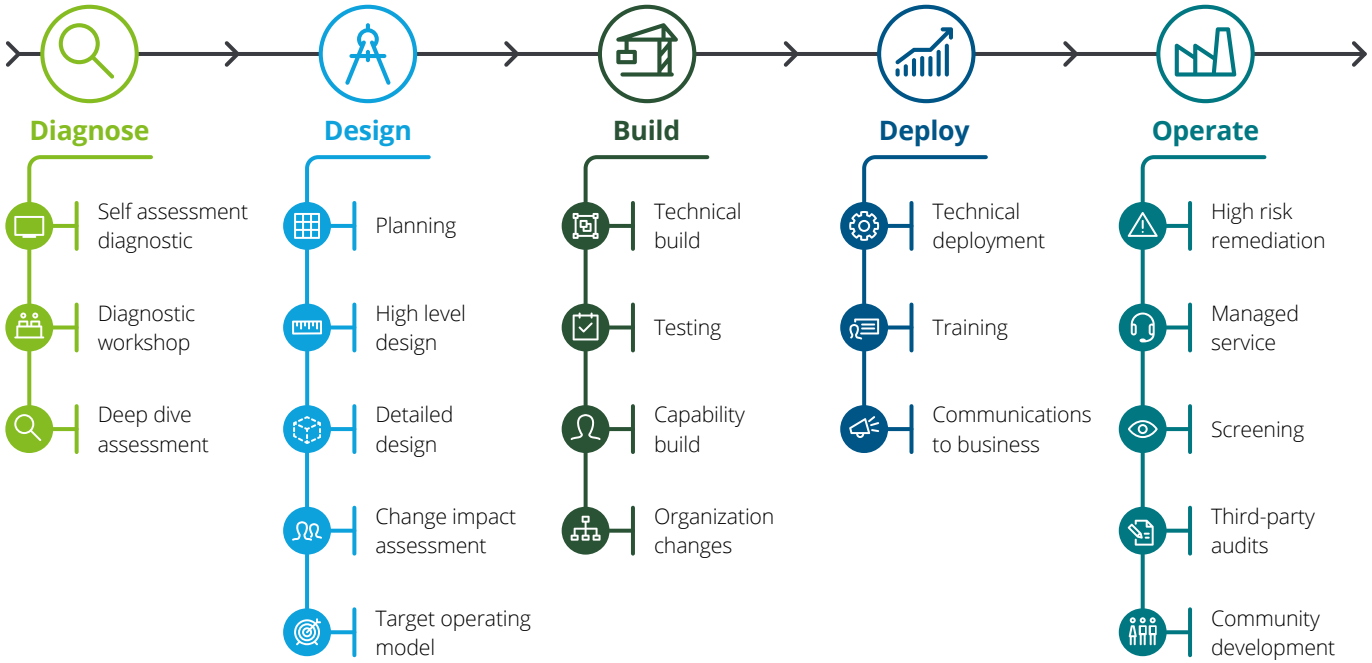
We believe we are **the leading TPRM practice globally**. We have the **scale**, **breadth** and **depth** to advise you, help you implement and also fully manage your end-to-end TPRM activities.

We help you to:

- **Diagnose** existing TPRM capability;
- **Design** TPRM frameworks (i.e. policies, procedures, operating models, tools etc);
- **Build** and configure TPRM tools and 'stand-up' TPRM teams and utilities;
- **Deploy** TPRM across your organisation through phased implementation, training and communication programs; and
- **Operate** and perform ongoing TPRM activities as part of a hybrid or fully outsourced managed service.



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1. We use the phrase "extended enterprise risk management" interchangeably with "third-party risk management" in this report given the increasing use of the term "extended enterprise" to represent the ecosystem of third parties used by an organization.

2. We have considered fully and partially completed survey responses – to the extent survey questions have been answered by these respondents – when analyzing data and preparing our report.

3. It is difficult to compare 2020 results with previous years' surveys in some cases. This is because of the increased proportion of respondents from regions where levels of understanding and maturity in third-party risk is less developed than more mature territories.

4. Industries covered by the survey include consumer, energy, resources & industrials (ER&I), Financial Services (FS), government & public services (GPS), life sciences & health care (LSHC), and telecoms, media & technology (TMT). Industries are referred to by acronyms in all graphics.

5. Survey results in this report reflect responses gathered from participants between November 2019 and January 2020. Since our survey closed, the risk landscape changed significantly with the COVID-19 pandemic impacting organizations globally and across industries. In keeping with these changes, our points of view (including COVID-19 commentary) set out in this report reflect the changing circumstances, primarily based on our subsequent conversations and engagement with clients.

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