Looking Beyond Risk

Driving Performance Improvement Through Better Third-Party Risk Management

Organizations today rise and fall according to the strength of their relationships with third-party partners and suppliers. Even a slight failure with a small but critical supplier can derail your operations significantly.

What happens if your packaging supplier can't meet your turnaround schedule for a new product release? Which partners—large or small—have access to which sets of your data, and what would happen if they experience a data breach? Which partners are really most critical to your operations—and how would your organization suffer if your relationship with them fails? Where are the areas of underperformance in the supply chain?

These are the types of questions that lie at the heart of improved third-party risk management (TPRM). And savvy businesses today realize that understanding and managing third-party risk means more than tabulating how much you spend with a partner.

Knowing the dangers: three types of disruptions

Knowing what's at stake—and how bad things can get—is a first step in improving your ability to manage risk. A failure in a third-party relationship can result in one of three types of disruptions.

Chronic disruptions prevent business from getting done on time and within budget. On the surface, organizations often perceive these disruptions as "the cost of doing business." They can take the form of out-of-stock situations, service-delivery failures, and release of poor-quality products—events resulting in lost sales and eroded sales margins. However, chronic disruptions may be leading indicators of what lies below the surface. They can signal the potential for disruptions that are even more severe, or they can reveal opportunities for improving supply-chain performance.

Acute disruptions are more significant. They interfere with your strategic objectives, your ability to return value to shareholders, and the strength of your reputation. They can result in lost sales, increased debts, and a reduced ability to fund innovation. Though not catastrophic, they can profoundly affect your organization's global performance.

Catastrophic disruptions are high-severity events that typically have a low probability of occurring—making their risk potential easy for organization leaders to dismiss. But treating the risk lightly is a mistake. When third-party failures cause catastrophic disruptions, the threats extend to market share, brand, and the ability to meet liability obligations. Severe disruptions can threaten the overall survival of the organization.

Realizing the needs: three essential perspectives

Successful management of third-party risk can do more than reduce risk. It can drive performance improvements and cost savings. Managing third-party risk can help an organization create stronger relationships with suppliers—providing intelligence and lines of communication that can help avoid or minimize the impact of disruptions, as well as helping the organization discover new opportunities for revenue, product or process improvements, and savings. Better TPRM can be an avenue for creating value —and for protecting it.

A comprehensive, integrated perspective is critical for managing third-party risk and creating value. TPRM involves more than procurement leaders and suppliers. Third-party risk extends to many corners of the organization—from IT and information-management activities to compliance functions. And there are myriad factors to consider, track, and analyze when it comes to potential third-party failures and the flow of goods and services—including geopolitical issues, environmental issues, and regulatory challenges.

Each type of risk and each level of disruption is different, requiring a different set of tools. Preventing and managing chronic disruptions involves leveraging resources such as SAP technology as well as proprietary supply-chain analytics and valuation tools and techniques to detect trends and gauge costs. It's an approach that ultimately can uncover otherwise unknown or asymptomatic issues that erode performance. Mitigating strategic disruptions involves assessing a distinct set of risk domains: reputation and strategic risk, contractual risk, financial/transactional/credit risk, operational/geopolitical/supply-chain risk, compliance and legal risk, information security, and business-continuity risk. And a TPRM program to mitigate catastrophic disruptions involves systematically identifying worst-case scenarios and comparing their financial impact to the organization's risk appetite, to help drive risk-management decision making, business continuity planning, and insurance plans.

Beginning the transformation: three essential questions

Transforming the way your organization thinks about TPRM should begin with three vital questions that can help bring challenges into focus and help begin a conversation on potential solutions.

- **What does my existing risk-management function look like today compared to how it should look for the future?** This question centers on understanding what it will take to get your organization to the next level of TPRM as a driver of performance improvements.
- **What risk thresholds will my organization accept, and what thresholds won't we accept?** Risks should come with rewards, but it's critical to understand how much risk is too much—and to place risk levels in the context of expected rewards.
- **How can leaders deploy a TPRM program while demonstrating its value to the organization?** Aligning a TPRM program with strategic corporate goals is essential to building a business case, and the work involves an approach in which third parties are overseen based on the impact they have on your organization. Risk reporting that gives decision-makers unbiased intelligence helps show the value of the program, too. Ultimately, the value of a TPRM program will hinge on your technology choices and your efficient use of other resources for understanding and managing risk.

Moving forward: three keys to collaborating on TPRM

Building a strong TPRM program requires strong relationships. At Deloitte, our client collaboration process relies on a highly focused set of skills for managing risk effectively and productively

The right experience.
With decades of business and technical experience designing strategies and operations to address risk-based challenges, Deloitte brings a deep set of knowledge and skills to the third-party realm.

The right insights.
Deloitte specializes in digging deep within organizations to build understanding of processes and deliver meaningful, actionable insights. And since our work spans a wide range of industries and business models, we also have a wealth of TPRM insights and answers at the ready.

The right tools.
As a services partner in the SAP Global Alliance, Deloitte has a profound understanding of the power of SAP offerings and how organizations can use them to manage third-party risk today. Our experience with tools such as SAP InfoNet —a cloud-based analytic application that provides insight into supply chains by sharing real-time supplier information and helping to identify upstream risks—allows us to accelerate solutions for clients, even those that aren't using SAP ERP.

To learn more about how Deloitte can help transform your TPRM approach, improve performance, and deliver benefits that your organization can see in the bottom line, please contact us.

Key contacts:

Ryan Flynn
Principal
Deloitte Consulting LLP
rpflynn@deloitte.com

Jeffrey Simon
Director
Deloitte & Touche LLP
jefsimon@deloitte.com

Michael Platz
Senior Manager
Deloitte & Touche LLP
mplatz@deloitte.com

Eric Wieczorek
Manager
Deloitte & Touche LLP
ewieczorek@deloitte.com

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