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Extended Enterprise Risk Management

Driving performance through
the extended enterprise

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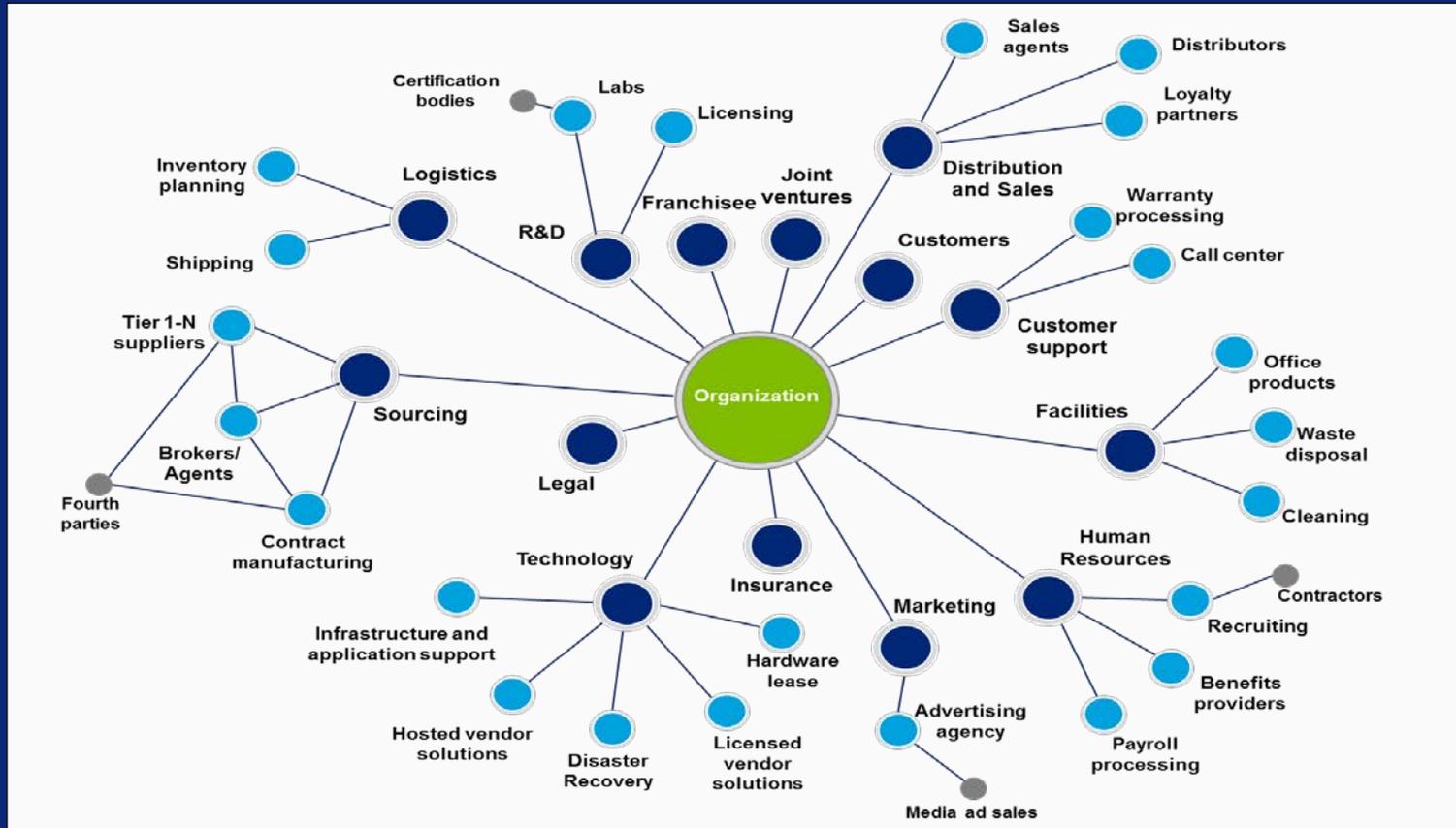
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The Extended Enterprise

A network within a network

The **Extended Enterprise** is the concept that an organization does not operate in isolation, because its success is dependent upon a complex network of third-party relationships.



Illustrative example of the extended enterprise

The Extended Enterprise

Key risks in the network

1

Loss of reputation – Risk to the reputation of the organization from the use of third party relationships due to a myriad of reasons including misuse of intellectual property; poor product quality; lack of compliance to human rights and environmental regulations, etc.

2

Supply chain disruption – Key third party business disruption due to bankruptcy, geo political issues, macro risks etc. can result in supply chain disruption

3

Data risk – Loss, misuse or mishandling of critical data of the organization or its customers by a third party relationship can result in financial loss; hefty fines and decrease in shareholder value

4

Product recall – Poor product quality, safety issues or faulty packaging by third parties can lead to product recalls resulting in recall costs, lawsuits from consumers, increased costs from settlements, and lost revenue from missed sales opportunities

5

Financial impact– Financial loss from under-reporting of revenue from licensees, royalty partners, distributors, franchisees etc. and over-payments for services from third party relationships

6

Lack of compliance – Third party acts corruptly to gain business advantage for organization resulting in hefty fines or is not in compliance to Environment, Conflict Minerals, Health and Safety, Labor Rights etc. regulations

7

Poor Performance– Lack of sustained performance from third party relationships resulting in costly mistakes, over allocation of capital to oversee relationship and defeating the purpose of outsourcing strategy

Extended Enterprise

- Sell side
- Buy side
- Infrastructure

The Extended Enterprise

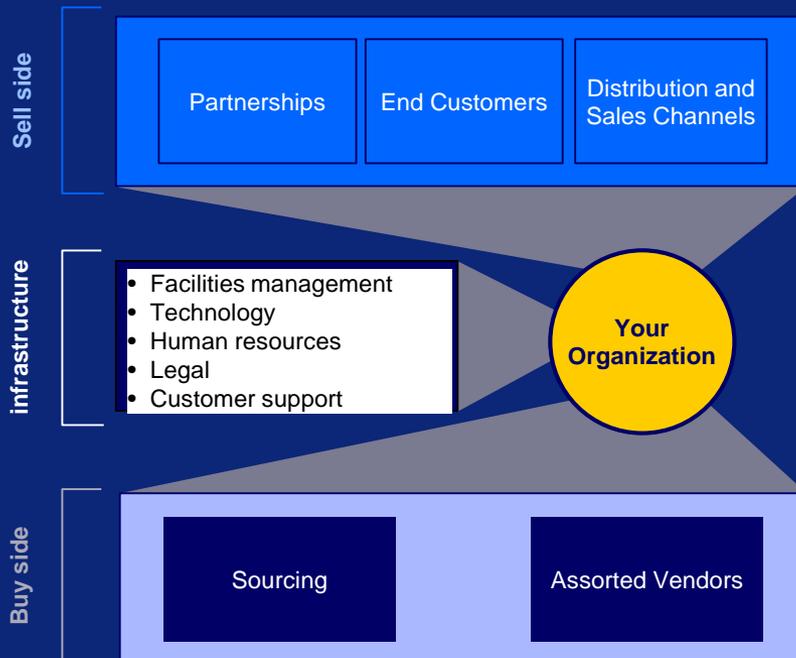
Driving performance and controlling risk

- The Extended Enterprise is **integral to the cost expended and revenue generated** by your organization, putting it in the position to fuel or inhibit a variety of business benefits.

The Extended Enterprise is central to key cost and revenue drivers in your business



Manage these vital relationships effectively to drive performance



Leverage key benefits

- Product or service innovation
- Expand and gain entry to new markets
- Access to talent
- Access to advanced technologies
- Continue focusing on core business processes

Be aware of the risks (illustrative risks)

- Financial: Revenue leakage and increased costs
- Business continuity: Service interruption
- Reputation: Reduced brand perception
- Operational: Decreased control over operational processes/service levels
- Strategic: Misalignment to organization's strategic objectives
- Cyber: Poor data security due to reliance on third party safeguards
- Compliance: Business interruption and hefty fines due to lack of regulatory compliance by third party

Drive performance

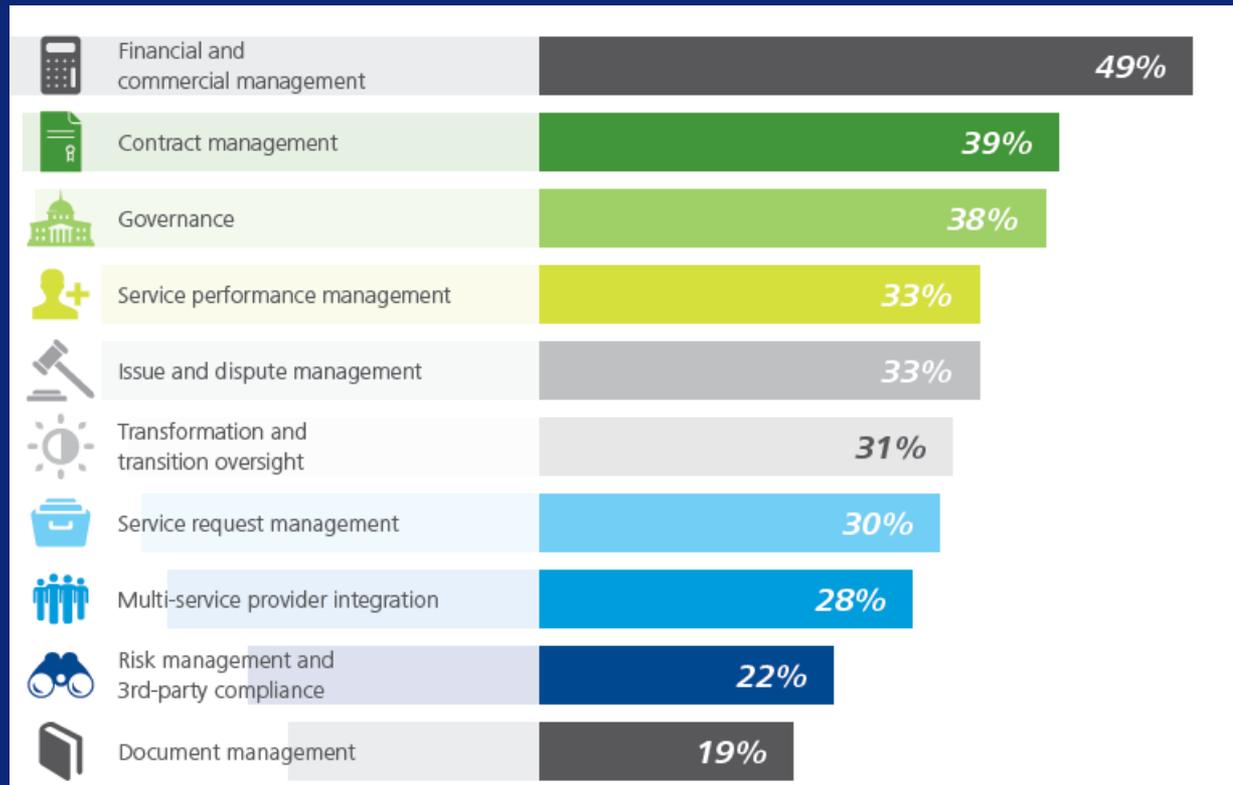
- **Increase revenue**
- **Minimize costs**
- **Enhance value derived from third-party relationships**

The Extended Enterprise

Management challenges

- There are several **challenges with managing the Extended Enterprise**. The findings from Deloitte's 2014 outsourcing & insourcing survey, which had representation from twenty two industry sectors is telling:

How would you rate your extended enterprise management capabilities? Percentage of respondents who rate themselves above average



The Extended Enterprise

Management challenges

- Management challenges could be both internal and external. Some of the **key challenges and questions** we are hearing in the marketplace regarding the Extended Enterprise include:

- Where are the breakpoints in our third party relationships? How do we assess and stay ahead of them?
- How do we bridge the gap between those in the business and our compliance and risk staff?
- How can we turn this program into one that evaluates value and does so on a recurring basis?

Creating an agile and flexible governance model

Using data and analytics to make informed decisions

- What tools and technologies should we leverage to make informed decisions about our third party relationships?
- What data do we already have access to? What should we be monitoring and analyzing to make real time decisions?

Driving performance

Navigating events that shape the extended enterprise

Managing relationships, compliance, and regulation

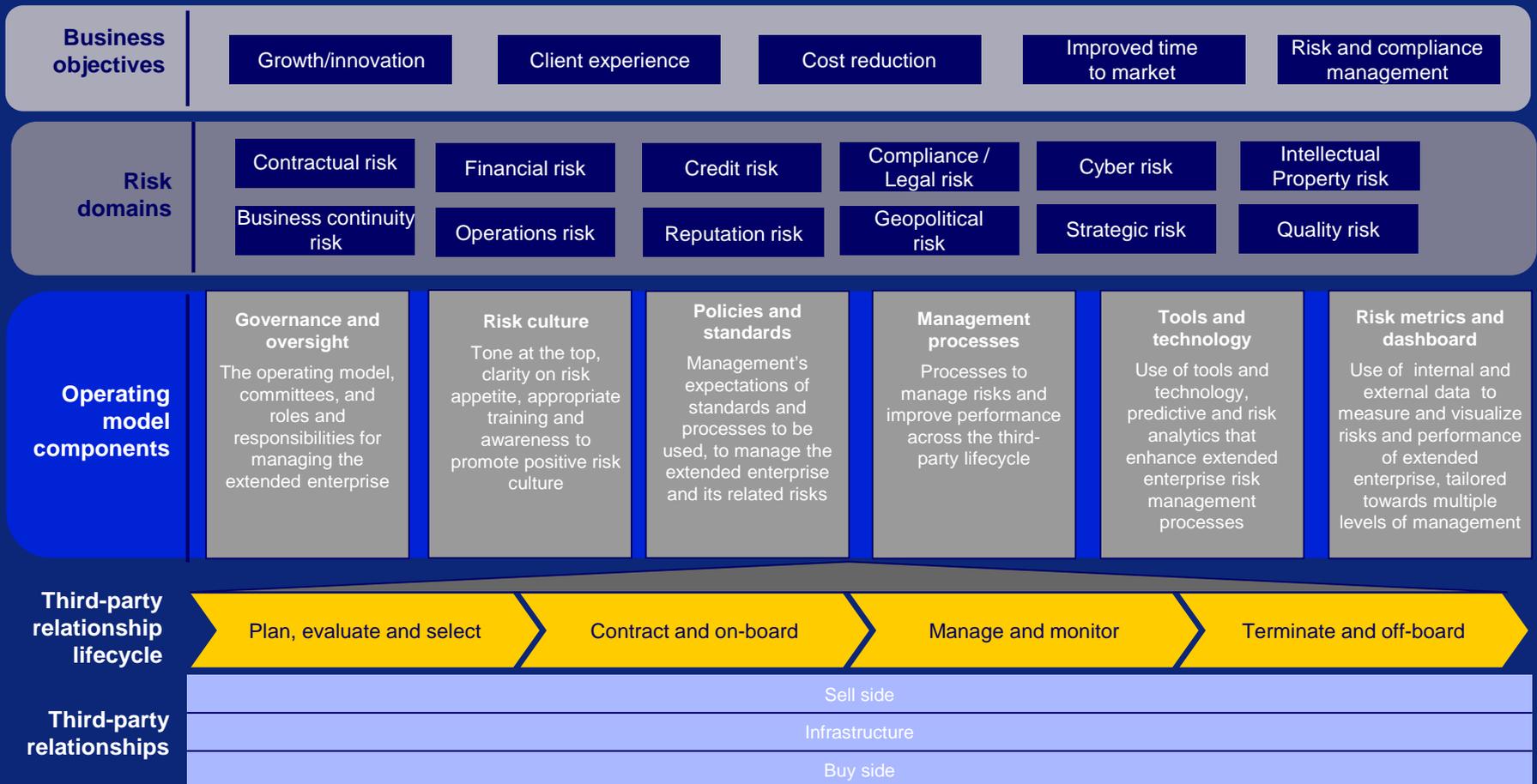
- How do we keep up with the emerging regulatory requirements? Are our third parties keeping up?
- How do we ensure that appropriate contracts are in place with third parties, that they are meeting expectations, and complying with contractual commitments?

- How do we determine whether to outsource or insource, build or buy? What delivery models should we take advantage of?
- How will evolving technologies, market trends, or disruptive forces present opportunities and challenges to our third party relationships?

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A holistic approach

- The Extended Enterprise **management operating model** presents a holistic approach to managing third-party relationships at various life cycle stages, while considering business objectives and risk domains across your Extended Enterprise.

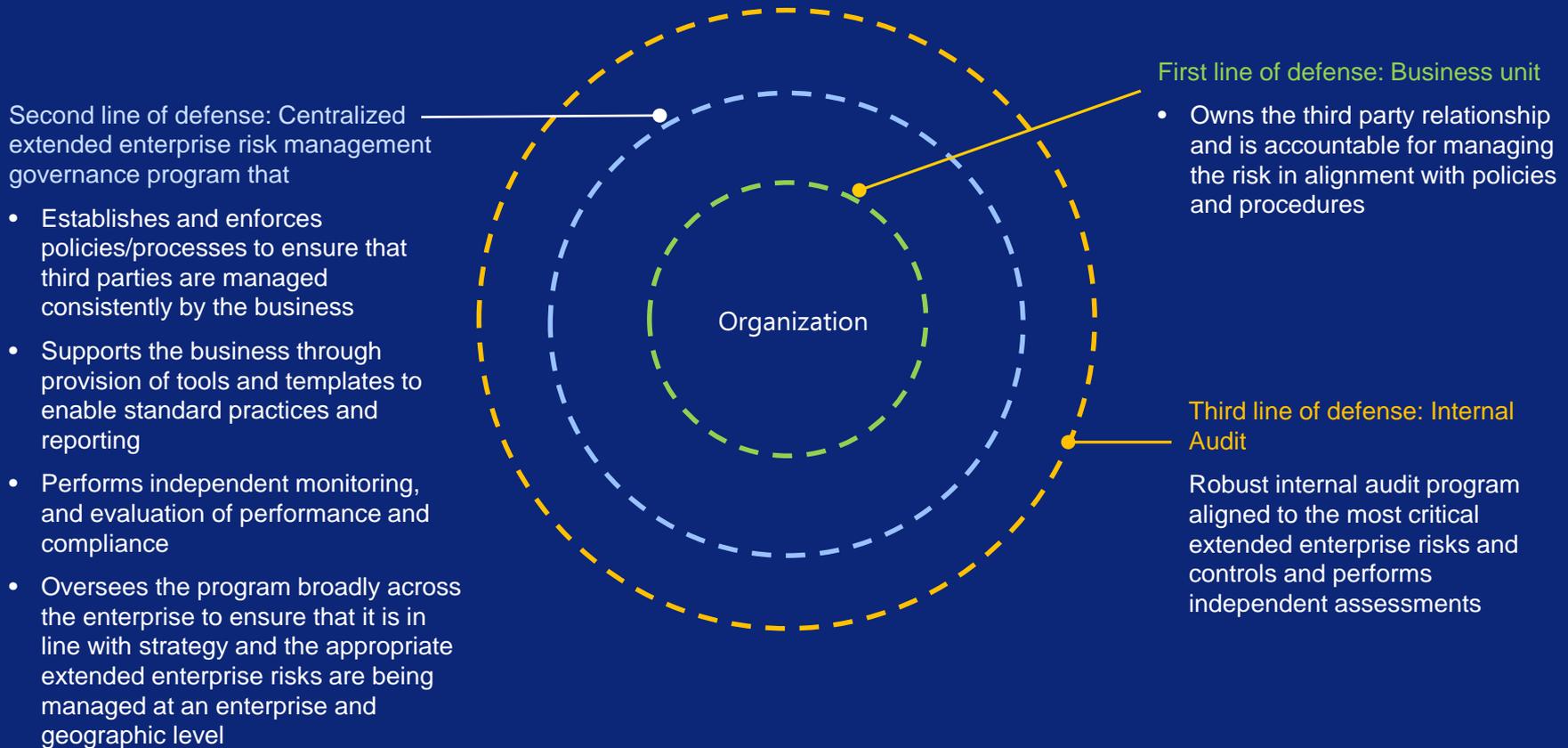


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Three lines of defense

A well-structured risk management approach incorporating **the three lines of defense** helps the organization achieve efficiency and enables the right level of management involvement based on the Extended Enterprise's risk and performance impact to the organization.

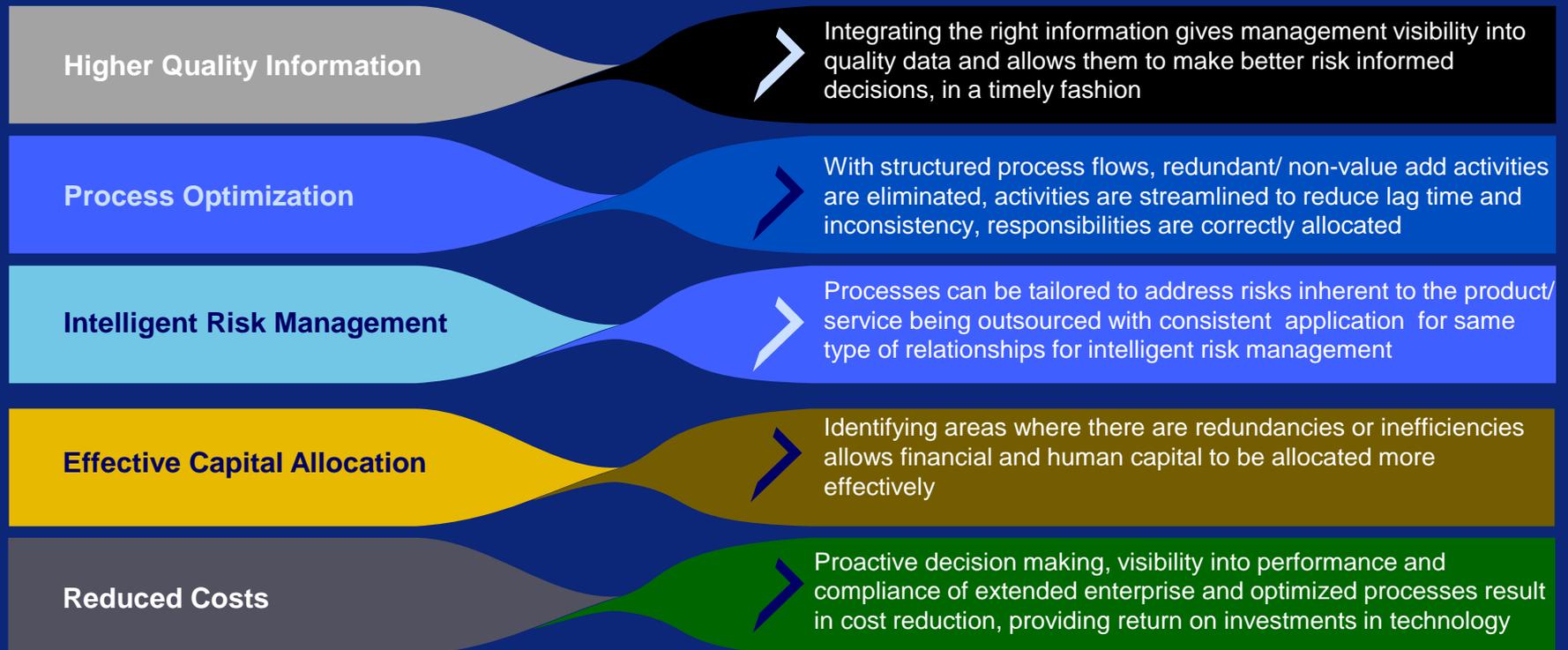
← Board: Is aware of the sourcing strategy and risk the strategy brings, and confirms that the risk is sufficiently managed →



The Extended Enterprise

Program automation

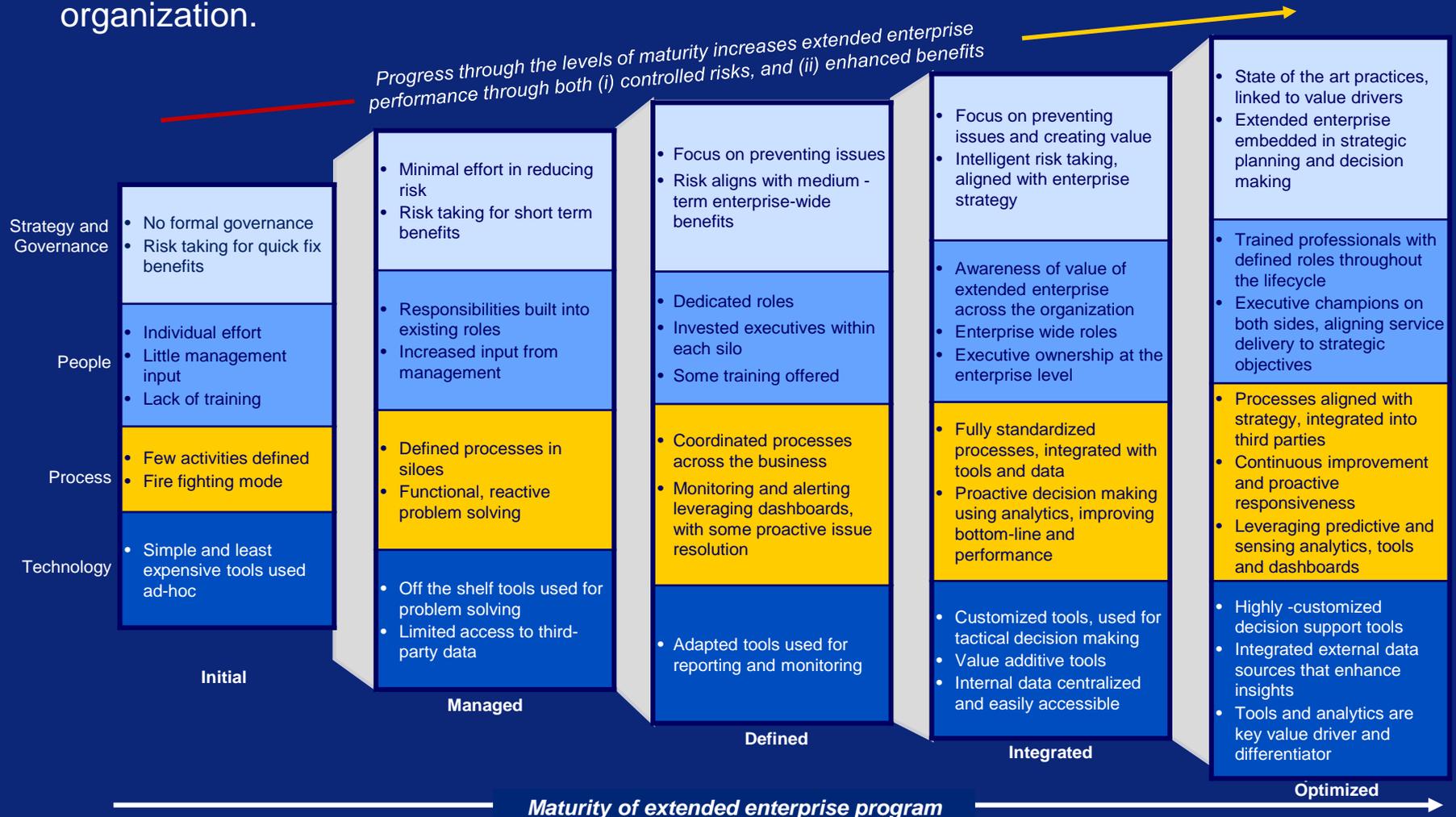
Managing the extended enterprise risk with a **robust, secure and integrated technology platform** provides the appropriate level of upstream and downstream visibility and accountability that is critical to better performance and risk management.



The Extended Enterprise

How does your approach stack up?

- The Extended Enterprise **maturity model** below is designed to help you understand where you are today, your ideal future state, the value the future state can bring to your organization.



The Extended Enterprise

Risk management solutions

- Deloitte brings together the full breadth of its capabilities into a **comprehensive suite of solutions** designed to increase the performance of the extended enterprise and help your organization achieve your strategic business objectives.



Strategy and program development

Solutions to assess, design and implement strategically aligned extended enterprise program

- **Governance and operating model design**
- **Strategic risk assessment, tiering, and segmentation**
- **Crisis management and simulation modeling**
- **Regulatory compliance**



Evaluation and continuous monitoring

Solutions to assess third parties and proactively sense and respond to extended enterprise risks and opportunities

- **Third party due diligence**
- **Third party assessments**
- **Risk sensing**
- **Third party assurance**



Technology enablement

Solutions to transform and continuously enhance extended enterprise risk management by designing, implementing and deploying technology solutions

- **Intelligence**
- **Visualization and analytics**
- **Governance/ program management**
- **Risk and compliance**
- **Knowledge management**

The solutions range from those that can be integrated across the organization and/or to specific risk domains and specific third party relationships.



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