

# Boardroom Questions

## Monitoring Third Party and Supply Chain Risk



### Where are the weakest links in your supply chain?



#### Global Third Party networks are crucial for businesses but pose unique threats

As supply chains evolve into multi-dimensional ecosystems, organizations will require **exponentially higher levels of collaboration and connectivity** with their partners, suppliers and clients

Whilst digital connectivity enables organizations to rely more on each other, it also makes them **more vulnerable to external shocks**

**Third Party vetting will become more critical** to ensure third parties meet expectations and help avoid disruptions to business

*KPMG's Global Manufacturing Outlook 2018*

### Types of potential risks incurred by third parties



- **Business disruption:** the failure of a key third party can prevent a business from delivering with due speed and quality to its own customers
- **Reputational:** failures/transgressions of third parties will reflect on the prime business
- **Regulatory:** Regulators frequently hold prime contractors accountable for the actions of third parties
- **Financial:** Market share/revenue loss and/or financial sanctions can result due to the above

### Potential benefits



- **Increased performance** – if companies' **third party networks become more dependable** they can deliver with more quality and consistently for their own customers without being hindered by lack of crucial supplies/services, potentially generating more demand in the marketplace
- **Increased market share** – companies might plan more time for due diligence in leveraging third parties. **Missteps by under-vetted third parties** can damage a company's reputation and incur penalties that may affect a client's standing in marketplace
- **Increased profitability** – by prudent planning **enabled by advance intelligence**, companies might avoid costs related to scrambling to fill third-party product/service gaps in the event of disruption
- **Decreased burden on resources** – enhanced governance that doesn't require added resources at a cost-efficient price point. **Less disruption means fewer 'fire drills'** that tie up existing resources
- **Increased efficiency and compliance** - through automating procurement

## Boardroom Questions



- 1 Do we fully understand how third party disruption might impact our company **now and in the future**?
- 2 How can we avoid operational interruptions and possibly **guarantee a smooth running** of business?
- 3 How can we **identify and consolidate** the most important information from an extensive and complex third party network?
- 4 How can we **filter out the business critical data from unstructured data** on the market and derive optimal decisions?
- 5 Do we have **enough lead time** around potential third party disruption?
- 6 Do all involved corporate functions **"speak the same language"** while dealing with disruption?
- 7 Do we have the appropriate **tools, processes, organization and governance** in place to monitor third parties around the world, whether public or private?
- 8 Do we provide the required **cross functional transparency** along our value chain to support continuous third party support?

## Exploring ways to enhance effectiveness at governing third parties is critical



### What is required?

- Ability to anticipate supplier disruption
- Consistent access to data for all third parties
- Consistent cross-functional operating model to identify and mitigate risks in a timely way
- Efficient data acquisition model
- Ability to define risk metrics and thresholds
- Robust data analytics
- Risk monitoring and alerts
- Workflow processes to facilitate timely risk reviews

### What value does third party governance bring to the organization?

- Real-time threat transparency
- Quick data-driven decisions
- Pre-defined action scenarios
- Agile risk mitigation
- Reduced risk costs

## What actions could the Board consider?



- 1 Ensure that our management team have evaluated and addressed gaps in our organization's third party governance process
- 2 Consider technology solutions to uncover insights about our suppliers and evaluate options for mitigating current and future risks

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