KPMG
cutting through complexity

Boardroom questions:

Balancing third party risk and return

A company's use of **third parties** does not diminish the **responsibility** of its Board

Types of potential risks incurred by third parties

- **Regulatory volatility**: local laws, taxation, accounting policies, compliance risk
- **Financial risk**: local currency fluctuations; currency hedging, local fiscal crisis impacting money transfers
- **Investment risk**: strategy / asset selection
- **Labour risks**: unrest and strikes affecting supplies; labor shortages
- **Infrastructure risks**: transport, communications and energy which can be impacted by extreme weather, unrest and government policies
- **Communications**: social media, IT issues, government censorship
- **Intellectual property**: weak protection of IP rights; theft of IP by local third party
- **Corruption risk**: local public sector; local business practices

Potential benefits and consequences for the organisation

Potential benefits of getting third party governance right

- Adequately mitigating third party risk can lead to **stronger financial performance** for the organisation
- Knowledgeably predicting third party risk factors may lead to **identifying potential market shifts** before they become a threat
- Globally aggregating third party data may lead to easier **identification of high risk third party** relationships

Potential consequences of not ensuring governance practices are in place

- Third party disruptions can lead to **delays in delivering** your company's products or services to market
- Poor third party governance may lead to **lost market opportunitie**s
- Improper risk mitigation may lead to **possible reputational damage and higher operational expenses and waste**

Boardroom Questions

Does the organisation have:

- **Accurate and timely information** on third parties around the world in order to **identify** and **address risks**?
- The proper **due diligence process** to evaluate third parties before they are approved?
- The **right tools** to properly govern third parties activities?
- **Risk mitigation** plans in place to minimise those risks before they become harmful to the organisation?

Questions for Senior Management

- How do we ensure our third parties activities are **performed safely** and **reliably** around the world and at home?
- How do we conduct the appropriate level of third party **due diligence**, **risk monitoring** and **early indication reporting**?
- How do we **optimise performance** and mitigate risks?
- Do we have a **complete view** of the entire third party lifecycle?
- Do we have the appropriate tools in place to monitor risk factors such as **financial, geo-political, environmental, social, operations** and **regulatory risk**?
- Do we get **timely** and **actionable risk alerts** so that pre-emptive action can be taken before it is too late?

Best practices for enabling third party governance with technology

Functionality

Due diligence
Offers tools to guide enhanced third party evaluation

Portfolio management
Drives value and portfolio optimisation from the aggregated view of third party relationships

Performance management
An early warning system for third party performance issues

Risk management
Predicts, analyses and reviews risk factors for optimal third party performance

Risk remediation
Identifies mitigation options to when acceptable risk thresholds are surpassed

Features

Integrated view of risk factors affecting the **third parties**

Structured and unstructured data sources used to **evaluate risks**

User-friendly mobile app interface for executives on the go

Email alert notifications as risk scores surpass specified risk thresholds

State of the art **risk modeling algorithms**

Actions for the Board

Ensure that your management team have evaluated and addressed gaps in your organisation's third party governance process

Consider technology solutions to uncover insights about your suppliers and evaluate options for mitigating current and future risks

Contact us

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