ComplyWorks' Third-Party Risk Management (TPRM) Platform

Organizational risk is pervasive, costly & can influence brand reputation

The business and political environment has become far more volatile over the last few years, impacted by changes in administration, uncertainty in government policy, viral outbreaks, the uncertainty of protectionism in global trade and new privacy legislation such as the European General Data Protection Regulation (GDPR).

Organizations are rethinking the nature of work, workforces, and workplaces as talent gaps appear and automation, analytics, and artificial intelligence (AI) increasingly augment and enhance traditional jobs. Third parties have and will continue to play an essential part in these changes.

Organizations have had an enduring relationship with third-party suppliers to achieve operational efficiencies, drive business agility, get access to specialized skills, or achieve other sources of sustainable competitive advantage.

A third party can include any individual, company, vendor, supplier, agent, consultant, advisor, contractor, partners, joint ventures and associates, or a distributor that interacts with or on behalf of a company.

Outsourcing functions and the deployment of new technologies are increasingly making supply chains more complex, which ultimately raises an organization's operational risk profile.

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Organizational risk is pervasive, costly & can influence brand reputation

57%

of senior executives rank risk compliance as a top risk they are least prepared to address

Source: Mordor Intelligence

In the last few years, media headlines filled with revelations of health and safety violations, cyber-attacks, security breaches, environmental accidents, legal action against top-level executives and reputational damage caused by third-party vulnerabilities.

In forward-looking organizations, third-party risk management is becoming a regular topic on board agendas.

The objective of third-party supplier risk management is to provide a structured approach to allow companies to identify, prioritize, manage and mitigate supplier risks while maintaining the company's brand and reputation.

Supplier risk has traditionally been reactive and decentralized, focusing on the risk that interests specific parts of a business or function. But third-party risk is increasingly becoming more complex - pushing companies to develop a more holistic approach across multiple organizational functions and third-party suppliers.

Ignorance is no defence in the eyes of legislators and regulatory oversight bodies. What you do not know about your suppliers can hurt you. Regulators are making it a high priority to police such relationships, and when something goes wrong, the penalties can be significant.

As companies enter new markets, they are likely to rely on third parties, many of whom operate far from headquarters, in a foreign language, with different customs and ways of conducting business.

Failure to adequately qualify suppliers and to know who they are and how they operate can expose companies to serious consequences.

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Organizational risk is pervasive, costly & can influence brand reputation

40% to 60%

of small businesses that experience a disaster never reopen

Source: FEMA

How third-party suppliers can expose an employing company:

- high-profile supplier experiences business failure
- supplier cannot meet SLAs due to a service disruption or a defect in their production line
- natural disaster takes place and the supplier cannot provide the necessary parts
- supplier does not adhere to regulatory/legislative requirements and faces severe penalties/fines
- supplier conducts illegal activities and regulatory enforcement responds with punitive fines

Third parties need to have the proper safeguards and controls in place and the appropriate oversight. Otherwise, the employing company could be exposed to increased fiscal, operational, regulatory, reputational risk, client service disruptions, poor performance, product recalls, penalties and financial fraud/exposure.

Deloitte believes that companies that have a good handle on their third-party suppliers can not only avoid punitive costs and reputational damage but stand to gain a competitive advantage over their peers – often outperforming them by an additional 4-5% return on equity. (Source: Deloitte)

How to fix:

Increased monitoring and assurance activities on third parties can significantly reduce third-party risk, such as:

- periodical visits to third-party locations to conduct risk assessments
- in-house internal audit reviews
- controls self-assessments by third parties
- remote assessments with direct access to third-party systems/data and desktop audits
- use of outsourced internal audit providers to perform third-party audits

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Organizational risk is pervasive, costly & can influence brand reputation

Almost

$60

billion paid in penalties from 2010 to 2015.

Source: McKinsey & Company

Each functional group within the company has a clearly defined and specific role to play. When each area does its job effectively, the likelihood that a risk will slip past defence lines diminishes. However, no single executive or function typically has overall visibility into or responsibility for risk. Large companies with tens of thousands of third-party suppliers can be at significant risk.

More and more companies are mandating consistent third-party governance standards amidst increasing organizational decentralization.

With the right technologies and processes in place, companies can implement and manage third-party risk, drive efficiency, improve service levels, and increase equity return. These companies tend to realize an additional four to five percent return on investment.

Despite an increasing reliance on third-parties, companies are not yet effectively managing the risk landscape. With geopolitical, reputational, financial, regulatory/compliance, operational, digital, cyber and resiliency risk becoming more complex, companies must understand how third-party suppliers factor into those risks and how to effectively manage and mitigate risks while still driving sustainable competitive advantage.

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Health & safety

74%

of companies faced at least one third-party related incident in the last 3 years.

Source: Deloitte

Managing risk at your workplace requires thinking about what might harm your employees and taking steps to prevent it from happening. Health and Safety risk management programs encompass planning, implementing, monitoring and optimizing operational processes in health protection and occupational safety.

To establish a safe and hazard-free workplace for employees, visitors and suppliers, companies need to ensure that processes and controls are in place.

Key third-party supplier qualification initiatives for leading health & safety risk management programs:

1. Ensure the third-party workforce is qualified/approved at the worksite – meeting and/or surpassing strict health, safety, competency & ethical standards
2. Verify third-party suppliers have liability insurance, permits, surety bonds and business licenses
3. Onboard/induct new suppliers with the right training and test their knowledge retention
4. Ensure policy updates are reviewed and signed-off through bulletins
5. Evaluate and rate suppliers after they have completed a job against specific criteria
6. Utilize advanced analytics dashboards to track key performance indicators
7. Create, track and maintain asset registers for all plant and equipment, and ensure they are regularly inspected and operating properly
8. Develop risk-based audit plans, track projects, manage/track audit findings, alerts and report in real-time
9. Store all audit plans, inspections, work papers, investigations and reports in a digital file library
10. Manage compliance to daily inspections, office, shop, yard and site safety through inspection checklists

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Environment and sustainability

$20.8
billion penalty by department of justice to BP for the Deep Water Horizon incident

Source: Wall Street Journal

There are many definitions in use for the term environmental sustainability/stewardship. The World Commission on Environment and Development defines it as the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Many companies seek to enhance their brand and reputation by showing their commitment to the environment and sustainable development and are making environmental and sustainability management a strategic business priority.

Key third party supplier qualification initiatives for leading environmental and sustainability risk management programs:

1. Set environmental reduction targets, log permit information, oversee sustainability initiatives of the third-party workforce

2. Track supplier permits and licenses and schedule audits to resolve exceedances/non-conformances quickly. Attach photos and supporting files at any time

3. Investigate suppliers' environmental incidents in real-time and work with them to implement corrective and preventive actions (CAPA)

4. Enable identification of potential environmental impacts by supplier, location, role or business unit and score accordingly

5. Capture and report on key third-party supplier environmental and sustainability metrics with real-time dashboards, trending and benchmarking

6. Manage all supplier environmental training courses, track who has completed which course and check course histories throughout your supply chain

7. Set automated email notifications for suppliers on pending and overdue tasks about environmental improvement initiatives

8. Ensure suppliers have mechanisms for tracking targeted emissions to air, discharges to water, waste management, and responsible disposal of toxic and hazardous chemicals

9. Track supplier initiatives to protect the environment and/or restore natural habitats and ecosystems (e.g., planting trees, sponsoring a park, recovering a lake or river, etc.)

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Purchasing and finance

100,000+
small U.S. businesses projected to shut down due to COVID-19

Source: University of Illinois & Harvard Law School

The financial failure of third-party suppliers can be catastrophic. It is essential to understand a prospective supplier's financial status prior to adding them to your supply chain, as it will reduce exposure to insolvency risks. Companies who rely on suppliers to perform work should be mindful of insolvency issues – especially as global disruptions seem to be accelerating.

Preventative measures to manage supplier insolvency risk should be a priority. Supplier financial health checks can proactively help companies identify and avoid disruptions based on supplier insolvency.

Examine the financial health of a supplier by looking at their current and historical risk trends. Look at a comprehensive predictive assessment of a company's future viability over the coming 12 months.

Suppliers must also go through background checks as they will likely have access to the same facilities, systems and secure areas as your employees. Information received through a background check may disqualify a supplier. It is important to minimize your supplier base's risks by recruiting companies with good financial standing with clean background checks.

Key third party supplier qualification initiatives for managing financially sound suppliers with clean background checks:

1. Verify and analyze the credit history, solvency and predictive indices of your third parties
2. Understand the organizational structure of the supplier's company (subsidiaries, branch offices, etc.)
3. Benchmark suppliers to those in their industry (debt, working capital, cost and receivables)
4. Ensure clarity of the supplier payment terms
5. Review supplier's suppliers for solvency concerns
6. Evaluate supplier criminal convictions and impacts to the roles they perform
7. Review third parties to see if their workforces are on any watch lists
8. Evaluate third parties and their respective workforces - for participation in a criminal organization, corruption, fraud, terrorist offences, money laundering, child labour or other forms of trafficking

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Business Continuity

Almost

69%

of companies believe the level of business continuity/ operational risk is increasing

Source: Forrester Research

Uncertainty constitutes an inevitable part of supply chain management. Business disruptions can happen at any time, anyplace by any means and dramatically impact both suppliers and employing companies.

A disruption can be any event where a supplier unexpectedly fails to deliver goods or services.

Disruptions can result from natural disasters, labour disputes, supplier bankruptcies, pandemics, multi-day/week power outages, cyber-attacks and acts of war or terrorism.

How third-party suppliers cope with such threats depends on the type of disruption and the supplier's preparedness.

In many cases, vital information is often unavailable or accessible to employers and their global teams during a disruptive event - leaving their response reactive and uncoordinated. However, companies that invest in mapping their third-party supply networks before these disruptions often emerge better prepared.

With visibility into their supply chains, they know exactly which suppliers, sites, products and services are at risk – putting them ahead of their competition in securing constrained inventory and capacity at alternate locations.

To avoid these reactive and uncoordinated responses to disruptive events, leading companies create business continuity plans in advance of potential disruptive situations, and policies and response activities for a quick recovery.

However, these plans need to be tested in advance to ensure gaps and weaknesses are identified and corrected. By planning, business continuity plans can help employing companies to secure their supply chain, develop resiliency to perform recovery plans immediately after disruption, and/or modify inventory management policies to decrease the effects of disruptions.

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Business Continuity *continued*

75%

of Companies surveyed were hit by an unexpected major supply chain disruption in a 2-year timeframe.

Source: HBR

Key third party supplier qualification initiatives for leading business continuity programs

1. Ensure suppliers have a business continuity plan with copies available online or at an off-site location
2. Determine how often third-parties review and test their disaster recovery plans
3. Confirm if third-party suppliers recently conducted a business continuity assessment for possible regional specific disruptions
4. Verify that suppliers have conducted a Business Impact Analysis for their entire organization
5. Determine if disruption recovery/restoration plans are documented and communicated for the supplier's critical processes
6. Ensure that a Business Continuity coordinator has been identified for each of the suppliers
7. Ensure that suppliers have an emergency communications plan
8. Determine if suppliers have developed alternative infrastructure plans - telecom, systems, emergency power, alternative facility, information security controls in case of a disruption
9. Validate the steps key suppliers will take to minimize the impact of business interruptions

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Quality management (QMS)

$1
spent on QMS saw a

$6
increase in revenues

Source: ISO Update

High-quality outcomes are achieved by adhering to rigorous standards of quality. However, many companies think implementing a Quality Management System (QMS) is a financial burden and fails to realize the savings or added value generated by implementing a QMS.

A study by the American Society for Quality (ASQ) showed that for every $1 spent by a company on a QMS, they could expect to see an additional $6 in revenue, a $16 reduction in costs, and a $3 increase in profits. On average, they saw that quality management reduced costs by 4.8% – ASQ

Key third party supplier qualification initiatives for leading quality management programs

1. Validate that suppliers have defined policies, goals and objectives for quality

2. Verify third parties have written quality manuals, maintained by quality personnel

3. Ensure suppliers have a process to ensure proper quality training for employees

4. Confirm that inspection acceptance records are maintained with – quality of units, identification of inspector and quantity of accepted/rejected units.

5. Maintain supplier documents/records pertaining to planning and control of its quality processes

6. Confirm that suppliers have procedures that describe the method and frequency of calibration of measuring and test equipment

7. Ensure third-party suppliers have the proper technical support capabilities to serve your customers

8. Validate that suppliers carry out internal quality audits regularly

9. Ensure that third parties employ statistical process controls (SPC) within their processes

10. Confirm that the third party has written procedures to control all chemical hazards to prevent product contamination, or otherwise creating risk to customers, employees or other suppliers

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Corporate social responsibility

CSR-led companies were found to have returns **19 times higher** than those with a poor CSR rating

(3 yr. study of 175 companies)

Source: Human Resources Today

In today's socially conscious world, employees and customers value Corporate Social Responsibility (CSR), and prefer to work for and spend money with companies that share the same values.

Sustainability reporting has strategic advantages for companies and is increasingly sought after/required by clients, investors, stock exchanges, and governments.

Companies often use non-financial data and metrics to convey ethical and behavioural efforts to drive CSR and uncover potential red flags. When managing supply chains, it's important to determine if your suppliers are practicing responsible corporate social responsibility. Neglecting this can have dire consequences to a company's brand,reputation and bottom-line profits.

Key third party supplier qualification initiatives for leading corporate social responsibility programs:

1. Track supplier data related to sustainable economic performance and labour practices
2. Ensure that supplier decisions demonstrate transparency, ethics and stakeholder accountability
3. Validate that third parties have policies and processes to guarantee basic human rights – including civil, political, economic, social and cultural rights
4. Confirm that suppliers avoid aiding or abetting illegal acts or omissions
5. Prepare suppliers for tackling human rights in disaster situations (e.g. drought, flood, war, locusts)
6. Ensure the supplier workforce follows anti-discrimination practices (e.g. race, gender, religion, etc.)
7. Validate that vendors have policies to guarantee freedom of opinion, expression, association, and collective bargaining
8. Substantiate that suppliers have processes in place to identify and avoid abuse of entrusted power for private gain (e.g. predatory lobbying, bribing)
9. Ensure suppliers have practices for safeguarding customer/consumer information privacy
10. Encourage third parties to demonstrate proactive outreach to the community (e.g., social investment and community development activities)

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

ComplyWorks Risk Disciplines

Risk is pervasive across an organization. ComplyWorks can help manage that risk - contact us today!

HEALTH & SAFETY

- Safety program information
- Safety documentation for purchased products

ENVIRONMENT & SUSTAINABILITY

- Environmental management systems (ISO 14001)
- Sustainability programs and initiatives

CORPORATE SOCIAL RESPONSIBILITY (CSR)

- Human rights and labor standards
- Supplier diversity initiatives

PURCHASING & FINANCE

- Terms and conditions
- Key contacts
- Financial statements and financial risk

QUALITY MANAGEMENT

- Quality management systems (ISO 9000 family)
- Processes and improvements

BUSINESS CONTINUITY

- Insurance, training, certificates and approvals
- Secondary supplier information
- Business continuity management

To learn more or to request a free demo, visit us at www.complyworks.com or call us
Canada (HQ) +1 403 219 4792 | USA +1 713 435 9449 | South Africa +27 86 147 3366 | Australia (APAC) +61 432 519 434

COMPLYWORKS

ComplyWorks' Third-Party Risk Management (TPRM) Platform

Sources

Human Resources Today
[https://www.humanresourcestoday.com/?query=CSR%20led%20companies%20were%20found%20to%20have%20returns%20of%2019%20times&open-article-id=12748964&article-title=the-value-of-corporate-social-responsibility--csr----and-how-to-get-it-right&blog-domain=qualtrics.com&blog-title=qualtrics]

Deloitte
https://www2.deloitte.com/au/en/pages/risk/solutions/third-party-cyber-risk-assessment-utility.html

ISO Update
https://isoupdate.com/resources/whats-roi-quality/#:~:text=As%20a%20guide%2C%20a%20recent,management%20reduced%20costs%20by%204.8%25

Wall Street Journal
https://www.wsj.com/articles/u-s-says-20-8-billion-bp-spill-settlement-finalized-1444058619

McKinsey & Company
https://www.mckinsey.com/~/media/McKinsey/Business%20Functions/Risk/Our%20Insights/Are%20you%20prepared%20for%20a%20corporate%20crisis/Are-you-prepared-for-a-corporate-crisis.pdf

HBR
https://hbr.org/2013/07/research-why-companies-get-blindsided

Forrester Research
https://drj.com/images/surveys_pdf/forrester/2018-Forrester-Survey.pdf

University of Illinois & Harvard Business School
https://blogs.illinois.edu/view/6231/809071

Mordor intelligence
https://www.mordorintelligence.com/industry-reports/enterprise-governance-risk-and-compliance-market

FEMA
https://www.fema.gov/media-library-data/1441212988001-1aa7fa978c5f999ed088dcaa815cb8cd/3a_BusinessInfographic-1.pdf