KPMG

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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Create Graphics | CRT101561A | October 2018