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Best Practices

Best Practices: Third-Party Risk Managment

# Benefits of a Comprehensive Approach to Third-Party Risk Management

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As reliance on third parties continues to grow, effective third-party risk management is now a critical business demand and an integral part of a strong overall ethics and compliance program.

Third-party oversight has grown exponentially as a subject of regulatory scrutiny. Under many legal frameworks, including the Foreign Corrupt Practices Act (FCPA), organizations may be held liable for acts of corruption committed by their third parties.

The corporate landscape is littered with companies that have suffered harm on multiple fronts due to enforcement actions resulting from the conduct of third parties. A damaged reputation impacts sales, limits growth potential, inhibits the ability to attract and retain top talent, and diminishes company valuations.

These concerns are driving many organizations to reconsider how they approach the identification and management of third-party risk. Your third parties' legal, financial and reputational risks are your risks too, so your risk management program should minimize those risks to the greatest extent possible.

Accountability for implementing effective third-party risk management falls squarely on the board of directors and executive management. The organization as a whole must embrace risk management as a strategy that safeguards its long-term reputation and protects against the financial and operational difficulties that failed third-party engagements so frequently bring. Put simply, a robust risk management program is an investment with a substantial return. The tools, staff, processes and support systems that comprise such a program drive business value by shielding the organization from common pitfalls that can result in legal, financial, and reputational disaste.

Still, many institutions view third-party management as more of a "necessary evil" that they must check the box to satisfy external regulators and auditors. To the contrary, the true significance of a comprehensive third-party risk management carries a depth and complexity that is rarely understood in full.

Ensuring that one's business partners are upholding the same honor code to which your company already subscribes attracts more responsible, professional business partners to your organization. Similarly, your clients and customers are proud to derive services from an organization that operates with standards of integrity. These positive ripple effects of a well-executed risk management system pays for itself over time—but only with top-down institutional support before, during and after implementation. Company leadership must regularly communicate with all levels of the organization about the third-party program, making clear that third- party relationships are subject to risk-based due diligence to resolve potential corruption risks.

Companies that proactively identify, assess and manage third-party risks are able to stop problems before they develop. Staying ahead of the risk curve by rolling up one's sleeves and really digging into the issues, rather than simply praying or knocking on wood, is the only real solution.

The good news is that effective leaders typically understand the deep interdependencies inherent to third-party supply chains. When leaders take the initiative to adopt comprehensive risk management practices, robust third-party compliance becomes a natural byproduct. Companies can then focus on increasing the value and efficiency of their program while reaping the benefits of total compliance.

A few of the benefits are:

- **Avoiding criminal and regulatory enforcement actions, fines, and other legal costs:** A strong third-party risk management program helps your organization avoid both criminal prosecutions and civil regulatory actions. The U.S. Department of Justice and the U.S. Securities and Exchange Commission often decline to pursue companies for FCPA and other legal violations committed by those companies' third parties when the companies have maintained a strong compliance and due diligence program by investing in a third-party risk management system.
- **Promoting your organization's culture:** FCPA guidance advises that organizations should promote their culture of ethical and responsible behavior both internally and with their third parties. A comprehensive third-party risk management system accomplishes this by requiring third parties to understand and abide by your company's code of conduct, attend ethics and compliance training sessions, and provide written contractual assurances against corrupt activities.
- **Producing a more accurate picture of risk**: An enterprise-wide third-party risk management program can provide holistic data where your organization is most exposed to risk and where it is well-protected. Insights of this nature assist with proper resource allocation both by pointing to where immediate corrective actions are needed and by strategizing for future training, policy and hiring decisions.
- **Protecting your organization's reputation:** As seen in many high-profile cases, even a single third-party failure can deeply impact a company's base of trust with clients and customers. An extensive third-party risk management program ensures that your organization will thrive for many years to come by confirming that your company is only engaging with thoroughly-vetted third parties.
- **Ensuring continuity:** Disruptions in third-party relationships can be detrimental to the continuity of business practices, and outright failures in third-party relationships can result in criminal or regulatory actions requiring significant time and resources to resolve. In the worst cases, third-party failures threaten the long-term viability of your company altogether.

Given the broad array of risks facing companies and the challenges associated with monitoring them, organizations may wonder where to start. Effective third-party risk management requires the ability to conduct risk assessments, evaluate and track the due diligence process, manage and adhere to policies, and continually monitor progress—all from one centralized system. Due diligence alone is a highly disciplined activity that involves evaluating multiple dimensions of outside entities throughout their lifespan. Companies need a program in place that is scaled with the types and degrees of third-party risks.

The most preferable approach is a reliable, automated risk management provider that can swiftly and completely conduct the appropriate level of due diligence on all of your company's third parties. When selecting an organization to conduct third-party risk management services, the ideal provider should be independent enough to deliver unbiased reporting, reputable enough to maintain a global reach, flexible enough to meet your unique organizational demands, efficient enough to identify only pertinent information, and proactive enough to deliver continuity and consistency in reporting.

Automated risk management solutions deliver consistency and efficiency, and help conserve resources, increase productivity, drive down operational costs, and permit access to real-time analytics. These features give organizations greater insights into their greatest risk exposures and how to remediate deficiencies for continued success.

Quite clearly, maintaining an effective third-party risk management program is in your company's best interest. Once implemented, it will continue to add value to your organization by permitting more confident engagements with a growing network of vetted third parties. First, however, the third-party risk management platform must be fully embraced. In particular, executive management must understand its inherent value and act to set it into motion.

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