Using third parties does not diminish the responsibility of your board. Balancing third-party risk and return has to be a core task and priority at the highest level of every organization.

Potential third-party risks

Working with third parties offers many benefits but it is important to also consider the risks, which can include:

- **Regulatory volatility**: local laws, taxation, accounting policies, compliance risk
- **Financial risks**: local currency fluctuations; currency hedging, local fiscal crisis impacting money transfers
- **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 risks**: social media, IT issues, government censorship
- **Intellectual property risks**: weak protection of IP rights; theft of IP by local third party
- **Corruption risks**: local public sector; local business practices

Third-party governance

Getting third-party governance right offers many benefits for your organization, while getting it wrong can have serious consequences.

**Benefits of getting third-party governance right**

- Adequately mitigating third-party risk can lead to stronger financial performance for the organization
- 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

**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 opportunities
- Improper risk mitigation may lead to reputational damage and higher operational expenses and waste
Questions for the Board

If you cannot answer yes to all of the questions below, you may have gaps in your organization’s third-party governance process.

- Maintain and monitor timely information on third parties around the world in order to identify and address risks?
- Have you established proper due diligence processes to evaluate third parties before they are approved?
- Have you implemented the right tools to properly govern third parties’ activities?
- Are risk mitigation plans in place to minimize those risks before they become harmful to the organization?

Questions for Senior Management

- How do we ensure our third parties’ activities are performed safely and reliably around the world?
- How do we conduct the appropriate level of third-party due diligence, risk monitoring and early indication reporting?
- How do we optimize 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, operations and regulatory risk?
- Do we get timely and actionable risk alerts so that preemptive action can be taken before it is too late?

Best practice for enabling third-party governance with technology

<table>
<thead>
<tr>
<th>Functionality</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due diligence</td>
<td>- Offers tools to guide enhanced third party evaluation</td>
</tr>
<tr>
<td>Risk management</td>
<td>- Predicts, analyzes and reviews risk factors for optimal third-party performance</td>
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<tr>
<td>Portfolio management</td>
<td>- Drives value and portfolio optimization from the aggregated view of third party relationships</td>
</tr>
<tr>
<td>Risk remediation</td>
<td>- Identifies mitigation options when acceptable risk thresholds are surpassed</td>
</tr>
<tr>
<td>Performance management</td>
<td>- An early warning system for third party performance issues</td>
</tr>
</tbody>
</table>

Actions for the Board

- Ensure that your management team has evaluated and addressed gaps in your organization’s third-party governance process
- Evaluate technology solutions that will uncover insights about your suppliers and consider options for mitigating current and future risks

Contact

KPMG AG
Badenerstrasse 172
PO Box
8036 Zurich
kpmg.ch/blc

Thomas Bolliger
Partner
Information Management & Compliance
+41 58 249 28 13
tbolliger@kpmg.com

Christoph Wolleb
Partner
SCM Operations
+41 58 249 54 97
cwolleb@kpmg.com

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