Emerging stronger

The rise of sustainable and resilient supply chains

Global third-party risk management survey 2022

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Foreword

I am pleased to share our latest third-party risk management (TPRM) survey. Now in its seventh year, it has continued to attract more and more responses, with 1309 this year from 38 countries. The largest number yet.

This year-on-year rise reflects the growing level of organizational interest and focus on third-party risk management by executive leadership and members of the Board. As in earlier years, the responses reflect the views of senior leaders from a variety of organizations[1] across the Americas, Europe, Middle East and Africa (EMEA), and Asia Pacific (APAC).

The survey was conducted between late January and early March 2022, when many countries were easing COVID-19 restrictions.

Indeed, the April 2022 **Deloitte Chief Finance Officer (CFO)** survey revealed that businesses are generally more optimistic about introducing new products and services, expanding into new markets, and raising investment. This is despite the invasion of Ukraine underlining upcoming geo-political challenges.

The need to develop more resilient supply chains was highlighted during the pandemic, and it continues to be a priority, together with environmental, social, and governance (ESG).

This survey reveals how organizations are responding to increasing expectations related to those key areas. How they aspire not only for greater investment in digital technologies, but also for better coordination and integration between functions such as sourcing, contracting, financial processing and risk management.

All of which are vital to understanding and addressing the broadening coverage of TPRM, while increasing cross-functional visibility, which impacts the ability to make faster and better-informed decisions.

1 In preparing our report, we have considered both fully as well as partially completed survey responses (to the extent survey questions have been answered by these respondents).

Foreword (continued)

What follows is a deep dive into these current and emerging topics. Our key findings are:

- Despite increasing awareness and focus by executive leadership and members of Boards, most **organizations don't have the formal mechanisms to objectively assess or prioritize ESG risks**. Crucially, they **don't trust the related internal or external data** currently available to them.
- Organizations recognize the **need to improve the resiliency of their supply chains. This need is particularly strong for critical third parties** and lower tiers of the third-party ecosystem (i.e., beyond those with direct contractual relationships). **The focus on resilience has emphasized the relationships with critical cloud service providers (CSPs)**. It has also underlined the importance of **developing capabilities to manage evolving challenges,** such as sanctions, export controls and geographic concentration.
- **Executive leadership and members of Boards aspire to implement a more integrated/holistic approach to TPRM** that exploits synergies across third-party management (TPM) processes. Consequently, **integration of contract/legal management processes with TPRM** appears to be a common initial milestone on this journey.
- Although organizations continue to leverage external assistance and believe managed service solutions are here to stay, **these are rapidly evolving. They are more comprehensive and tailored end-to-end, insights-driven solutions in line** with market demand. Ones that are **enabled by technology** and supplemented by **fewer and more focused staff deployments**.

  Respondents believe that organizations are likely to be challenged on the cost-effectiveness of alternative models that offer a more generic approach.
- **Increased leadership focus and investment in TPRM continues to drive transformational change**. This is characterized by **smarter third-party segmentation,** increased **focus on sell-side third parties** (supplementing the traditional focus on buy-side relationships) and **integrated technology** solutions that improve efficiency and reduce cost.

  However, overall self-assessments of TPRM maturity indicate that **respondents continue to be challenged on newer risk domains** (including geopolitical and climate change) and in their approach to assurance associated with multiple tiers of subcontractor relationships. Risk domains such as cyber and data privacy that have typically been focused on in the past continue to need significant attention.

I hope the following wealth of insight enhances your understanding of prominent trends and themes on a cross-industry basis, as well as those specific to your sector, as you navigate your organization on its TPRM journey.

As always, I welcome feedback on what you are seeing in the marketplace, or if you want us to benchmark anything else in future reports.

Our TPRM professionals are here to help you understand how this survey's findings reveal distinctive opportunities for your organization. To learn more, please contact your local expert.

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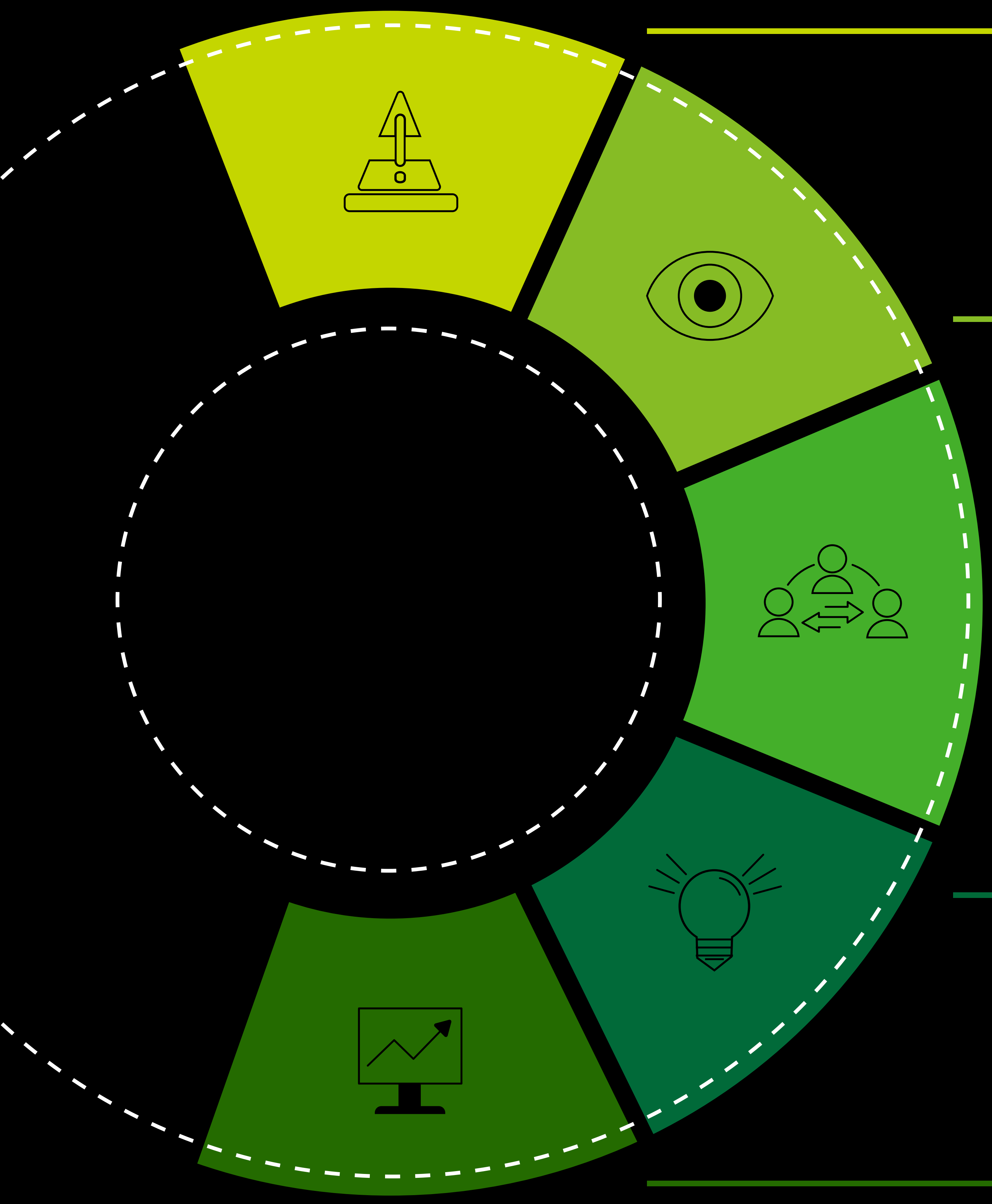
Key findings



1

Addressing ESG risks
Despite increasing awareness and focus, many organizations don't have the formal mechanisms to assess or prioritize ESG risks in their extended enterprise, and don't trust available internal/external data.

2

Managing third-party resilience
Organizations recognize the need to improve supply chain resilience. This need is particularly strong in relation to the critical third parties and lower tiers of their third-party ecosystem (i.e., beyond those with direct contractual relationships).

3

Integrated/holistic third-party management
To exploit synergies more efficiently, the majority of respondents aspire to adopt a more integrated and holistic approach to TPM. Integration of contract/legal management processes with TPRM appears to be a common initial milestone on this journey.

4

External assistance and managed service solutions
In keeping with market demand, managed service solutions are rapidly evolving as more comprehensive and tailored, end-to-end, insights-driven services. These services are increasingly being enabled by technology and supplemented by focused staff deployments.

5

Key post-pandemic TPRM trends
Increased leadership focus and investment in TPRM continues to drive transformational change. This is characterized by smarter third-party segmentation, increased focus on sell-side third parties (supplementing the traditional focus on buy-side relationships) and integrated technology solutions that improve efficiency and reduce cost.

Addressing ESG risks

Despite increasing awareness and focus, many organizations don't have the formal mechanisms to assess or prioritize ESG risks in their extended enterprise, and don't trust available internal/ external data.

Addressing ESG risks

The story so far...

Over the last three years, we have reported the growing emphasis on social purpose from boards and c-suites. Business responsibility and social purpose has become a key element of integrated business strategies. This also applies to their extended enterprise where it can have a significant impact as well as recognizing the broader spectrum that social purpose now encompasses, many organizations acknowledge that oversight, governance, and culture for managing these risks requires greater focus. Consequently, they have consolidated these three central factors as Environmental, Social, and Governance (ESG).

Indeed, by 2020, 43% of those surveyed said that being a responsible business, and building a reputation for being one, had become one of the top motivating factors driving their investment in TPRM.

How ESG is evolving in the extended enterprise

This year's survey shows significant growth in the level of awareness and focus on ESG in the extended enterprise of organizations.

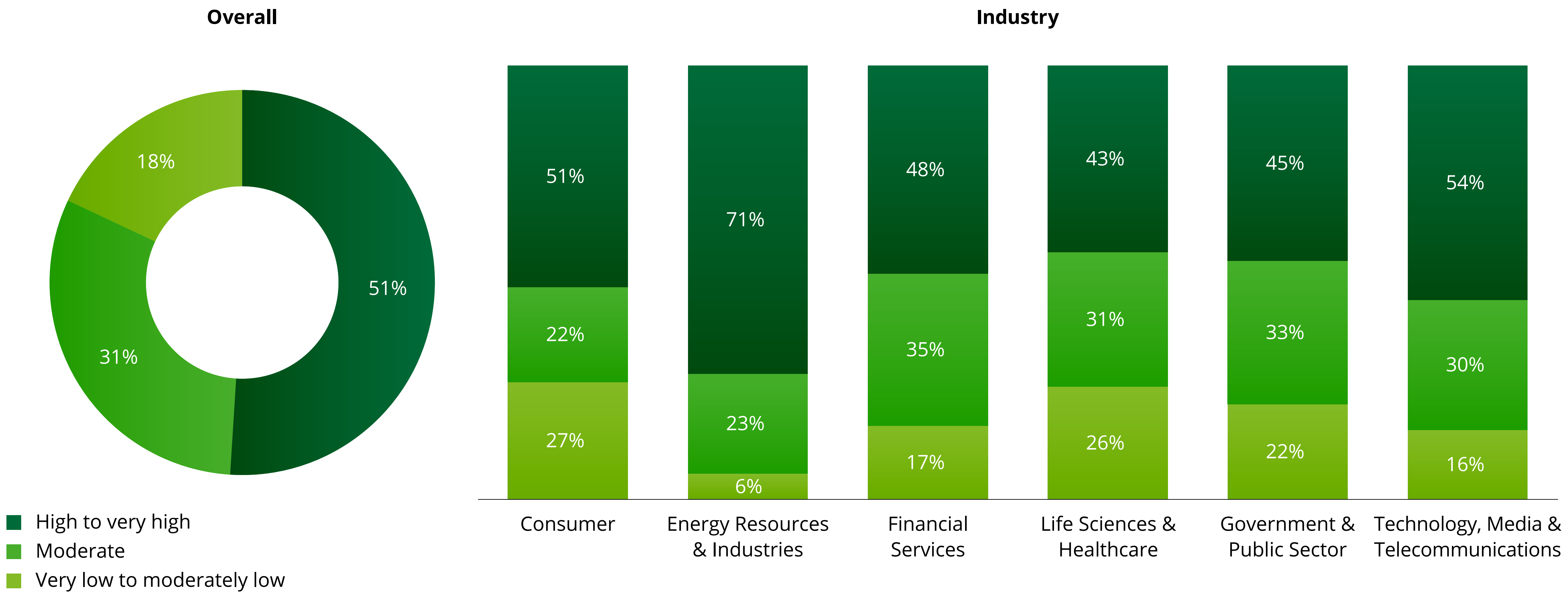
The majority of participants (82%) believe that their organizations have **moderate to very high levels of awareness/focus** on ESG issues and related requirements. That leaves the remaining 18% showing very low, or moderately low levels of the same.

This growing awareness is a consistent feature across industry segments. It is the highest in Energy Resources & Industries (ER&I) (94%) followed by Financial Services (FS) (83%), but comparatively lower in Government & Public Sector (GPS) (78%), Life Sciences & Healthcare (LSHC) (74%) and Consumer (73%).

Higher levels of focus and awareness are reinforced by 80% of respondents believing that their **boards and executive management have a greater level** of awareness of ESG-related risks and support a culture of collaboration among those responsible for ESG risk management. Once again, levels of awareness are highest in LSHC (86%) and FS (85%), but surprisingly low in GPS (40%).

Nearly 80% also believe that colleagues responsible for risk management of ESG issues have a **strong understanding of the business context, strategy, and objectives** that anchor the effective management of such risks. They also possess a growing appreciation of why ESG issues need to be identified and managed across their extended enterprise.

Figure 1. Levels of organizational awareness and focus on ESG: overall and by industry



Note: The industry and geography acronyms used in this report are explained in the endnotes[i].

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Addressing ESG risks

ESG assessment maturity

Despite the commitment to ESG requirements and issues, there is significant scope for improvement of assessment and prioritization of ESG risk dimensions in organizational third-party ecosystems.

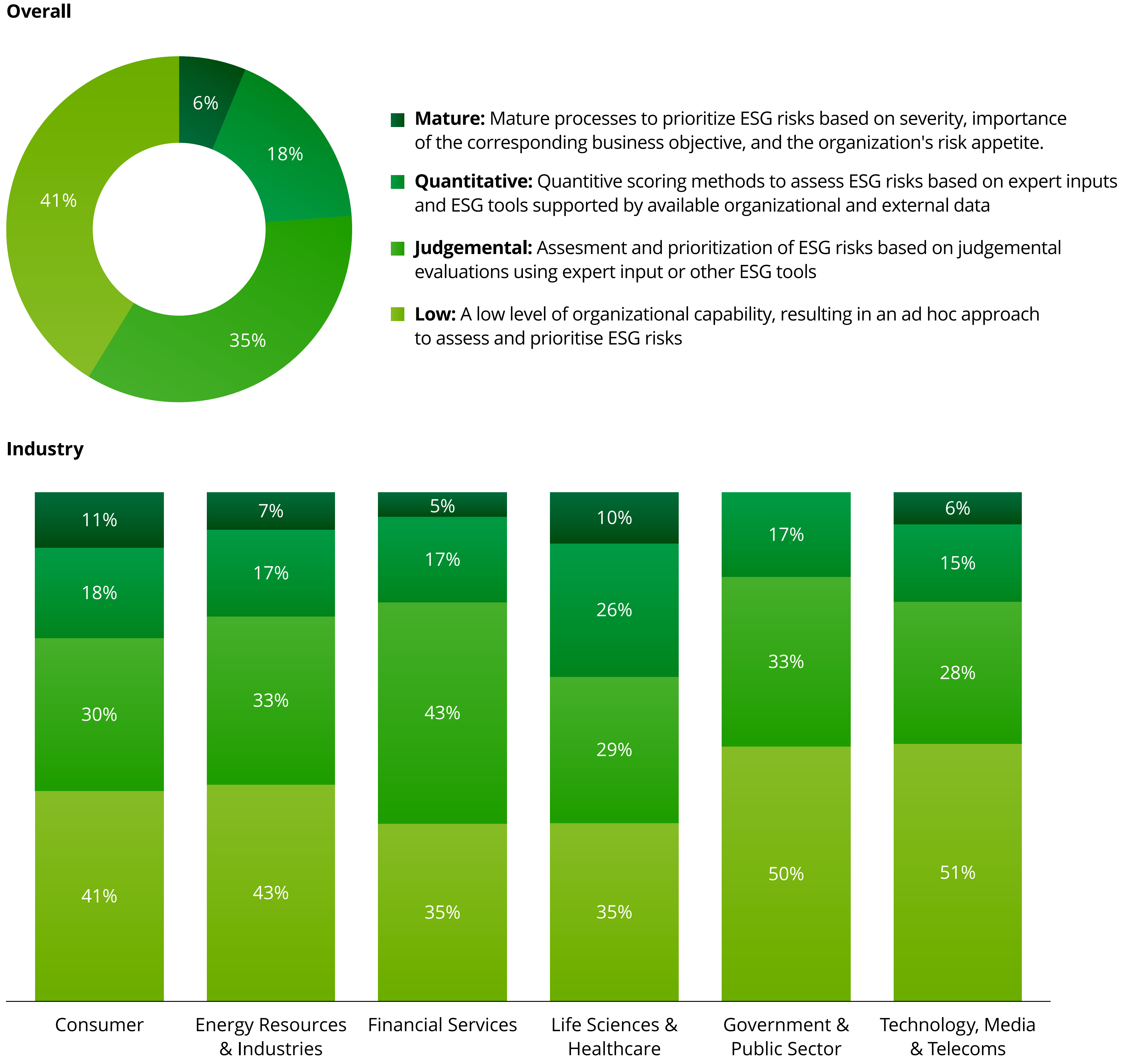
The highest proportion of respondents (41%) believe they have a low level of organizational capability at present, resulting in an ad hoc approach to assessing and prioritizing third-party ESG risk dimensions.

A further 35% say that assessment and prioritization of ESG risk dimensions is based on **judgemental evaluations** using expert input or other ad hoc mechanisms, **rather than formal quantitative processes**.

Only 18% report that they have established quantitative scoring methods to assess risk dimensions based on expert inputs and ESG tools supported by available organizational and external data.

The remaining **6% believe that they possess mature processes capable of prioritizing ESG risk dimensions** based on severity, importance of the corresponding business objective, and their organization's appetite for risk.

Figure 2. ESG assessment capability: overall, and by industry



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Addressing ESG risks

Data quality related to managing and reporting ESG

The quality of internal and external data used for managing and reporting ESG related to the extended enterprise is also an area of significant concern. Only 16% believe that the quality of internal data is high or very high. The same can be said of external data, where again only 16% believe it is of a high or very high quality. There's no doubt that improving the quality of both internal and external data is critical to managing and reporting ESG across organizational third-party networks.

Qualitative responses and comments received from participants indicate that the lack of trust in ESG-related data is augmented by two factors. First, the unavailability of data, and second, the lack of awareness of what data should be relied upon, and how to translate it into actionable intelligence. Together, these factors are impeding further progress.

Communication and reporting

Despite the lack of trust in ESG-related data, 64% of respondents regularly communicate ESG-related risk information. They do this internally for decision-making, and externally to address stakeholder expectations, using judgemental or ad hoc assessments.

However, only 49% have formal mechanisms in place to monitor internal and external changes that enable them to periodically review and revise their ESG-related risk dimensions. Such internal and external changes may substantively affect their organizational strategies or business objectives.

Figure 3. ESG dimensions considered/managed by respondents: overall, by industry and geography

	Overall	Consumer	Energy Resources & Industrials	Financial Services	Life Sciences & Healthcare	Government & Public Sector	Technology, Media & Telecoms
Responsible investment	32%	25%	27%	46%	10%	13%	33%
Natural resources	35%	45%	44%	22%	24%	20%	46%
Climate change	42%	47%	44%	41%	38%	12%	43%
Stakeholder opposition	43%	49%	46%	36%	39%	57%	46%
Equal opportunity	43%	46%	44%	39%	48%	40%	44%
Environment	50%	53%	59%	45%	51%	38%	48%
Pollution and waste	52%	67%	69%	32%	43%	37%	50%
Labor risks	59%	59%	75%	55%	55%	41%	50%
Product liability	59%	71%	65%	44%	71%	58%	51%
Corporate ethics and responsible behaviour	69%	70%	74%	66%	83%	65%	65%

	Overall	Americas	EMEA	APAC
Responsible investment	32%	21%	39%	29%
Natural resources	35%	32%	38%	35%
Climate change	42%	28%	51%	39%
Stakeholder opposition	43%	50%	43%	39%
Equal opportunity	43%	41%	52%	33%
Environment	50%	50%	56%	43%
Pollution and waste	52%	44%	53%	56%
Labor risks	59%	65%	66%	44%
Product liability	59%	58%	62%	56%
Corporate ethics and responsible behaviour	69%	70%	77%	61%

Industry segment/geography with highest proportion of respondents that manage ESG dimension
Lowest proportion that manage the specific esg dimension

See glossary for definitions of the above risk dimensions.

Addressing ESG risks

This would require revisions to risk management processes and capabilities, plus the pursuit of opportunities for efficiency in managing ESG-related risk dimensions.

The extent of progress in both communication/reporting, as well as monitoring changes in internal and external circumstances, is largely consistent across all industry segments. The exception is GPS, where the proportion of respondents who communicate/report and monitor internal/external changes is significantly lower than other industry segments (14% and 17% respectively).

ESG risk dimensions

In terms of specific ESG risk dimensions covered by respondents, as many as 69% include corporate ethics and responsible behaviour, followed by product liability (59%) and labor risks (59%).

On the other hand, the risk domains less frequently included are: responsible investment, natural resources, climate change, stakeholder opposition and equality of opportunity. These are considered only by 32%, 35%, 42%, 43% and 43% of respondents respectively.

From a regional perspective, only 28% of the Americas and 39% of APAC currently consider Climate Change Risk (compared to 51% in EMEA), while just 21% of the Americas and 29% of APAC consider responsible investment (compared to 39% in EMEA). Clearly there is significant opportunity for improvement in these areas.

Deloitte point of view and predictions

The consideration of supply chains and other third-party relationships when taking inventory of ESG risks beyond the traditional boundaries of organizations, has compounded the complexity of defining, identifying, and reporting on ESG risk.

Organizations are realizing that high-quality internal and external data is key to managing ESG risks related to their extended enterprise. They need to develop a greater understanding of the data required and how to obtain it from sources both within and outside the organization. To do so, they should map the various activities and processes that involve third parties, while assessing the inherent risks related to the ESG risk dimensions listed above.

Such inherent risks are typically driven by the nature of the activity/processes. For instance, inherent risks may be higher where third parties are used say, transporting harzardous chemicals, but they could also be driven by secondary factors, such as the geography of where the third-party is based.

An end-to-end view of all relevant third-party relationships is clearly prerequisite to identifying these data-related needs and addressing key ESG considerations effectively across all organizational activity.

At the same time, Deloitte specialists believe that **managing supply chain and other networks across business functions will get even more complicated** as organizations increase their dependence on a growing network of third parties to fuel profitable growth.

For instance, **the expansion of the scope of relevant relationships (particularly beyond those directly contracted) is reducing confidence in the third-party inventory**. This will continue to pose a significant and growing challenge for businesses trying to generate relevant ESG data, objective assessments and reporting across third-party relationships.

To prioritize and report objectively on this subject, the more progressive organizations will aim to graduate from ad hoc and subjective assessments into more insight-driven, formalized quantitative processes. These could be supported by, for example, risk-scoring based on reliable data (i.e., data from trusted sources).

As a result, organizations need to **continue their investment in technologies that integrate the collection and processing of ESG data** from internal and external sources that inform better decision-making. Many will seek the support of external agencies to achieve this.

It is also interesting to note that 24% of respondents from the Americas and 23% of the APAC region do not plan to consider climate change risk in the foreseeable future. Compare that to only 7% of EMEA where, despite awareness levels across these regions being similar, there is greater regulatory focus on this issue. **This confirms that awareness without regulatory enforcement may not drive action on climate change**.

Addressing ESG risks
Key data points

82% believe that their organizations have a moderate to high level of awareness on ESG issues and related requirements. Nearly **80%** say that leadership has a high level of awareness of ESG-related risks, and that those responsible for ESG risk management have a strong understanding of the business context, strategy, and objectives.

Despite the commitment to ESG requirements and issues, there's significant scope for improvement of ESG risk assessment and prioritization processes. **41%** believe they have low-level organizational capability, resulting in an ad hoc approach to risk assessment and prioritization, with **35%** believing these processes are currently based on judgemental evaluations. Only **18%** think they have established quantitative scoring methods to assess such risks based on expert inputs and ESG tools.

While **64%** of respondents regularly report relevant ESG-related risk information, only **49%** have formal mechanisms in place to monitor internal and external changes. The extent of these practices is consistent across all industry segments, with the exception of GPS where the proportion is significantly lower.

The quality of internal and external data used for managing and reporting ESG is also suspect. Just **16%** say that the quality of their internal data is high/very high.

The specific ESG risk dimensions covered by respondents vary, with **69%** including corporate ethics and responsible behaviour, followed by product liability (59%) and labor risks (59%). The 'less popular' domains are responsible investment, natural resources, climate change, stakeholder opposition, and equality of opportunity.

Only **28%** of the Americas and **39%** of APAC consider Climate Change Risk and only 21% of the Americas and 29% of APAC consider responsible investment.

Managing third-party resilience

Organizations recognize the need to improve supply chain resilience. This need is particularly strong in relation to their critical third parties and lower tiers of the third-party ecosystem (i.e., beyond those with direct contractual relationships).

Managing third-party resilience

The need to improve resilience has increased the focus on relationships with critical cloud service providers (CSPs). It has also underlined the importance of developing capabilities to manage evolving challenges, such as sanctions, export controls and geographic concentration.

The story so far…

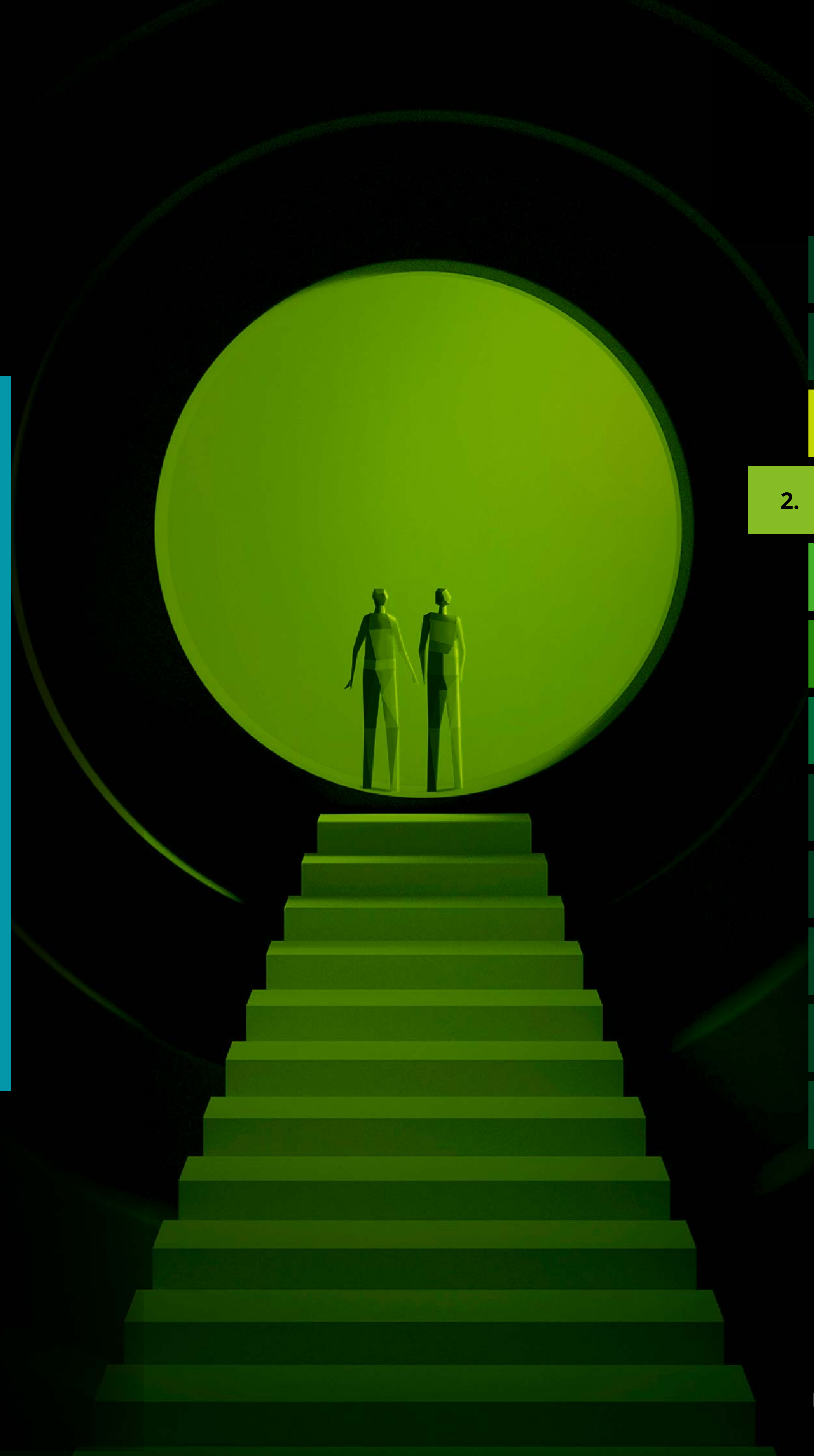
Earlier TPRM surveys (2016-2019) showed how many organizations had started to develop business continuity and disaster recovery plans for their third-party networks. These, together with the development of specific processes and capabilities, helped them navigate defined scenarios of third-party failures, such as the inability of a key supplier to fulfil their contractual obligations.

We believe this was a necessary initial response at that time.

However, as organizations increasingly started using third parties to meet strategic objectives rather than just achieve a tactical cost-reduction or other short-term objective, these initial efforts failed to keep pace with the growing levels of critical dependence.

That, in turn, progressively led organizations to face **a newer spectrum of risks across a growing number of risk domains** (e.g., geopolitical, geographic or supplier concentration, export controls and sanctions) with aggravated consequences of failure.

Some of these risks were consciously embraced with adequate risk-management processes and technology, but many were deprioritized until **COVID-19 highlighted the huge strategic impact of such third-party failures and how quickly risks can be realized. Particularly those accelerated by real-time technologies in a connected world enabled by the rise of cloud service providers (CSPs)**.



Managing third-party resilience

How third-party resilience continues to evolve

Our current survey captures organizational progress on third-party resilience in the context of the above.

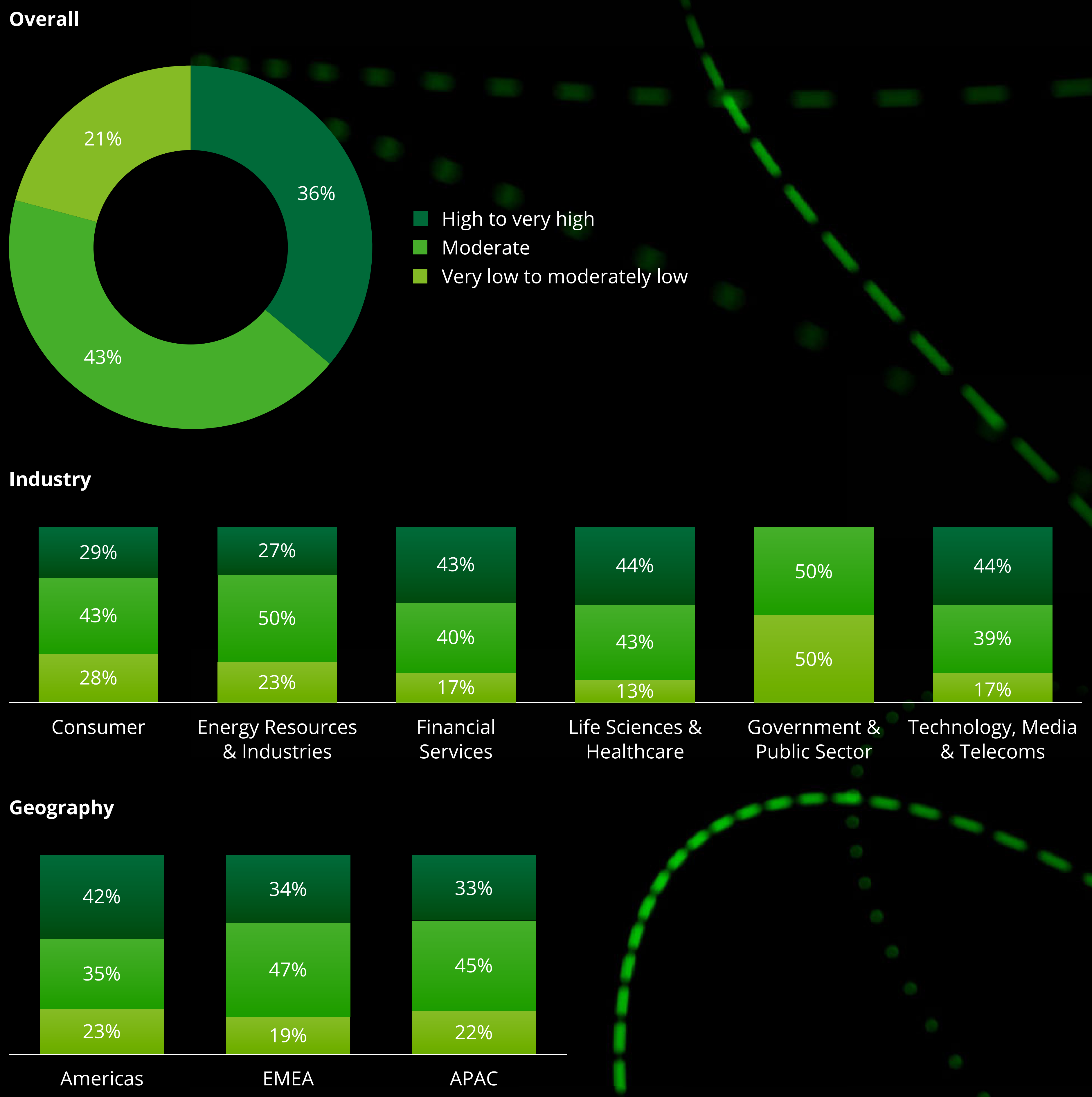
Overall, 60% of respondents believe that resilience and business continuity planning is a strength rather than a weakness.

Unsurprisingly, FS is leading the way here due to the regulatory focus on this topic, with this proportion increasing to 73%, which is significantly higher than the average across other industries. In contrast, only 41% of GPS respondents say this is the case in their organizations.

The regional perspective presents a greater variation. A higher proportion of respondents from EMEA (68%) report that resilience and business continuity management is a strength in their organizations, compared to the Americas (59%) and APAC (52%).

However, a more specific drill-down into the survey data reveals that **only 36% of respondents have a high to very high capability to manage contingencies arising from global supply chain issues**. That includes those arising from export controls or sanctions. More than one out of five (21%) have low or even very low capability in this area, while the **remaining 43% say it is moderate at best**.

Figure 4. Levels of organizational capability to manage global supply chain contingencies: overall, by industry and geography



Managing third-party resilience

Obtaining assurance on third-party resilience

Periodic reviews of third-party business continuity plans assessing their level of alignment with organizational business continuity plans, **appear to be the most popular (46%) method of obtaining assurance on resilience of third parties**.

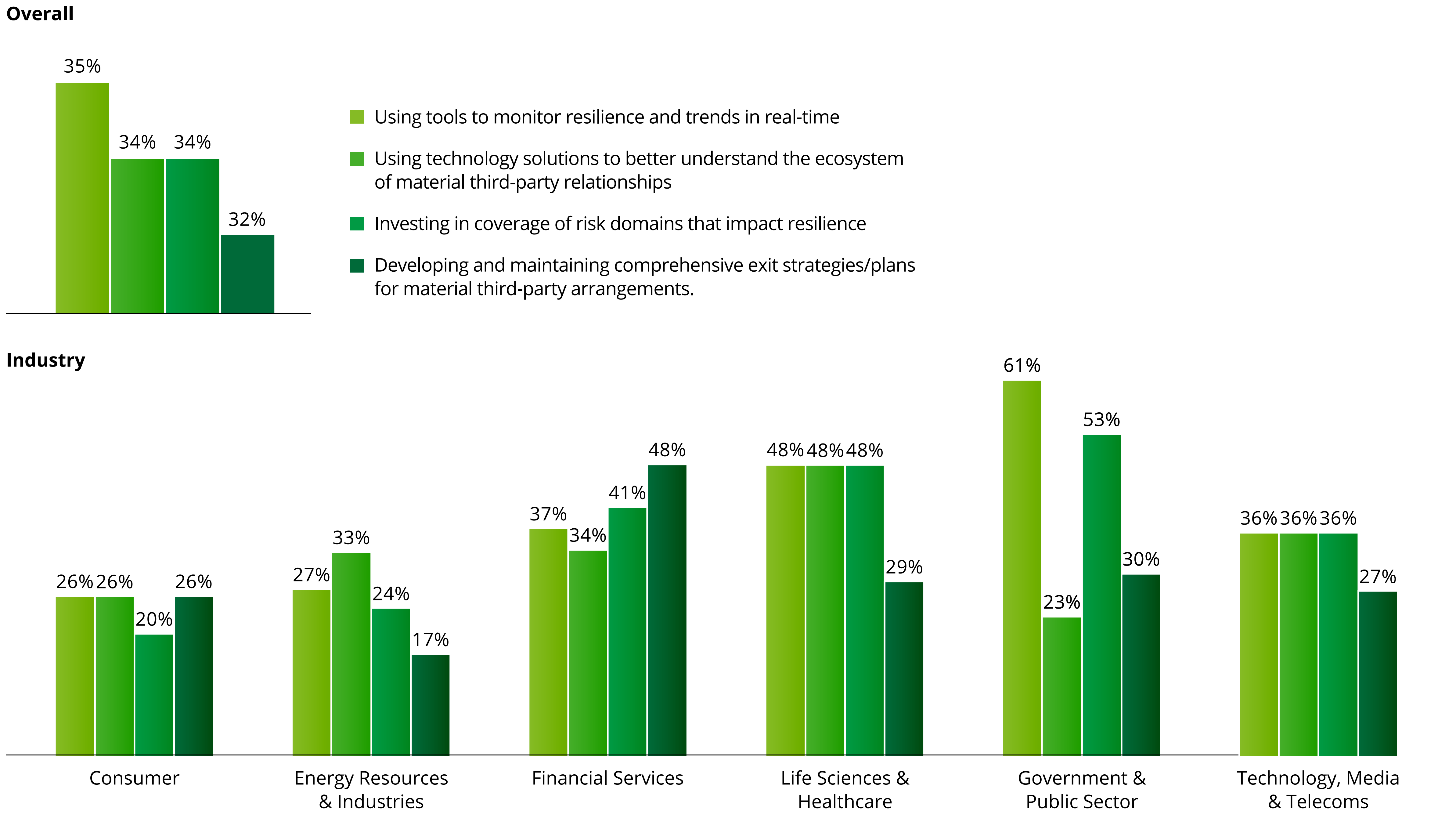
One of the evolving considerations in such reviews is the need to 'scenario stress test' existing third-party relationships and their business continuity plans. This helps to ascertain the point at which their tolerance thresholds are broken. Similarly, organizations are preparing exit plans to cover stressed and unstressed exit scenarios, as well as establishing testing programmes for periodic testing of these artefacts.

This is followed by obtaining certifications/assurance reports from independent third-party reviewers (42%) or requiring heightened oversight activities (rigor and frequency) on third-party arrangements that underpin critical business services (41%).

However, only one out of three respondents indicated that they use technology solutions to better understand the ecosystem of material third-party relationships, including where they operate.

A similar limited proportion use tools to monitor resilience and trends in real-time (i.e., risk intelligence, adverse media monitoring) or even develop/maintain comprehensive exit strategies for material third-party arrangements (35% and 32% respectively).

Figure 5. Mechanisms that have the potential to enhance assurance on third-party resilience going forward: overall and by industry



Note: Percentages indicate the relatively smaller proportion of respondents who currently utilize the above mechanisms that have the potential to enhance assurance on third-party resilience.

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Managing third-party resilience

While there is room for improvement across all industry segments, LSHC, FS and Technology, Media & Telecoms (TMT) appear to be ahead of others in having a more balanced combination of methods to gain assurance on the resilience of third-party relationships.

The regional experience is similar, except that APAC is generally lagging behind EMEA and Americas in obtaining this much-needed assurance in managing third-party resilience.

Levels of dependence on cloud service providers (CSPs)

73% of respondents currently have a moderate to high level of dependence on CSPs. That is expected to increase to 88% in the years ahead, reinforcing the serious need to consider resilience related to these particular third-party providers.

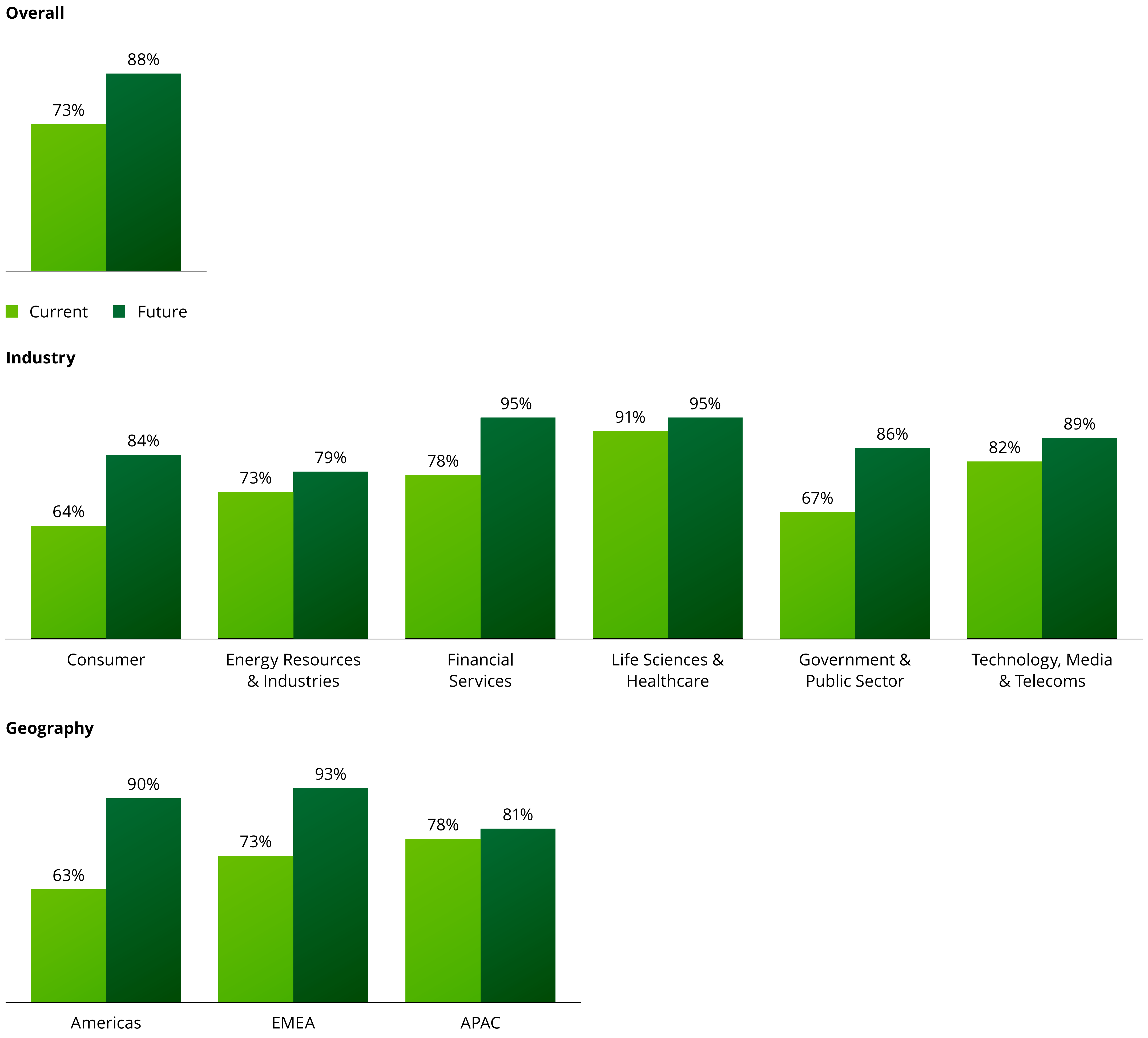
More than four out of 10 respondents (43%) who depend on CSPs prefer to engage with **a smaller pool of providers**, thereby consciously embracing the related concentration risk.

This heightens **the importance of enhanced due diligence activities and robust ongoing monitoring**. Conversely, a smaller proportion (30%) engage with a larger variety of CSPs as a resilience strategy.

Although many respondents were unable to express their preference, indicating that they were yet to decide on a specific strategy, the current trend is clear.

Increasing levels of dependence on CSPs, together with the preference for engaging with a smaller pool of providers, is a consistent feature across all industries and geographies.

Figure 6. Growing dependence on cloud-service providers (CSPs): overall, by industry and geography



Note: Percentages indicate the proportion of respondents who believe that they have moderate to very high levels of dependence on CSPs, at present and expect to have in the future.

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Managing third-party resilience

Deloitte point of view and predictions

Resilience has traditionally been assured by plans, procedures and compliance, and focused on recovering organizational assets in a crisis. However, our client conversations show that complex and more severe events (such as the pandemic or the war in Ukraine) are forcing organizations to be more agile in their response to unfamiliar or challenging situations.

This requires investment in technology solutions to better understand the ecosystem of material third-party relationships. That includes the locations from where they operate, supported by further tools to monitor resilience and trends in real-time, such as risk intelligence, and adverse media monitoring.

Additionally, organizations need to invest further in **coverage of risk domains that impact resilience, including cyber, geopolitical and concentration**. That would include **developing, maintaining, and stress-testing comprehensive continuity and exit strategies** and plans for material (critical) third-party arrangements.

Many organizational leaders recognize that it's not enough to rely on a reactive strategy if they are to be ready to meet the potential skill demands and pace of change required by sudden shocks and future challenges. **It is no longer sufficient to merely incorporate business continuity management in developing operational resilience capabilities**.

Detailed what-if scenarios are also needed in case organizational resources cannot be recovered. For instance, within the financial services sector, regulation with an explicit focus on operational resilience is forcing organizations to identify third parties that underpin Important Business Services (IBS) to establish plans that keep disruptions within agreed tolerance levels. The use of technology will be a critical component in this regard to predict and address such what-if scenarios with a more integrated and holistic approach (as further described in section 4) and reiterated in respondent priorities (in section 5).

In addition to such investments in technology, Deloitte specialists predict that the approach to third-party resilience will be both more defensive in orientation, yet more progressive in building organizational capacity for agility, adaptation, learning and regeneration. This ensures that organizations can handle more complex and severe events while maintaining their environmental fitness for the future.

The challenges of adaptation are exacerbated by the uncertain, complex, highly demanding, and rapidly changing climate in which most organizations currently operate. A possible way forward is to identify systemically important third parties and drive consistent resilience standards through **sectoral or geography communities, rather than doing so individually**. This direction could involve a greater degree of regulatory consultation in the more strongly regulated sectors such as financial services.

Managing third-party resilience

Key data points

60% say that resilience and business continuity planning is a strength rather than a weakness in their organization. But only **36%** have a high/very high global supply chain contingency management capability. **21%** report a low/very low capability in this area.

Periodic assessments of third-party business continuity plans are the most popular method of understanding resilience of third parties **(46%)**, followed by obtaining certifications/assurance reports from independent third-party providers **(42%)**, and requiring heightened third-party arrangements **(41%)**.

To better understand the ecosystem of material third-party relationships, 34% apply technology solutions. **35%** use tools to monitor resilience and trends in real-time.

73% have a moderate/high level of dependence on CSPs. That's expected to increase to **88%**, requiring them to consider third-party provider resilience even more seriously.

43% of those who have critical dependence on CSPs prefer to engage with a smaller pool of providers, thus consciously embracing the related concentration risk. Conversely, **30%** engage with a variety of CSPs as a resilience strategy.

Integrated & holistic third-party management

To exploit synergies more efficiently, the majority of respondents aspire to adopt a more integrated and holistic approach to TPM. Integration of contract/legal management processes with TPRM appears to be a common initial milestone on this journey.

Integrated & holistic third-party management

The story so far...

Our annual TPRM surveys demonstrate that **incremental improvements to third-party management (from an efficiency, cost effectiveness and decision-making perspective) tend to fall short of stakeholder expectations**. This is despite a continued shift in ultimate accountability for TPRM to executive leadership and members of the Board at a time when calculated risk-taking is critical to business success.

The root cause typically lies in organizational silos. These silos narrowly focus on a single part of the business, without considering the effects of their actions on other areas of supply chain or end-to-end third-party management. Such fragmented approaches are reinforced by the lack of seamless integration between IT systems and data across the organization. This highlights the need to **adopt IT architecture and software that supports master data management, data integrity and real time, end-to-end integration**.

Most organizations have recognized that technological integration must be at the heart of this transformational journey from a fragmented to a holistic approach.

We believe that the **first step is to broaden the framing of this strategic opportunity**.

This ensures a more inclusive perspective across functions and firms. It also covers all types of third-party relationships in the extended enterprise with better alignment of organizational goals, better knowledge sharing, and a clearer intent to integrate related activities.

Interestingly, our earlier surveys revealed that many organizations are already using external assistance. Managed service technology platforms from trusted partners are the most popular. They enable a more risk-intelligent approach that accelerates this transition (see section 4 of this report).

How integrated approaches to TPM continue to evolve

Key drivers

70% of those surveyed this year confirmed the **top reason for driving a more integrated/holistic approach** to TPM **it is the organizational desire to increase efficiency by avoiding duplication across functional teams and exploiting synergies** across third-party management processes.

This is followed by the **ability to address legal, contractual, and regulatory requirements (63%) and reducing cost**. The latter includes overall third-party spend, as well as third-party management costs. It's achieved by aggregating performance improvement opportunities across specific functional areas related to TPM.

The prioritization of these key drivers is consistent across the respondent industry segments and participant geographies.

Integrated & holistic third-party management

Broadening the TPRM perspective into holistic TPM

In organizations that have travelled further on the TPRM maturity journey, **the need to move towards an integrated system for managing third parties is mirrored by the widening of TPRM into related functional areas**.

Around two-thirds (67%) of TPRM teams recognize that the scope of their work is broadening into the related functional areas. Most notably into contract and legal management (63%), business continuity and resilience management (51%) and third-party performance management (also 51%).

> Deloitte specialists believe that the most dominant functions into which TPRM is expanding reflect organizational priorities driven by growth and the expanding scale of operations.

The most common initial milestone in this journey is greater alignment/integration of risk management with legal and contract management processes. The top priority for respondents from financial services is business continuity, while for ER&I the main driver is to ensure better alignment and integration with third-party relationship management teams. Similarly, the top priority for respondents from APAC is to align business continuity, while for the Americas it is legal and contract management.

Figure 7. Organizational priorities in widening the scope of TPRM into related functional areas: overall, by industry and geography

	Overall	Consumer	Energy Resources & Industrials	Financial Services	Life Sciences & Healthcare	Government & Public Sector	Technology, Media & Telecoms
Contract management	63%	66%	68%	59%	61%	100%	65%
Performance management	51%	37%	68%	46%	56%	49%	57%
Business continuity and resilience	51%	50%	27%	62%	39%	33%	61%
Relationship management	49%	45%	73%	44%	44%	84%	47%
Financial management	43%	50%	50%	44%	33%	33%	39%
Data management	39%	34%	18%	45%	33%	66%	39%

	Overall	Americas	EMEA	APAC
Contract management	63%	66%	68%	59%
Performance management	51%	37%	68%	46%
Business continuity and resilience	51%	50%	27%	62%
Relationship management	49%	45%	73%	44%
Financial management	43%	50%	50%	44%
Data management	39%	34%	18%	45%

Highlighted cells indicate the top most priority for each industry and geography

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Integrated & holistic third-party management

A 'maturity model' portrays the degree of formality and optimization of processes related to the discipline in question, usually on a continuum from ad hoc practices to formally defined steps, to active optimization.

In this sense, maturity is also a measure of an organization's 'room for improvement' in a particular discipline. It achieves this objective by presenting a maturity continuum, typically consisting of four to five levels, where the uppermost level is a notional ideal state in which processes (and underpinning technology platforms) are systematically managed by a combination of continuous improvement and optimization. It is on these lines that we have used the following maturity model as a benchmark for comparison across our TPRM survey participants.

Find out more

INITIAL

TPM processes are strongly embedded in functional domains and use ad hoc processes within functional siloes to implement individual programs rather than standardized coordinated processes. As a result, the organization fails to gain significant synergies or connectivity across applications related to sourcing, procurement, risk management, contract life-cycle management, ongoing monitoring, and other TPM activities.

DEVELOPING

Some evidence of alignment and coordination across specific TPM processes exists, although inconsistently across the end-to-end process and the organization. Efforts to achieve data mastery (by aggregating siloed data) and intelligent/ integrated workflows often result from stitching together base applications with some external assistance or outsourcing.

INTEGRATED

TPM processes are aligned and coordinated across the entire organization, with mature capabilities used to achieve data mastery by aggregating siloed data and related systems. This also results in intelligent and integrated workflows that continuously recalibrate the underlying processes through a balance of human and technological capabilities.

OPTIMIZED

In addition to being integrated, process performance is continually improved through both incremental and innovative technological enhancements. Quantitative process-improvement objectives for the organization are established and continually revised to reflect changing business objectives and conditions. These are also used as criteria in managing process improvement.

Integrated & holistic third-party management

Survey results related to the above maturity model for integrated TPM indicate that, despite the intent, **only 23% of respondents have been able to make significant progress on this integration journey to reach integrated or optimized levels**.

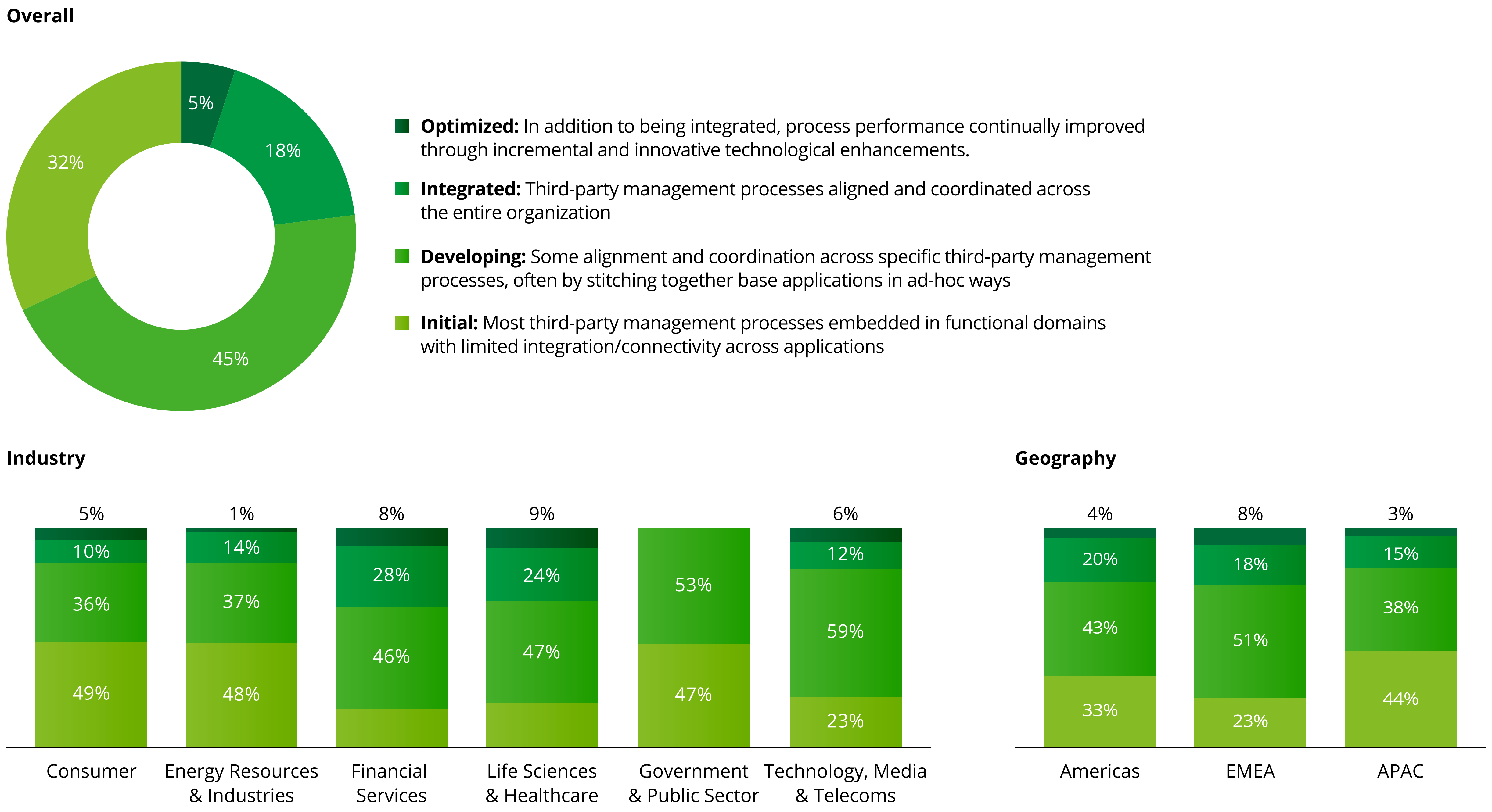
This includes 18% where TPM processes are aligned and coordinated across the entire organization (i.e., integrated). There is a further 5% where, in addition to being integrated, process performance is continually improved through incremental and innovative technological enhancements (i.e., 'optimized').

The remaining 77% have far to go with TPM processes still embedded in functional domains (i.e., compartmentalized). Within this group of participants, 32% report limited integration or connectivity (i.e., still at the 'initial stage') across applications related to sourcing, procurement, risk management, contract management, and other third-party management activities. 45% have gone further and achieved some initial alignment and coordination (i.e., reached the 'development stage') across specific TPM processes, often by stitching together base applications in ad hoc ways.

Consumer, ER&I and GPS seem to have the highest proportion of respondents at the initial level with as many as 49%, 48% and 47% of respondents at that stage. **These are also the industry segments with the lowest proportion of organizations in the integrated or optimized levels (15%, 15% and 0% respectively)**.

Similarly, organizations from APAC appear to be trailing their counterparts from the Americas and EMEA. Only 18% of APAC respondents have reached the integrated or optimized stage of this four-stage maturity model, in contrast with 24% from the Americas and 26% from EMEA.

Figure 8. Organizational maturity in integrated TPM: overall, by industry and geography



Integrated & holistic third-party management

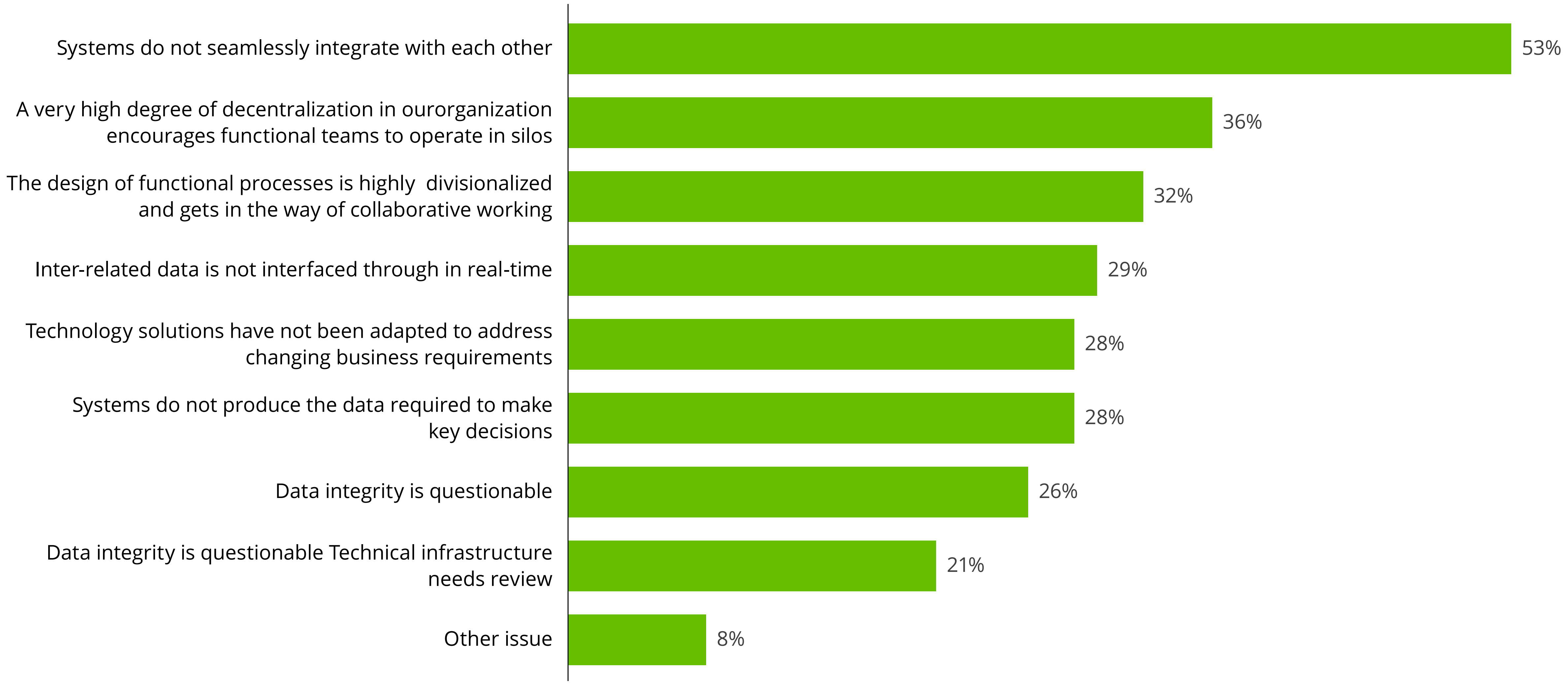
Key barriers to integration

The majority (53%) report that the biggest barrier to a more integrated and holistic approach to third-party management, is that the related systems do not seamlessly integrate with each other.

More than one third (36%) believe that a very high degree of decentralization in their organization encourages functional teams to operate in silos.

A similar proportion (32%) believe that the **design of their functional processes is highly compartmentalized and gets in the way of collaborative working**. Additionally, inter-related data is not interfaced in real-time (29%). The experience is largely the same across industry segments and geographies.

Figure 9. Key barriers to integration or alignment of third-party management processes



Note: 'Other issues' primarily include lack of accountability for an integrated approach, lack of resource and infrastructure for integration/alignment, and cultural incompatibility.

Integrated & holistic third-party management

[Find out more about how Deloitte is helping its clients connecting up disparate technology solutions]

We believe that **the opportunities from integrated TPM will continue to increase, but only for those who have made the investment in this transformational journey**. With that in mind, we predict that the benefits of integrated TPM will only be achieved if accompanied by **three key mindset changes. Organizations should:**

1.

Expand their focus. Move from the narrow spotlight on cost savings to thinking more broadly about profitable growth delivered with a customer-centric approach.

Given recent challenging economic circumstances, leadership have continued to demand cost reduction and savings throughout their organizations. Though most CFOs no longer view cost reduction as their number one goal—their focus having moved towards the creation of profitable growth—those who manage third-party relationships, such as supply chain/logistics managers, also need to fully embrace this new mindset.

2.

Become more proactive. Accept that passive demand forecasting is no longer enough and seek to actively improve the supply response.

In an integrated TPM context, forecasting should no longer focus solely on predicting demand. Instead, organizations need to apply more accurate forecasting techniques to their supply response. This will help them better cope with the increasingly complex, dynamic, and global markets in which they must operate with the ability to look ahead and address their next challenge even before it turns into a problem. For instance, that could mean identifying a shortage of raw materials and finding a supplemental supplier well in advance. Or it could involve arranging for additional warehouse space to accommodate a sudden spurt in demand.

3.

Redefine visibility by extending this down to the lowest tiers of the supply chain in addition to creating greater visibility through a more integrated approach to TPM across the supply chain.

This makes it easier for organizations to better understand which segments, distribution channels, price points, product differentiation, selling propositions and value chain configurations—such as linkages between activities and processes that occur within and outside the company—will yield the greatest increase in competitive advantage and profitability.

Managing third-party resilience

Deloitte point of view and predictions

It is interesting to note that many organizations get to the 'developing' stage but are then unable to articulate a clear business case for further technology investment to advance further to better integrate their TPM systems.

Fortunately, technological advancements have now made it possible to accelerate the integration of TPM processes and data from supporting systems in case of organizations that have reached the 'developing' stage by smartly applying an 'engagement layer'. This leverages user interfaces (UI) and analytics to provide a user experience (UX)-based design that enables interoperability and creates a cogent view of their third-party ecosystem. This in turn can now open the doors to exploit the many opportunities that integrated third-party management systems can now potentially offer.

The current trend is to use this 'integrated' solution to consolidate third-party data drawn from existing TPM systems and, where relevant, from external sources. The next step is to apply analytics to that data to generate actionable insights and support strategic decision-making (see figure below). Survey participants reported that professional service firms are supporting many of their organizations on this journey.

Such a solution connects disparate software and platforms, while supporting any individual or function with a role in any aspect of the third-party lifecycle. It also supports senior executives with broad responsibility for enterprise growth and value. This 'engagement layer' sits on top of existing systems and protects the organization's prior technology investments. Such an integrated approach complements a managed services platform where appropriate.

Benefits

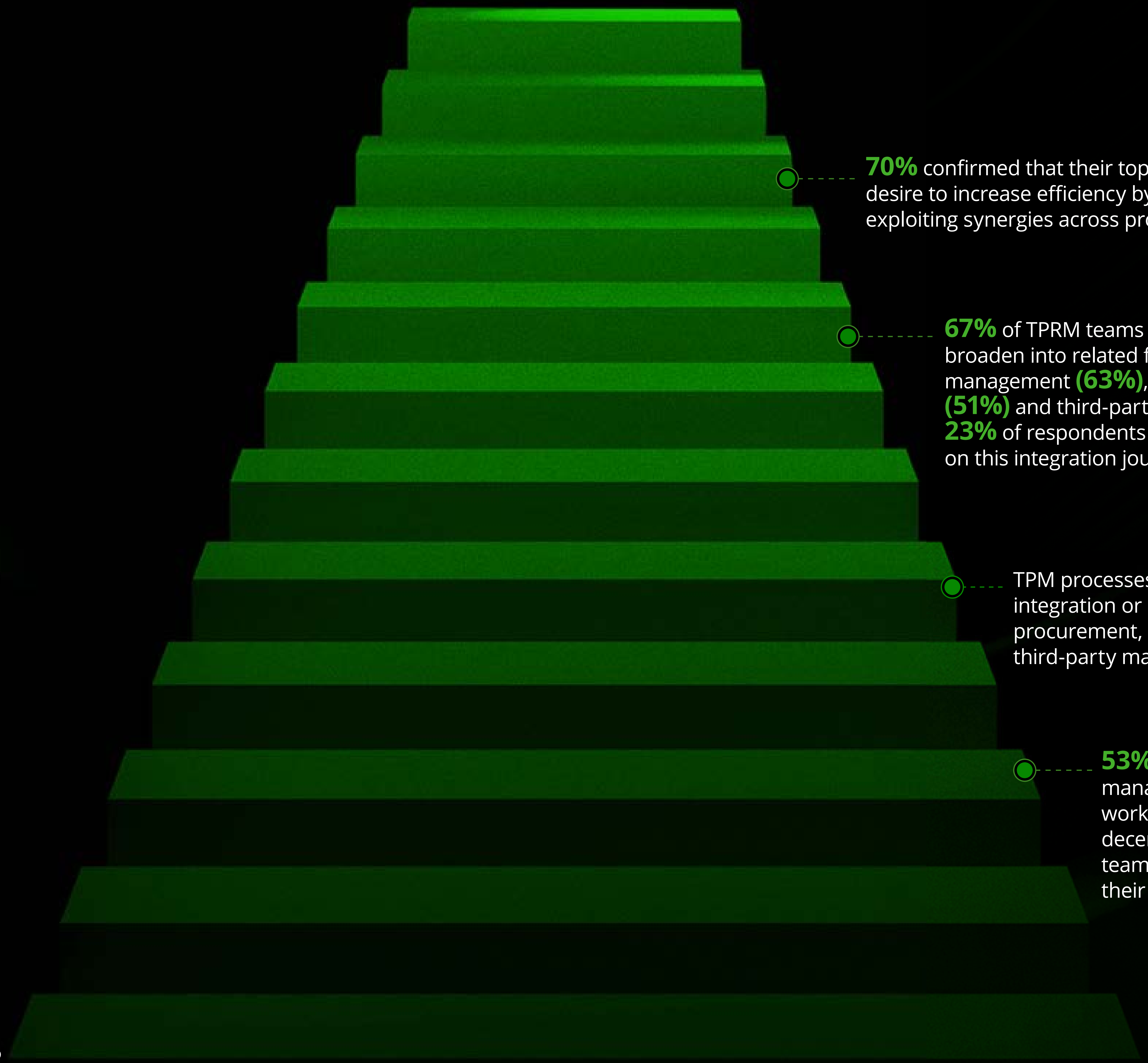
- Engagement layer **sits on top** of your existing systems of record
- **Co-locates all third-party related data** from your disconnected system landscape
- **Helps you maximise your existing digital investments** through connected & actionable data.

TPM Engagement Layer

FOCUS FOR LIFECYCLE PHASE	Plan	Source	Make	Deliver	Perform	Support	Pay
	"I manage Demand & Supply and investigate the third-party landscape."	"I identify and select the products, services, and third parties I need."	"I order products and manage quality during their production."	"I manage the flow of products and services for my business."	"I manage third-party performance, compliance, and relationships."	"I manage performance gaps, issues, incidents, or identified risks."	"I understand and pay for the value provided by my third-party."

CLIENT EXTERNAL SYSTEM or Externally-hosted managed services platform

Integrated & holistic third-party management



70% confirmed that their top reason for driving a more integrated approach is the desire to increase efficiency by avoiding duplication across functional teams, while exploiting synergies across processes.

67% of TPRM teams recognize that the scope of their work continues to broaden into related functional areas, most notably: contract and legal management **(63%)**, business continuity and resilience management **(51%)** and third-party performance management **(51%)**. However only **23%** of respondents appear to have been able to make significant progress on this integration journey.

TPM processes are embedded in functional domains with limited integration or connectivity across applications related to sourcing, procurement, risk management, contract management, and other third-party management activities.

53% report that the biggest barrier to third-party management integration is that related systems do not work well together. **36%** believe that a very high degree of decentralization in their organization encourages functional teams to operate in silos, and **32%** think that the design of their functional processes obstructs collaborative working.

External assistance & managed service solutions

In keeping with market demand, managed service solutions are rapidly evolving as more comprehensive and tailored, end-to-end, insights-driven services. Ones that are enabled by technology and supplemented by focused staff deployments.

External assistance and managed service solutions

The story so far...

Our ongoing conversations with clients and experience from engagements indicate that the **more successful TPRM target operating models (TOMs) increasingly rely on external assistance from trusted advisors**.

That's not just true for transformation (design and implementation), but also for certain aspects of day to day execution of TPRM activities. Especially those that represent the main pain-points for the organization and often the greatest opportunities for improvement.

This conclusion concurs with our past research which showed that, rather than doing everything themselves, organizations are more commonly complementing their in-house TPRM capabilities with external assistance. This means they get faster, more efficient access to readily trained workers and specialist technology.

What the future holds for TPRM managed service solutions

Nearly seven out of 10 (69%) of respondents believe that **managed service solutions are here to stay and grow.** This is likely to be alongside better equipped inhouse capabilities as organizations run some of these processes on their own, enabled by further investment in technology. This trend is largely consistent across both industries and geographies.

Increasing demand for comprehensive end-to-end managed services

This year's survey provides some thought-provoking insight into the future of managed services, as they evolve towards holistic, technology-driven solutions.

Currently only 5 to 8% of respondents outsource TPRM activities on an end-to-end basis, varying by size of the organization and its third-party network. The relatively large organizations (i.e. those that employ more than 250 full-time staff) but have a turnover less than US$1 billion feature on the higher end of this spectrum at around 8%. However, this proportion falls to 5% both for the smaller and medium-sized organizations larger organizations (i.e. those that employ less than 250 full-time staff) on the one hand as well as for even larger organizations with a turnover exceeding US$ 1 billion on the other (Figure 10).

The smaller and medium-sized organizations feature on the higher end of this spectrum at around 8%, with the proportion falling to 5% for larger organizations.

Our survey also showed that the proportion of organizations that outsource TPRM activities end to end varies with the number of third parties engaged by them.

Only 2% of organizations that engaged less than 1000 third parties outsourced TPRM activities end-to-end. But this proportion increased to 6% for those that engaged 1000-10,000 third parties prior to stabilizing around 5%, as reported earlier for the larger organizations with over 10,000 third-party relationships.

External assistance and managed service solutions

This is also mirrored in our geography-based analysis below. It shows that APAC, with the higher proportion of smaller organizations participating in this survey, has the highest share (9%) of organizations outsourcing end-to-end TPRM processes.

According to respondents from both the smaller and larger organizations participating in this survey believe that this trend is likely to change. More than eight out of 10 (82%) anticipate that **comprehensive end-to-end managed services solutions will be in greater demand than specific, piecemeal offerings**.

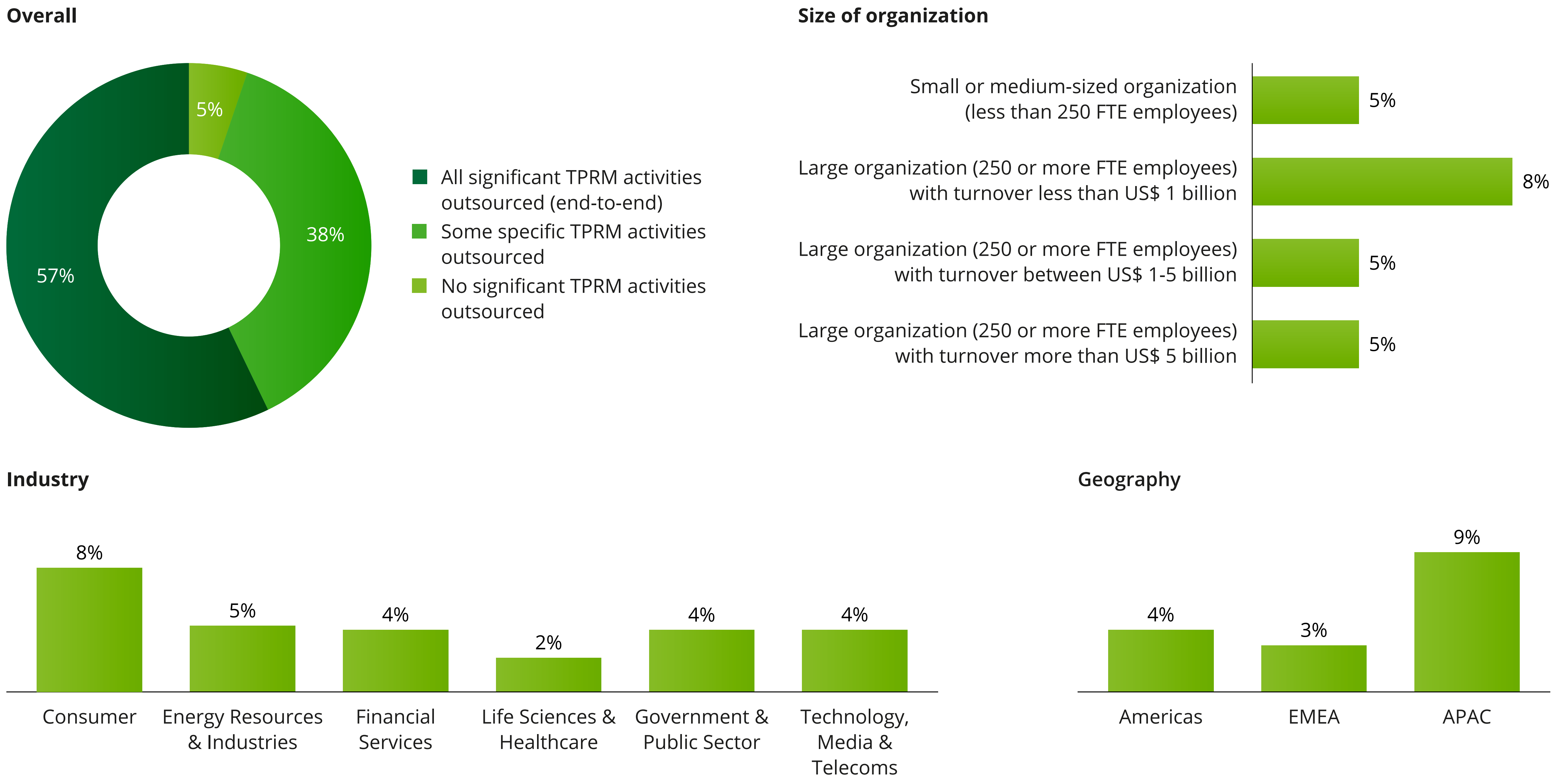
An even more overwhelming majority (92%) believe that these services will become more insights-driven and technology-enabled.

While 70% think that managed services providers will supplement their technology-driven solutions with some dedicated staff deployments on a highly focused basis.

Selective outsourcing of specific TPRM processes

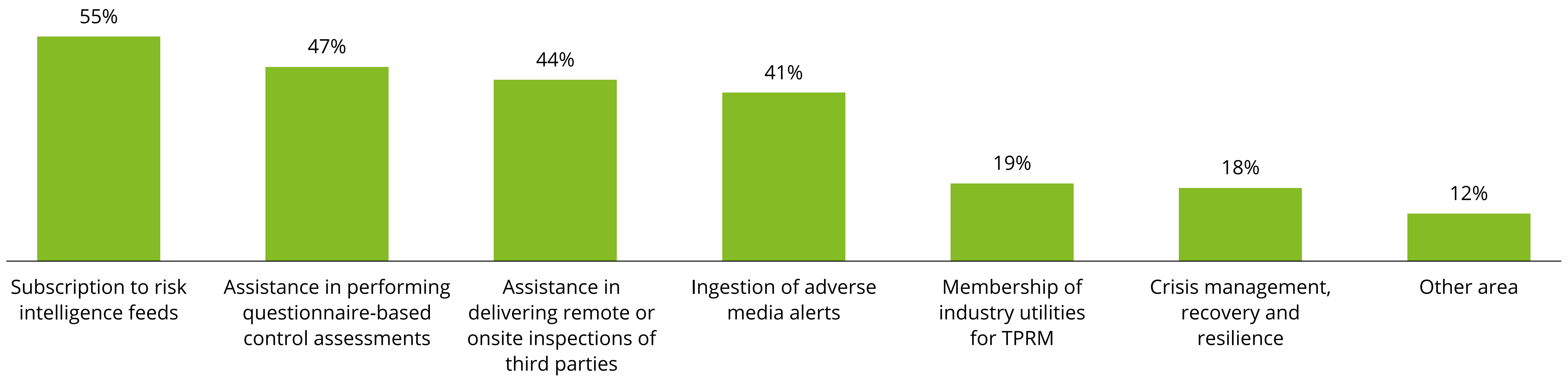
Despite the projection for more comprehensive end-to-end managed service solutions in the future, most respondents said they usually outsource specific aspects of their TPRM operation to external parties. Subscription to risk-intelligent feeds is the most common area of external assistance (55%), followed by support on performing questionnaire-based control assessments (47%) or in delivering the remote or onsite inspections of third parties (44%).

Figure 10. Extent of end-to-end outsourcing of TPRM: overall, by industry, geography, and size of organization



Note: Percentages indicate the proportion of respondents who outsource all significant TPRM activities (end-to-end).

Figure 11. Selective outsourcing of specific aspects of TPRM



Note: 'Other areas/aspects' primarily include cyber security, data management and related tools, specific aspects of due diligence, compliance audits, and financial & legal risk assessment.

External assistance and managed service solutions

Confidence in community and utility models

Compared to 2020, the current survey noted an increasing level of confidence in more generic forms of external assistance, such as the membership of industry utilities or communities[2], as they continue to evolve.

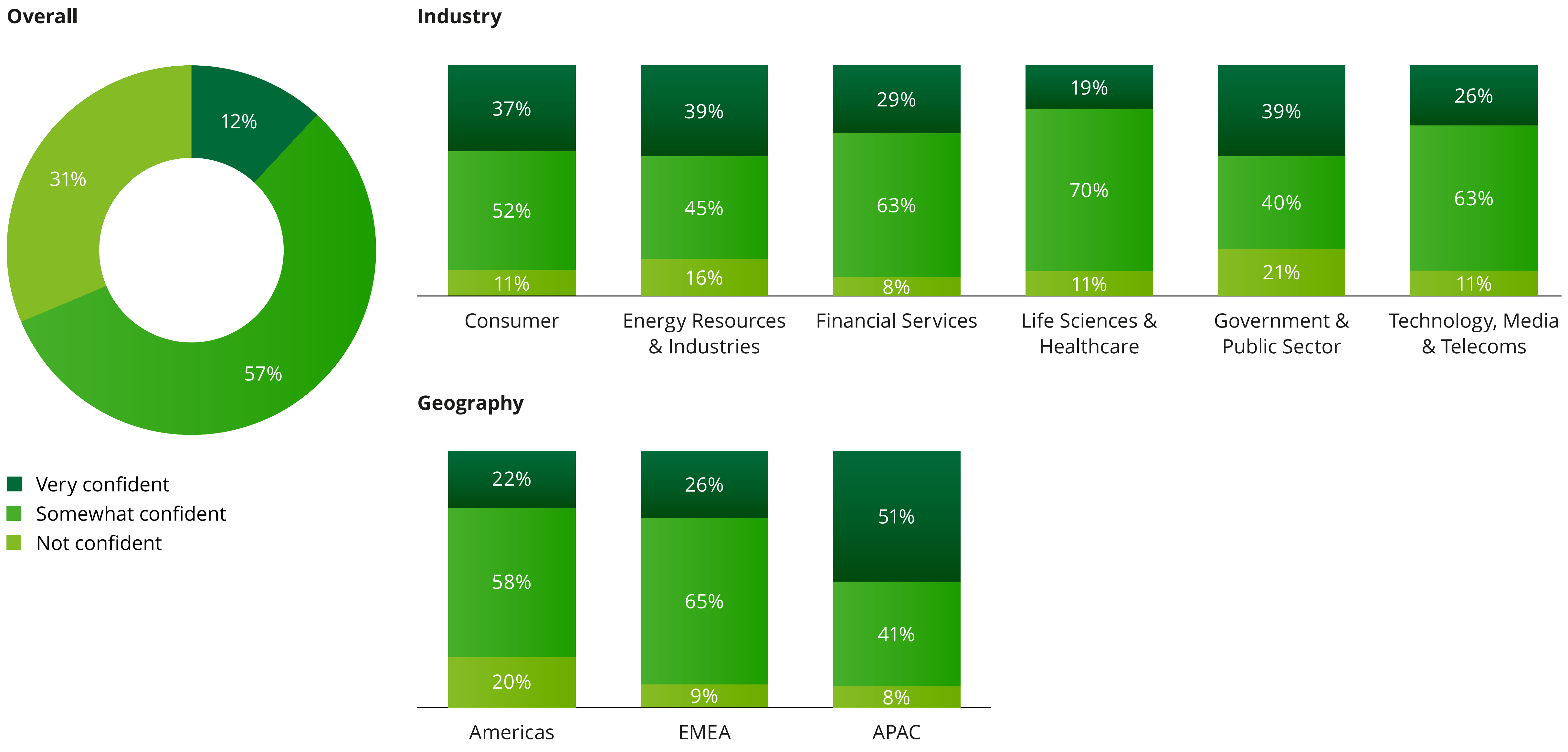
Despite their stated intent to work more collaboratively, only 5% of participants in our 2020 survey were very confident about the success of such models (including shared assessments) in driving future efficiency and cost reduction.

Over the past two years, this has increased to 12%, indicating a growth in confidence . With further evolution we expect participants to develop greater clarity on when and how models can be applied to create more value. **And whether other, more specific, approaches could be more cost-effective**.

The remaining 88% have limited or no level of confidence, including 31% that have no confidence at all. ER&I (39%) and GPS (also 39%) appear to be most concerned, followed by Consumer (37%) and FS (29%).

From a geographical perspective, concerns are the highest in APAC (51%) followed by EMEA (26%) and Americas (22%).

Figure 12. Confidence levels in industry utilities: overall, by industry and geography



2 Community models facilitate collaborative information-sharing across community member organizations to reduce duplication of effort in third-party pre-qualification and ongoing assessment. The participating organizations in the community agree common assessment standards (i.e. activities such as control questionnaires) for third-parties and collaborate to collect it. This collaboration is sometimes facilitated by external infomediaries who make these community information-hubs available as utilities, typically via a subscription-based service.

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External assistance and managed service solutions

Deloitte point of view and predictions

Our research indicates that TPRM processes are being revolutionized by disruptive shifts in the market. Organizations must think, organize, and work differently to respond to highly integrated market disruptors.

Deloitte specialists believe that managed service solutions are here to stay. While it is true that building talent and technology capabilities in-house can sometimes provide cost advantages, the problem is that it can also limit speed and agility – including the ability to rapidly respond to regulatory shifts and address emerging skill, resource, and/or ecosystem needs.

The common challenges (that often encourage organizations to seek external assistance) to developing in-house talent and technology capabilities include:

- New opportunities and/or disruptive technologies are not well understood
- Slower adjustments to shifts in market trends and regulatory requirements
- Staff are focused on legacy technology and their skills are often out of date
- Existing approaches are not service-oriented or adaptive to business
- Service delivery is slow and unresponsive.

Our survey shows that managed service solutions from more established external providers also enable organizations to take advantage of disruptive solutions that challenge traditional approaches.

These include cloud technologies, robotics process automation (RPA) and artificial intelligence (AI). When executed well, they deliver competitive advantage by transforming the way an organization operates. This leads to improved performance, speed to market, and innovation. This is particularly relevant in an environment where shifts to more dynamic business models demand more flexible organizational structures and a reduction in long term investments involving capital expenditure (CAPEX).

As a result, organizations are rapidly replacing traditional fixed term, fixed scope partnerships (often associated with sunk costs) with more flexible consumption and unit or volume based constructs that the managed services platforms provide.

At the same time, the ever-changing business environment demands refreshed priorities and new engagement models. While some organizations continue to focus strictly on cost reduction, others are looking, for instance, to self-funding models where savings achieved via external expertise are automatically directed to transformation, creating new revenue sources, or acquiring customers.

And all this is happening at a time when market competition and new entrants are raising the stakes.

With all these challenges comes the **opportunity to benefit from real-time decision-making and to leverage diverse yet interconnected analytical insights**. It's an attractive proposition for organizations that aim to continually enhance their competitive advantage.

Clearly, this is where an end-to-end TPM managed services solution can help. One that bundles expertise with emerging automation technology.

External assistance and managed service solutions
Key data points

69% believe that managed service solutions are here to stay. This is likely to be alongside better equipped inhouse capabilities, enable by further investments in technology.

82% anticipate that comprehensive end-to-end managed services solutions will become more popular. **92%** believe that these solutions will become more insights-driven and technology-reliant. And **70%** say that managed services providers will supplement their technology-driven solutions with limited staff deployments.

Only **5-8%** of respondents outsource TPRM activities on an end-to-end basis, with smaller/medium-sized organizations featuring on the higher end of this spectrum.

38% said they outsource some specific aspects of TPRM to third parties. Subscription to risk-intelligent feeds is most common **(55%)**, followed by support on performing questionnaire-based control assessments **(47%)** or delivering remote/onsite inspections of third parties **(44%)**.

Organizations continue to face challenges on cost-effectiveness of more generic forms of external assistance. Despite such challenges, there is some increased uptake (from **5%** of respondents from 2020 to **12%** in the current survey) as these organizations determine when and how these models can be applied to create more value.

Key post pandemic TPRM trends

Increased leadership focus and investment in TPRM continues to drive transformational change. This is characterized by smarter third-party segmentation, increased focus on sell-side third parties (supplementing the traditional focus on buy-side relationships) and integrated technology solutions that improve efficiency and reduce cost.

BACK NEXT

Key post-pandemic TPRM trends

However, overall self-assessments of TPRM maturity indicate that respondents continue to be challenged on newer risk domains (including geopolitical and climate change) across multiple tiers of subcontractor relationships.

How TPRM practices continue to evolve

There's no doubt that the pandemic has catalysed transformational change in third-party network management.

The following section gives an overview of the most interesting observations from the benchmarking information captured in our survey that reflect these changes in TPRM trends since the pandemic.

Third-party segmentation

The majority of respondents (55%) said that, to ensure a proportionate level of effort in managing third-party risks, they **segment third parties based** on those that present the highest risk. This is becoming even more important as organizations expand the volume of third parties (or fourth and fifth parties) within the scope of their TPRM programs.

This also reflects a **significant improvement over the last three years**. In our 2019 survey, as many as 85% of participants expressed their inability to ensure such proportionate levels of effort. Back then, the key challenges were the lack of understanding of their organizational third-party landscape (50%), followed by the lack of understanding of contractual terms (43%).

Figure 13a. Proportion of respondents who segment their third-party population: overall, by industry and geography

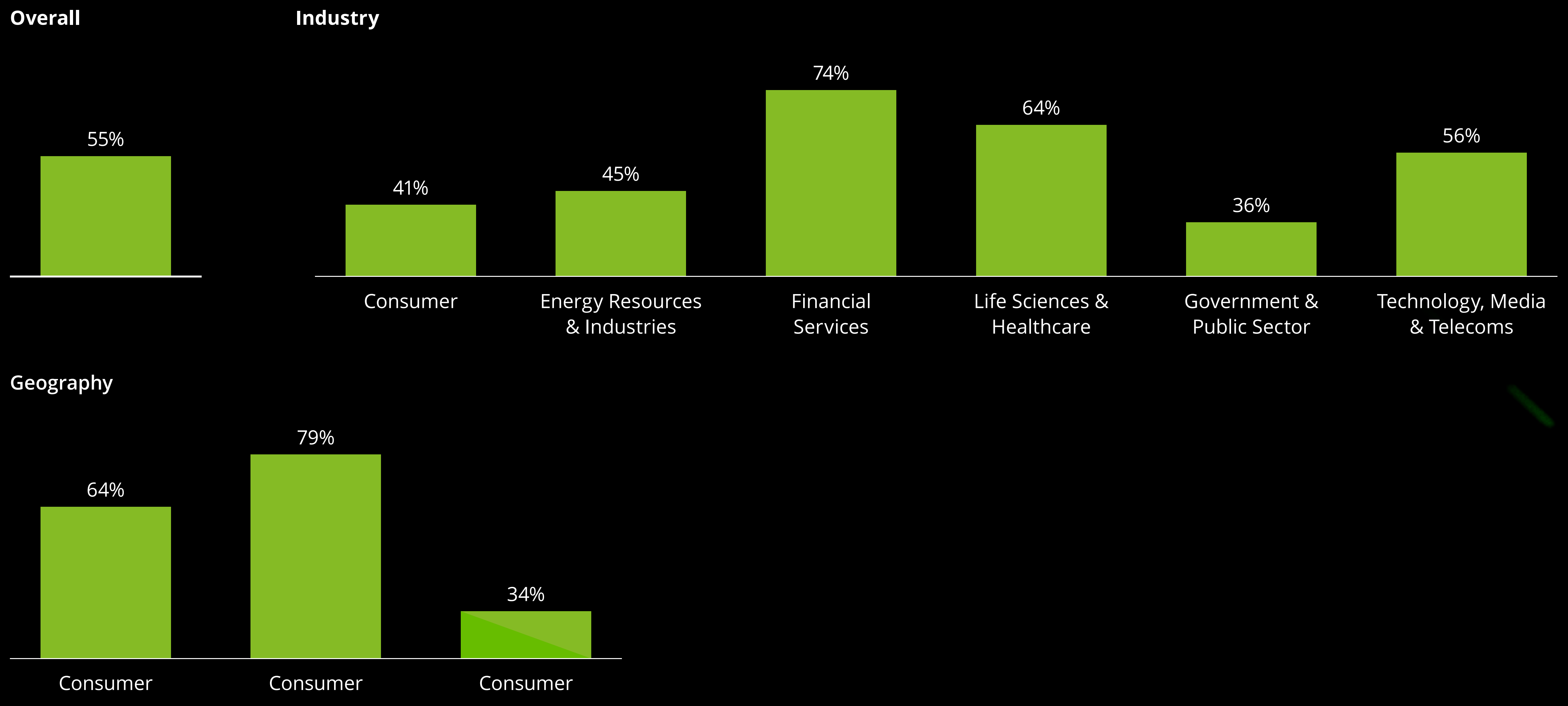
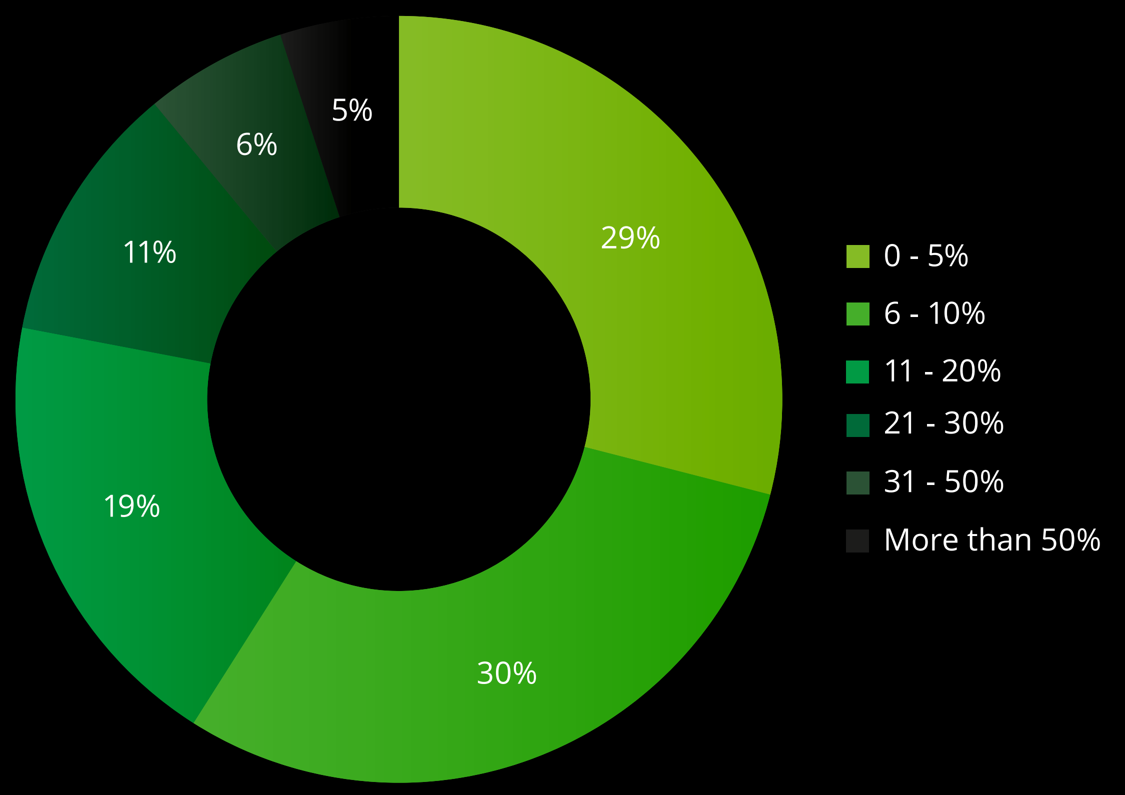


Figure 13b. Proportion of third parties considered to present the highest risk during segmentation



Key post-pandemic TPRM trends

This year's survey confirms the sharper focus on segmentation of third-party relationships. The positive response was highest in FS (74%) followed by LSHC 64%) and TMT (56%).

And from a geographical perspective, only 34% of APAC respondents segment their third-party population based on those that present the highest risk. That is far behind their counterparts in the Americas (64%) and EMEA (79%).

Looking at the focus on critical third parties, more than three quarters of organizations (78%) consider not more than 20% of their third-party population as critical. 59% of those are focused on a maximum of 10% of third parties they consider to be critical and present the highest potential risk.

Increased focus on sell-side third parties

42% of organizations' sell-side third parties, including those that enable revenue generation, are increasingly considered to be the third parties that present higher risk levels, complementing the traditional focus on suppliers of goods and services. This is a common trend across the geographies and industry segments that are becoming more reliant on third parties for their sales and distribution chains, or for generating additional revenues.

Hence, it is hardly surprising that LSHC (56%) participants are more worried about the need to focus on the sell-side of their third-party networks more than others such as PS (33%); the latter continuing to remain more focused on their buy-side third parties.

Key post-pandemic TPRM trends

Priorities for action

Simplifying, standardizing, and integrating technology solutions to improve efficiency and reduce cost (61%) is the priority for the highest proportion of respondents in the year ahead.

This is followed by the need to address threats from newer, ESG or geopolitical, risk domains in 52% of organization. 47% intend to increase their degree of centralized control over third-party management, including better end-to-end visibility.

Once again, the need to simplify, standardize, and integrate technology solutions to improve efficiency and reduce cost is a common priority for all geography and industry segments. Consumer industries are the exception. Their priority this year is to revisit their target operating models (TOMs) to increase the extent of centralized control for TPRM.

The survey reveals that organizations have been re-evaluating the maturity of their TPRM capability in response to lessons learned during the pandemic. Many of them realize that they had earlier been far more optimistic in assessing their maturity level and have therefore downgraded their prior maturity assessment in 2022. This has resulted in a higher proportion of respondents in lower levels of maturity in 2022 compared to earlier years and a lower proportion in higher maturity levels. They are now focusing more on third/fourth/fifth party relationships in lower tiers of the supply chain and the threats from emerging risk domains.

Only 15% of respondents this year believe that they have attained levels 4 or 5 (i.e., integrated, or optimized) in our five-point maturity scale. That is down from 26% in an earlier pre-COVID assessment captured in our 2021 survey. On the other hand, as many as 53% are in the two initial levels (i.e., initial or defined), up from 28% in their pre-COVID assessment.

From an industry perspective, FS continues to lead on self-assessed maturity (23% having attained integrated or optimized levels), followed by TMT (17%), while PS lags the most (7%).

Figure 14. Key TPRM priorities ahead: overall and by industry

Overall		Consumer	Energy Resources & Industrials	Financial Services	Life Sciences & Healthcare	Government & Public Sector	Technology, Media & Telecoms
Simplify, standardise, and integrate technology solutions to improve efficiency and reduce cost	61%	44%	58%	68%	67%	81%	61%
Address threats from newer risk domains	52%	46%	52%	56%	70%	40%	43%
Enhance end-to-end risk coverage across third-party lifecycle	47%	35%	37%	59%	47%	47%	45%
Drive assurance/monitor processes more strongly considering risks involved	47%	37%	48%	52%	51%	60%	45%
Introduce a higher degree of centralized control	47%	47%	40%	48%	57%	53%	49%
Improve visibility into third-party contracts and related data	45%	37%	40%	49%	51%	60%	50%
Review TPRM business objectives to improve strategic alignment	44%	34%	42%	45%	67%	60%	39%
Strengthen processes for ongoing recognition and management of third-party concentration risks	43%	26%	37%	52%	47%	47%	48%
Expand framework to cover new third-party types not covered earlier	42%	35%	33%	49%	43%	21%	43%
Enhance visibility and monitoring of subcontractors at various levels	42%	34%	30%	47%	57%	53%	41%

Highlighted cells indicate the top two TPRM priorities for each industry segment

Key post-pandemic TPRM trends

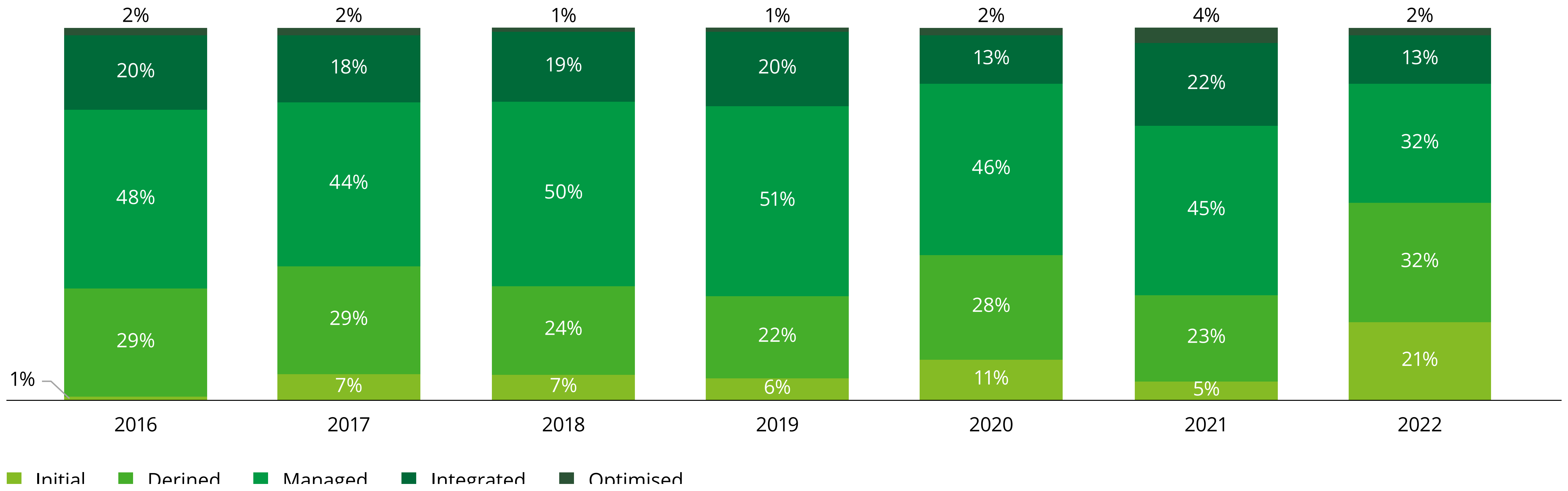
Specific risk domains requiring focus and attention

Risk domains such as cyber and data privacy that have typically been focused on in the past continue to need significant attention. However, the risk domains where organizations believe they are weakest include managing geopolitical risk (61%), climate change risk (58%), subcontractor risk (55%) and concentration risk (53%).

The war in Ukraine has no doubt aggravated concerns related to managing geopolitical risk since the survey was conducted. Similarly, net-zero and other commitments made by organizations post COP26, have heightened the focus on climate change risk. Governmental and organizational targets cannot be met unless the impact of third-party ecosystems is considered, with scope 3 emissions being of particular relevance here.

More generally, the lack of confidence in processes to identify, assess and manage subcontractor risk is of particular concern, as many of the other risk domains may also manifest themselves in lower tiers of the supply chain.

Figure 15. TPRM maturity trends since the start of our annual surveys



Note: See maturity model in appendix.

GPS represents the key outlier group from an industry perspective. Only 7% of the respondents from GPS currently consider/manage climate change risk as part of their TPRM frameworks. Similarly, only 8% of GPS respondents believe that managing third-party concentration risk is a strength in their organizations. This stands out as the lowest across all industry segments.

Only 8% of GPS respondents believe that managing third-party concentration risk is a strength in their organizations.

Key post-pandemic TPRM trends

Deloitte point of view and predictions

There is no doubt that COVID-19 provided a reality-check for many organizations. It exposed weaknesses or blind spots in TPRM capabilities and generated a need for answers to questions that proved challenging to answer at speed. **This has contributed to the sharp drop in overall TPRM maturity levels compared to earlier years**.

As stated in previous surveys, we believe **the optimum state of TPRM still continues to be a moving target for many organizations who are typically also at different stages of maturity in this area**. Many organizations continue to be responsive to rising expectations from customers, regulators and senior management. Concepts of good practice, technology solutions, utilities, and managed services solutions, together with new and emerging risks (such as environment, climate change and geopolitical risks) will continue to evolve. As will regulation, which we expect to develop based on the nature of third-party relationships that firms enter into in the months and years ahead. These factors, in turn, will drive organizations to periodically re-evaluate their earlier self-assessments of maturity.

Additionally, organizations must continue to work to understand their critical subcontractor dependencies across the entire third-party ecosystem. That goes beyond their supply chain and includes licensees, joint venture partners, sales agents, distributors, and franchisees, as well as group companies, subsidiaries, and affiliates.

Last but not least, the prioritization of risk management towards sell-side relationships (compared to buy-side relationships) may have historically been lower on the agenda for many organizations, but that rhetoric is being challenged now. This appears to be true across all the relevant functions impacting third-party risk. For example, contract management has traditionally been more heavily focused on the buy-side rather than the sell-side.

This view needs to change, and fast. At the same time, **organizations must continue their efforts to improve their management of concentration risks that typically reside in deeper layers of the third-party ecosystem,** where lack of oversight can impair the ability to apply the appropriate discipline and rigor to managing risks.

Key post-pandemic TPRM trends
Key summary

The transformational changes to TPRM since the pandemic are reflected in the following:

55% indicate that they segment their third parties based on those that present the highest risk. This is a significant improvement on the last three years.

To sharpen their focus on critical third parties, 78% consider not more than 20% of their third-party population as critical.

Sell-side third parties are considered higher risk than previously which broadens the traditional focus on suppliers.

61% say that their priority is to simplify, standardize and integrate technology solutions to improve efficiency and reduce cost. 52% stress the need to address threats from newer risk domains, and 47% intend to increase their degree of centralized control over third-party management, including better end-to-end visibility.

However, organizations continue to remain challenged in their overall levels of TPRM maturity. This is primarily due to a growing understanding of their lack of preparedness to address threats from newer risk domains, particularly those that are embedded in lower tiers of third-party relationships.

Only 15% of respondents believe that they have attained levels 4 or 5 (i.e., integrated or optimized) in our five-point maturity scale, down from 26% in an earlier pre-COVID assessment captured in our 2021 survey. BUT as many as 53% are in the two initial levels (i.e., initial or defined), up from 28% in their pre-COVID assessment.

The risk domains where organizations believe they are weakest include managing geopolitical risk (61%), climate change risk (58%), subcontractor risk (55%) and concentration risk (53%).

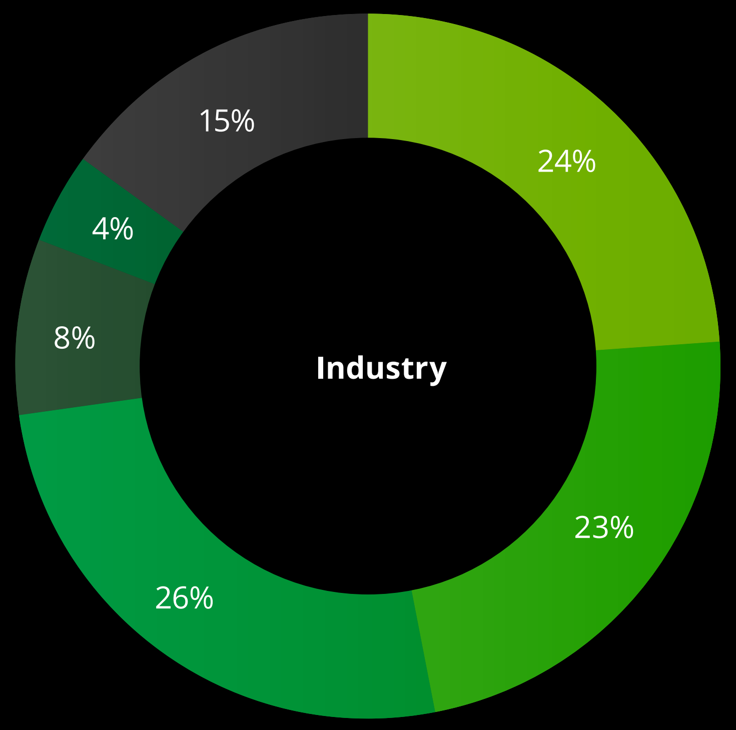
83% say that the visibility of their organization into its third-party networks beyond the first tier of the relationship (i.e., fourth/ fifth parties and subcontractors) is poor or, at best, moderate.

Respondent profiles

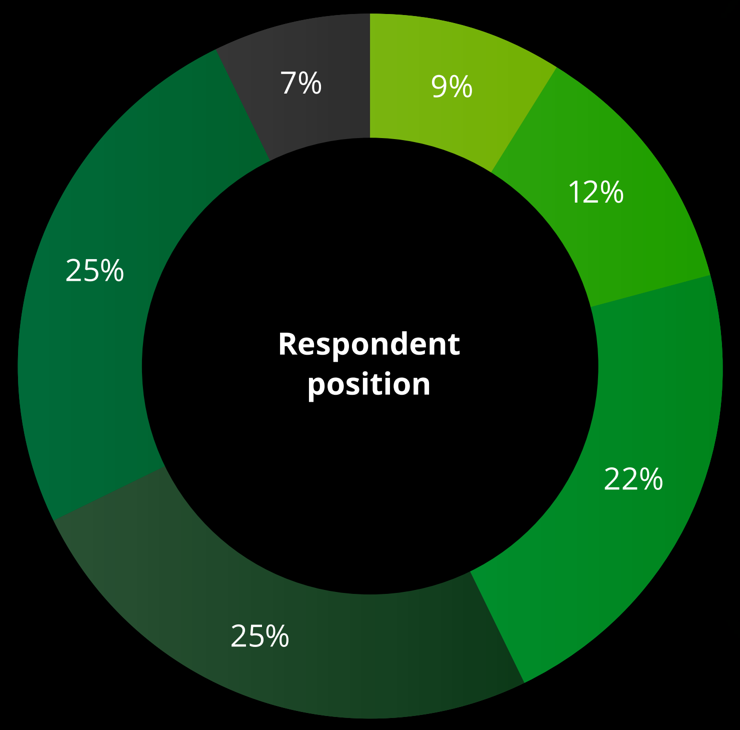
For the 2022 survey, Deloitte received a total of 1,309 responses from a wide range of organizations from about 38 countries.

Most responses were from people accountable for TPRM activities within their organization.

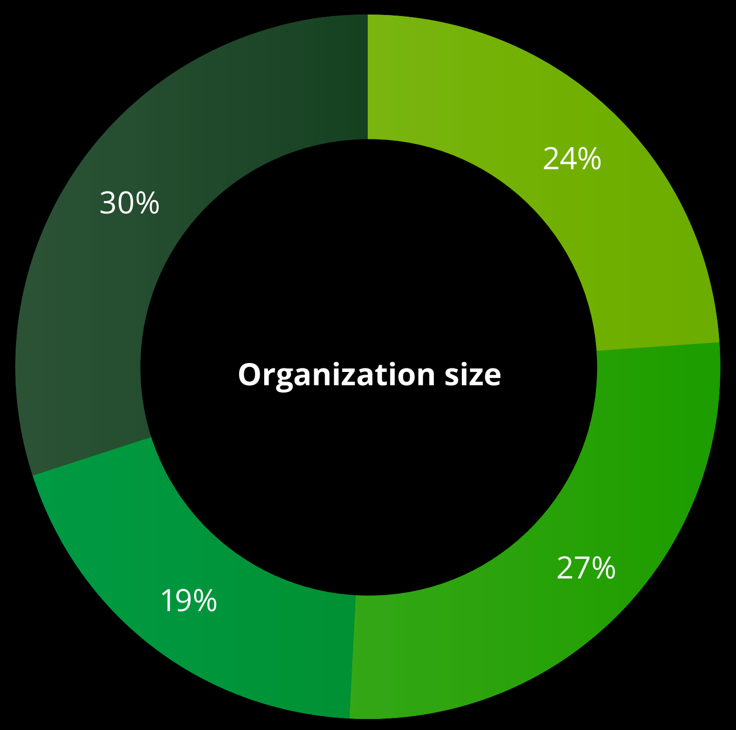
The survey was conducted between mid-January and early March 2022.



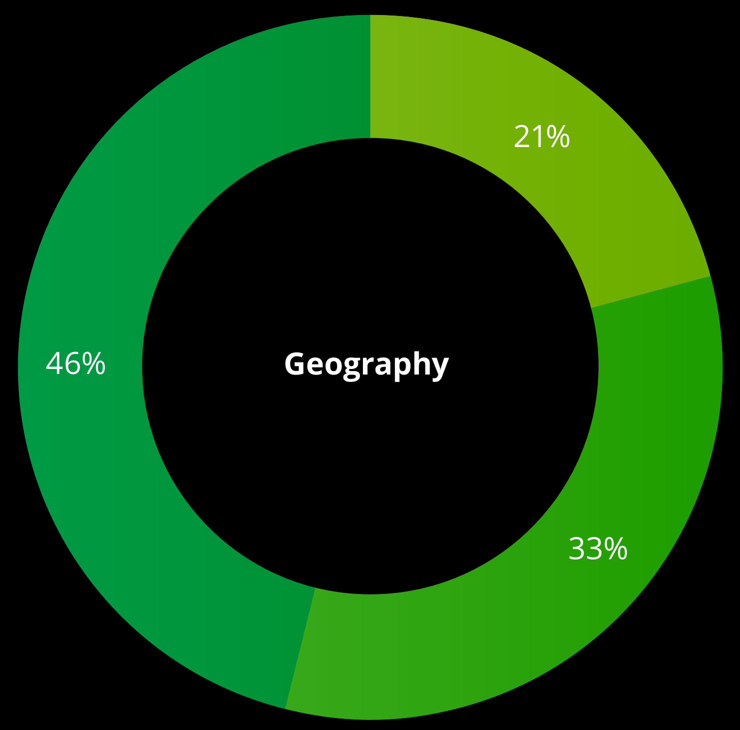
- Consumer
- Energy Resources & Industrials
- Financial Services
- Life Sciences & Healthcare
- Government & Public Sector
- Technology, Media & Telecommunications



- Board Member
- C-suite
- Senior management
- Head of specific functional area
- Middle management
- Others



- Small or medium-sized organization (less than 250 FTE employees)
- Large organization (250 or more FTE employees) with turnover less than US$ 1 billion
- Large organization (250 or more FTE employees) with turnover between US$ 1-5 billion
- Large organization (250 or more FTE employees) with turnover more than US$ 5 billion



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- EMEA
- APAC

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About the authors

Kristian Park
Partner and Global Leader, Extended Enterprise

Kristian Park is global leader for extended enterprise at Deloitte. Based in the UK, Kristian works with his clients to develop governance frameworks to identify and manage all types of third-party risk.

He looks at both process and technology solutions, performs inspections of third-party business partners on his clients' behalf, and assesses third-party compliance with contractual terms and conditions.

Kristian is also responsible for Deloitte UK's software asset management and software licensing teams, assisting clients to manage their software licensing obligations to generate efficiencies and savings.

He has experience in a variety of industry sectors including life sciences, financial services, energy and resources, sport, technology, media, and consumer & industrial products

Danny Griffiths
Partner, Extended Enterprise

Danny Griffiths is a Partner in our Extended Enterprise (EE) team, with over fifteen years of experience providing assurance and advisory services on Outsourcing and Third Party Risk Management (TPRM) to his clients. He has assisted clients on all aspects of TPRM across a wide variety of industry sectors but primarily works with organisations operating in the Financial Services sector. Danny specialises in advising clients on their interactions with, and management of, third parties against regulatory expectations and good industry practice. He has supports his clients to benchmark their existing TPRM practices and challenges them to establish new practices that will enhance their TPRM maturity. Danny also helps his clients to understand the technology landscape for TPRM and how to 'tech-enable' their TPRM practices or unlock the benefit of external assistance (such as managed solutions).

Danny is a leader within our international network for TPRM services and has worked extensively with clients throughout Europe, the Middle East and Africa (EMEA). He also has experience working with international organisations operating globally and engages collaboratively with international colleagues to provide insights for his clients. Danny is a regular participant and contributor at TPRM forums and hosts TPRM roundtables for Deloitte in the UK and internationally.

Dr Sanjoy Sen
Head of Research and Eminence, Extended Enterprise

Sanjoy Sen is the head of research for extended enterprise at Deloitte. He also holds the honorary title of senior fellow in strategy and governance in the school of business and economics at Loughborough University (UK). Sanjoy's pioneering research and thought leadership in the area of third-party management has earned him a doctorate from Aston University (UK) in 2019 and the prestigious global research impact prize awarded by the Association of MBAs (AMBA) in 2021.

Since 2014, Sanjoy's work has been cited in various academic and professional journals including the Academy of Management and Wall Street Journal and other frontline newspapers.

Sanjoy has extensive experience advising boards, senior leadership, head of risk, and internal audit on strategic governance and risk management of the extended enterprise, outsourcing and shared services. He is a chartered accountant (FCA), cost and management accountant, and certified information systems auditor (CISA) with over 30 yeas of experience, including 17 years of partner-level experience at Deloitte and another Big Four firm.

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Glossary
ESG risk dimensions

These definitions in the context of the current survey, are aligned to issues that are prominent on investors' and other stakeholders' agendas as set out by MSCI and Robeco (as acknowledged by the Committee of Sponsoring Organizations or COSO in their publication entitled "Applying enterprise risk management to environmental, social and governance-related risks"):

- **Responsible investment** – Recognizing financial as well non-financial returns from investment by acknowledging the contribution from ESG dimensions.
- **Natural resources** – Minimizing the organization's impact on natural resources such as water, raw materials, air and other enablers of bio-diversity,
- **Climate change** – Managing exposure to increasingly severe or unpredictable weather events, or broader climatic changes (physical), and how organizational constraints shape adaptation options (transition).
- **Stakeholder opposition** – An emerging term covering areas such as the need to maintain appropriate relationships in local and global communities that include generating social opportunities and avoid controversial sourcing.
- **Equal opportunity** – Policies and practices to ensure individuals are treated without discrimination, especially on the grounds of one's sex, race, age etc.
- **Environment** – Minimising the organization's environmental impact including carbon footprint, pollution, material disposal, resource management etc. at present and in future.
- **Pollution and waste** – Avoiding or reducing the release of contaminants at source and managing solid waste disposal by organizations.
- **Labor risks** – Managing human rights and labor standards in the organization as well as within its extended enterprise including any exposure to illegal child labor and more routine issues such as adherence to workplace health and safety.
- **Product liability** – Ensuring product quality and safety from the organization's customer perspective, broadening into areas such as appropriate protection of customer data and privacy.
- **Corporate ethics and responsible behavior** – Implementing a business philosophy and moral guidelines for the conduct of business based on what is right, wrong and fair, supporting the need to behave as good corporate citizens.

Throughout the report, TPRM refers to the process of managing risks related to third parties. TPM on the other hand refers to a wider context of managing third parties across diverse business functions.

Industries covered by the survey include: Consumer; Energy, Resources & Industrials (ER&I); Financial Services (FS); Government & Public Services (GPS); Life Sciences & Healthcare (LSHC); and Technology, Media & Telecoms (TMT). Industries are referred to by acronyms in all graphics.

Appendix
Deloitte TPRM maturity model

	Initial	Defined	Managed	Integrated	Optimized
Governance & oversight	• No formal governance	• Limited local governance in place • Minimal effort in reducing risk	• Local governance processes in place • Focus on preventing issues	• Global governance processes in place • Focus on preventing issues and creating value	• Global governance processes fully integrated • State of the art practices, linked to value drivers • Third parties embedded in strategic planning and decision making
Policies & standards	• Limited formal policies and procedures in place	• Local policies and procedures in place	• Global policies and procedures in place	• Policies and procedures fully aligned to business processes • Procedures are in use across the organization	• Fully integrated policies and procedures in place • Organization aligned to procedures
Business processes	• Few activities defined • Fire fighting mode	• Defined processes in siloes • Functional, reactive problem-solving	• Coordinated processes across the business • Monitoring and alerting leveraging dashboards, with some proactive issue resolution	• Fully standardized processes, integrated with tools and data • Proactive decision making using analytics, improving bottom-line and performance	• Processes aligned with strategy and integrated into third parties • Continuous improvement and proactive responsiveness • Leveraging predictive and sensing analytics, tools and dashboards
Tools & technology	• Simple and least expensive tools used ad hoc	• Off the shelf tools used for problem-solving • Limited access to third party data	• Adapted tools used for reporting and monitoring	• Customized tools used for tactical decision making • Value additive tools • Internal data centralized and easily accessible	• Highly-customized decision support tools • Integrated external data sources that enhance insights • Tools and analytics are key value driver and differentiator
Risk metrics & reporting	• Limited metrics and reporting	• Local ad hoc metrics and reporting	• Business unit metrics and reporting used to drive improved performance	• Global metrics and reporting in place • Local governance processes in place	• Metrics and reporting used consistently across the organization to drive improved performance • Global governance processes in place
People & organization	• Individual effort • Little management input • Lack of training	• Responsibilities built into existing roles • Increased input from management	• Dedicated roles • Invested executives within each silo • Some training offered	• Awareness of value of third parties across the organization • Enterprise wide roles • Executive ownership at the enterprise level	• Trained professionals with defined roles throughout the lifecycle • Executive champions on both sides, aligning service delivery to strategic objectives
Risk culture	• Risk-taking for quick fix benefits	• Risk-taking for short term benefits	• Risk aligns with medium term enterprise-wide benefits	• Leaders drive risk culture within business units • Intelligent risk taking, aligned with enterprise strategy	• Tone from the top of the organization drives the organizations risk culture • Risk taking fully aligned throughout the organization

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