

Minimizing Third-Party Compliance and Reputation Risk

The Challenge

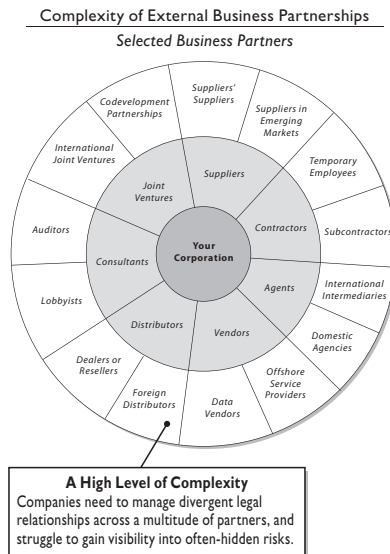
The rise of outsourcing and offshoring presents organizations with different-in-kind and (often) hidden risks emanating from the increasingly large and diverse network of external business partners. These new business realities pose a significant challenge for firms as the negative impact of third-party compliance failures becomes increasingly severe, resulting in not only significant financial losses but also operational disruptions and long-term reputation damage.

CHALLENGE #1: COMPLEXITY OF THIRD-PARTY BASE

MANY PARTIES, MANY RISKS

The diversity and volume of third-party relationships and associated risks are a formidable challenge...

...disguising the riskiest third parties, on which companies need to focus



Sources of Third-Party Risk: Likelihood and Severity
CELC Survey (2006)

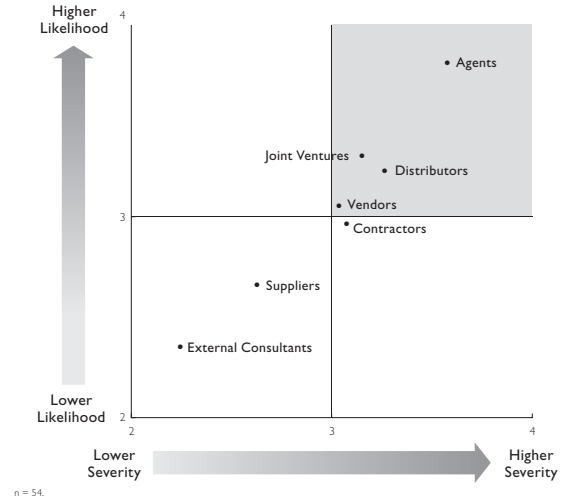


Figure 1:
Many Parties,
Many Risks

The Root Cause

While third-party risks are now firmly at the center of regulatory scrutiny, corporate liability, and potential reputational risk, external business partners reside at the periphery of compliance and ethics officers' current oversight and control. Compliance and ethics officers find it particularly difficult to manage these third-party risks because of the complexity of the third-party base; unclear ownership within their own companies for third-party risk management; and, insufficient influence over third parties in general.

The Conventional Wisdom

Despite the growing importance of third-party relationships, companies typically handle oversight in a piecemeal fashion. Monitoring efforts remain siloed with the business units and functions perform at different levels of oversight. Compliance and ethics officers often remain unaware of new third-party relationships and find it difficult to identify the emerging risks and reputation threats that exist across the extended third-party base.



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Key Insight

To effectively manage the volume and complexity of third-party relationships, compliance and ethics officers need methods for identifying and screening the riskiest third parties. Ravello Company* addressed this challenge by creating a central ethical sourcing group that moves beyond the analysis of individual third parties—which often fails to uncover hidden risks—and considering macro-risk factors (e.g., country, environmental, and commodity risks). By assessing third parties through this initial, higher-level screen, Ravello can identify its riskiest third parties more accurately and direct their focus, resources, and oversight to areas of greatest exposure.

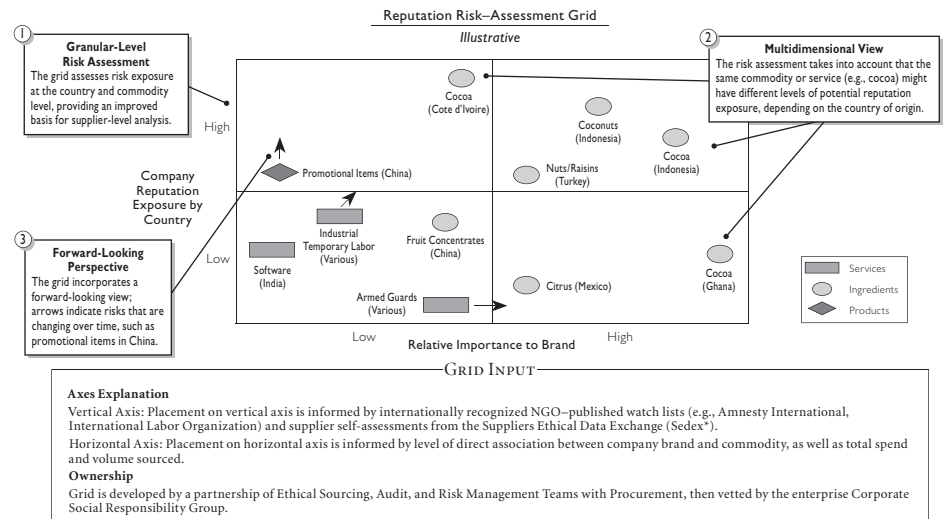
Case in Point: Ravello Company

COMPONENT I: REPUTATION RISK-ASSESSMENT GRID

Ravello Company

DIGGING DEEPER

A Multidimensional Risk-Exposure Grid Enables Detailed Assessment Beyond the Supplier Level to Allow Better Targeting of Risk-Mitigation Efforts



How the Compliance and Ethics Leadership Council Is Helping Members Manage Disruptive Compliance Risks

Upcoming Events—Peer-to-Peer Networking	Tailored Support	From Our Archives
<p>Enhancing Risk-Detection Practices Teleconference—Interactive benchmarking session focused on emerging risk-detection practices 26 March 2008</p>	<p>Customized tools and on-call support for triaging and monitoring third-party compliance risks</p>	<p><i>Holding Third Parties Accountable for Ethical Business Conduct—</i> Quantitative guidance and best practices for managing third-party relationships</p>
<p>Enhancing Compliance Risk Detection Annual Executive Retreat Washington, D.C., 22 July 2008</p>	<p>Online networking with peer compliance and ethics officers to address common risk management challenges</p>	<p><i>Performing a Legal and Compliance Risk Assessment—</i>A step-by-step toolkit for conducting a compliance and legal risk assessment</p>
	<p>Customizable board report presentations to save time in effectively communicating your key risks and mitigation plans</p>	<p><i>Towards Better Risk Detection—</i> Best practice case examples for building robust assessment and detection processes</p>

* Ravello Company is in the food industry with more than \$10 Billion in 2007 revenue.

