UNIT4
In business for people

Boost Third-Party Risk Oversight with Contract Lifecycle Management

EFFECTIVE THIRD-PARTY RISK MANAGEMENT BEGINS WITH A BETTER CONTRACT MANAGEMENT PROCESS.

Introduction

Supply chain resilience is now the top strategic priority in boardrooms worldwide. But finding and qualifying backup suppliers is only one part of a complex equation. You need to know precisely who's supplying your third parties – and their risk exposure.

One way to get more visibility into who supplies your suppliers is by mining data from your contracts. The problem is that a Fortune 1000 company maintains anywhere from 20,000 to 40,000 active contracts at any given time. The talent needed to manage contracts, monitor third-party risk and manage supplier relationships is also in short supply.

Instead of managing these elements in a siloed environment with information across disparate systems, spreadsheets, departments, and shared drives, it's time to take a more modern approach. Procurement, finance, compliance, and other stakeholders need the capacity to access all company data from one centralized location, including contracts, risk profiles, questionnaires, certificates, and more. Today's business environment requires everyone to do more with less. And that means managing risk is everyone's job. In this paper, we'll show you how procurement teams can work more efficiently with other business units to create a stronger third-party risk management program by simplifying contract management. We'll also unveil our step-by-step plan to help you marry the processes.

99%

of organizations don't have the data and technology needed to improve their contracting process

Here's what we'll cover:

- The perils of poor third-party risk management
- The benefits of contract lifecycle management
- How to integrate your third-party risk management strategy and supplier contracts

The perils of poor third-party risk management

In procurement, you need to know the risks associated with your suppliers and it boils down to what's in those suppliers' contracts. Failing to manage third parties properly can lead to financial penalties, bad publicity, and potentially even legal action. The consequences can be significant.

To start, we'll look at some common risks associated with lackadaisical management of your third parties and supplier contracts:

- **Financial risk:** Poor contract management can cost your organization money. This might happen if a contract was not properly reviewed and signed by all parties, leading to litigation or fines for non-compliance with government regulations.
- **Reputational risk:** If a poorly drafted or managed contract results in an embarrassing public relations situation for your company, then it's likely that your reputation will suffer as well.
- **Legal and regulatory risk:** Incorrectly managing contracts can lead to legal issues that are time-consuming to resolve on top of being expensive – especially when hiring outside counsel.

The benefits of Contract Lifecycle Management

Contract lifecycle management has evolved from being a single part of a business relationship to a key component of a resilient third-party risk management program. It helps procurement teams work faster, smarter, and with more precision among all levels of the organization. It also facilitates better communication and relationships with external suppliers, regulators, and stakeholders.

Contract Lifecycle Management is integral to any business and deserves to be taken seriously. The benefits include:

- **Third-party risk management:** Strategy for managing risk arising from supplier contracts
- **Compliance:** Adherence to legal and regulatory compliance obligations.
- **Procurement:** Ensuring the best value is obtained from the procurement process by selecting suppliers based on contract terms that provide value for money and good quality products or services.
- **Better supplier relationship management:** Relationships can run more smoothly when all parties have a clear and legible record of their responsibilities to one another.

How to integrate your third-party risk management strategy and supplier contracts

Third-party risk management is the process of evaluating, mitigating, and monitoring the risks a company takes when working with third parties. Whether you're procuring suppliers for raw components, technology applications for employees, or outsourcing property management tasks, it's an important part of good governance. This isn't just about protecting your organization from fraud or theft (which is important) but also understanding how you can help others in your supply chain to protect themselves.

Who is considered a third party?

A third party, sometimes referred to as a vendor, is any person or company with whom the business subcontracts for products, materials, or services. Like this:

A contract governs every third party your company does business with. Whether your organization manages just a few hundred contracts or a few hundred thousand, below are the essential elements of a third-party risk management program. For each component, you'll see a lightbulb that shows how integrated contract lifecycle management software can help you improve up your third-party risk management program.

Define and identify risk appetite and risk tolerance

Before determining what risks your third-party contracts pose, you must map the company's risk appetite and tolerance. Innovation, investment, and maintaining market share all pose a certain level of risk. Still, it's prudent for CPOs to find the right balance that achieves the business' goals while minimizing disruption.

Risk appetite – This is the broad, maximum level of loss exposure that the business believes to be acceptable.
Risk tolerance – This is the degree of variation around the risk appetite level that the business believes it can tolerate; the level that the business can withstand without damaging impact on the operation.

Both risk appetite and risk tolerance are primarily measured in terms of revenue loss and time to recover, so it's essential to identify the types of risk that can cause revenue loss. These generally include cybersecurity issues, such as fraud, theft of intellectual property, and malware deployment. It should also incorporate supply chain issues, ranging from low-level to high-level disruption, which can lead to revenue loss. For example, a cyber breach can lead to financial penalties, as well as long-term revenue loss through reputational damage, delivery disruption, and a reduction in efficiency and productivity.

Work smarter

Secure, permission-based access and a centralized repository let CPOs, finance, compliance, the board, and external auditors see the same information updated in real-time from anywhere in the world to make informed decisions.

Investigate your third-party relationships

Once the risk appetite and tolerance are established, it's time to look deeper into current and potential third-party relationships. You'll use the risk appetite and risk tolerance framework to assess every business relationship and to prepare flexible risk profiles for each.

This step requires stringent due diligence and can be extremely time-consuming. From gathering information on each third party through external databases such as Refinitiv, LexisNexis, Dow Jones, and Dun & Bradstreet to comprehensive background checks on individuals and organizations, it's impossible to do well without a technology component.

Work smarter

Use template libraries pre-approved by compliance to design and build intelligent questionnaires that inform risk assessments and profiles.

Use data to make faster contract decisions

Here is where data captured during the third party due diligence phases above are used to award or deny supplier contracts. The data help stakeholders make informed decisions that protect the business from damage and disruption.

The business can trust that the relationship falls within acceptable risk parameters by thoroughly vetting all third parties before and during commercial relationships. This is also a vital element in terms of increasing efficiency across the operation – something that also helps prevent loss of revenue.

Work smarter

Enforce standards, processes, and business rules with automated workflows to ensure governance and compliance.

Spot supplier risk signs before they become an issue

The purpose of your third-party risk management program is to mitigate and reduce supplier risk. Incident capture tools in your contract lifecycle management software stack will help you maintain a proactive stance. Non-compliance issues can be quickly addressed to minimize costs, damage, or disruption.

Incident capture tools address both internal and external risks. Non-compliance incidents can be programmed to alert stakeholders when contractual obligations are missed, or there's a change in regulatory or legislative requirements that could result in fines and revenue loss.

Work smarter

Incident capture and reporting ensure all incidents are stored and automatically flagged and assigned for investigation.

71%

of contracts are not monitored for deviations from standard terms.

Source: 2021 EY Law Survey

Keep tabs on suppliers and promote contract integrity

Once the contract is signed, and the supplier is onboarded, the work isn't over. Continuous monitoring is an essential component of thirdparty risk management to ensure suppliers meet established KPIs for performance.

This not only ensures a proactive stance to risk within the business operation but also helps to future-proof the enterprise.

Work smarter

Regularly auditing and reviewing your contracts, KPIs, and vendors protect against poor performance and non-compliance.

Strengthen your third-party risk oversight

Don't let your third-party risk management program fail because of a lousy contract management process. Contract lifecycle management and third-party risk are complementary processes that work in sync to maximize financial and operational performance and minimize risk.

Scanmarket is a source-to-contract software provider that develops advanced functionalities in an effortless design. Originating from the needs of the end user, Scanmarket's S2C solution is attuned to meet the needs of the procurement professional. We take ownership of customer success with experts at your fingertips to drive user adoption. Digitize your upstream procurement functions with technology that is built to be used.

About us

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