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Navigating through uncertainty: The imperative role of third-party risk management

By Wes Loeffler

To compete in today's ever-changing business landscape and global economy, organizations are increasingly relying on their relationships with third to nth parties. The benefits include cost efficiencies, access to specialized services, and extended marketing reach. However, the costs of these relationships are often more difficult to gauge, extending beyond upfront business costs to the risks that may lie hidden within the third party.

This interconnectedness exposes organizations to a multitude of dangers—from financial and operational risks to cyber threats, regulatory fines, and reputational damage. Think of a line of dominoes: the longer the line, the more dominoes are likely to fall. Similarly, a geopolitical event in one region can lead to supply chain bottlenecks that not only affect direct suppliers but also have a ripple effect on secondary suppliers, logistics providers, and, ultimately, customers—hence the need for a robust and integrated third-party risk management (TPRM) program.

A multifaceted defense mechanism, TPRM is a series of checks and balances that provides a detailed picture of the potential pitfalls within an organization's supply chain and service providers. Having a proactive, strategic approach to TPRM allows organizations to not just mitigate risks but also turn risk management into a competitive advantage. By identifying and managing potential risks ahead of time, organizations can ensure they are not just protecting against potential losses but also positioning themselves to navigate the global landscape more nimbly than their competitors.

In essence, TPRM is a key element of business continuity and operational resilience in the modern era. The ability to predict, prepare for, and pivot in response to third-party risks can define the success or failure of critical operations. It's no longer just about managing risk; it is about managing your organization's future.

Why is integrated risk management a strategic imperative?

Today, visibility into third-party relationships is essential—not optional. Recent years have seen a global pandemic, geopolitical conflict in Eastern Europe, third-party cybersecurity vulnerabilities like Log4J, and other disruptions. Integrated risk management allows organizations to develop a holistic view of their operations that ties TPRM to broader strategies for business continuity and operational resilience. Managing third-party risk shouldn't be a siloed activity; it should be a strategic function about reinforcing continuity and resiliency at every level. An integrated approach brings a multidimensional benefit. It is about achieving a comprehensive understanding of risk across your extended enterprise and ensuring that every piece of the puzzle is positioned to support your overall resilience posture.

This can be achieved by establishing clear communication channels, fostering a risk-aware culture, and implementing technological solutions that enable the aggregation and sharing of risk information across the organization. To effectively build an integrated approach, organizations should align their risk management processes with strategic objectives, prioritize risks based on their potential impact, regularly communicate risk-related information to stakeholders, and continuously monitor and evaluate the effectiveness of their risk mitigation efforts. It is also important to provide adequate training and resources to employees involved in risk management to ensure their capability to address risks in a coordinated and integrated manner.

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