levelpath

Third-Party Risk for Procurement

Third-party risk management (TPRM) is a vital tool for managing suppliers and supporting supplier relationships across procurement, legal, finance, compliance, IT, and other stakeholders. The core question is: how should TPRM enable procurement teams to support optimal supplier relationships over time?

Key Considerations

1. **Risk Is Everywhere, Procurement Leads It**
Every supplier brings both opportunity and exposure. From intake to performance review, procurement strengthens the business by embedding risk management at every stage.

2. **Structure Creates Clarity**
When risks are captured, scored, and linked to contracts and sourcing, procurement turns scattered threats into a clear system of ownership, visibility, and confidence.

3. **One Connected View for All Roles**
Analysts, managers, and executives see risk differently, but a shared framework unites them. Automation, risk scores, and dashboards align the team and elevate procurement as a strategic partner.

What is TPRM for Procurement?

TPRM is the structured process of identifying, assessing, and mitigating risks from external partners. For procurement, risk management is a strategic necessity because every supplier relationship introduces potential exposure, including financial insolvency disrupting operations, cyber vulnerabilities leading to data breaches, and regulatory or data privacy compliance gaps.

To manage risks beyond price and delivery, procurement must adopt a 360-degree view of suppliers, incorporating input from IT security, finance, legal, and other stakeholders. This approach moves teams from reactive problem-solving to proactive risk mitigation.

TPRM integration for sourcing projects ensures risk is evaluated alongside cost and value. Supplier bids can be judged not only on price and quality but also on security, sustainability, and compliance. During contracting, TPRM embeds risk-based clauses, performance metrics, and accountability mechanisms. After the award, TPRM continues through supplier performance management by monitoring credit ratings, cybersecurity alerts, operational disruptions, or reputational concerns.

By embedding TPRM throughout the lifecycle from intake through award to ongoing performance, procurement makes better-informed decisions, reduces unexpected disruptions, and strengthens trust with stakeholders. Risk awareness becomes a standard tool for how procurement creates value.

Key Components of TPRM

It is important to note that third-party risk is not just an issue when a sourcing or contract renewal event is initiated, but an ongoing challenge that requires workflows, monitoring, and effective escalation. To implement the data, workflow, and integration components of third-party risk, procurement professionals should consider and measure these capabilities:

1. **Risk Record** - Central repository for each supplier risk, holding identifiers, timestamps, ownership, and links to suppliers, contracts, and sourcing events for full traceability.

2. **Risk Category** - Standard domains of risk such as financial, operational, security, compliance, regulatory, reputational, and geopolitical.

3. **Risk Score** - Measures the severity and likelihood using quantitative and qualitative inputs plus external data feeds, to present current risk levels and thresholds.

4. **Supplier Onboarding Risk** - Provides risk checks during initial supplier intake to verify technical, financial, and other relevant business records.

5. **Supplier Segmentation** - Supplier records should identify and classify suppliers based on preferred status, contractual status, spend, and relevant business and service labels to prioritize risk reviews and focus scrutiny on high-profile vendors.

6. **Lineage to Sourcing Projects** - Risk is linked back to the sourcing evaluation, showing how risks influenced awards and how profiles evolve across sourcing events.

7. **Lineage to Contract** - Risk is linked back to specific contracts and contractual protections, highlighting coverage gaps and exposure.

8. **Lineage to Supplier** - Risk is tied directly to supplier profiles, providing a consolidated view across strategic and tactical suppliers.

9. **Risk Mitigation Actions** - Action plans with ownership and timelines to reduce exposure, with documented workflows for accountability and tracking.

10. **Monitoring & Alerts** - Detection and alerts when thresholds are breached, often fed by data for near real-time updates.

11. **Role Escalation & Workflow** - Standardized governance processes with predefined escalation paths, approvals, and checkpoints for risk acceptance or modification.

12. **Risk Register & Dashboard** - Portfolio-wide visibility across categories, suppliers, and geographies.

13. **Audit Trail & Evidence Repository** - Record of assessments & decisions to support compliance and audit.

14. **Reporting & Analytics** - Insights and analysis with quality based on the completeness of captured risk data.

15. **Enterprise Integration** - Risk records and related risk documentation can be shared with other enterprise application open REST APIs to write and retrieve sourcing, supplier, and contract-related risk factors.

Key Benefits for Procurement Teams

TPRM delivers measurable business benefits for procurement teams across sourcing, supplier management, contracting, and reporting to improve supplier relationships. The improvements from third-party risk management are:

- **Faster Sourcing with Fewer Surprises –**
Early risk assessments prevent wasted effort on vendors that cannot meet financial, security, or compliance requirements. Pre-screened suppliers accelerate sourcing cycles.

- **Stronger Supplier Relationships Built on Trust –**
Transparency around cybersecurity, ESG, and diversity expectations fosters accountability. Reliable suppliers should act as strategic partners, delivering the assurance of continuous and dependable supply.

- **Lower Compliance Overhead –**
Automated risk checks across IT security, finance, legal, and regulatory frameworks reduce manual workload. Centralized records streamline audits and demonstrate due diligence.

- **Mitigation of Contract Risk –**
Risk-based clauses such as breach notifications, penalties, or exit provisions are consistently applied.

- **Advancing Supplier Diversity and ESG Goals –**
Broader supplier bases help avoid geographic concentration risks, address capacity limits, and support delivery assurance. Tracking diversity certifications and ESG performance can align global resilience with relevant compliance measures and corporate goals.

- **Specialized Risk Capabilities –**
Platforms support financial health scoring, cyber threat monitoring, and sanction list screening, providing procurement with data-driven intelligence instead of intermittent checks.

How to Get Started: Practical Steps for Procurement

Procurement teams seeking to get started with TPRM across the procurement value chain should follow these steps to assess, prioritize, and measure risk from both a current and ongoing perspective:

- **Define Objectives and Risk Appetite –**
Align with leadership on critical risk categories such as finance, data security, ESG, continuity, and reputational concerns, and establish thresholds for acceptable risk.

- **Define Ownership and Risk Escalation Workflows –**
Identify who owns risk assessment, approval, mitigation, and acceptance within procurement. Set responsibilities and roles for escalation when risk exceeds defined limits.

- **Collaboration Across Stakeholders –**
Work with legal, finance, IT, security, and compliance teams to create a governance framework that addresses contract risk, financial health, fraud, security, and privacy.

- **Intake: Capture Core Supplier Risk Data Early –**
 Collect financials, certifications, diversity credentials, insurance, and compliance records during onboarding. Standardize questionnaires and automate integrations with external data sources to ensure baseline risk visibility.

- **Supplier Engagement for Risk Remediation –**
Work with suppliers to identify and resolve risks through defined work, audits, and compliance frameworks.

- **Segmentation: Calibrate Depth of Assessment –**
Prioritize based on spend, criticality, and exposure. High-risk suppliers (i.e., sole-source or sensitive-data handlers) require deep due diligence and monitoring, while low-risk suppliers can be managed with lighter reviews.

- **Integrate TPRM into Sourcing and Contracts –**
Incorporate risk criteria into RFx scoring and standardize risk-based clauses and risk-based policy references in contracts to enforce compliance.

- **Set Up Monitoring and Reporting –**
  Establish ongoing monitoring of financial health, cybersecurity, ESG, and reputational signals linked to the supplier. Use dashboards, reports, and alerts as needed to provide cross-departmental visibility to relevant stakeholders.

- **Establish a Feedback and Improvement Loop –**
  Review incidents, feed lessons learned back into intake and risk segmentation, and refine processes to support evolving regulations and risks.

Levelpath for TPRM

Levelpath inputs multiple data points to describe risk during the supplier intake process, including custom labels, competitor ecosystem, products and services, and other categories that can be aligned to risk categories. These intake attributes are not just descriptive but provide the foundation for risk segmentation across financial, operational, compliance, and strategic dimensions, enabling procurement teams to prioritize oversight and act with confidence.

Building on this, Levelpath serves as a central hub for supplier management and third-party risk management, embedding risk awareness into procurement workflows. Teams can create and automate assessments during onboarding, maintain standardized supplier and risk records, and centralize documentation that is continuously monitored throughout the lifecycle. Instead of relying on periodic reviews, Levelpath flags issues in real time, such as financial instability, compliance concerns, or operational disruptions linked to sourcing, contracts, or supplier data.

The platform supports risk management across procurement roles: analysts streamline intake with automated due diligence, sourcing managers view risk records tied to projects and categories with scoring, and Chief Procurement Officers access comprehensive reporting dashboards. Risk records are fully integrated with supplier profiles, ensuring that sourcing events, contract negotiations, and performance reviews include the latest intelligence.

Levelpath's risk module expands these capabilities with configurable permissions, a complete activity log, saved views with filter and sorting options, and mobile access for visibility on the go. The Levelpath questionnaire builder supports customized supplier assessments, while integrated reporting and monitoring ensure procurement teams can track, act, and improve continuously. Together, these features create an end-to-end TPRM framework that reduces manual overhead, strengthens stakeholder trust, and builds resilient, compliant, and diverse supply chains.

Get ahead of risk with Levelpath.

Request a demo.   ❯