



On the board’s agenda | US

Outside the four walls: The board’s role in extended enterprise management

Introduction

Companies, including their boards and managements, have long understood that they do not function in a vacuum and that their success depends, at least in part, upon customers, suppliers, employees, and other constituencies. However, there is a growing realization that in the 21st century, companies operate in a greatly expanded and more complex ecosystem with numerous components, many outside their control, that create opportunities and pose risks. As a result of the expansion of their ecosystems, companies increasingly need to think outside the four walls—to reset their front lines—to effectively manage and grow their businesses.

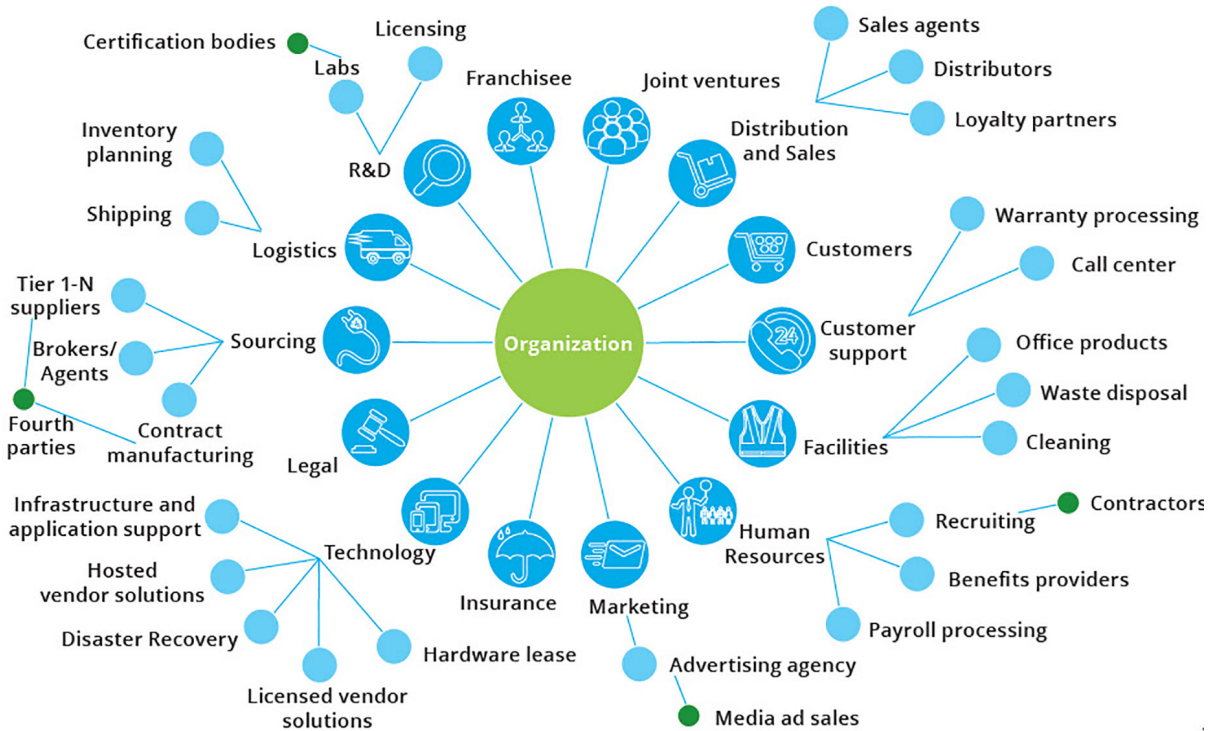
There are numerous examples of companies thinking—or having to think—outside the four walls, such as the global, rather than

national, competitive landscape; the explosion of management and board engagement with investors; and pressure to serve society at large rather than just shareholders. Companies have also experienced or seen others experience problems resulting from services or products provided by third parties, which are often indistinguishable from those provided by the core business. Research indicates that from 2016 through 2019, 83 percent of organizations experienced third-party incidents and that nearly half of those organizations experienced some impact on customer service, financial position, reputation, or regulatory compliance.¹ Moreover, in an era of social media, even a minor incident may “go viral” in minutes or even seconds, potentially causing serious damage to the organization before the facts are known. ➤

1. All Together Now: Third party governance and risk management, located at <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-EERM%20Report%20INTERACTIVE.pdf>

What is “extended enterprise management”?

Extended enterprise management, or EEM, begins with the recognition that the enterprise is subject to a wide range of acts, omissions, and influences originating inside and outside the enterprise. These acts, omissions, and influences may have positive or negative impacts, but their common denominator is that the enterprise needs to understand who and what they are, the risks and benefits they create, and develop, modify, and execute strategies accordingly. There are many actors who exert influence over corporations, for example:



Starting with this recognition, EEM then focuses on helping the company consider how these actors, individually and in the aggregate, impact the company, and then proceeds to proactively and, in some cases, reactively address the challenges that this ecosystem presents. The areas in which EEM can exert significant influence include cost reduction, value creation and preservation, regulatory and other external pressures, and internal pressures, such as human capital management. ➤





Why the board?

Although boards of directors have extensive oversight responsibilities, risk and strategy are arguably the two most critical areas of board oversight. Given EEM's focus on both areas, it fits perfectly within the board's oversight wheelhouse. Moreover, directors often come from a wide variety of companies and industries. This diversity of experience, which may resemble the complex ecosystem in which the company operates, can be brought to bear in overseeing both the strategic and risk components of EEM.

Of course, the board does not act on its own. Implicit in the word "oversight" is that others may do a great deal of the heavy lifting when it comes to EEM. Deloitte Touche Tohmatsu Limited (DTTL) survey data shows that while members of the board have maintained a relatively constant level of oversight over the extended enterprise from the 2016–2019 period, the involvement of the chief risk officer (or someone in a similar capacity) in EEM has increased dramatically, and, subject to fluctuations, the chief executive officer and other members of the c-suite play significant roles.² Similarly, boards may delegate significant portions of the oversight responsibility for EEM to committees, most likely the audit committee.

Touchpoints: where EEM impacts companies

EEM impacts companies in areas far too numerous to list in their entirety. However, some specific areas are as follows:

- Technology, both defensively (to protect the company against cyber and other threats) and offensively (to be a disruptor); for example, cloud technology has both defensive and offensive components and thus may not fit into preconceived categories of risk and benefit
- Manufacturing, particularly contract and offshore manufacturing, in which the company may have little or no control over processes, safety, and other areas
- Workforce and human capital issues, as companies have expanded reach by leveraging agents and subcontract relationships, often with limited control over those representing the organization

- Raw materials, which may be scarce and/or subject to government controls and geopolitical influences, and which may need to be transported to company facilities by third-party transportation providers
- Third-party providers of services, including legal and other professional services
- Sales agencies and third-party distributors, including those who may represent competing organizations
- Franchisees, whose interests may not align with or be opposed to those of the company

As can be gathered from these examples, EEM is industry agnostic. In other words, it is applicable to every industry and sector; although the nature of EEM and how it is implemented will vary depending upon the unique characteristics of the company in question. Also, EEM is functionally agnostic; it applies to any aspect of the business that is subject to external impacts; in other words, to every aspect of the business. This can pose challenges, some of which are discussed below.

How are companies dealing with EEM?

The discussion above suggests that EEM should be used by every function of every company. While that may be the case, many companies fail to implement it properly or at all. The very nature of its broad applicability—i.e., to every business and every function of every business—can make EEM difficult to implement and manage. For example, who "owns" EEM? If EEM is implemented and managed by one function within a company, other functions may believe that their value to the company is being questioned or that the function that is managing EEM doesn't understand how other functions operate and therefore shouldn't be implementing EEM, in general or as to them. As a result, some organizations have created a dedicated group, separate from any one function, to evaluate, implement, and manage EEM across the organization.

Another challenge is that many existing enterprise risk management (ERM) programs do, in fact, consider external risks and benefits. As a result, there may be resistance to the broader approach of EEM. However, ERM programs tend to consider these external factors in a disaggregated manner and therefore do not address EEM holistically. ➤

2. *ibid*

DTTL survey data illustrates some of the other challenges facing companies seeking to implement EEM, and how some companies are addressing those challenges. The following summarizes some of these data:³

- **Investment:** Piecemeal investment, as distinguished from “integrated” investment, in EEM has impaired EEM maturity, neglected certain risks, and adversely affected core basic tasks. Only 21 percent of respondents consider their organizations as having an integrated EEM approach. More than 70 percent believe they are spending less than the ideal amount or are not sure whether they are. This piecemeal approach can result in a greater focus on information security, data privacy, and cyber risk, as opposed to areas such as labor rights and geopolitical risk.
- **Technology:** Many organizations are streamlining and simplifying EEM technology across diverse operating units, generally through the use of third-party applications rather than customized, homegrown solutions. The applications range from specific risk management packages to generic integrated risk management solutions.
- **Operating models:** Survey data show that nearly two-thirds of the respondents have implemented a “federated,” rather than a centralized, model for EEM implementation, backed up by shared services and centers of excellence.
- **Ownership:** The data suggest that co-ownership by the board, the CEO and other executive leaders is a leading model for EEM. Board and c-suite ownership and oversight of EEM has been critical in enabling organizations to start realizing the opportunities and managing the external risks from third parties efficiently and effectively. Senior ownership can also facilitate cooperation across the organization and resolve conflicting priorities to drive coordinated strategic investments, leading to the replacement of the piecemeal investment approach discussed above.

How the board can help?

The board is in a unique position to help overcome the political and other hurdles that can prevent the implementation or limit the effectiveness of EEM. The board can work with management, including not only the c-suite level, but also employees below that level, to convey the importance of EEM, and to provide reassurance to managers and others who may fear EEM that it is intended to empower everyone in the company to overcome external challenges and contribute to the company's success. At the same time, the board's interactions with levels of management below the c-suite can serve another purpose—to help the board execute its responsibility for management succession planning by getting to know employees who are ready for further development and promotion.

Board oversight of EEM can be carried out in much the same way that the board oversees other areas:

- Ask for, review, and digest information on the company's transactions and relationships with third parties “outside the four walls” and how the company addresses external challenges and opportunities.
- Meet with external constituencies and stakeholders, both to educate them about the company, to hear their concerns, and to consider implementing their suggestions.
- As with so many other board activities, don't “set it and forget it”—revisit the topic of EEM periodically and get information on how the company is doing, the need for changes in the EEM program, and whether additional EEM resources are needed.
- Challenge management by asking questions. (Some questions for the board to consider asking appear below.)

Conclusion

By being aware of the needs and benefits of an EEM program, and by overseeing and monitoring its implementation, boards can help their companies address the challenges and opportunities of the complex ecosystems in which they operate and, in the process, help their companies to manage risk and achieve their strategic goals. ➤



Questions for the board to consider asking:

1. What are our major external influences? How do they impact the company?
2. How do we currently manage the risks posed by these external influences? Are we going about it in an optimal fashion?
3. What about the benefits available through our relationships with external players? Are we taking advantage of the opportunities they afford?
4. What relationships do we have with external parties? Should any board members be part of our outreach to them?
5. Do we have an EEM program? If not, why not?
6. If we have an EEM program, who owns it? How is it managed—in a centralized or federated manner? Have we implemented it on a piecemeal or integrated basis? Does it have adequate resources?
7. How is our EEM program working? What are the main obstacles to its optimal implementation? What can or should we do to strengthen the program?
8. What unique aspects of our industry/company should be reflected in the program? Does our program reflect these inputs?
9. Do we know how our competitors are addressing the challenges and opportunities of external influences? What can we learn from them?
10. Should the board delegate responsibility for EEM oversight to a committee and, if so, which committee?

3. ibid

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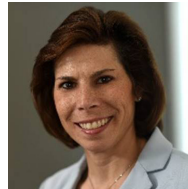
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