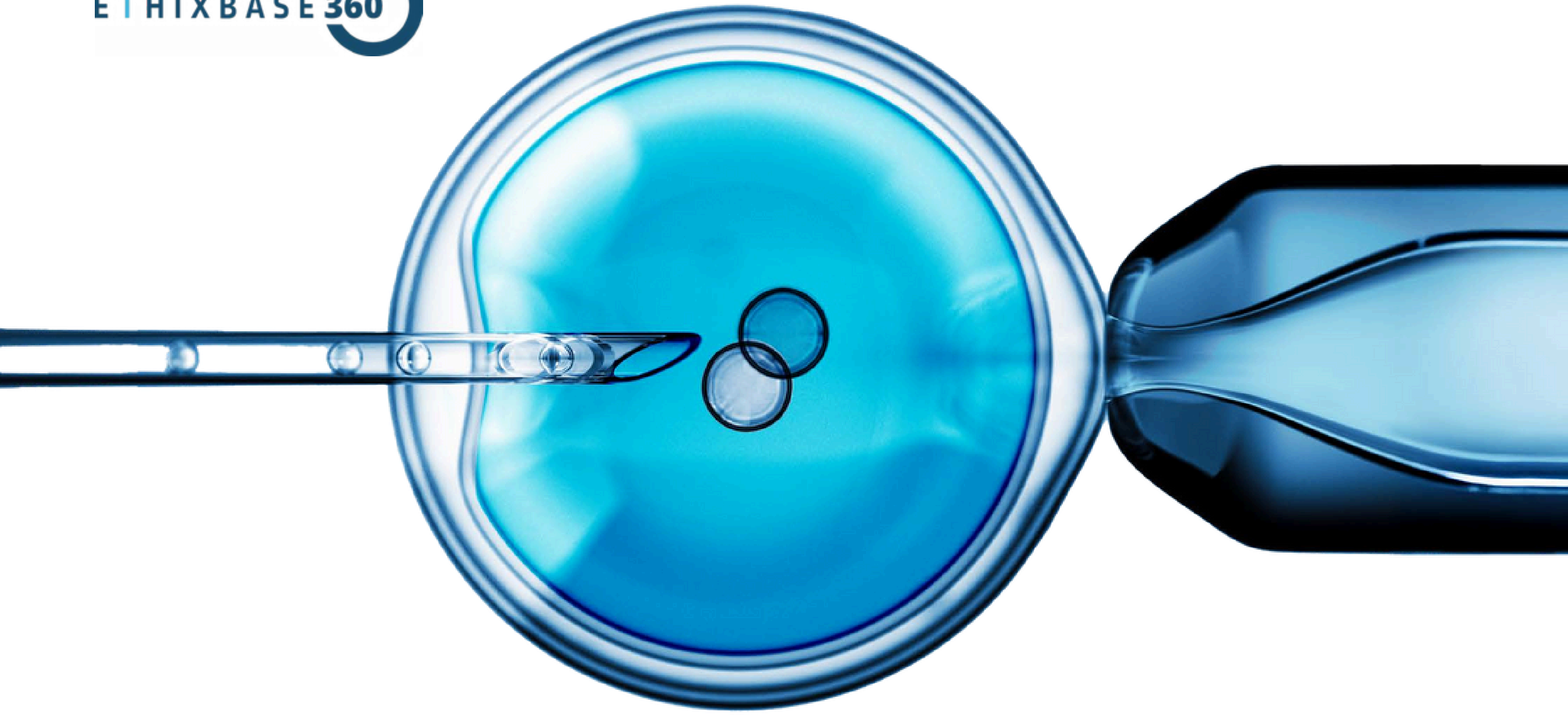

ETHIXBASE360 POINT OF VIEW:

Third-Party Risk Management in the Life Sciences Industry

Protecting your reputation

Regulatory breaches are one of the fastest ways to damage a company's reputation. Firms operating in the Life Sciences sector are particularly susceptible to such risks. This sector typically involves complex and extensive value chains that represent a significant compliance challenge and a substantial reputational and regulatory risk.

Evolving global regulations, including the Uyghur Forced Labor Prevention Act (UFLPA), have posed a significant challenge to the pharmaceutical industry which sources key materials from China. In addition, given the sector's reliance on third-party distributors and government buyers, this segment of the value chain requires an equal level of risk management. Third parties can indirectly expose Life Sciences companies to compliance risk while frequent interactions with state entities pose an elevated risk of corruption.

Companies operating globally need to comply with the regulation of the strictest jurisdiction in which they operate, and reputational risk is significant due to the high trust nature of the industry. A risk-based approach to third-party management is not only a regulatory necessity but also a critical lever for long- term resilience, ethical leadership and operational integrity.

60%

Refining our risk-based approach has boosted our due diligence on third parties by 60%.

Director of Third-Party Compliance, Ethixbase360 client

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Understanding the nuance and complexity of all your third parties

Highly globalized and complex value chains can mean that the biggest compliance risk is often lack of visibility. Mitigating risk demands a deep ongoing understanding of your entire value chain. Monitoring constantly shifting ownership structures, corporate hierarchies and jurisdictional regulations of your third parties makes it difficult to maintain a clear picture of your risk exposure. These challenges are exacerbated when operating in high-risk regions, dealing with newly formed entities or complex parent-subsidiary structures. A company's ability to make ethical and legal decisions rests on its understanding of its third-party network. Risk-based due diligence is a necessity to decipher, at times, obscure value chains.

Addressing evolving regulatory priorities

The new U.S. FCPA enforcement approach signals heightened scrutiny of Life Sciences companies' interactions with foreign distributors and intermediaries, particularly where government efforts to dismantle drug cartels may expose bribery risks in supply and distribution chains.

Life Sciences companies must prioritize human rights because regulatory scrutiny and investor expectations now directly link ethical supply chains and patient protections to market access, brand reputation, and legal liability.

The importance of corporate culture

The stark reality is that public perception of pharmaceutical companies is generally negative1. While good governance policies and procedures may exist at the Senior leadership level, what truly matters to the public is whether these are implemented consistently throughout the organization. Due diligence must be more than a box-ticking exercise. It must effectively assess how pervasive and embedded ethical practices are within a third party's day-to-day operations. Offering training, encouraging company policies that align with your values, and supporting improvement initiatives can drive transparency and elevate standards throughout your value chain. Due diligence can be about more than just compliance. It can be an opportunity to positively influence your partners and ultimately elevate standards across an industry that depends on public confidence.

Globalization and growing complexities across supply lines have proven to be a double-edged sword for third-party risk management (TPRM): while value chains benefit from increased interconnectivity, third parties are now subject to vast networks of stakeholders, regulations and geopolitical pressures – each of which presents potentially unseen reputational risks.

Verdantix, Strategic Focus: Mitigating Reputational Risks in Third-Party Risk Management, June 2025

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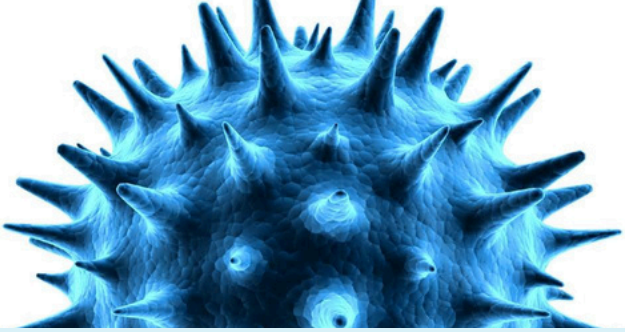

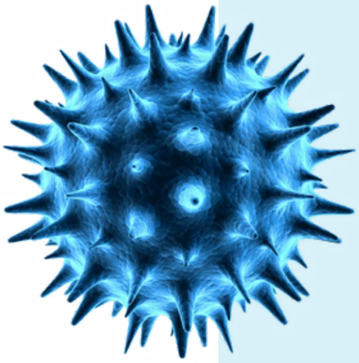

It is now crucial for firms to be proactive about risk mitigation procedures, as third parties themselves face heightened exposure to cyber threats, geopolitical instability, corruption, issues of non-compliance, and more and more complex regulatory landscapes.

Verdantix, Strategic Focus: Mitigating Reputational Risks in Third-Party Risk Management, June 2025

Beyond regulation

It is crucial to recognise that regulatory environments, and their respective priorities, will continue to evolve. Enforcement focus may shift, but the only way for firms to stay ahead of the regulation is through a genuine and sustained commitment to ethical standards for themselves and the third-parties they engage. Indeed, companies that prioritize integrity and proactively identify and remediate risk before it becomes enforcement are better positioned to navigate shifting regulatory landscapes. ESG concerns are not a fad but a reality of the industry and long-term resilience depends not on reacting to rules but committing to responsible business practices.

In the Life Sciences, organizations may still be working in countries subjected to sanctions where healthcare exemptions may apply. In this case due diligence is vital where reputational and ethical risks are significant.

Due diligence needs to be consistent, standardized and cut across internal silos

One area on which we believe the Life Sciences industry should focus is consistency in due diligence across markets. While local regulatory expertise is essential, it can lead to due diligence efforts being fragmented, and country-led. This can lead to inefficiencies, inconsistent risk assessments, missed red flags, and ultimately additional risk exposure. Our recommendation is a centralised framework, driven by consistency and standardisation with local insight implemented as a review at the final stage. This approach ensures both global and local compliance, making the process both efficient and resilient to the challenges of an increasingly complex regulatory landscape.

Since the first life sciences related FCPA enforcement action in 2002, over 35 healthcare and life sciences companies have paid more than $1.5 billion in FCPA-related penalties and disgorgement.

Charles Duross, Partner, Morrison & Foerster LLP

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Reliable and detailed reporting is vital to provide meaningful insights

In execution, consistency in reporting is critical for the Life Sciences industry. Assessing comparable third- parties at the same level of detail enables meaningful risk benchmarking across markets, products and corporate entities supporting more informed and strategic decision-making. While AI and workflow automation may offer efficiencies by streamlining data collection and escalating red flags, human expertise remains irreplaceable. Evaluating governance culture, identifying reputational risks and dissecting complex corporate hierarchies requires human judgement. At Ethixbase360, all our due diligence is human-led because in the Life Sciences industry, interpretation, nuance and judgment are essential to safeguard patients and reputations alike.

Leading with integrity through consistent, ethical third- party risk management

Life Sciences companies have a unique opportunity, and indeed responsibility, to lead in ethical third-party risk management. In an industry that has a direct impact on public health, a thoughtful, consistent, and proactive approach to due diligence isn't just about regulatory protection; it's about shaping a more transparent, responsible and resilient industry.

Authors

James Swenson

Managing Director, Ethixbase360

James Swenson leads Ethixbase360's Enhanced Due Diligence (EDD) business from London, bringing over 20 years of experience in helping clients design, implement, and optimize third-party risk management programs. He has deep expertise in navigating complex regulatory environments and works closely with organizations to address high-risk relationships and strengthen global compliance frameworks.

James is recognized as a leading authority on anti-money laundering (AML), counter-terrorism financing (CTF), anti-bribery and corruption (ABC) risk assessments, and politically exposed persons (PEP) screening. His work focuses on delivering tailored due diligence solutions that help companies proactively manage risk, meet regulatory expectations, and build trust across their third-party networks.

Michelle Knight

ChiefResearchOfficer, Ethixbase360

Michelle is an industry expert and has worked with a number of large risk consultancies including Kroll, Control Risks and RISQ Worldwide, and boutique compliance focused companies in Singapore, Australia and Hong Kong over the past 25 years.

As a leader in the business intelligence field in Asia, Michelle specializes in due diligence, vendor, and employee integrity screening, corporate research, and AML and compliance related projects. She has extensive experience in managing a wide range of complex business intelligence enquiries and analyzing and reporting information from global sources, managing cross-country business intelligence teams, and ensuring timely and accurate reporting of information to clients.

Michelle is a Bachelor of Science (Hons) graduate from University College London, holds a Graduate Diploma in Anti-Money Laundering from the International Compliance Association and University of Manchester Business School, and is a Certified Anti Money Laundering Specialist (CAMS).

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To learn more about how our point of view shapes solutions to help third-party risk management in the Life Sciences industry, contact us today.

Website LinkedIn Mail

About Ethixbase 360

Ethixbase360 empowers confident third-party risk management through smart automation, expert-led due diligence, and responsive support. Our platform provides a single, connected view of global third-party risk, with insight and audit readiness built in. Designed to flex with risk and change, it adapts to shifting regulations and priorities, giving organizations control and the ability to respond at pace. Its proven configurability is backed by expert teams who bring human intelligence to every decision. Covering Anti-Bribery and Corruption, Modern Slavery, Human Rights, and Cyber, Ethixbase360 helps organizations stay resilient and agile, enabling faster decisions, greater value chain transparency, and clarity in an increasingly complex risk landscape. Learn more at **www.ethixbase360.com.**

1. https://pmc.ncbi.nlm.nih.gov/articles/PMC10015300/

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