WHITE PAPER

Seven Steps to Effective Enterprise-Wide Compliance

– Aniket Maindarkar, Rajeev Thykatt

Abstract

Cost optimization. Profitability. Product or service innovation. For the longest time, these were the three pillars of success for enterprises. However, today's business vocabulary defines success beyond a quarter – success needs to be sustainable. This means the margin for error is narrower than ever. Investors, regulators, and other stakeholders have little patience for accidents caused by oversight, accounting gaffes, corporate mismanagement, and noncompliance. No enterprise wants to be the headline of the day for the wrong reason. Why face sanctions, lawsuits, fines, and public anger when it could have been avoided?

That's why enterprises feel the need for a fourth pillar in their foundation for success – holistic compliance. Many have tried to operationalize compliance programs with in-house efforts. But often, they don't have the right people, processes, and supporting tools to manage regulations, contracts, standards, and policies alike; for each geography, function, and market vertical. Finding a service partner who can manage bits and pieces will solve only part of the problem. The solution is a holistic framework that can speed up the journey to effective enterprise-wide compliance, and a partner who can help implement it.

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Cautionary tales: the cost of noncompliance

Running a global business means exposure to multi-dimensional risk; the needle in the haystack is no longer singular, and there are far too many haystacks. Globalization equals interconnected supply chains that are more prone to the ripple effect of a single fault. More cause for concern is a plethora of market-specific laws, filing norms, and human resource policies; fall foul of any one, and it impacts the enterprise in its entirety. The 21st century business landscape is dotted with many cautionary tales of noncompliance – from financial mismanagement to negligence of employee safety.

December 2007 to June 2009: The recession that changed everything

In 2014, regulation is part of the new operating normal – from Dodd-Frank to Basel III to Sarbanes-Oxley (SOX). While these are among the more commonly known regulations that companies must comply with, there are a plethora of others, each more intricate than the other.

April 2009: 2.1 million workers seek justice

An astounding 2.1 million Brazilians filed cases against their employers in labor courts for violating labor laws.[1]

April 2010: The big spill at Deepwater Horizon

The largest, marine oil spill in the petroleum industry took place at Deepwater Horizon in the Gulf of Mexico. Reports suggest the spill could have been avoided.[2]

April 2011: A $70 million fine

A leading drug manufacturer was penalized by investigative agencies with a $70 million fine for corrupt marketing practices in Europe.[3]

November 2012: The Dhaka fire

117 garment workers were fatally injured when a fire broke out in the Tazreen Fashions factory on the outskirts of Dhaka, Bangladesh. Tazreen Fashions was a supplier to a global retail giant, causing considerable damage to the retailer's brand reputation. Reports indicate that better fire safety and electrical wiring standards could have averted the disaster.[4]

September 2013: A $2.5 million class action settlement

A $2.5 million settlement was awarded to the employees of a food and beverage major that was found to have violated the Fair Labor Standards Act (FLSA) in the United States.[5]

A common refrain in any analysis of events triggered by noncompliance is, "It could have been prevented". However, business executives will state that while they would like to have *a priori* knowledge of risk exposure, they often find it difficult to keep pace with an ever-changing compliance universe. After all, the expertise required to comply with the US GAAP is far different from filing requirements in Egypt or Brazil.

The challenges of in-house compliance initiatives

"Do we have the processes, people, and supporting tools required to achieve compliance?"

This question remains unanswered at most enterprises and delays the process of implementing a global compliance program. And the enterprises that embark on the journey of regulatory compliance are astounded by its cost, infrastructure, and operational complexity.

For executives looking to accelerate the journey to effective enterprise-wide compliance, here are six questions to answer:

What is the cost of setting up an in-house global compliance program?	Can we afford it?	Will we be able to achieve the all-encompassing expertise that we need?
This will involve the cost of hiring compliance experts, administrate compliance programs, and manage related paperwork. The total cost, more often than not, will be prohibitive.	Filtering resumes is the least time-consuming task. It's more important to understand, if we can afford the program and the source for funding compliance.	Regulation varies by market and country. A dedicated team will need to attend webinars, visit websites, and consult experts to stay updated on global regulatory requirements and associated changes in policy or reporting norms.

Is our data security a cause for concern?	Can we monitor risk and compliance in a comprehensive manner?	How soon can we get to our desired state of compliance monitoring?
In-house data security is often unchecked. Without an in-depth analysis and review, employees can sometimes provide misleading information that could later blow up as costly legal affairs.	A holistic approach to compliance includes identification, evaluation, implementation, and tracking. This needs tracking tools and dedicated teams.	Implementation bottlenecks within the enterprise can stall, and ultimately sink a global compliance initiative. This calls for a dedicated team to take ownership of various compliance programs and ensure smooth implementation.

The answers to these questions can lead one to believe that outsourcing compliance initiatives to a service partner is a feasible option that will save cost, time, and effort, while adding valuable expertise to the team.

A word of caution though: outsourcing a few compliance processes is only part of the solution. Effective enterprise-wide compliance will only be a reality with a comprehensive framework that provides the tools to define the desired state of compliance and implement it, all while providing room to scale as compliance needs change.

A seven-step approach for a holistic compliance framework

Before we define the framework, it is important to identify the people, processes, and supporting tools that enable an enterprise to better manage compliance.

People for expertise

- Legal team for regulations

- Risk management and legal team for contracts

- Risk management team for standards

- Risk management and information security team for policies

Processes for data security

In the absence of strong internal measures, enterprises can look to stringent data security and continuity standards such as ISO 27001 and ISO 22301.

Tools for compliance

Historically, most compliance activities have been manual. Earlier, compliance programs needed individuals and businesses to sign on pieces of paper. There have been some improvements, and today, several documents are maintained online. However, compliance as a process is still manual and cumbersome. This can be overcome with a technology tool that can calculate laws, regulations, and compliance requirements for every vertical/horizontal market.

Also important is to have a set of rules for compliance implementation. These rules should be established by computing regulations, best practices, and organization-specific policies. The next step is to automate compliance by implementing the tool in various teams and geographies.

The seven steps

Step 01 – Understand compliance requirements

To begin with, it is important to understand the compliance requirements of your enterprise. Compliance is not just about regulations, it also includes organizational policies, contracts, and standards. Further, regulatory compliance is not the mandate of the CFO or CEO alone – it is critical that all business units and functions become compliant.

The human resource team needs to monitor Equal Opportunity Employment (EEO), Minorities and Women Owned businesses (MWBE), Fair Labor Standards Act (FLSA), Family and Medical Leave Act (FMLA), and a host of other areas. The chief product officer has to monitor contract compliance and ensure agreements conform to the rates and terms of the agreed deal. The chief operating officer must ensure compliance at the factory or retail outlet and ensure conformity with regulations on fire safety, hazardous material management, and more. To add to the complexities, an enterprise with global presence faces challenges of understanding different regulations across countries and ensuring their implementation.

Another overlooked area is sourcing compliance. This includes monitoring areas such as materials from non-conflict regions. To some enterprises, this could manifest in metals for cell phones or batteries for cars and phones. For others, it could be ethical coffee beans or non-rainforest wood from Brazil for paper. A holistic framework will factor granular details such as these.

Step 02 – Classify requirements into focus areas

When once compliance requirements are established, the next step is to classify them into focus areas like the ones listed below.

- Ethics
- Fair labor
- Family and medical
- Responsible vendor
- Workplace harassment
- Sexual harassment

- Safety
- Privacy
- Data protection
- Security
- Continuity
- Quality

- Incident response
- Whistleblower
- Environmental
- Fraud
- Others

Step 03 – Identify owners for implementation

Implementing the compliance initiative will come with its own set of roadblocks. To overcome resistance to change and ensure that processes are followed, having compliance process owners is essential. Appropriate responsibilities must be assigned to owners across business functions and geographies.

Step 04 – Evaluate risk levels

When once risks are identified, classified, and delegated to owners, it is imperative to calculate risk levels. This should be done by evaluating the risk criteria and appetite of your enterprise. Risk levels are computed through business impact analysis, root cause analysis, probability or frequency of occurrence, and the risk mitigation options available within your enterprise. At the end of risk evaluation, risks can be categorized as very high, high, medium, low, and very low.

Step 05 – Create a compliance program

The program must be designed keeping in mind:

- Identified regulations, policies, standards, and contracts
- Calculated risk scores
- Identified owners of risk management
- Current status of compliance
- Aspired compliance status
- Timelines to achieve compliance
- Residual risks

The compliance program can be industry-specific, geography-specific, country-specific, state-specific, or a combination of one or more of these.

Step 06 – Monitor/track the compliance program

The compliance program must be continuously measured for effectiveness and impact. To do so, enterprises need a technology tool that can:

- Track and compare multiple compliance entities
- Generate dashboards and reports
- Enable multiple user accounts

Step 07 – Scale the compliance program

The compliance program should be easily repeatable across geographies and value chains. As needs and priorities change, the program should have the flexibility to be reconfigured without disrupting operations.

An end-to-end compliance solution

The best practices outlined in the seven steps are embedded in the Infosys BPO Compliance Management Tool, which comprises a risk methodology framework and a pre-configured, workflow-based, automated, technology platform. It can address varied compliance needs and is audited periodically to ensure its relevance. Multiple logins, dashboards, and reports aid faster adoption across the enterprise. This tool is built to enable continual improvement of a compliance program by establishing a maturity level and increasing the level by acting on insights into the effectiveness of a program. Through the solution, Infosys BPO addresses compliance requirements across Asia, Africa, the Americas, and Europe from 26 global delivery centers.

The approach

IDENTIFY
- Requirements from regulations, standards, contracts, and policies
- Requirements across geography, industry and enterprise
- Owners for the compliance requirements
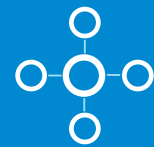- Classify requirements into focus areas

EVALUATE
- Risk assessment
- Business impact assessment
- Risk criteria and risk appetite concluding on risk score/level
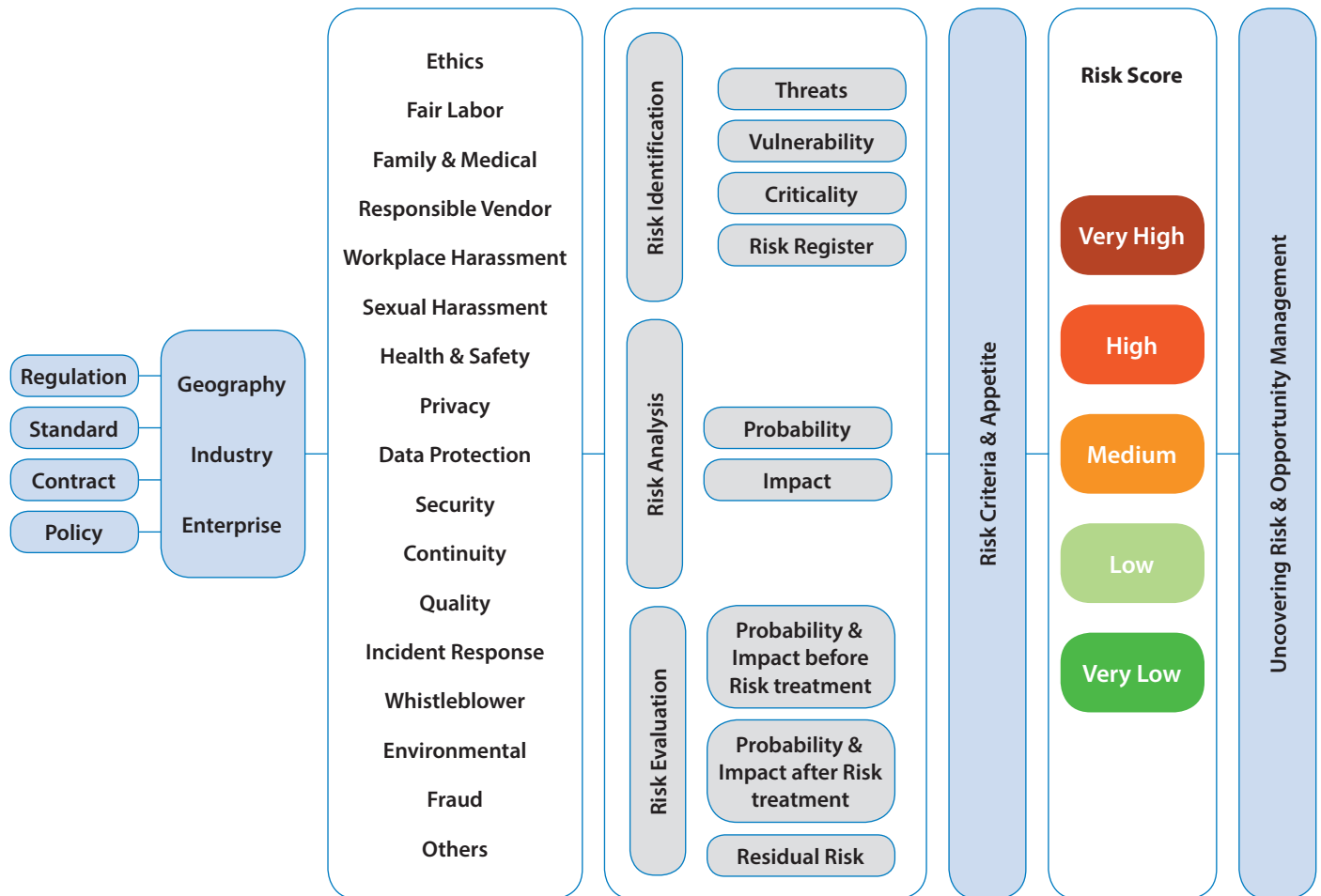- Develop mitigation plan

IMPLEMENT
- Compliance plan
- Governance with compliance owner for adherence to compliance plan
- Evidence compliance
- Review compliance plan

SCALE
- Global compliance dashboard
- 100% coverage of value-chain/scope
- Measure maturity level and baseline for improvement
- Increase the maturity level

Compliance Management Tool components

Regulation · Standard · Contract · Policy

Geography · Industry · Enterprise

Ethics
Fair Labor
Family & Medical
Responsible Vendor
Workplace Harassment
Sexual Harassment
Health & Safety
Privacy
Data Protection
Security
Continuity
Quality
Incident Response
Whistleblower
Environmental
Fraud
Others

Risk Identification
Threats
Vulnerability
Criticality
Risk Register

Risk Analysis
Probability
Impact

Risk Evaluation
Probability & Impact before Risk treatment
Probability & Impact after Risk treatment
Residual Risk

Risk Criteria & Appetite

Risk Score
Very High
High
Medium
Low
Very Low

Uncovering Risk & Opportunity Management

The way forward

To state it simply, compliance will always cause some loss of sleep about loss of jobs, profits, and reputation. But that doesn't mean it can't be managed better. A good motivation to quell inaction is to ask, "What's the worst that can happen?" The scenarios are many, and they are not pleasant. The sooner enterprises go about defining a framework that works for their compliance requirements, the faster they will be able to achieve enterprise-wide compliance. The seven steps explained in this paper will catalyze the journey. And as for outsourcing compliance processes, the answer is simple – look for global reach, local knowledge, capabilities in various compliance areas, technology strengths, and most importantly, the willingness to look at going the extra mile rather than seeing the implementation of a solution as the last mile in compliance.

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Aniket Maindarkar is responsible for running operations for North, Central, and South America at Infosys BPO. Based out of Atlanta, Georgia, he is responsible for revenues and profitability of all of the seven centers that Infosys BPO has in the Americas as well as for driving the growth strategy for the geography.

In the last 13 years, he has played multiple roles at Infosys including sales in the Retail, CPG, and Logistics industry vertical, relationship management for key accounts, marketing, alliances, and sourcing advisor services. Aniket has a deep understanding of the shared services / global business services (GBS) industry and has assisted several Fortune 1000 organizations in developing and executing their GBS strategy. Aniket has a bachelor's degree in computer science and an MBA from Symbiosis Institute of Business Management in Pune, India.

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Rajeev has over 13 years of industry experience encompassing standard implementation, legal and standard compliance, process consulting, information security, business continuity, and risk management. He has worked closely with leading enterprises in the US, Europe, and India.

He has been associated with Infosys BPO since 2007 and currently leads the risk management functions. His role is primarily to drive the organization's risk management strategy and processes. He started his career as a practicing lawyer.

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