

compliance

STEPS TO TAKE, QUESTIONS TO ASK

Jayant Dwivedy discusses the “how” and “why” of developing compliance by design

Compliance means conforming to a rule, such as a specification, policy, standard or law. Thanks to the increasing number of regulations and need for operational transparency, organisations are increasingly adopting consolidated and harmonised sets of compliance controls. This approach is used to ensure that all necessary governance requirements can be met without any unnecessary duplication of effort. In large and progressive organisations it becomes absolutely necessary that such controls are electronically driven and are manageable at any given point of time.

“Business process compliance management” is a field of study involving the co-ordination of business process management and compliance systems.

A compliance system is an organisation-wide tool that links legislative and business rules to an organisation’s policies and processes. The objective of such a system is to promote self-sustaining level of operations that minimise losses incurred in the business through breaches of laws or internal misappropriations.

ARE CFOS AND CEOS READY FOR THIS?

We view a compliance system in a similar fashion to that of an accounting system where each process is treated as a transaction.



The top-of-the-order policy creation as well as down-the-line transactional processes must be visible to obtain a complete picture of existing operations.

All matured organisations start the process by confronting what I call “brutal facts” of their real situation—not the internally reported status. Once these brutal facts emerge, it becomes easy for people to be heard and to create a true compliance culture. This may seem like an adversity in the initial phase, but recognising, planning, resourcing and working on the issue lead to the organisation emerging even stronger.

To begin with, there are some questions top executives need to ask about an action or a transaction:

- Is it legal and ethical?
- Is it consistent with the company’s policy and code of conduct?
- Can I explain it to my peers, auditors, family and friends?
- Would I be comfortable if it appears in the media?

- Will my current system make an issue visible? When?

INITIATE A STIR

Yes, there has to be a CXO-level stir in the organisation to kick-start the process of compliance by design. This is to get everyone listening (not hearing). A clear leader or sponsor of the project needs to emerge at this stage. Communication channels need to be revived so as to deliver a high level of efficiency in communications.

FINALISE SCOPE, GATHER FACTS AND DATA

This is another area where many companies falter. Often the agreed scope does not reflect the true picture. Compliance requirements are beyond the four walls of a company. Does the current scope and computerisation cover all employees (up to the grassroots level including field-level staff), contract manufacturers, regions

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and branches, clearing and forwarding agents, warehouses, etc?

Does it cover the spend on core processes (agent fees, production materials, etc) and also the spend on non-inventory/ service contracts (field-level reimbursements, maintenance contracts and rentals in warehouses, office or plant consumables, media contracts, promotional spend, capital goods, etc)? Are these spends visible and is data available in one go? Is the company within the budget norms? How long does the middle-management team take to offer this information—a few days or a few hours? Should this be available to me in one click?

The other good question to ask is whether the company has an on-line spend category management system. Does the company see its IT spend as that on sub-categories: hardware, software and licenses, networking and communication, consumables, data storage/ back-up infrastructure, disaster recovery spend, annual maintenance contracts for hardware, facilities, software development charges, computer stationery, IT temporary/ outsourced staff, IT consultancy and implementation fee, IT training, web designing and hosting, etc? If one notices that these are 16 sub-categories, that means we have still not accounted for the permanent staff cost



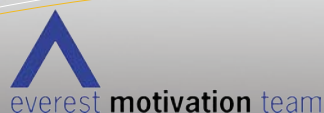
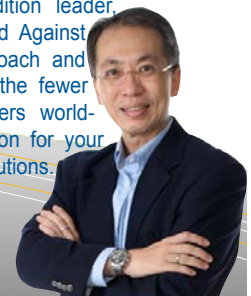
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and their operational cost (travel, telephones, etc).

Does the current system provide the ease with which spend categories can be managed and controlled

also determines compliance levels and should be an important design criterion.

Once the clutter is removed, organisations should focus on enhancements

A company can make itself compliant by linking its corporate governance philosophy with its operating systems, people and transactions. Each transaction determines the compliance level of the organisation.

in absolute terms? Large to medium organisations can have 850-100 categories and subcategories of spend. If such categorised data are not visible and there is no accountability and on-line linkages to policy matters and corporate contracts, the likelihood of the organisation being compliant is medium to low.

DETERMINE STRATEGY AND RE-VISIT POLICIES

After having understood the scope and requirements, a company needs to determine its corporate governance strategy. This requires top management time and sign-off. The policies around spend management need to be re-visited and scripted in line with business requirements and also the umbrella corporate governance strategy.

GENERATE OPTIONS/ DETERMINE COMBINATION OF TOOLS

A computerised system goes a long way in “tying” up the loose ends with great speed. These systems should be widely acceptable and should also bring in the best-practice processes. The user friendliness of the system

and options available to build and sustain compliance on transactions. Various work flows and tool options should be examined. Unwanted heritage systems should be dismantled.

The final selection of tools in today’s world could be a combination of intranet and internet-based systems. It could be a combination of enterprise risk management (ERP) and spend management and control tools.

RESOURCING AND IMPLEMENTATION

The funding and resourcing of the following becomes paramount:

- Corporate governance policies
- Clean-up and integration of existing systems
- Integration of grass root employees—all activities/ transactions
- Spend control and management solutions-make spend visible
- Reporting an control framework—make compliance visible
- Communication and training

The payback for such activities considering cost savings, productivity enhancement and savings is often less than one year. In other words compliance contributes to the bottom line.

KEEP WATCH ON VISIBLE CONTROLS

Are month-end summaries and reports controls in the real sense? Yes, but only to a certain extent. With millions of transactions happening in an organisation, it is important that the system doubles as a whistle blower and throws up alerts on-line.

CONTINUOUS IMPROVEMENT

Investments in spend management and compliance systems pay for themselves in less than one year. The benefits come in the form of cost savings, productivity improvement, reduction in audit costs, knowledge management benefits, etc.

Specialist modules should be added from time to time to manage various aspects of the business. The core implementation team should change their focus from implementation to training, awareness, reports, communication, excellence sharing and lean sigma principles as the solution matures. An organisation can make itself compliant by linking its corporate governance philosophy with its operating systems, people and transactions. Each transaction is important and determines the compliance level of the organisation. Transactions must be visible to all who need to see it or to whom it can be shown! The larger organisation is equally responsible for determining the overall compliance status. An early start with well-calculated steps does not leave compliance to chance! “Compliance by design” is essential. Have you given it a thought?



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