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Process Harmonization to address High Cost of Compliance : *Insights from Implementation*

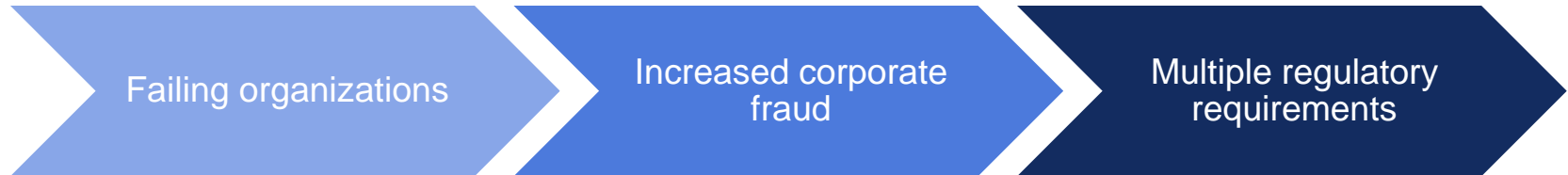
Keerthana Mainkar & Jude Fernandez

16th September 2010

Topics to be covered

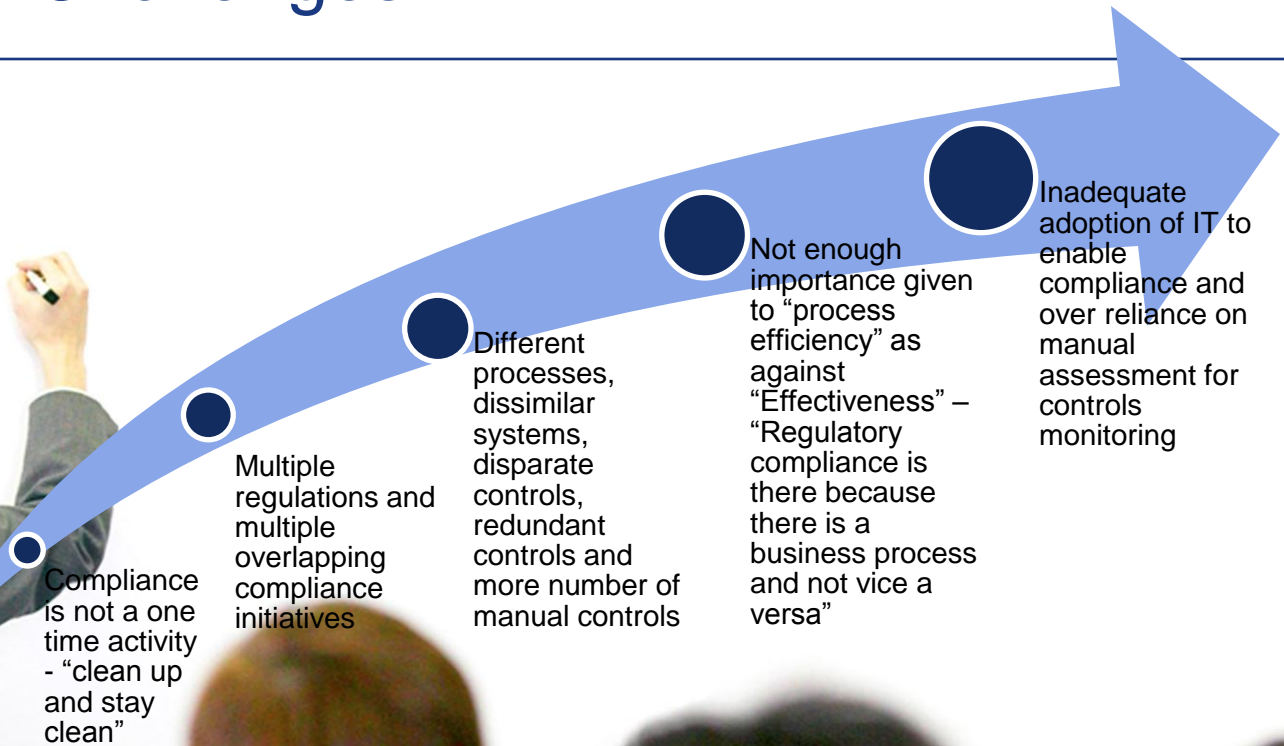
- Introduction
 - Compliance as a driver
 - Process Harmonization
- Case Studies
 - Scenario and challenges
 - Methods used
- Case Analysis
- Conclusions

The Compliance Imperative



- Regulatory compliance – no option but to comply
- Multinational organizations with different processes and industries spending upwards of 100 MUSD per year on compliance
- Regulatory Compliance market size estimated at 33 BUSD per year (cost to include HW, SW, Internal head count and consulting expenses)

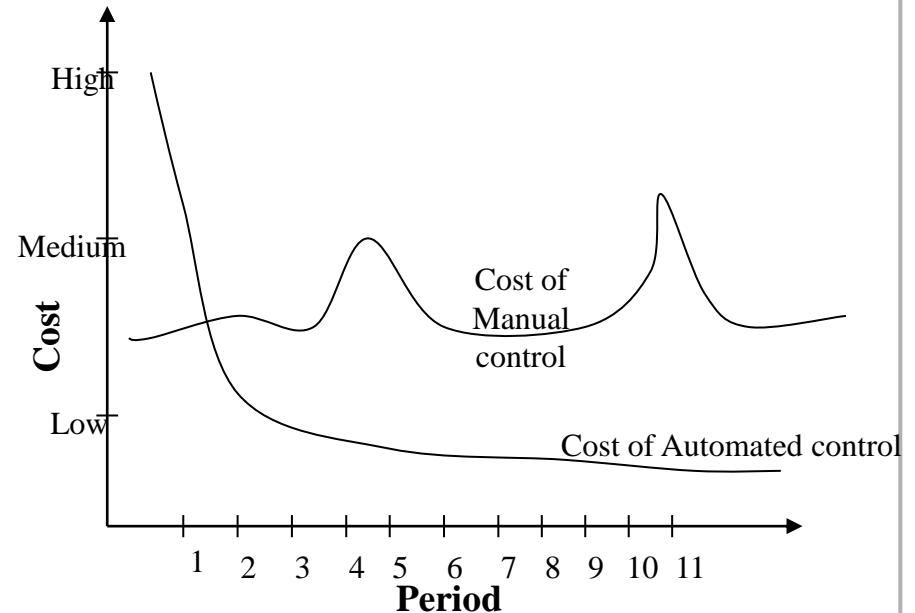
Compliance Challenges



Compliance cost Indicators

MNC with operations in 10 countries

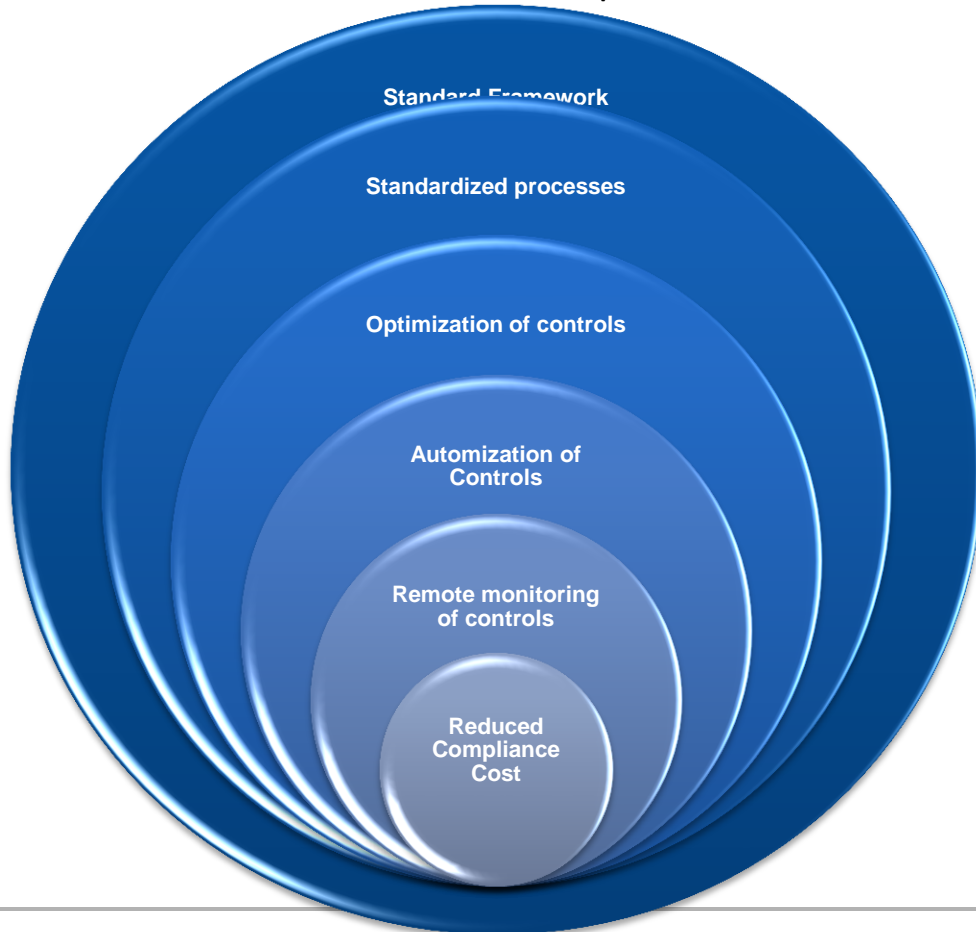
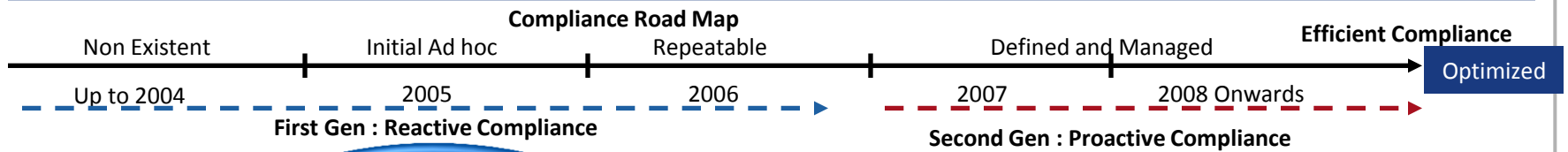
- Approximately 200 controls per country with 20:80 break up of automated and manual controls
- Total controls is 2000
- Controls split is 400:1600
- Total time taken to test controls is 14000 hours (8 hours per manual control and 3 hours for automated control)
- Average cost of compliance per hour 100 USD
- Cost of control testing per quarter is 1.4MUSD



If thru process / controls harmonization, optimization and automation, total number of controls can be reduced to 400 with a split of 60:40 (automated: manual), cost of ongoing compliance testing will come down to as low as 195k ** per quarter

** The above mentioned cost is indicative as there will be one time automation cost.

Efficient Compliance – Process harmonization to reduce cost of compliance



The compliance space has matured over a period of time and is aiming for achieving efficiency along with effectiveness.

Efficiency leads to cost reduction but efficiency cannot be achieved unless the compliance initiative is automated and controls are optimized. Controls cannot be optimized unless the controls are standardized. No amount of effort for standardization of controls will yield results unless business processes are standardized.

Efficient compliance means following a *consistent framework approach* to achieve efficiency in reporting, consolidation and evaluation of controls. It is *strategic, proactive and a long term compliance perspective*.

Efficient Compliance

**Can we harmonize controls without
harmonizing the underlying processes???**

NO


Process Harmonization.....Lit Survey

Defined

“....process of designing and implementing business process standardization across different regions / units
....so as to facilitate achievement of the targeted business benefits arising out of standardization
....whilst ensuring a harmonious acceptance of the new processes by the different stakeholders.”

Bhat & Fernandez

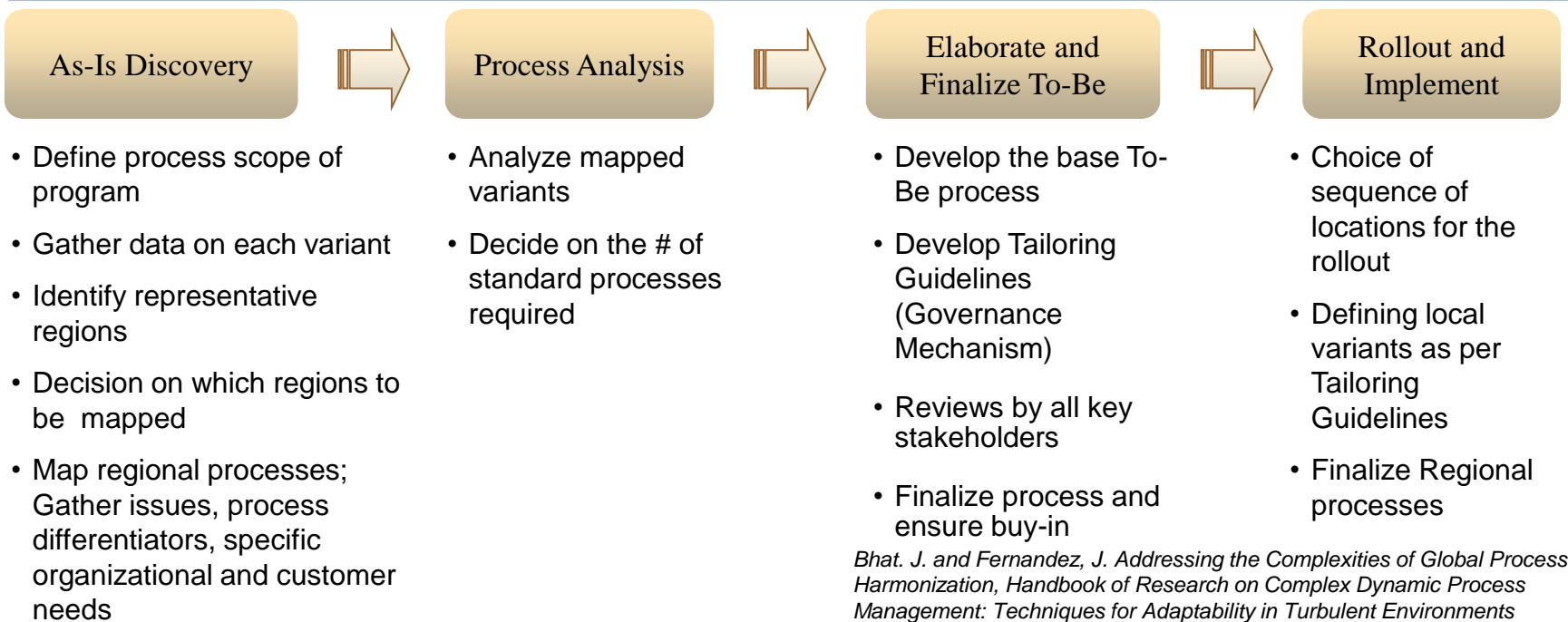
The Drivers

- Cost as a driver!!
 - Process proliferation as a cause of high cost of compliance
 - Process operational costs including IT hardware and software, personnel costs
- Ensuring standard and uniform customer experience (internal & external)
- Reduce complexity of managing a global organization
 - Including efficient integration with customers, partners, suppliers etc
 - Better control and visibility to senior management
 - Enabling business process outsourcing in a more effective manner
- New Additional Driver: Cost of compliance 
 - Control design / implementation, auditing, consultant fees etc

Challenges Faced

- Balancing needs of stakeholders and Change management
- Cost & Complexity of the Harmonization Initiative
 - Large initiative risks
- Regional Constraints
- Decision Making on Re-use of Existing Processes & IT Infrastructure and assets – People redeployment???

Process Harmonization: Methods Used (Lit Survey)



Team staffing: Right representation from all stakeholders, right competencies and time

Early employee involvement: To pre-empt change management issues; Sr Exec leadership support; Best practices (internal & external)

Process ownership roles: to own and manage the new process & ensure their buy-in

Define the standard process based on the above before deciding on the IT systems

Muenstermann, B., Moederer, P. and Weitzel, T. Setting up and Managing Business Process Standardization: Insights from a case study with a multinational e-commerce firm

Case Study 1: Auto Company



Company Background

One of the largest auto and truck manufacturers in the world with manufacturing plants spread out across the world. Operating more than 60 countries

Process Harmonization Scenario

- Sponsored by the IT group
- Cost was the primary driver with targeted savings of 40% in the TCO
- Each country had its own process variants with unique process controls; with different flavors of legacy applications
- Objective: To bring in a single SAP platform with a single IT team
- Covered the Wholesale business: including Sales & Dist, Order to Cash, factory ordering (excluding manufacturing)

Challenges

- Program initiated by the IT group
- Huge pushback from the business side initially

Methodology followed

As-Is Capture

Company had good SMEs in each process area; they took the responsibility for mapping the As-Is processes. These were captured in Visio & Word

Design of To-Be

Initial pilot template created in one region which was later enhanced with SAP best practices, regional best practices and presented during Business Blueprinting Workshops. Regional SMEs debated and finalized it. Template was progressively developed across regions

Implementation

Asia was taken as the pilot and a template created. Subsequently, this template was taken to Europe which was then customized for that region's characteristics (began with 2 countries and then taken one by one for customization & rollout)

Initial regions chosen based on multiple factors (size, representative, volunteers, change management effort etc)

Governance

Program sponsored and driven by the IT group – Clear mandate given to them. Business SMEs represented each region to sign off on the new processes. Good Business-IT collaboration

Compliance Controls

Compliance team used the output of the workshops to ensure that the right controls are put in place – more passive

Case Study 2: Electronic Components Company

Company Background

Fortune 200 company in the area of electronic components and computer products specializing in distribution and value-added services. Having operations out of 51 countries in 300 plus locations.

Process Harmonization Scenario

- Company seeking to move from functional-based to process based organization; \$400m program
- 50 countries covered, grouped into 3 large chunks

Challenges

- High resistance to change from the regional groups who were politically strong

Methodology followed

As-Is Capture

Captured over a 3 month period by the Program team (joint team) using a proprietary Process Modeling based Requirements Analysis tool. Along with this they also worked on identifying the best practices

Design of To-Be

Straw man of the To-Be created combining best practices from the ERP best practices, domain knowledge and the As-Is process Workshop organized for each process with participation from each region Global To-Be process created after detailed discussions, verification and validation and finally prioritization Continuous Process Improvement teams (already existing in the company) analysed and classified each process requirement as non-value adding, customer value adding and business value adding.

Implementation

Rollout being carried out currently in 2 waves covering the different regions over a period of 12-15 months. For each region, the local requirements were captured and tailored into the Global template. Currently, ANZ, N Europe & S Asia covered; others are in progress

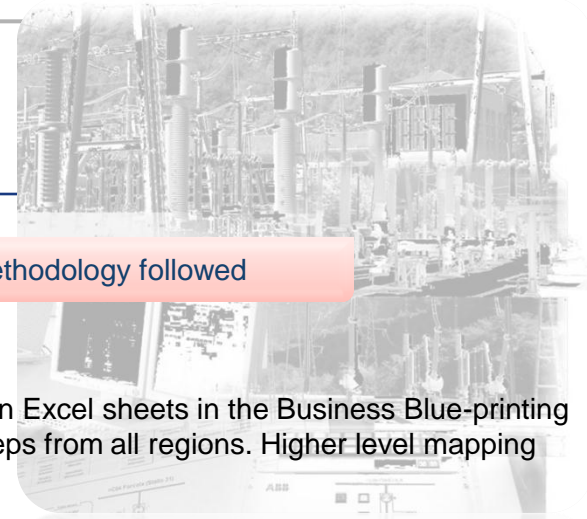
Governance

Global Process Owner (VP level), fully dedicated to the initiative. There were also process owners at each regional level as well Each Process change had 3 levels of approval including the Global Process Owner

Compliance Controls

Compliance team used the output of the workshops to ensure that the right controls are put in place – more passive

Case Study 3: Power Company



Company Background

One of the leading players in the automation and power and technologies space. One of the largest engg companies and conglomerates, the company has over 100,00 employees with customers spread out in around 100 countries.

Process Harmonization Scenario

- Sponsored by the Global CFO
- Primary driver to bring in standardization of processes, ERP instances and especially, Reporting & Compliance
- Multiple SAP instances across the world, e.g., one country had 13 divisions with 8/9 ERP instances
- Manufacturing & Sales Planning, Finance ?
- Shared services center for Fin and HR already in place

Challenges

- Huge resistance to change from regional business units
- Time overrun: planned for 13 months; extended by 6 months

Methodology followed

As-Is Capture

As-Is process captured in Excel sheets in the Business Blue-printing Workshops which had reps from all regions. Higher level mapping was done earlier

Design of To-Be

Collective agreement to use SAP best practices as the main driver for the To-Be. Initial template prepared combining this along with As-Is best practices

Consolidation involved handling the different versions of SAP as well as the multiple divisions

Designing access to SAP in accordance with To Be process

Implementation

Involved considerable selling & trainings on the new process to the business units. Due to high resistance to change, the scope of the initiative was narrowed down to 3 business divisions and the others put on hold for the future

Governance

Program owned by the IT organization with a Regional CIO as the Program in charge

Compliance Controls

Active participation of compliance team in To Be process definition with focus on standardization, optimization and automation of controls.

Case Analysis: Similarities

- Large, multinational corporations spread out across the world
- In all cases the 'to-be IT landscape' was already decided to be ERP-based
 - Hence, To-Be creation largely influenced by the pre-decided target ERP package
- Core program team formed combining both the company and external consultants and business & IT
- Identification of best practices from As-Is was done in all cases
- As-Is analysis and To-Be creation largely manual efforts; and consultant / expert dependant
 - Little leverage of tools, for e.g., for As-Is analysis, comparison of different To-Be models amongst others – need for more research
- Resistance to change was a dominant common feature as the global To-Be template was being rolled out across different regions
 - At least in one of the cases the resistance was such that the initiative scope had to be rolled back significantly with some business units being put on hold

Differences

- Governance

- Ownership: IT (2 of 3 cases) and by business groups in the other. **Program ownership was different in each case: IT, business and Finance**

- Strong mandate from the leadership levels was instrumental in ensuring buy-in in the face of huge resistance to change

- Process Ownership / Process SMEs

- **BPM infrastructure in place** (2 of 3 cases): Process owners (global /regional / local), and / or process SMEs who could provide inputs on As-Is documentation, review, validate and sign-off on the To-Be templates for their regions

- Emphasis on designing the ERP **access in accordance with the To Be design**

In one of the cases (namely Auto company), huge emphasis was laid on designing the access to the system in accordance with the To Be design. This was done to avoid any process change from creeping in to the system at a later point of time in ERP environment.

- Drivers and motivations

- Cost, reporting standardization, process excellence main objectives of the program in most of the cases
- Compliance as an additional driver was seen in one of the cases (Power company)

- Compliance Controls

- In 2 of the 3 cases, compliance was a passive motivation alone. The group addressing compliance played a passive role
 - Review of the To-Be and propose changes if required in the controls designed
- In the other case, controls optimization was one of the main objectives and the approach included evaluating and optimizing of the controls

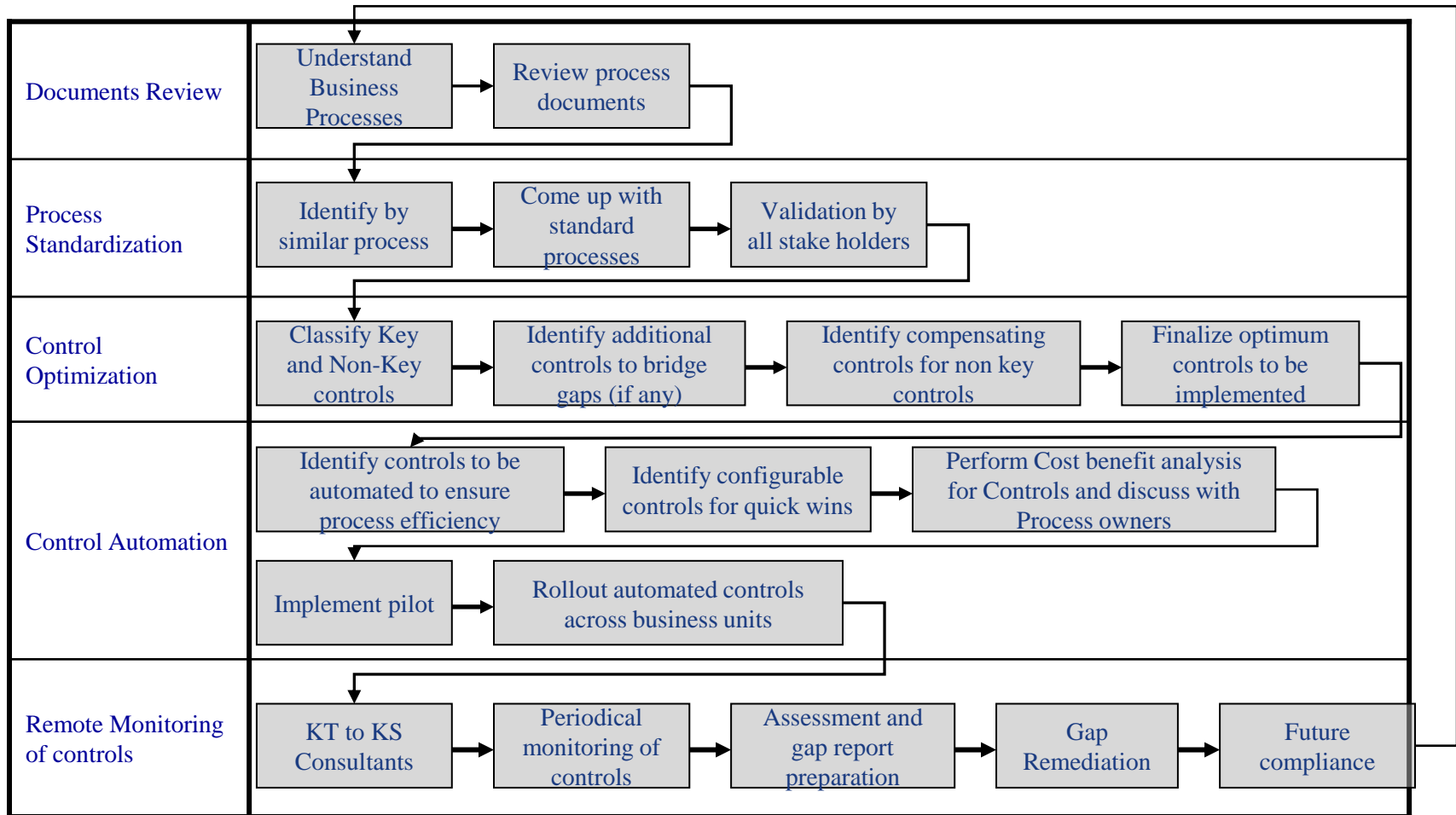
Common Challenges faced in the cases

- **Pre-decided IT landscape constraints To-Be design**
 - However, quality of the To-Be is limited by the process on the pre-decided system, for e.g., the package chosen
- **As-Is process documentation involved effort and time of stakeholders (workshops or face to face meetings, travel costs)**
 - Cost and time taken for the As-Is phase vs value was a question
 - Need to capture regional specific requirements (market/ customer /regulatory), competitive differentiators, best practices
- **Design of To-Be**
 - Takes too long, and is complex
 - Currently it is dependent on expert guidance (esp, if target process is not identified)
- **To-Be: Resistance to the new process**
 - Politics and power equations; for eg, power of the local regional CEOs
 - Resistance to reduction in number of controls

Effect of process harmonization on controls

Let us analyze the impact this process harmonization had on controls in case study 3

Approach for controls standardization & optimization



Case Analysis: Controls Optimizations

- Controls optimization was done along with process harmonization.
- Three phased integrated approach followed to ensure right number and mix of controls at the design stage it self
- Proactive participation and push from the top for controls rationalization

Outcome:

- Number of controls for country A: 3050
- Number of controls post process harmonization: 980
- Number of controls post controls optimization: 360
- Number and Nature of harmonized and optimized controls: Automated – 160 and Manual 200

Learnings & Research Directions

- How much to standardize...?
 - Lots of debate on this...country level / region level or global standard?
 - How to decide on how much standardization is best for a process for the company?
 - What factors are to be analyzed for this? for example change mgmt efforts vs the expected benefits of a global template
 - Practitioners will benefit with an approach to analyze pros and cons of different options to select the most suitable one
- Optimizing on As-Is process capture
 - Methods to decide how much As-Is to capture
 - All variants to be captured or capture some variants and build on top of these
 - Process capture tools: Scope for bringing in more sophisticated methods and tools to save time, effort, complexity
 - *Note: Process harmonization here seen in the context of global organizations attempting standardization as part of a single large initiative*
 - *Bottom-up process best practices roll-up (on a continuous basis) as in companies such as Toyota are worth analyzing for adoption in these contexts*
- Handling of resistance to change
 - Since these initiatives are large and high-risk, it might be worthwhile to explore bringing in structured change management techniques at appropriate stages in the initiative
 - Handling people management to reduce resistance to change

Business Process Standardization, Tregear R, Handbook on Business Process Management'

Learnings & Research Directions

- Analysis of As-Is and Developing the To-Be
 - Deciding upon the standard base process
 - Decision on the target To-Be process: in case the end IT package has been chosen (how to bring in company best practices)? In other cases, how to create the To-Be in the shortest time and with minimum effort
 - Opportunity to bring in suitable tools, for e.g., simulation to try out different process options to estimate impact on process performance
 - Process excellence techniques can be adopted
 - Process goals: cost, quality, time and other specific ones
 - Use of value analysis to validate each process step
- Modeling of compliance controls and process modeling
 - Today these are distinct and not amenable for integrated analysis
 - Scope exists to develop integrated modeling approaches to streamline controls optimization in line with process standardization
- Governance
 - Some governance structures have been proposed; these can be added to the practitioner toolkit with suggestions on appropriateness for different scenarios

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Thank You

For further information please contact authors

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