Supplier Compliance Management

Global survey – May 2010

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Executive Summary

This slide pack summaries the key findings of the survey into the Importance of Supplier Compliance Management carried out by Strytex during May 2010. The results are based on 227 respondents from a range of industries, seniority and regions.

The key findings are:

▶ 30% of organisations don't know how often they audit supplier compliance or don't measure it

▶ 79.6% of organisation either have no system or just a manual system for managing thousands of compliance documents

▶ 44% of organisations are trying to manage over 5,000 compliance documents, each with different expiry dates.

▶ and almost 50% of companies responded that they did not remove suppliers for non-compliance because they could not track it well enough

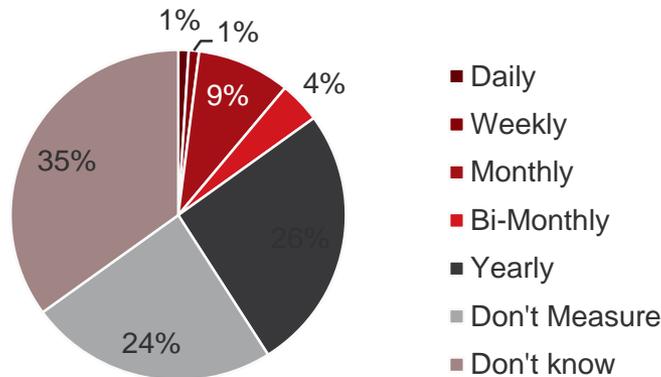**strytex**

How important is Compliance Management

Aberdeen Group recently reported that 59% of organisations either didn't measure or didn't know when they ran independent audits of contractor compliance. That prompted us to undertake this survey on Supplier Compliance Management.

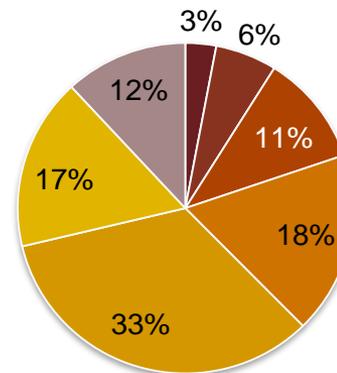The good news is that our survey shows only 30% of organisations responded to a similar question.

Also according to Aberdeen, "monthly auditing is often the most appropriate frequency of auditing since it allows an enterprise to cull an accurate gauge of compliance". Taking Monthly or better, the results have improved from 11% to 20%.

How often do you check the compliance of your suppliers?

Aberdeen Group – Oct 2009

1% 1% 4% 9% 35% 26% 24%

- Daily
- Weekly
- Monthly
- Bi-Monthly
- Yearly
- Don't Measure
- Don't know

Strytex – May 2010

3% 6% 11% 12% 17% 18% 33%

A low frequency of compliance audits can leave an enterprise at risk for a number of issues including lawsuits, federal inquiries / audits and liability for tax and health care benefits.
Aberdeen Group, Contingent Labour Management, October 2009

However, the bad news is ....

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and the bad news is......

....that

- 79.6% of organisation have no system or a manual system for managing thousands of compliance documents

This is an administrative nightmare and as one of our clients put it, "it's a mind numbing, soul destroying never ending task."

What type of system do you use to manage your suppliers compliance?

Compliance Management System	18.20%	61.40%	17.70%	2.70%

■ None   ■ Manual   ■ EDI   ■ COIN

Of the manual systems, the split is

- ■ Filing cabinets and Spreadsheets
- ■ Databases developed in house, e.g. Access, Filemaker etc
- ■ As part of some other system, e.g. ERP
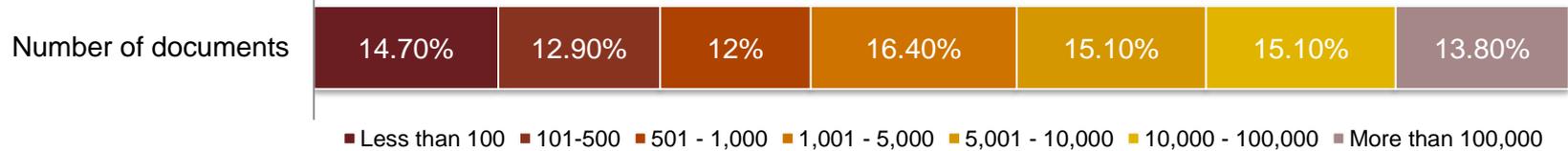- ■ A dedicated SCM system but we need to enter all the data

5%

35%

32%

28%
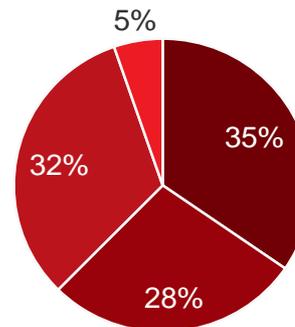
A Community of Interest (COIN) system enables members to share information without having to fax it or send it electronically *(See slide 11 for more information)*

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and the bad news is......

....that

- 44% of organisations are trying to manage over 5,000 compliance documents each with different expiry dates.

Approx how many compliance documents do you believe your organisation needs to manage?

Number of documents	14.70%	12.90%	12%	16.40%	15.10%	15.10%	13.80%

■ Less than 100 ■ 101-500 ■ 501 - 1,000 ■ 1,001 - 5,000 ■ 5,001 - 10,000 ■ 10,000 - 100,000 ■ More than 100,000

Over 60% of manual systems use filing cabinets, excel spreadsheets or databases developed in house. This means that over 56% of organisations use highly inefficient compliance management systems.

As a result, almost 50% of companies responded that they did not remove suppliers for non-compliance because they could not track it well enough.

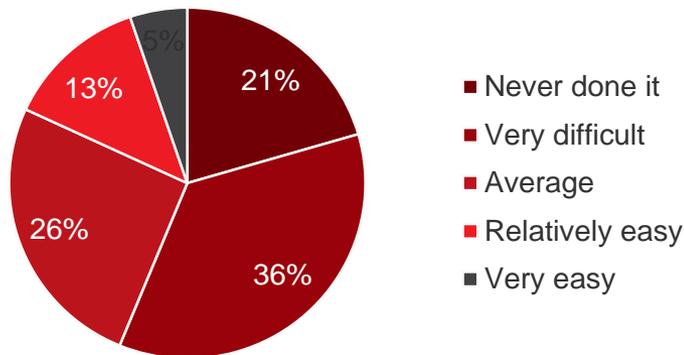**These organisations are definitely at risk!**

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Supplier Compliance Reporting

With the inefficient compliance management systems, it comes as no surprise that 56% of respondents report that they have either never run, or found it too difficult to run a report to check on supplier compliance.
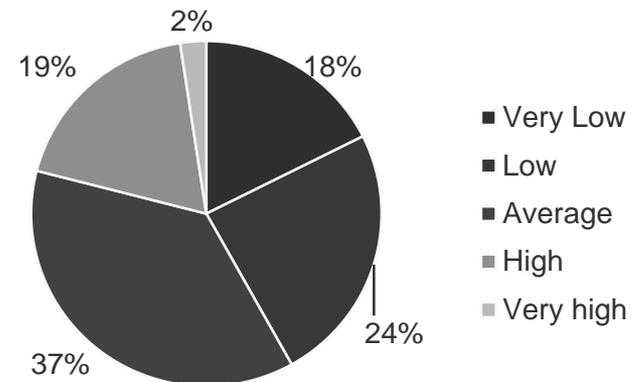
Even when the report is run, 42% report having a low or very low confidence in the accuracy of the data as most of the information is months out of date.

The good news is that there is evidence of a change with a small percentage being able to generate reports very easily with a very high level of confidence.

How difficult is it to run a report to check the overall compliance of your suppliers?

- 21%
- 5%
- 13%
- 26%
- 36%

Legend:
- Never done it
- Very difficult
- Average
- Relatively easy
- Very easy

What level of confidence would you put on the results of the report?

- 2%
- 19%
- 18%
- 24%
- 37%

Legend:
- Very Low
- Low
- Average
- High
- Very high

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Awareness of regulations

The mass of regulations makes it even more difficult for everyone concerned. Over 60% of respondents are not fully aware of all the legal and regulatory requirements.

In Australia, and probably in most other countries, Directors and Owners can be held legally responsible for breaches in these regulations so this result must be of concern to the 9% of respondents who are CxO's or Directors.

There are high penalties for companies and staff who break compliance regulations or use non-compliant suppliers, even unwittingly, with fines of up to millions of dollars and even jail terms. Would you say you were fully aware of all your legal and regulatory responsibilities for managing your supplier compliance, e.g. OH&S, SOX, food safety, product safety etc?

Awareness of legal and regualtory responsibilities	35.80%	43.40%	20.80%

■ Yes   ■ Partially   ■ No

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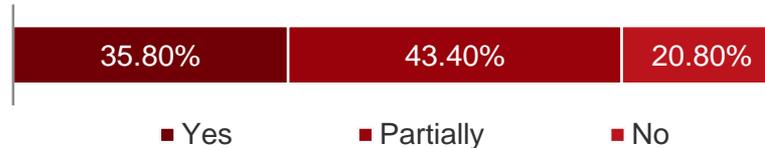
Facility Management

Over the past few years, we have discovered that Facility Managers have very high compliance requirements so we thought we would add a few questions specific to this area

25% of respondents were involved in Facility Management.

56.6% of these stated they had a list of all the compliance documents they need for each building
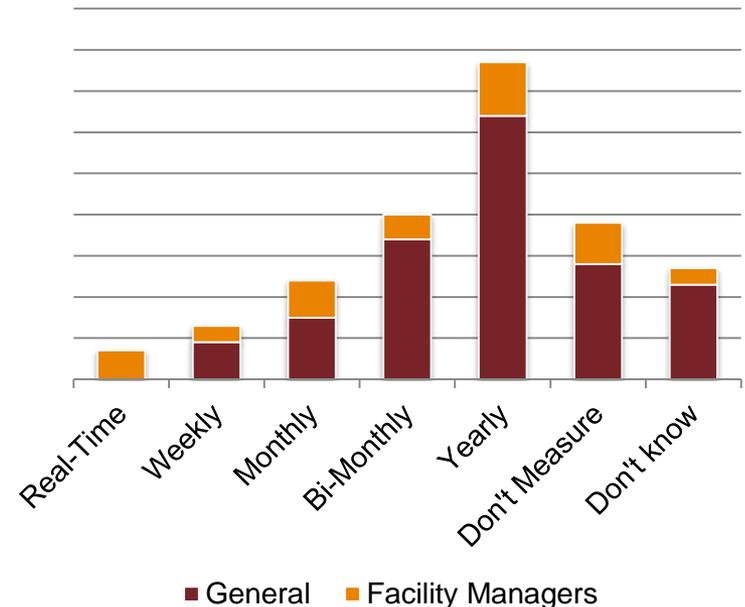
37.7% collect compliance information on a monthly basis or better.

▶ Compared to the 14% for the rest of the sample

49% report on Facility and Property asset compliance on a quarterly basis or better.

In general we have found Facility Management companies here in Australia are very aware of their compliance regulations, mainly around Health, Environment and Safety issues. A key driver is that contractors are, in the eyes of the law, treated as employees.

How often do you collect compliance information?

Chart categories: Real-Time, Weekly, Monthly, Bi-Monthly, Yearly, Don't Measure, Don't know

Legend: ■ General ■ Facility Managers

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Some open responses

A number of respondents expressed concern that Supplier Compliance Management was not getting the attention it deserved.....

Supplier Compliance is an issue that is at times neglected when minor issue are ignored. However it is the minor issue that eventually contribute to major fallout's

Totally ignored till it is too late.

To get compliance into the daily supplier relation is an uphill battle against the Legal Department especially the US lawyers because they are afraid a supplier would sue.

As part of the contract commencement, we request the required docs/certs before the contract is signed. Where we are not so good, is managing the document expiry during the life of the contract.

My company does not have a central repository for tracking contracts let alone compliance. Each department is allowed to manage or not manage as they deem appropriate

Supplier compliance management is given different priority in different companies. It should have a higher profile to ensure that the necessary resources are allocated to this area.

A real time system would be very helpful but cost is a constant constraint

Some open response

...and there were some positive comments....

Supplier Compliance Management complements Quality Assurance and Quality Control set up by the Company. Further this would be one of the foremost risk management measures the companies should introduce in their systems.

SCM is a useful tool, all staff should be develop to understand what to look out for and how to use this tool. Training should be encouraged as well.

My company and organization is really aware about the Contractor HES (Health, Environment and Safety) Management System and it is mandatory for any services which will be performed within Company premises by a Contractor who has valid CHESM certificate. This requirement is based on statistic that 80% of incident involve Contractors and they are the biggest contributor of HES record.

We have an Internal Compliance Group where all documents are forwarded, contractors are evaluated, and reports are put in place by that group. Independently, my contracts team prequalifies high-risk contractors, and we ensure that all high risk contractors providing services on the project are prequalified. Overall, we also have a local content group that prequalifies contractors at the facility.

We have an independent audit and compliance team that conducts this work to reflect its importance

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Conclusions

The conclusions I draw from this survey are

1. There is a growing understanding on the need to check suppler compliance on a regular basis, however with 80% of organisations doing it less often than monthly, there is a long way to go

2. This could be because tracking supplier compliance is difficult because

    ▶ Almost 80% of companies rely on manual systems

    ▶ Most companies track over 1,000 documents, 44% track over 5,000

    ▶ 60% of staff and officers are not fully aware of all the compliance issues they need to track

3. As a result, 50% of companies do not remove suppliers for non-compliance because they are unable to track it effectively and accurately.

This situation is putting a large number of companies at risk. There is a need for an efficient way to exchange compliance information between trading partners.

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COIN networks and acknowledgements

Community of Interest (COIN) networks

Facebook and LinkedIn are networks however "Social Networking" implies low security and a non-professional approach and "Business Networking" is all about exchanging business cards to find new jobs and new business.

Increasingly the same principles are being applied to secure Business to Business needs using "Community of Interest" (COIN) networks because they imply.

- Business level security
- Common purpose
- Dialogue

For the Risk Management and Compliance community, this means that

1. Companies join a many-to-many COIN network and post all their compliance information on their secure site, e.g. company insurance, policies and procedures; staff qualifications; product compliance certificates; audit certificates; etc.

2. They then share that information with their trading partners. Information is not transmitted, it is shared.

3. Trading partners can generate reports based on key data, e.g. expiry dates, to see which trading partner is fully complaint and up to date.

Demographics: Respondent details

Department

- Contract Management
- Purchasing
- Business Process
- Compliance / Audit / Risk
- Legal or Finance
- Project Management
- Sales
- Other

Job title

- CXO / Director
- Senior Manager
- Manager with direct reports
- Manger with no direct reports
- Staff member

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Demographics: Company details

Bar chart (horizontal, percentages):

- Q - Personal and other Services
- Pculture and Recreation
- O - Health and Community Services
- N - Education
- L - Property and Business Services
- K - Finance and Insurance
- J - Communications Services
- I - Transport and Storage
- H - Hospitality
- G - Retail
- F - Wholesale
- E - Construction
- D - Utilities
- C - Manufacturing
- B - Mining
- A - Agriculture Fishing and Forestry
- Z - Government

Axis: 0%, 2%, 4%, 6%, 8%, 10%, 12%, 14%, 16%, 18%

Region

Pie chart:
- North America 42%
- Europe 26%
- Asia 16%
- Australia 8%
- Africa 6%
- South America 2%

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