

# Changing Lanes: Keeping Pace with Converging Pressures on Procurement Organizations



## INTRODUCTION

Procurement and IT organizations are experiencing major changes in their business as they adopt new, disruptive technologies, such as the Internet of Things and cognitive computing. At the same time, supply and compliance leaders have been adapting to digital transformation overall, with the terms “digital supply chains,” “compliant supply chains,” and “impact investing” entering the everyday lexicon of these executives. Add to that the fact that the regulatory landscape has become more complex and diverse, and it is no surprise teams have had to shift lanes, react quickly and align more than ever around new corporate policies and platform unification. Cybersecurity threats, geo-political risk and consumer and investor demand for sustainable products and provenance all create the need for heightened vigilance over a company’s brand and reputation.

Millennials are also driving the rate of change at companies in the areas of sustainability, human trafficking and ethical initiatives. It is Millennials, not Baby Boomers, who now comprise the majority of the workforce, and they seek instant gratification as well as on-demand information. They are interested in their organizations’ suppliers and partners, and which companies they invest in, based on ethical initiatives. Millennials are investing in companies that prioritize the greater good more than any previous generation, according to a U.S. Treasury study. In addition, a report by the Center on Wealth and Philanthropy at Boston College revealed that due to their beliefs, millennials will play a crucial role in popularizing environmental, social, and governance (ESG) investing as their earnings rise.

## GOING DIGITAL

Is procurement ready and equipped to manage these changes? According to The Hackett Group’s 2017 Key Issues Study, while 84% of procurement organizations believe that digital transformation will fundamentally change the way their services are delivered over the next three to five years, only 25% agree that procurement has the right resources and competencies to execute that transformation today. The study highlights the top two areas for improvement: obtaining more value from purchase-to-pay (P2P) processes and reducing supply risk to reduce regulatory non-compliance.

In addition to all the pressures previously discussed, procurement is being asked to do more with less, making the establishment of proposed procurement efficiencies a mirage until the antiquated systems and processes are automated and can support emerging regulations and new data elements and requirements.

The fact is that CPOs and CCOs are dealing with data issues. As a recent report from the 2017 Ethics and Compliance Survey revealed, “Most CECOs are forced to gather siloed data from multiple departments, and that’s an issue we’ve got to solve as a community.”

This white paper explores the converging pressures and challenges that corporations face to address transparency of their products and supply chains for all regulated functions.

As this convergence takes hold between compliance and procurement organizations, and the increase in regulations governs how and with whom you do business globally, a deeper level of insight, due diligence, and workflow automation will be required to manage and mitigate risk.



INSIGHT



DUE DILIGENCE



AUTOMATION

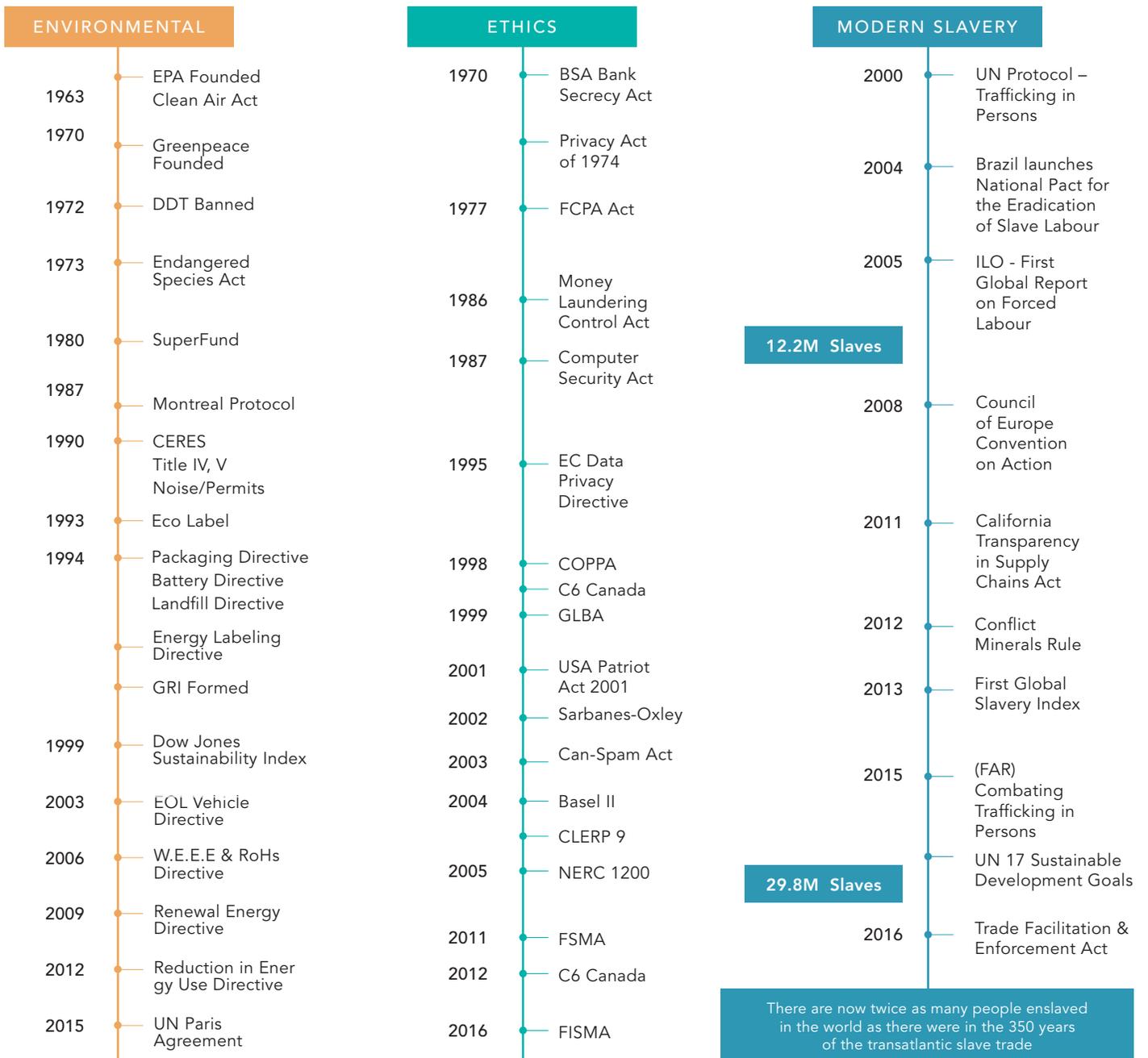
Respondents to the survey said they currently use up to ten different systems to collect and quantify data, and only 7% are connected through automated feeds. CPOs and CCOs can achieve immediate impact by adopting a common process of KYV (know your vendor) and shifting from the typical entity onboarding model to point-of-use screening. This will create the following efficiencies:

- A single point for supplier interaction, registration, data aggregation and governance
- Due diligence filtering at the point of registration pre-screening
- Deeper intelligent due diligence campaigns with a rules-based approach
- The ability to monitor the entity on-demand for changes at any point in the relationship lifecycle
- The ability to extract the data and support downstream systems and advanced reporting

## THE REGULATORY ON-RAMP

For years, the corporate regulatory landscape was primarily the concern of compliance leaders and senior executives. While vendor onboarding regulations were followed by procurement teams, their due diligence was shallow in comparison to their compliance counterparts. Expanded due diligence requirements today are creating a convergence between procurement and compliance, as illustrated by the overlapping concerns that both teams face.

Nearly half (46%) of Chief Procurement Officers feel that regulatory concerns are the biggest challenge they face, while compliance leaders' number one challenge is managing third-party compliance risk.



## COMPLIANCE REQUIRES A COMPREHENSIVE FRAMEWORK

With a higher demand for transparency and provenance, more attention is paid to how corporations conduct business and with whom. The growing number of new directives and regulations, corporate policies, as well as consumers who need to understand that the products and services they buy are green, clean and built by responsible ethical adults require that corporate procurement teams are able to rely on consistent, fast, accurate and global business compliance data and analytics that give them visibility into every supplier.

Today, the silos that once separated procurement leaders from the breadth and depth of the compliance world are collapsing. Corporations are now focused on all elements of risk that affect their products and brand, which means pressure is being placed on procurement teams to pre-screen and pre-qualify vendors. This demand falls on a team that is often not equipped to deliver, given that a sizable chasm exists within the traditional self-assessment onboarding of a supplier, commonly known as “light screening.” Additionally, in-depth research is required to identify ultimate beneficial ownership (UBO) and third-party risks.

As a result, compliance teams and procurement teams are now expected to work together. In the past, these teams utilized self-registration portals as the primary source of due diligence with their immediate suppliers. However, this strategy falls far short of what procurement teams need. After all, no supplier with ties

to or involvement in human trafficking or money laundering is going to self-report. Therefore, procurement teams must take the due diligence work on themselves and procure the third-party data needed to determine risk, protect against exposure, and comply with today’s regulations. Based on what each vendor makes and where they are located, multiple due diligence campaigns should be run to satisfy vendor compliance with regulations around ethics, labor, diversity, health and safety, the environment, governance and responsible sourcing.

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At the heart of the matter is the need to create a cohesive framework for vendor compliance within an organization that utilizes a single source of master data. Today, many corporations use disparate systems and data that are dependent on the department’s individual compliance knowledge and corporate standards for registration and screening of outside entities. That type of operational setup is no longer viable in an increasingly regulated world.

## FINANCIAL AND REPUTATIONAL IMPLICATIONS OF NON-COMPLIANCE

Corporations are learning rather quickly that their regulatory exposure also impacts another crucial area: reputation. Thanks to the prevalence and speed of social media and digital news, years or decades after establishing a brand, a company’s image can be destroyed in mere minutes by poor vendor choices and a lack of supply chain insight.

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.”

Warren Buffett

Recent legislation like the Dodd-Frank Wall Street Reform and the Consumer Protection Act is also bleeding into the way procurement is conducted. If a supply chain is thought of as a money chain, then multiple methods exist for corporations to unknowingly finance goods and services that are obtained illegally or sold on the black market. Any procurement team that utilizes a light screening process with self-serve vendor onboarding is putting their company at risk. These teams need to fully verify the supplier. Failing to do so could result in corporations funding nefarious activities, such as terrorism and human trafficking. As such, corporations could be taking dirty money or funding terrorists, thus exposing themselves to huge reputation risks.

Pressure is also mounting for companies to adopt corporate sustainability practices, such as the ten principles promoted by the UN Global Compact, which cover everything from areas of human rights and labor to environment and anti-corruption. Regulatory concerns around provenance and transparency are especially relevant for companies that make end products and those that distribute them. The focus is shifting from a reactive compliant reporting model to proactively promoting good Environmental, Social and Governance (ESG) practices to consumers and investors.

A recent survey from the Morgan Stanley Institute for Sustainable Investing emphasizes the premium that investors are placing on sustainability. Nearly three quarters (72%) of those surveyed believe that companies with good ESG practices can achieve higher profitability and are better long-term investments. One-third of the sustainability pie is risk management, which is comprised of regulatory management, reputation management and operational risk management.

The rising costs associated with compliance pale in comparison to the potential risks. Perhaps the most obvious and top-of-mind risk is the financial implication of being assessed fines for regulatory noncompliance. As two recent examples on the

supply side illustrate, the fines can be downright crippling: Rolls-Royce agreed to pay £671 million (\$830 Million) to U.K., U.S., and Brazilian authorities to settle bribery and corruption allegations; and two major Brazilian companies, Odebrecht and Braskem, were hit with a record \$3.5 billion in criminal fines in what authorities say is the largest foreign bribery case in history. While Odebrecht’s US portion of the fine was significantly reduced, from \$260 million to \$93 million, based on its ability to pay, fines that are assessed at such high million- and even billion-dollar amounts affect even the most profitable corporations.

## WHAT CPOs NEED

These risks and challenges point to one critical conclusion: corporations must understand exactly who they are doing business with at all times. CPOs now need insight into every facet of the multi-sided relationships of their suppliers, vendors, manufacturers, and distributors, which requires ultimate transparency.

Today, that information is often trapped in silos within organizations that keep their compliance, tax and procurement teams separate. As such, two internal corporate functions—procurement and compliance—must work together tightly as supply-side due diligence responsibilities fall increasingly to CPOs.

This convergence is crucial, but it’s also intuitive. Compliance teams have the master data and tools necessary to dig into third-party involvement and UBO, which is exactly what procurement teams need to answer the new standard around risk management, also known as Know Your Vendor (KYV).



Master data sits at the center of every compliance step that CPOs are now accountable for, including:

- Vendor pre-screening
- Vendor certification
- Advanced due diligence
- Sub-tier screening and due diligence
- Vendor scorecards
- Vendor audits and mitigation
- Vendor analysis and discovery

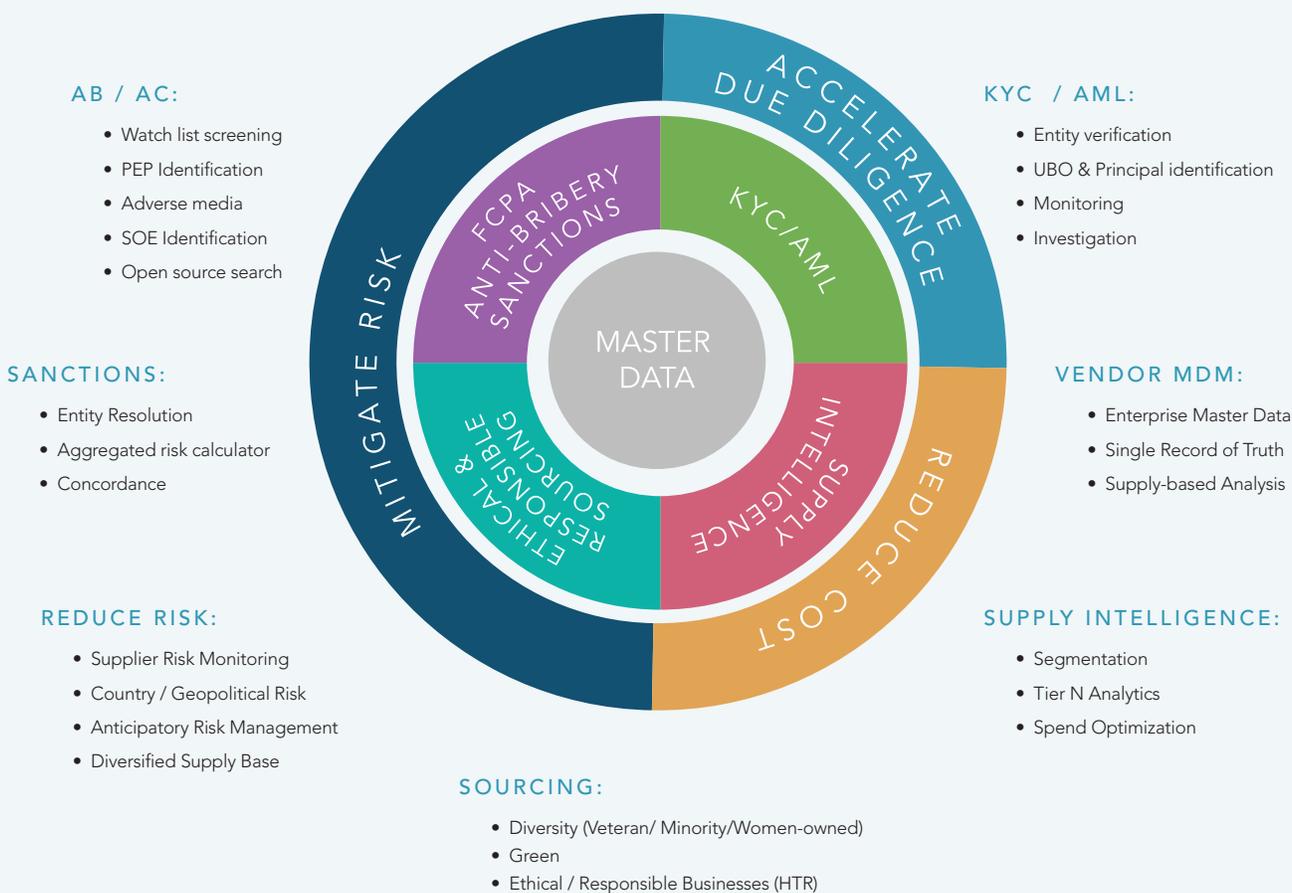
Master data is the driver for all compliance activities. Supplier risk and regulatory compliance comes down to the data: what is known, what's been supplied, what can be verified, and what can be monitored.

Ongoing monitoring and alerts, as well as advanced analytics, ensure continued compliance and minimization of supplier risk. Now that operational risk is only one of the many areas that procurement must address, master data helps to cover the additional requirements around financial, reputation, regulatory, and geographical concerns.

The good news is that business owners have been asking for more transparency as regulations have increased, and IT teams are receiving requests for a common, comprehensive framework that streamlines workflows and enables information sharing. A single system that uses the most advanced technology can provide relevant parties direct access to detailed levels of due diligence, allowing for all elements of risk to be managed, compliant people to be onboarded, and greater efficiency to be built into the process.

## CONCLUSION

Leveraging the right master data helps businesses become good corporate stewards, both today and into the future. Strong compliance standards and practices within procurement teams and across organizations ensure the mitigation of risk and the protection of the brand.



To drive this sustainability and consistency throughout organizations, corporations need trustworthy data and continual monitoring of suppliers and third-party entities. With that deeper knowledge and scalability, companies will be able to onboard entities with ease and confidence, while continuing to evolve as regulations do the same.

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