

How Can We Use a "Lean" Approach for Compliance and Control?

Forward-thinking executives strive to focus the right resources, on the right areas at exactly the right time to yield the most effective and efficient outcome. While this goal may present challenges for your internal control or compliance program, the good news is that the same problem has been addressed in other disciplines. For example, a powerful framework called "lean production" has been successfully used by manufacturers for decades to improve product quality while decreasing costs. Applying analogous "lean principles" to your program can deliver improved performance at decreased cost.

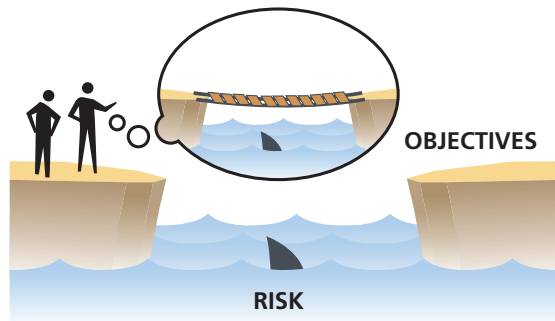
DEVELOPED BY



1. ASSESS RISKS

Understand and assess risks relative to company objectives.

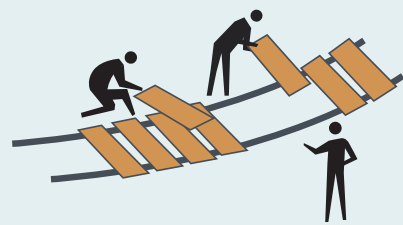
- What are our priority objectives?
- Which areas are key to our strategy?
- What could get in our way?
- What requirements must be addressed?
- Are there opportunities where better risk management can give us competitive advantages?
- Are there issues on the horizon?



2. ANALYZE COVERAGE

Analyze the current approach to understand how risks are "covered" by the front-line functions and all of the supporting and other functions.

- Are there any gaps?
- Is there any unnecessary overlap?
- Is the board involved in high risk areas?
- Are we balancing prevention and detection?
- Is this the appropriate "posture" given the risk?



3. ANALYZE COSTS OF CURRENT APPROACH

Analyze the costs associated with the current approach. Are they congruent with the level of risk?

- 1. CORE DEPARTMENTS**
Identify departments and functions that are primarily responsible for compliance and control (internal audit, internal control, compliance, ethics, risk management) and quantify department costs.
- 2. FULLY LOADED COSTS OF ACTIVITIES**
Estimate the cost of centralized and decentralized activities. For example, training 10,000 employees for one day is \$2.4 million if fully loaded, average hourly labor is \$30 per hour.
- 3. OTHER "UNSEEN" COSTS**
Survey individuals in key roles to understand how much time they are spending on compliance and control activities. For example: approvals, authorizations, reconciliations.



4. IMPLEMENT IMPROVEMENTS

Close gaps and remove unnecessary overlap of compliance and control activities. Streamline all remaining activities to reduce unnecessary complexity and long cycle times that burden the business units.

- Can we consolidate policies & procedures?
- Can we consolidate information requests?
- Can we embed more activities into existing mainstream business processes?
- Can we reduce the burden and our footprint on business units?



5. REALIZE "LEAN" RESULTS

EFFECTIVENESS

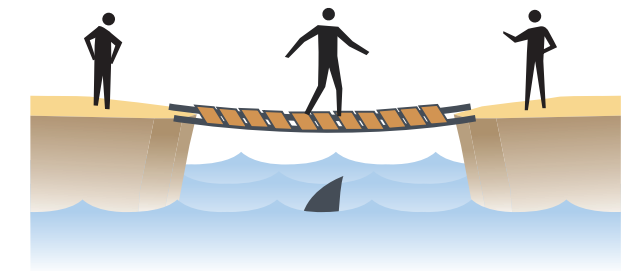
Most importantly, a LeanGRC™ approach improves overall effectiveness of the GRC "backbone."

EFFICIENCY

Costs are reduced by consolidating processes, removing unnecessary overlap and complexity.

RESPONSIVENESS

Cycle times are improved and the overall footprint on the business is optimized to avoid unnecessary burden.



HOW DO YOU ANALYZE COVERAGE?

P = Prevent Activity

D = Detect Activity

M = Monitor Activity

A = Assurance Activity

Risk	Front-Line Functions					Support Functions			Compliance & Control			Assurance & Oversight		
	Product Development	Manufacturing	Sales & Marketing	Logistics	Service & Support	HR	Finance	IT	Risk	Compliance & Ethics	Senior Management	Internal Aud	Audit Committe	Full Board
Wage & Hour	P	P	P	P	P	D, M				M				
Fraud			P				P, D, M		M	M	M	A, M	M	
Bribery									P, D			A	M	

Look for areas where there are GAPS, especially in "front-line" accountability for prevent and detect activities.

Look for areas where there may be inappropriate consolidation of duties.

Look for areas where there is unnecessary OVERLAP and inefficiencies.

Look for high-risk areas where there is no board ASSURANCE or OVERSIGHT.

WHERE ARE THE IMPROVEMENT OPPORTUNITIES?

LEAN POLICY SETTING

Policies at the board level set a consistent tone for all functions and business units.

LEAN STRATEGY SETTING & RISK ASSESSMENT

Risks can be assessed at the same time that strategy is set to improve both effectiveness and efficiency.

LEAN COMPLIANCE AND CONTROL STRUCTURES

Compliance and control structures can be designed at the same time as business processes are designed and improved.

LEAN DETECTION

Detection of non-compliance and control violations can be embedded in business processes and centralized detection activities (such as a hotline or helpline) can be shared for multiple risk areas.

LEAN STANDARDS & METHODS

Using standard methods and procedures for compliance and control activities reduces cost and improves consistency. Improvements in standard methods can be quickly replicated across the enterprise. Evaluation of standard methods costs less and is more effective.

LEAN EVALUATION

Evaluate the performance of the risk, compliance and control "backbone" to gain assurance across multiple risk areas.

LEAN ORGANIZATION

If possible and appropriate, use existing organizational structures to perform compliance and control activities rather than creating new ones.

LEAN COMMUNICATION

Consolidate the communication of expectations and any information requests to reduce the footprint on business operations.

LEAN EDUCATION

Embed compliance training in existing skills training for the workforce and, to the extent possible, conduct training at the point of need to avoid unnecessary training.

LEAN INFORMATION MANAGEMENT

Shared and robust information management technologies reduce the burden on business units and provide centralized coordination and control of critical records and documents.