Compliance Programs and Efficiency

SCCE Utilities & Energy Conference
February 2012

GRC SOLUTIONS ENABLE CLIENTS TO:

- COLLECT risk data from multiple sources
- MANAGE reports and case information in a unified system
- LEARN from risk-related data; monitor program effectiveness
GRC SOLUTIONS ENABLE CLIENTS TO:

- Achieve business objectives
- Make better decisions
- Build strong cultures
- Increase stakeholder confidence
- Protect your brand
- Manage organizational risk
- Optimize economic & social value

Hobson & Company ROI Study: The value of an automated solution is *immediate and demonstrable.*

A sample organization [20k employees, $1.0B in annual revenues, ~110 cases/month] experienced $535k in savings from efficiency & reduced risk.

ACT: Use data to improve efficiency

Key compliance management challenges facing organizations:

- Minimizing time & costs requires to manage all aspects of case management
- Reduce duplication of effort across multiple departments and processes
- Increase awareness of incidents that are occurring within the organization
- Increase overall corporate oversight to avoid fines/penalties, fraud and other unexpected loss events.

Improve these issues and the value of an automated GRC management solution is *immediate and demonstrable.*
RISK DATA BEING LOST OR SILOED

- Observed: 100%
- Unreported and lost: 50%
- Siloed or trapped: 30%
- Actual risk being addressed: 20%

Total Number of Incidents

- Energy & Utilities
- Utilities

Source: Compliance and Ethics Leadership Council
Collect

REDUCE TIME SPENT RECORDING AND REPORTING INCIDENTS.

- Information goes to managers most often, not hotlines
- Time required by the manager to log the complaint and ensure all information capture can be extensive
- Providing a standard and customizable report form to make intake of information received from open-door reports, annual conflict of interest forms, etc., makes reports quick and easy to complete and submit.
- The pre-defined fields ensure that all relevant information is collected the first time.

Prior to having an automated system there used to be a significant amount of FTE time required at a number of stages in the process: from 30-60 minutes required for each hotline call, 2-3 hours per case to get each set-up and into the system, and about half a day needed for each report that had to be created.

- Staffing Coordinator
EthicsPoint Reporting by Channel: All Industries

EthicsPoint Benchmarking Information
Manage

REDUCE THE DUPLICATION OF EFFORT

- Numerous departments are stakeholders of a single investigation, often repeating work
- By providing a centralized data repository for the information from the beginning, every department can see what is being worked on in real-time, avoiding duplication of effort

The average time required to resolve a case was reduced by at least 10%, due to a reduction in duplication of effort, eliminating issues such as the amount of follow-up needed between different groups.

- Staffing Coordinator
Learn

INCREASE AWARENESS OF SMALL AND MEDIUM Sized INCIDENTS

• When avenues available for reporting incidents are limited, likelihood that incidents aren’t being reported increases; especially true when the cases are small to medium sized incidents.

• A standardized reporting and case management system allows for easy collection and reporting of all incidents and events, while providing a safe environment to do so.

There was a 40% increase in the number of cases reported after the implementation of the EthicsPoint system.

– Manager, Cases & Compliance
Integrity Capital: 5.8% higher

*Employees’ comfort level in sharing honest feedback correlates with strong business returns:*

- **7.9%**
  - Companies with open and active employee communication
- **2.1%**
  - Other companies

*Source: Compliance and Ethics Leadership Council*

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**Quantify your program**

<table>
<thead>
<tr>
<th>VALUE AREA</th>
<th>SPECIFIC BENEFITS</th>
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<tbody>
<tr>
<td><strong>Operational Efficiencies</strong></td>
<td>Reduce time spent talking and recording hotline calls</td>
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<td>Reduce time spent recording and reporting incidents</td>
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<td></td>
<td>Reduce time spent setting up incident cases</td>
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<td>Savings on materials, mailing and storage costs</td>
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<td></td>
<td>Reduce audit time and costs</td>
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<td>Reduce time spent generating management reports</td>
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<td></td>
<td>Reduce duplicated effort</td>
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<tr>
<td><strong>Corporate Risk</strong></td>
<td>Increase awareness of small and medium-sized incidents</td>
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<td></td>
<td>Reduce fines and penalties from regulatory bodies</td>
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<tr>
<td><strong>Corporate Oversight</strong></td>
<td>Reduce fraud and other unexpected loss events</td>
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<td>Reduce litigation and settlement costs</td>
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<td>Protect revenues by proactively managing risk</td>
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Sample Client

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>Large energy services company</th>
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<tbody>
<tr>
<td>REQUIREMENT</td>
<td>Meet anti-bribery standards under UK Bribery Act, FCPA, and Dodd-Frank</td>
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<tr>
<td>CHALLENGE</td>
<td>Heavily manual processes for identifying, documenting and measuring incidents across four functional groups</td>
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- Code of conduct provided for 16 different means of raising issues
- Issues being documented on paper via manual processes
- Duplication of effort happening in assigning cases, re-keying data, and capturing multiple reports on the same issue

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<th>APPROACH</th>
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- Conducted a stakeholder analysis to identify key areas of documentation by each functional group.
- Documented current state and desired state for process and touch points
- Created process maps and policies to enforce consistent workflow
- Developed change management and training strategy for key stakeholders and teams

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<th>IMPACT</th>
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- Investment: $300,000 over 3 years
- Payback 3.3 Months
- ROI 605%

Sample Client

- Improve oversight: 31%
- Increase operational efficiencies: 47%
- Reduce corporate risk: 27%

- Increase: 47%
- Improve oversight: 31%
- Reduce corporate risk: 27%
Overview

- Context
- Compliance architecture
- Examples
- Key success factors
**Context**

Regulation has increased dramatically in the energy and utility sector in recent years
- NERC reliability
- NERC Critical Infrastructure Protection
- Pipeline integrity
- Process safety management
- Greenhouse gas regulation
- Mercury and air toxics standards

Responding to new regulations isn’t optional—but the impact on business performance can be controlled.

**Context – compliance and efficiency**

Why does the view persist that compliance programs must reduce efficiency? Some common perceptions in the field:
- Compliance is about “check the box” programs
- New regulations mean new controls—often layered on top of existing ones
- Compliance people don’t understand our work processes
- New controls will slow us down
- When compliance managers talk about efficiency, they’re only concerned with compliance processes, not the core business
Compliance architecture

Objectives (Why?)

1. Governance
   - Vision
   - Mission
   - Guiding Principles
   - Strategic Priorities
   - Ethical Values
   - Brand Identity
   - Regulatory Change

Implement: Tools & Methods (Who and How?)

1. Core Compliance Requirements (Obligation Inventory)
   - Anti-Corruption
   - Financial Reporting
   - Privacy & Data Protection
   - Employee / Occupational Health & Safety
   - Hiring / Labor Practices
   - Immigration Law
   - Environmental
   - Treasury / Banking Law
   - Antitrust
   - Policy Development & Management

Operate & Improve (Is it Working?)

1. Anti-Corruption
2. Financial Reporting
3. Privacy & Data Protection
4. Employee / Occupational Health & Safety
5. Hiring / Labor Practices
6. Immigration Law
7. Environmental
8. Treasury / Banking Law
9. Antitrust
10. Policy Development & Management
11. Measurement & Reporting (Internal / External)
12. Certification & Validation (Internal / External)

Compliance Enabling Functions (Program / Functional Components)

1. People
   - People
     - People
       - Leadership, Management & Accountability
       - Communications & Training Program
       - Standards, Regulatory Tracking & Reporting
       - Policy Development & Management

2. Structure
   - Structure
     - Structure
       - Compliance Organization
       - Communications & Training Program
       - Standards, Regulatory Tracking & Reporting
       - Policy Development & Management

3. Process
   - Process
     - Process
       - Compliance Organization
       - Communications & Training Program
       - Standards, Regulatory Tracking & Reporting
       - Policy Development & Management

4. Technology
   - Technology
     - Technology
       - Compliance Organization
       - Communications & Training Program
       - Standards, Regulatory Tracking & Reporting
       - Policy Development & Management

5. Supervision and Monitoring / Performance Assurance
   - Certification & Validation (Internal / External)
   - Continuous Improvement / Program Innovation & Quality

6. Measurement & Reporting (Internal / External)
7. Certification & Validation (Internal / External)

8. Continuous Improvement / Program Innovation & Quality

People have the requisite skills, knowledge, experience and authority to successfully fulfill their roles and responsibilities.

Compliance controls are embedded into business processes and each critical process is documented in policies and procedures.

Technology is leveraged to facilitate the effective implementation of the program, and allows for proactive monitoring and response.

Individuals and business units with compliance and ethics responsibilities are connected and organized in a meaningful way.

Compliance architecture –traditional compliance program focus

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**Compliance architecture: Broader focus can maximize synergies, promote efficiency**

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<td>• Data Management/Analysis</td>
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**Enabling Platform (What will get us there?)**

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**Example #1: Creating a safe, cost efficient maintenance program**

**Company:** Global oil company’s major US refinery

**Compliance Requirement:** OSHA National Emphasis Program for Refineries

**Challenge:** Rising maintenance costs; equipment breakdowns, rework and schedule breaks that impacted safety and environmental compliance. Drivers included:
- High levels of reactive, rather than proactive and preventative maintenance.
- High instances of rework and defective equipment.
- A lack of communication and understanding between groups.
- An absence of a consistent, overarching end to end maintenance process.
- Lowest tier performance on major maintenance projects that required refinery outages to complete.

**Solution**
- Embedded logical cradle to grave maintenance process that integrated operations, maintenance and HSE organizations.
- Linked organizational strategies to maintenance, reliability and compliance activities.
- Harborred a culture focused on trend analysis and root cause identification.
- Redesigned scheduling procedures to emphasize longer term scheduling.

**Impact**
- An average of 10% sustainable cost savings projected over 4 years.
- Safer and more efficient operations—increased availability, reduced rework and fewer priority schedule breaks.
- Fewer refinery shutdowns and consistent throughput performance.
Example #2: Improving safety and environmental compliance

Company: Leading North American refiner

Compliance Requirement: OSHA National Emphasis Program for Refineries

Challenge: Lagging safety and environmental compliance performance; $300M unreliability cost, driven by:

- Safety and Environmental compliance incidents resulting from critical equipment failures;
- Technical personnel lacked a deep understanding of core reliability principles;
- Unplanned equipment failures and inefficient maintenance practices perpetuated by a reactive culture;
- Core reliability processes not well defined and inconsistently applied; and
- Reliability data requirements not fully understood, documented, or tracked.

Approach

- Identify gaps with industry best practices – developed business improvement plan.
- Define and communicated fundamental roles and responsibilities.
- Created a reliability strategy aligned with site business strategy and objectives.
- Defined, documented, and embedded best practice reliability improvement processes.
- Eliminated redundant tasks—reduced the number of shutdowns (and associated risk), increased uptime.

Impact

- Improved safety and environmental performance.
- 30% reduction in PM work hours and increased uptime

Example #3: Integrating sustainability and cost performance goals

Company: $10B revenue US utility

Compliance Requirement: Voluntary sustainability targets

Challenge: Client’s Transportation Services division needed a fleet sustainability strategy to reduce costs with environmental dividends as part of a corporate operational efficiency and sustainability initiative.

Approach

- Benchmarked utility and non-utility fleet operators to identify best practices
- Defined three strategy options with increasing degrees of operational change
- Developed comprehensive fleet model to quantify financial and environmental impacts of each of the strategy options
- Established 5 year implementation roadmap with clear milestones and KPIs to execute the recommended strategy option

Impact

- Projected impact on sustainability and bottom line:
- $29M cost savings
- 18% reduction in CO2 emissions
Key success factors

• Secure participation in goal-setting—ensure compliance is viewed as an outcome, vs. a set of “bolt-on” controls
• Understand how work gets done in the business’ major processes
  o Operations
  o Planning
  o Supply chain and procurement
  o Maintenance
  o Scheduling
  o Capital projects
• Identify root causes that underlie compliance failures…and how they impact the bottom line
• Partner with the business process owners—help them make compliance part of the business case for change
• Integrate performance measures and benchmarking—know how you’re doing