

The new future of Compliance and BPM

By tackling compliance via BPM, not only will you make it easier to respond to regulatory change later, but you can improve the processes in other ways at the same time



BPM Trends Series
This paper is one of a series, Capgemini BPM Trends, which shares insights into how to resolve today's most pressing business challenges using the latest Business Process Management tools and methodologies





Overview

Compliance is a growing burden for organizations, particularly as, when requirements change, the organization needs to comply fast, or face often severe penalties. Many companies treat compliance and BPM as separate project areas, but it makes more sense to treat compliance as part of BPM, maturing the BPM function if necessary. This way, processes become not only more compliant but also more efficient and responsive to change, resulting in better-quality products and services.

One of the biggest issues facing organizations today is how to achieve and maintain compliance. Organizations across all sectors face increased requirements for compliance in some shape or form. Implementing just one set of regulations – those arising from the FSA's Retail Distribution Review (for example) is said to be costing the UK insurance industry up to £750m up front, with ongoing costs up to £205m: an estimate that the FSA has recently revised upwards¹. At a recent conference on compliance in banking, it was stated that UK banks spent £1bn on compliance initiatives annually. When a new law, important standard, or internal policy is released, the organization must comply within the time frames given, no matter what other strategic projects are currently underway or planned.

Compliance and risk initiatives are often driven by an internal audit department, or a specially appointed risk manager or compliance officer. All too often, this approach means that compliance projects are done in isolation from BPM activity, so that the organization fails to make the connection between compliance issues on one side and business processes on the other. The process manual may address compliance, but the actual processes have usually diverged from what is in the manual and no longer satisfy compliance requirements.

In our opinion, this separation of compliance initiatives from BPM projects means that both are likely to fail to meet organizational objectives, and both will cost more than they should. Effective control of risks, rules, and regulations is almost impossible in this situation. It is no surprise that in the current economic hard times, both compliance and BPM projects often come under severe pressure.

In our experience, connecting BPM and compliance initiatives tightly together can improve both. The functions responsible for compliance use descriptive models, while BPM focuses on analytic models that can be used to create executable processes. Today, it is possible to combine these models, saving money and effort on modeling. More importantly, combining the two types of model creates leaner, more efficient, and more flexible processes, and makes it easier to become, and stay, compliant.

The approach we recommend also tackles the gap between the way the processes are believed to work (i.e. what the manual says) and how the processes actually work today – a gap that is sometimes revealed during an official audit by an external body. As we will see, it is possible to build an up-to-date picture of processes by automatically “mining” transaction data from existing information systems and logs. Having an accurate understanding of processes improves control of both compliance and the processes themselves.

¹“RDR compliance costs could leap by extra £460m”, FT Advisor, February 27, 2012

A five-step approach to BPM-enabled compliance

By taking the five steps summarized in figure 1 and described below, an organization can position itself strongly to deal with both current and upcoming compliance challenges.

Step 1 – Determine compliance needs

This step establishes the scope of compliance, and any associated issues. It asks questions like:

- What rules, regulations, standards, and policies is the organization obliged to follow and what are the associated risks?
- When these requirements change, can the organization respond fast enough to remain compliant?

Compliance requirements can be divided into three categories:

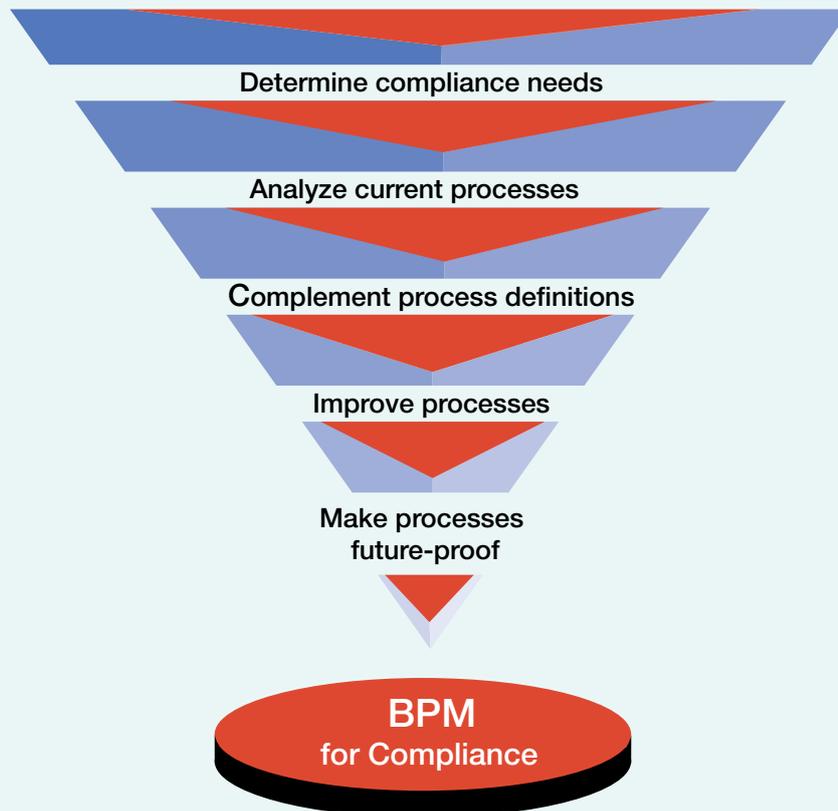
- **Legislation**, created by a local, national, or international government. For example, international companies are subject to Sarbanes-Oxley, and European ones to EU money laundering and product safety directives. In the US, the financial sector is having to comply with Dodd-Frank,

while the Administrative Procedure Act regulates the public sector.

- **Standards**, put forward by standards organizations, or imposed by professional or industry bodies (and sometimes subsequently enshrined in legislation). The banking industry has Basel II (and will have Basel III in the near future). International examples include ISO quality standards and IBAN (the banking standard for money transfers), as well as IFRS and IAS (accounting standards).
- **Internal policies** – a company can set policies and standards that must be followed, but are specific to this one organization. An example might be an internal code of conduct and ethics, as an extension to accounting standards and confidentiality contracts.

Each organization has its own unique combination of compliance requirements. Problems can arise from the fact that compliance has usually been tackled over a period of years. When a new law, standard, or internal policy is issued, the response is often implemented in isolation, without a view of the overall picture. Typically, a spaghetti-like mixture of activities and business rules develops, in which different

Figure 1: Capgemini’s approach to achieving compliance through BPM



measures can conflict, overlap, or no longer be valid. In some areas, there may be over-processing, where more is done than is actually needed, while in other areas the measures may not be enough to achieve compliance.

Before attempting to correct this situation, it's necessary to:

- Identify the rules and regulations, standards, and internal policies that apply to the organization.
- Decide where new measures need to be implemented or existing ones changed (with respect to IT systems, process activities, forms for the customer, rules etc.). Risk management can help to discover and prioritize compliance issues, and to develop an overview of the measures that must be taken to cover those risks.
- Make a plan for implementing the new or changed measures.

If the organization has difficulties with this first step, it probably has not linked compliance to BPM, or else its BPM may not be mature enough. The remaining four steps will help to rectify this situation.

Step 2 – Analyze current processes

There is often a gap between the processes envisaged in the original process design models, documented in process manuals, or pictured by management, and the processes currently automated or followed. Risks may have changed since the processes were designed; while risk analysis may have suggested that processes need to change, the changes do not always get made, and so compliance measures may be out of date.

Often processes have aspects that the organization does not know about such as:

- Hidden activities that take place without people realizing they exist (an example is shown in figure 2)
- Idle times where cases sit inactive, waiting for the next activity to start
- Complexities that are not reflected in process models

As well as making processes generally hard to control, gaps between “official” and actual processes cause problems in compliance, particularly when processes need to change rapidly in response to regulatory changes.

The second step of our approach addresses these gaps through process mining, which analyzes event logs to create a model of an automated process.

Process mining helps to identify the organization's current processes, how well they are performing, and how well geared up they are to deal with current and future compliance issues. It identifies all the touch points (interactions between

people, departments, and/or systems) in a process in order to create transparency and therefore manageability. Before embarking on process mining, it is necessary to prioritize processes according to where the biggest compliance risks to the business lie. Consider not just processes and risks inside the organization, but also the value chain as a whole (including suppliers and customers). The priorities identified need to be agreed with management.

It is also necessary to prepare the event logs for analysis. This involves enriching the data with process information such as throughput, waiting time, and other profile data to facilitate analysis, as well as deleting false or incomplete instances and putting it all into a common format.

Process mining itself has three main components: discovery, analysis, and visualization of the process model; conformance, whereby the actual and ideal processes are compared; and enhancement of the model with additional information such as performance data or cost information.

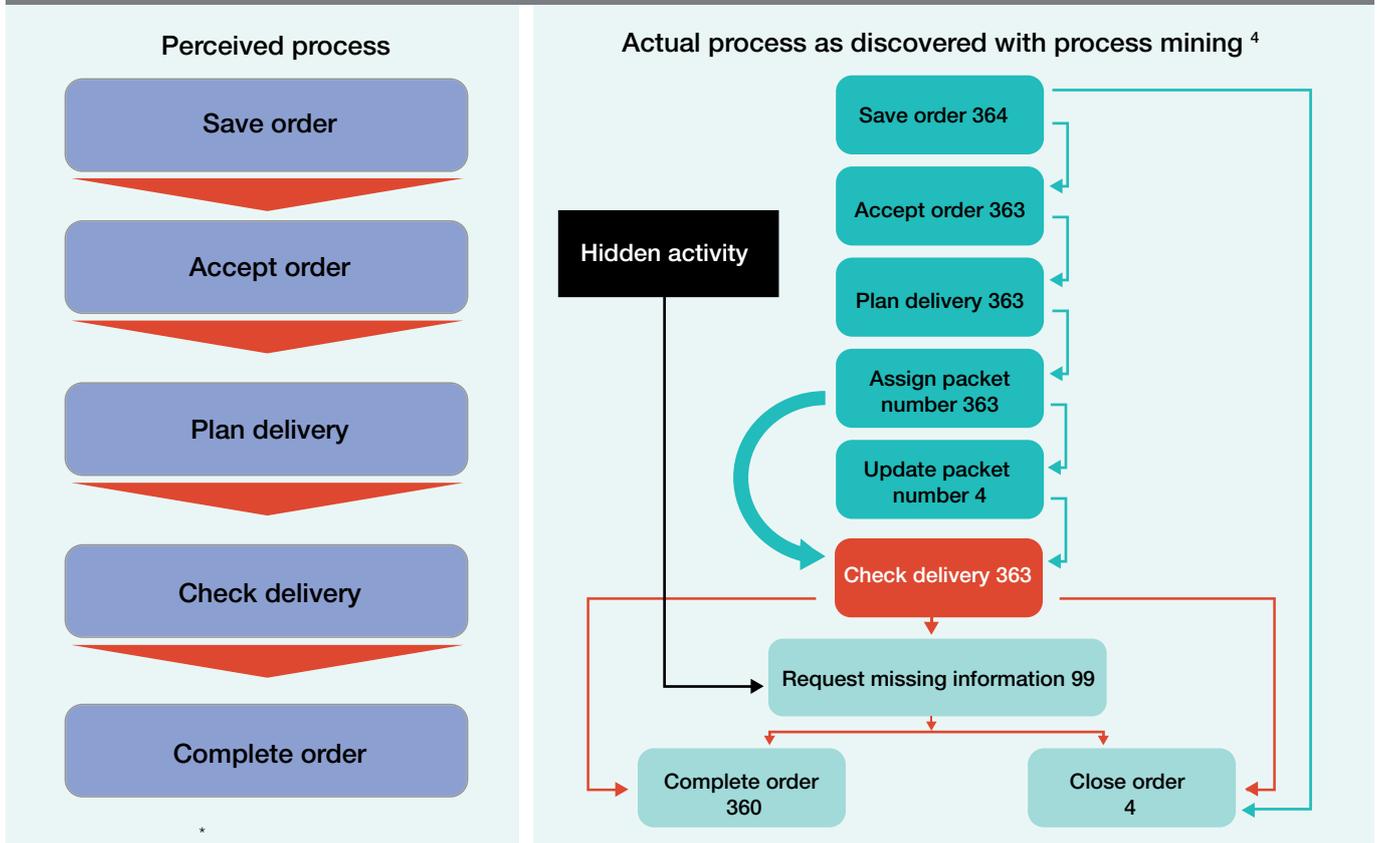
“Process mining is a relatively young research discipline that sits between computational intelligence and data mining on the one hand, and process modeling and analysis on the other hand. The idea of process mining is to discover, monitor, and improve real processes (i.e. not assumed processes) by extracting knowledge from event logs readily available in today's (information) systems.”²

Process mining “... includes (automated) process discovery (i.e. extracting process models from an event log), conformance checking (i.e. monitoring deviations by comparing model and log), social network/organizational mining, automated construction of simulation models, model extension, model repair, case prediction, and history-based recommendations.”³

² Wil van der Aalst, 2012

³ IEEE Task Force on Process Mining, Process mining manifesto

Figure 2: Hidden activity in order processing



Step 3 – Complete process definitions

The models developed with automated process discovery will be complete in terms of automated steps and process data, but will not include any manual steps that the process involves. So all data must be validated by employees, and manual steps must be added, including (wherever possible) data about aspects like duration and frequency.

Step 4 – Improve processes

After current processes have been fully defined (steps 2 and 3), BPM techniques can be used to improve them, both in terms of compliance and more generally. The aim should be to:

- Ensure processes address current compliance issues as discussed in step 1
- Make processes fit for purpose and agile, both of which characteristics will make compliance easier in future

To find out how your processes need to be improved, consider the following areas.

Do the right work

Is the process doing what it is supposed to do: not too much, not too little, but exactly what is expected from it by

customers and the business? And are these expectations in line with one another?

Do the work right

Is the work done right the first time wherever possible, with minimum rework? Reducing the chance of errors is important for compliance as well as efficiency. Ways to do this include:

- Developing methods that prevent mistakes
- Making processes as simple as possible by eliminating waste: for example, reducing wait times, overproduction, rework, motion, over-processing, and unnecessary inventory and transport
- Invest in training and tooling

Manage the right way

Is our steering of the organization based on information such as process metrics, backlog figures, error counts, excessive wait times, SLAs, and KPIs? Only when everyone in the team has visibility of this information can they engage effectively in proactive process remediation activities.

⁴Rozinat, Anne, July 2011, 'How to Reduce Waste with Process Mining', www.bptrends.com

By investigating these three aspects and acting on the findings, you can make your processes more efficient and more effective at the same time. In this way, you will be applying thinking from Lean, one of the most widely used tools for process improvement. The core idea of Lean is to maximize customer value while minimizing waste, with the ultimate goal of providing perfect value to the customer through a perfect value creation process that has zero waste. Lean is not a strategy or a cost reduction program, but a way of thinking and acting for an entire organization. By thinking this way, it becomes possible to decrease the throughput time of processes, and also to make them simpler and more flexible – qualities that make it easier to achieve and maintain compliance.

Step 5 – Make processes future-proof

Processes operate in a continuously changing environment, and therefore organizations must monitor evolving rules and standards and ensure that processes adapt to them. Our approach facilitates this future-proofing in a couple of ways:

- The improvements made in step 4 will make the processes leaner and therefore more flexible.
- We recommend combining the descriptive models used for compliance purposes with the analytical and execution models used by BPM teams; this makes it easy to analyze the impact of a regulatory change on a process, and to update the process as necessary.

However, it is equally important to make the BPM function itself efficient and agile. In that way, the whole “process system” becomes ready for the future.

The keys to this future-proofing are a suitable governance structure and high visibility of processes.

Governance

Governance relates to the “goals, principles, and reporting hierarchies that define who can make what decisions, as well as the policies and rules that define or constrain what managers can do.”⁵

Your organization needs to implement good governance in order to make it clear who is responsible for what, and when, within the BPM function. Only in that way will you be able to maintain your processes in an effective and efficient way.

A central aspect of good governance is risk management: it’s essential to ensure that all risks are addressed by controls built into processes, and that those controls are updated in line with changing views on risk. For example, if the threshold for approval of purchase orders changes, the validation in the relevant processes must be updated to match.

Visibility of processes

As processes change, it is important to track the impact of the changes. For example, if you change a process in response to a new legislative requirement, you will need to identify and address any bottlenecks that arise from the change. This type of information can be presented to employees through visual techniques such as dashboards, and in particular through Value Performance Management (VPM), which provides a visual description of the value chain and its performance in relation to strategic intentions and stakeholders. VPM can be of great help in keeping control of processes and ensuring they remain compliant.

Conclusion

Organizations today are being asked to comply with increasingly stringent rules and regulations, including external legislation, internal standards, and operating rules. The five-step approach described above uses BPM to ensure not just that processes are compliant today but that they remain compliant in the future. Instead of initiating compliance projects in isolation, as organizations have tended to do, you will tackle compliance as part of the ongoing activity of improving business processes.

Process mining is the accelerator for all of this. This emerging discipline makes visible your real process (not the process as designed or as documented). With insight into the process, it becomes relatively simple to improve it: for example, to add extra rules or controls, or to apply techniques like Lean to eliminate waste. Management can adapt processes quickly based on real data from process dashboards that display information about controls, KPIs, SLAs, and backlogs.

The five-step approach will help your organization to be not only compliant but also efficient. The quality of the product or service you provide to customers will improve and those improvements will be transparent and auditable. In short, you will be better placed to meet your business objectives, and to prove that you are doing so. Compliance will then be recognized as a proactive, value-adding contribution, rather than a reactive cost center.

⁵ Paul Harmon, BP Trends, Vol 6 No 3

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