THE STATE OF COMPLIANCE '18

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ABOUT THE AUTHOR

Nick Padlo is a researcher and strategy consultant. He completed his MBA at the Stanford Graduate School of Business in 2010, and has consulted across a range of industries as a case team leader for Bain & Company before going on to launch investment vehicles and become the CEO of a successful startup. Prior to his time with Bain & Company, Nick served for five years as a Military Intelligence Officer in the U.S. Army, conducting combat effective research and advanced pattern analysis, earning the Bronze Star Medal. He earned his Bachelor of Science degree at the United States Military Academy at West Point, where he graduated in the top one percent.

WELCOME

Welcome to the State of Compliance 2018.

When the research team set out to produce the first State of Compliance report, it was in response to an identified gap in available, actionable data for companies to leverage in creating informed, efficient and effective compliance programs. Today, with support from industry specialists and the study's independent researcher and author, Stanford MBA graduate Nick Padlo, the State of Compliance report continues to deliver those key insights.

Once again, we are pleased to present you with this report. Your responses enabled us to deliver a comprehensive analysis of the state of compliance in 2018, including the challenges companies are facing within the evolving compliance environment, and how they are choosing to respond. In 2018, companies are facing a regular, year-over-year increase in compliance requirements, costs are continuing to rise and are often unaccounted for, and manual processes remain one of the largest barriers to successful compliance programs.

We encourage you to leverage these findings in your programs, and move forward better equipped to navigate the challenges ahead.

Thank you,

Andrew Waitman
CEO - Assent Compliance
Executive Sponsor

EXECUTIVE SUMMARY

The State of Compliance 2018 report expands on the data collected in the 2017 report, which evolved from a gap in data availability in the compliance industry. This year, industry experts developed an updated valid question set in order to collect data and provide analysis for companies to leverage in compliance program designs and decisions. This year's report provides a year-over-year comparison of the cost of compliance, and charts the growing demands placed on compliance departments.

Content contributors included Assent Compliance and Ropes & Gray LLP, while Deloitte & Touche LLP were advisors on the report. The report was constructed by a third-party researcher to ensure the integrity of the survey design, data collection and realized insights.

The 2018 survey question set focused on the following areas: compliance teams within organizations, the efforts and costs of compliance, the structure of compliance programs, year-over-year demand on compliance teams, and how companies collect and analyze data throughout their supply chains.

KEY FINDINGS INCLUDE:

→ An increase in regulatory requirements has impacted compliance teams across all companies, including small, medium and enterprise businesses.

→ While the use of third-party software has increased over last year, so has the use of manual processes which has resulted in an increase in time spent on compliance activities across all departments.

→ Companies are spending an increased amount of time on compliance requests, and forecast the increases will continue.

→ Compliance teams are struggling to dedicate the proper resources to engage suppliers and collect data.

→ The actual cost of compliance is higher than expected, with labor-intensive processes contributing to the cost disparity.

The data collected indicates the current state of compliance is labor-intensive and dependent on manual processes with disparities between the perceived cost of this labor and the actual budget impact. This dependence on manual processes is not sustainable.

BACKGROUND

There is a significant gap in compliance industry data available in the market today. Compliance industry leaders recognized the value of this data and worked with an independent researcher to identify the information that would be most beneficial across a variety of verticals and organizational structures.

PURPOSE

The purpose of this survey and subsequent analysis is to provide companies with benchmarks to use to aid in defining and building their compliance programs. The results and insights available in this report will guide companies when planning budgets, resourcing, building internal and external training programs, and tools.

METHODOLOGY

The population of this data collection initiative was defined by compliance industry experts in various relative fields worldwide. The target population was any professional who worked in any capacity of supply chain data collection with the intent to comply with the following regulations:

→ Anti-bribery and anti-corruption laws such as the Foreign Corrupt Practices Act of 1977 (FCPA)

→ California Proposition 65 (Safe Drinking Water and Toxic Enforcement Act)

→ California Transparency in Supply Chains Act

→ EU Conflict Minerals Regulation

→ Federal Acquisition Regulation (FAR) Final Rule on Combating Trafficking in Persons

→ French Duty of Vigilance Law

→ Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation

→ Restriction of Hazardous Substances (RoHS) Directive(s)

→ Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act

→ UK Modern Slavery Act

→ U.S. legislation prohibiting the importation of goods involving modern slavery (Tariff Act and Countering America's Adversaries Through Sanctions Act)

These regulations were selected based on industry feedback on common regulations and laws.

It was determined the best means of collecting the required data was to create a survey, organized by sections, and to request companies in defined verticals submit the completed survey to the research team for analysis.

The survey was circulated to a curated contact list of relevant companies via email. Email was selected as the most appropriate vehicle to circulate the study due to its versatility as a communications tool. Via email, companies can be contacted directly yet decide for themselves the most appropriate time to respond to the communication by completing the study. Social media outreach was also conducted in order to reach an extended audience and ensure a diverse selection of professionals were provided the option of participating in the study.

Direct phone surveying was an alternative considered for the report.

As an incentive to complete the survey, a small compensation was provided to eligible applicants. In order to protect the integrity of the study, compensation (via a gift card) was provided only to participants with valid corporate emails. Quality analysis was performed on submissions, and submissions deemed to be invalid were excluded from the sample size.

Email invitations to complete the survey were sent on May 24, June 4 and June 6, 2018. Researchers closed access to the survey on June 10, 2018, after collecting 184 responses.

The respondents represented primarily seven verticals, including:

7%
AEROSPACE & DEFENSE

6%
AUTOMOTIVE

5%
MEDICAL DEVICE

7%
CONSUMER ELECTRONICS

8%
PROFESSIONAL ELECTRONICS

50%
MANUFACTURING

4%
RETAIL

13%
OTHER

The results of this survey are statistically significant at a 95 percent confidence interval, with a five percent margin of error.

SURVEY DESIGN

The survey was designed with input from partners and advisors in this research project. As leaders within the compliance space, each of these stakeholders was able to contribute to the question set with the goal of maximizing the collected data's value for the purpose of this study.

The question set was organized into the following sections:

THE COMPLIANCE LANDSCAPE

YOUR COMPLIANCE TEAM

YOUR COMPLIANCE EFFORTS

YOUR COMPLIANCE PROGRAM

YOUR COMPLIANCE EDUCATION & TRAINING

DATA COLLECTION & ANALYSIS

CONTENT CONTRIBUTORS

Partners in this study include the following companies:

→ Ropes & Gray LLP

→ Assent Compliance

Advisors to this study included:

→ Deloitte & Touche LLP

These partners and advisors were selected for their expertise and position as leaders in their respective compliance fields. Each had the opportunity to provide feedback on the survey's question set and offer insights into this study based on the survey's results.

RESULTS

The survey was successful in helping the research team better understand how companies are meeting their compliance requirements, what level of effort and resources are being put forward to meet these requirements, and how efforts are changing year-over-year.

These results will be presented, along with the author's insights into what the data could mean for companies.

THE COMPLIANCE LANDSCAPE

Exactly half of all survey respondents identified themselves as employees at manufacturing companies. The distribution between public and private companies was also evenly distributed, with 53 percent of responses coming from publicly-traded companies. These metrics were validated via research.

A broad range of company sizes were encompassed in the survey, with 71 percent of companies indicating they have 5,000 or fewer employees, and 37 percent of companies with 200 or fewer employees. In response to gauging the size of the supply chain, 45 percent indicated they have 500 or fewer direct material suppliers.

50%
MANUFACTURING COMPANIES

>71%
COMPANIES WITH < 5,000 EMPLOYEES

45%
COMPANIES HAVE SUPPLY CHAINS
< 500 DIRECT MATERIAL SUPPLIERS

53%
PUBLICLY-TRADED COMPANIES

WHAT IS THE COMPLIANCE LANDSCAPE?

The majority of respondents' compliance programs involved at minimum two areas of compliance, with product compliance (86 percent) and corporate social responsibility (60 percent) the most common programs. Just under half of all respondents have trade compliance and safety and inspections programs. While two of the three top in-scope regulations for respondents, the European Union Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation and the European Union Restriction of Hazardous Substances (RoHS) Directive, were consistent from the 2017 State of Compliance report, Section 1502 of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act conflict mineral rule was displaced from the top three. The third and fourth top in-scope regulations for companies were the EU Conflict Minerals Regulation, followed by the California Transparency in Supply Chains Act (Proposition 65). Section 1502 of the Dodd-Frank Act was fifth, tied with producer responsibility legislation.

Product compliance includes laws and policies that regulate the composition and design of a product, while corporate social responsibility programs generally address business ethics, environmental sustainability and human rights.

TOP-THREE IN-SCOPE REGULATIONS

71%	REACH REGULATION
70%	ROHS DIRECTIVE
63%	EU CONFLICT MINERALS REGULATION
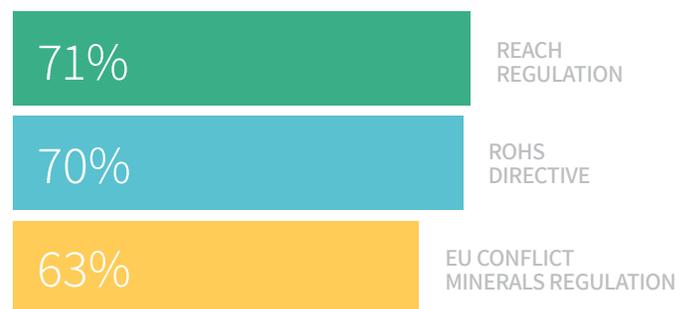
YOUR COMPLIANCE TEAM

The top five departments involved in compliance programs are (respondents were asked to select all that apply):

63%	56%	55%	54%	54%
QUALITY	COMPLIANCE	PROCUREMENT	ENGINEERING	SUPPLY CHAIN

The top five departments were identical in rank to 2017 results, which suggests there have been no large or significant shifts in the composition of compliance teams.

In addition to having multiple departments involved in compliance programs, these participants are also cross-functional. The top 10 responsibilities for compliance teams were listed as (respondents were asked to list all that apply):
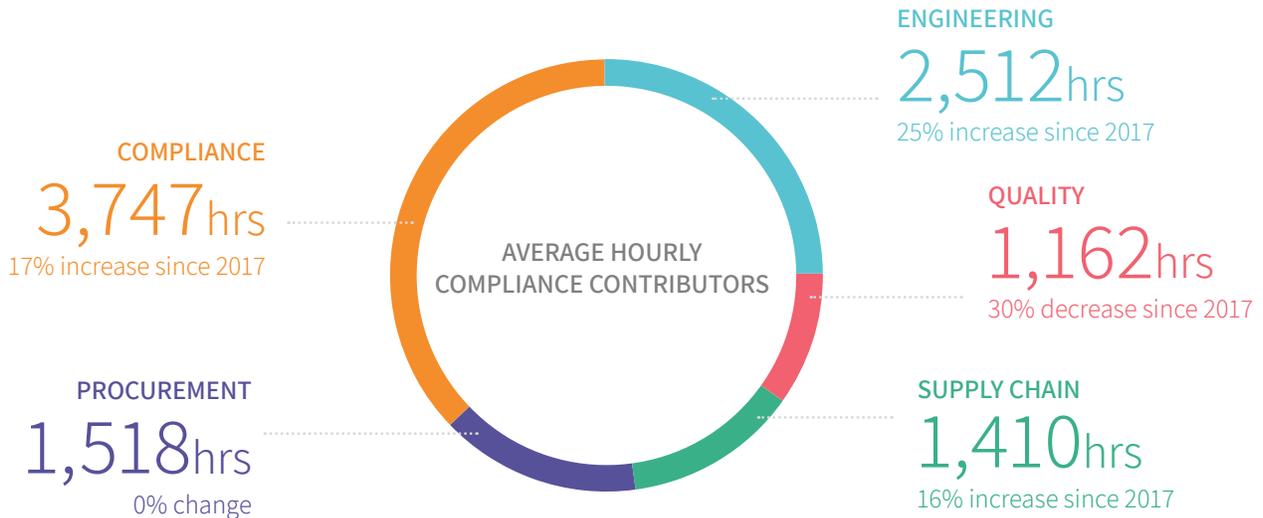
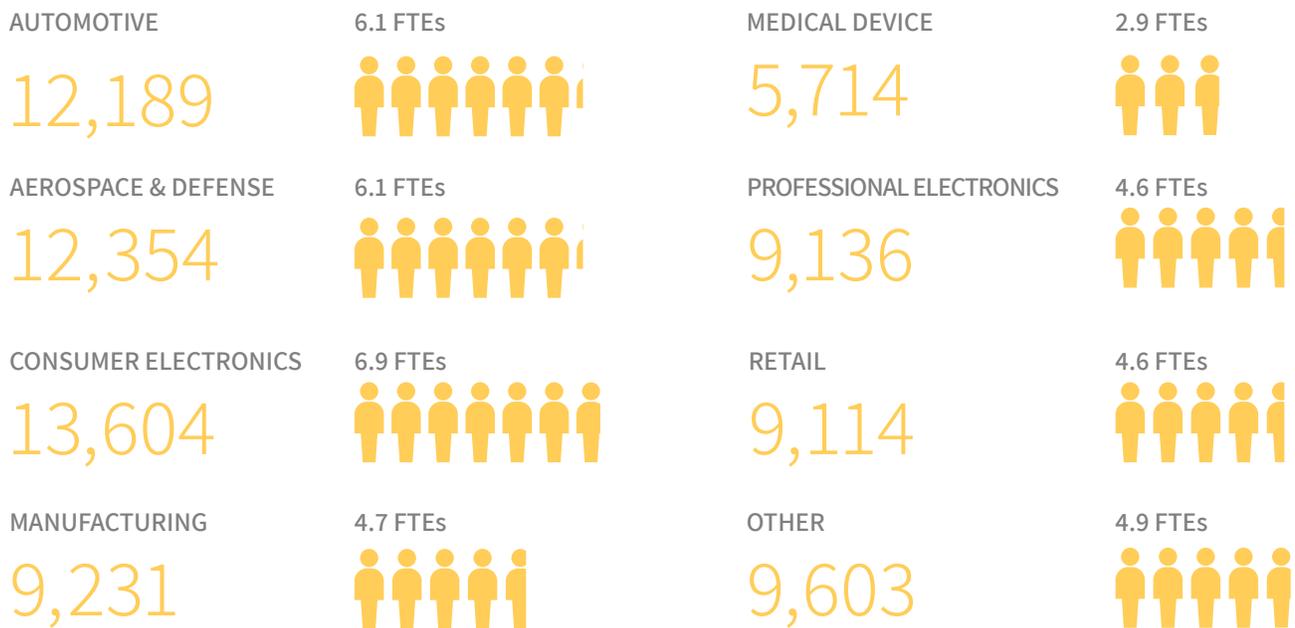|	
Compliance process	80%
Internal audit	54%
Data administration	53%
Supplier outreach	53%
Data validation	49%
Risk mitigation	46%
Supplier escalations	42%
Policy creation	41%
Supplier training	27%
Other	2%

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

The diversity in departments involved in compliance demonstrates companies take a varied approach to compliance, and engage a variety of departments. Compliance teams are structured differently across companies, with a mixture of cross-departmental duties. This indicates there are multiple paths to achieving compliance goals. However, it also indicates there are likely to be organizational structures that are more efficient than others.

YOUR COMPLIANCE EFFORTS

Respondents provided how many hours, approximately, each department contributed to their compliance programs on an annual basis (note: not all companies use each listed department in their compliance efforts). In the top five areas of compliance, there was an average of a seven percent increase in time spent on compliance. The top five average hourly contributors to compliance were:

ENGINEERING
2,512hrs
25% increase since 2017

COMPLIANCE
3,747hrs
17% increase since 2017

AVERAGE HOURLY
COMPLIANCE CONTRIBUTORS

QUALITY
1,162hrs
30% decrease since 2017

PROCUREMENT
1,518hrs
0% change

SUPPLY CHAIN
1,410hrs
16% increase since 2017

AVERAGE NUMBER OF HOURS SPENT PER YEAR (BY INDUSTRY)

AUTOMOTIVE — 6.1 FTEs
12,189

MEDICAL DEVICE — 2.9 FTEs
5,714

AEROSPACE & DEFENSE — 6.1 FTEs
12,354

PROFESSIONAL ELECTRONICS — 4.6 FTEs
9,136

CONSUMER ELECTRONICS — 6.9 FTEs
13,604

RETAIL — 4.6 FTEs
9,114

MANUFACTURING — 4.7 FTEs
9,231

OTHER — 4.9 FTEs
9,603

Note: One full-time equivalent (FTE) is equal to 2,000 hours per year.

AVERAGE NUMBER OF HOURS SPENT PER YEAR (BY REVENUE)

5,460

SMALL-TO-MEDIUM BUSINESS
(REVENUE UNDER $50 MILLION)

4,540

MID-SIZE ENTERPRISE
(REVENUE BETWEEN $50 MILLION AND $1 BILLION)

10,960

ENTERPRISE
(REVENUE GREATER THAN $1 BILLION)

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

Based on the previous determination that companies are using multiple departments and cross-functional employees to meet their compliance requirements, and an understanding that 2,000 hours per year is the threshold for a full-time equivalent (FTE) resource, most respondents average a total of five FTEs to manage compliance programs, with at least two dedicated compliance FTEs, dependent on cross-functional structures, to manage programs, alongside part-time contributors such as legal and administrative personnel.

Survey results indicate publicly-traded companies spend 157 percent more time on compliance than private companies, which is indicative of more labor-intensive reporting processes and requirements.

TOP COMPLIANCE TRENDS

Survey respondents were asked to gauge how much more time their companies are spending on compliance-related efforts in comparison to three years ago. In terms of an increase of time:

87% 87 percent of survey respondents reported their teams have increased the time spent on compliance efforts since 2015.

15-20% On average, companies are spending 15 to 20 percent more time on compliance-related efforts.

15% 50 percent of all survey respondents reported 15 percent or higher increase in time spent on compliance over the past three years.

Looking forward, survey respondents were asked to forecast the increase of time their companies will spend on compliance in the next three years.
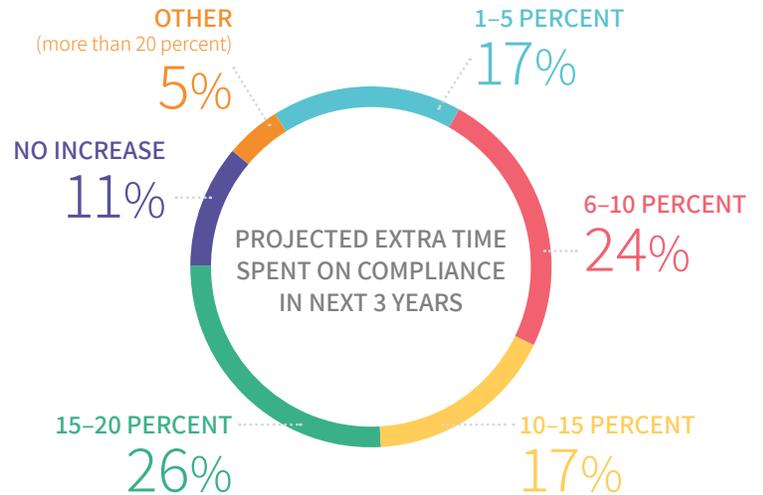
89% 89 percent of companies expect the time they spend on compliance to increase in the next three years.

20% Companies expect to spend an average of 20 percent more on compliance in the next three years.

20% Of the five percent of companies who indicated they expected efforts to increase more than 20 percent, forecasted projections ranged from 50-200 percent.

PROJECTED EXTRA TIME SPENT ON COMPLIANCE IN NEXT 3 YEARS

- **OTHER** (more than 20 percent) **5%**
- **1–5 PERCENT 17%**
- **6–10 PERCENT 24%**
- **10–15 PERCENT 17%**
- **15–20 PERCENT 26%**
- **NO INCREASE 11%**

WHAT DOES THIS MEAN FOR COMPANIES AND INDUSTRIES?

This data indicates that compliance professionals feel the increasing demands on their compliance team will taper slightly, but will still significantly increase in the next three years. With 89 percent of companies forecasting an increase in time they will need to spend on compliance, it's clear demands on compliance teams will not subside. It's expected compliance teams will need at least another half FTE to be added to their team in three years from now if they continue to use their current organizational structure.

This increase in time has a correlation with an increase of in-scope product compliance and corporate social responsibility regulations, coupled with a dependence on manual processes.

Compliance professionals indicated:

6.9/10 CONFIDENCE IN ABILITY TO MANAGE INCREASING COMPLIANCE DEMANDS

6.2/10 CONFIDENCE IN ABILITY TO INCREASE BUDGET IN RESPONSE TO GROWING COMPLIANCE DEMANDS

YOUR COMPLIANCE PROGRAM

While there is a growing trend towards automating compliance processes and reporting, there was an increase from 2017 data in respondents who indicated they use a variety of methods and a variety of departments to manage compliance programs, suggesting compliance programs lean towards decentralized models within companies. To handle an increased demand on compliance programs, 38 percent of companies are now using third-party software solutions, an increase of nine percent since 2017. However, with 75 percent of respondents indicating they use some sort of manual process to manage compliance, such as spreadsheets, it is clear automation has not been fully adopted across the industry.

WHEN WORKING WITH THIRD-PARTY SOFTWARE, RESPONDENTS INDICATED THEIR DESIRE TO CONSOLIDATE ALL THEIR TOOLS INTO

1
PLATFORM SOLUTION

WHAT DOES THIS MEAN FOR COMPANIES AND INDUSTRIES?

Overall, companies are spending more time on compliance, which is demonstrated by an increase in manual processes, use of third-party software solutions and internally-developed solutions, as well as a clear indication time spent on compliance has increased. Companies are using a varied set of solutions to address compliance challenges, with no clear focus on standardization.

YOUR COMPLIANCE EDUCATION & TRAINING

Survey results indicate most companies rely on internal programs for compliance training and education. Overall engagement with educational opportunities is on the rise, with a four percent increase in internal programs and a five percent increase in use of external programs, the two most popular options, since 2017. The greatest increase was seen in the number of companies with proactive or pre-ventative education programs, which rose from 27 percent to 51 percent of all respondents. Thirteen percent of companies indicated they have no training programs.

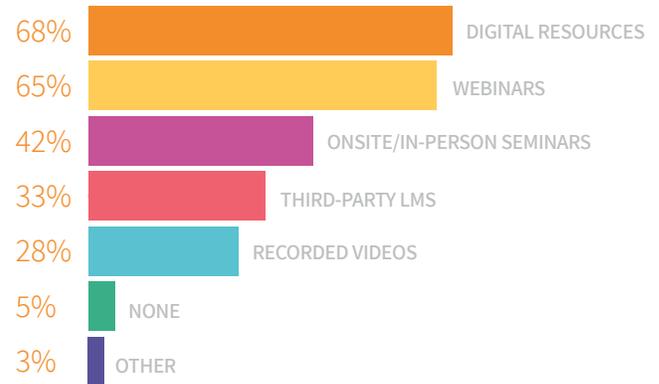## TOP THREE TYPES OF TRAINING & EDUCATION PROGRAMS

1 Internal

2 Proactive

3 Corrective

The most commonly-used tools for compliance education are digital resources, such as slide shows, which are used by 68 percent of companies, followed by webinars with 65 percent, and on-site/in-person with 42 percent. The educational tool that saw the greatest increase in uptake was online learning management systems (LMS), which saw a 20 percent rise, with 33 percent of all companies now using an LMS to administer and track training both internally and across the supply chain.

WHAT TACTICS COMPANIES EMPLOY TO TRAIN & EDUCATE EMPLOYEES/SUPPLIERS

68%	DIGITAL RESOURCES
65%	WEBINARS
42%	ONSITE/IN-PERSON SEMINARS
33%	THIRD-PARTY LMS
28%	RECORDED VIDEOS
5%	NONE
3%	OTHER

WHAT DOES THIS MEAN FOR COMPANIES AND INDUSTRIES?

This data, particularly compared with the year-over-year data that shows an increase in education and training, demonstrates companies are investing in compliance education and training. There is a shift towards proactive and preventative training as companies aim to educate suppliers prior to engaging them for other compliance activities. As engagement with compliance training and education is on the rise, there was a positive correlation with companies using tools such as webinars and third-party learning management systems.

DATA COLLECTION & ANALYSIS

Data collection is the most labor-intensive aspect of a compliance program, and can encompass a variety of different methods. Respondents were asked how they collect data, what types of data, and where the challenges lie. The majority of companies are using manual email, with 89 percent of respondents employing this method, and 39 percent using internal resources for phone calls for data collection. Only 17 percent are using third-party or outsourced resources, and 11 percent are using software with an embedded email manager.

ONLINE PORTAL USED BY SUPPLIERS
33%

ONSITE SUPPLIER AUDITS
33%

HOW COMPANIES COLLECT THEIR DATA

MANUAL EMAIL
83%

PHONE CALLS FROM INTERNAL RESOURCES
39%

When asked what formats companies use to collect their data, 83 percent indicated they use manual surveys (created through Microsoft Word or Excel, for example), while 45 percent leverage industry standards and templates (CMRT, IPC-1752, etc).

WHAT COMPANIES USE TO COLLECT THEIR DATA

83% MANUAL SURVEYS

45% INDUSTRY STANDARDS AND TEMPLATES

29% INTERNAL/PROPRIETARY DECLARATION FORM FOR COMPLETION BY SUPPLIER
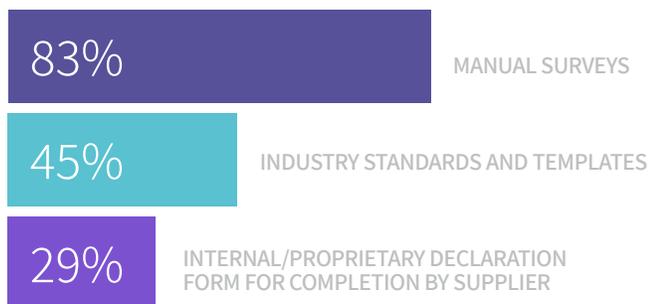
Respondents were asked what their biggest challenges were throughout the data collection process. Following up and escalating requests with suppliers was the top challenge, moving up from the second spot in 2017. Achieving a reasonable response rate was the second-most identified challenge, followed by obtaining access to company resources for supplier engagement.

The majority of companies are using multiple methods to collect data, with 63 percent selecting two or more responses.
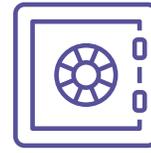
TOP DATA COLLECTION CHALLENGES

FOLLOWING UP/ESCALATING WITH SUPPLIERS

ACHIEVING A REASONABLE RESPONSE RATE

OBTAINING ACCESS TO COMPANY RESOURCES FOR SUPPLIER ENGAGEMENT

Data analysis and due diligence processes follow data collection. The majority of companies use multiple methods of data analysis, with 78 percent performing manual reviews using internal resources.

HOW COMPANIES PERFORM DUE DILIGENCE & ANALYSIS

78%
MANUAL REVIEW USING INTERNAL RESOURCES

45%
MANUALLY CREATE REPORTS USING SPREADSHEETS

33%
SUPPLIER CORRECTIVE ACTION

20%
INTERNAL RISK SCORING METHODOLOGY

Companies are still engaging in manual processes to review data, with a majority dedicating internal resources to due diligence and analysis. Almost half of all companies are reporting similarly by using spreadsheets to manually create reports.

TOP DUE DILIGENCE & ANALYSIS CHALLENGES

→ Verifying data completeness and accuracy

→ Getting supplier cooperation when supplier data is insufficient/missing

→ Centralizing compliance data from various sources

WHAT DOES THIS MEANS FOR COMPANIES AND INDUSTRIES?

This data indicates a dependence on manual processes, consistent with findings in 2017. Compliance teams find challenges in data verification, and engagement with suppliers when data, or proper data, isn't provided. In many cases the burden caused by these challenges could be alleviated by leveraging technology and automation.

CONCLUSIONS

In this section, the author and report partners have included interpretations of the data and conclusions based on data collected from survey respondents, as presented in the 'Results' section of this report.

These insights are drawn from quantitative and qualitative data as collected in the survey, interpreted through in-depth industry knowledge and expertise.

RESOURCES ARE GROWING THIN

Consistent with findings that compliance teams are facing increasing demand, a top data collection challenge was obtaining access to company resources for supplier engagement. Supplier engagement, particularly for companies dealing with a global network of suppliers, can be time-consuming and rife with obstacles, such as language barriers. Year-over-year data shows that dedicating resources for supplier engagement is a growing challenge for data collection. As demands increase on compliance teams, it's expected gaining company resources will continue to trend upwards as a growing challenge.

RELYING ON MANUAL PROCESSES IS NOT SUSTAINABLE

Reliance on manual processes leaves companies vulnerable to cost increases based on regulatory shifts. An overwhelming majority of companies (75 percent) still rely on manual processes to manage compliance programs, and 83 percent use manual emails to survey suppliers.

More than a quarter of companies surveyed indicated they expect compliance efforts to increase by more than 20 percent over the next three years. This highlights the need for a shift towards platform-based solutions that address multiple needs simultaneously, as existing manual processes are too expensive, time-consuming, and unsustainable in this evolving environment.

AN EXPANDING SCOPE IS INCREASING EFFORTS

Most companies are in scope of multiple regulations, with 75 percent of respondents indicating they're in scope of three or more of the regulations or directives listed. Since 2017, the average company has become in scope of at least one additional regulation. In 2017, the average company indicated they were in scope of at least 3.4 of the listed regulations, a number that rose to 4.5 in 2018.

Combined with data showing the average company uses five FTEs to manage compliance programs, it is expected companies will be using an additional 0.75 to 1.0 additional FTE of resources, compared to three years ago, in order to manage increased demands.

PUBLIC COMPANIES FACE GREATER REGULATORY BURDEN

Public companies use significantly more resources, with an average of 9.8 FTEs, than private organizations. This is expected due to the more complex regulatory environment, strict guidelines and enforcement risks that public companies are exposed to. However, this also highlights a greater opportunity, and in fact, necessity, for these public companies to find ways to scale more efficiently.

As the group under the most scrutiny, these companies also have the most to lose. Therefore, it is expected the primary drivers for change away from manual processes will come from this group.

IT TAKES A TEAM

Compliance efforts are inter-departmental and include team members in roles from the following departments:

- → Administration
- → Compliance
- → Corporate Social Responsibility/Sustainability
- → Engineering
- → Finance
- → Human Resources
- → IT
- → Legal
- → Quality
- → Risk Management
- → Sales
- → Supply Chain/Procurement

On average, companies indicated they had team members in five departments involved in company-wide compliance efforts. A focused compliance team lead is most likely to be part of either a dedicated compliance or engineering department.

CROSS-DEPARTMENTAL FUNCTIONS LEAVE ROOM FOR EFFICIENCIES

The cross-departmental nature of compliance teams raises the question of efficiency. Given the wide range of organizational structures, there are likely to be compliance programs that function more efficiently than others. Compliance teams must evaluate if their use of interdepartmental teams has created efficient and quality functionality, as this range indicates many companies have room for optimization. Companies who conduct an organizational evaluation may determine a decentralized compliance team is less effective in their company structure.

The majority of companies who use third-party software solutions indicated using more than one management method, which suggests companies have not standardized internal processes for compliance requests, and there are still efficiencies to be found while addressing these challenges.

DISPARITY EXISTS BETWEEN BUDGET AND TRUE COST

The average compliance team has approximately two full-time dedicated compliance professionals, plus additional support from external departments averaging a total of 10,000 hours each year of labor.

AVERAGE BUDGET INDICATED BY RESPONDENTS FOR COMPLIANCE STAFFING:

$125,000

AVERAGE ACTUAL STAFFING COST:

$378,900*

There is a **303 percent** increase in the actual cost of a compliance team compared to the perceived cost of compliance. Based on reported increases, companies are spending an average of $56,835 more on labor costs than they were three years ago, with a projected increase of $37,890 over the next three years.

This indicates a projected cost increase of:

$94,725

BETWEEN 2015 AND 2021 ON STAFFING COSTS FOR COMPLIANCE EFFORTS.

*The average actual staffing cost was calculated by multiplying the average number of hours used per department by average US hourly wage for the associated job title, calculated using payscale.com.

	Projected	Actual	Projected Cost in 2021
Small to medium	$142,428	$192,338.73	$230,806.48
Mid-size	$110,714.29	$259,418.34	$311,302
Enterprise	$173,750.00	$472,707.88	$567,249.46

COMPANIES ARE ENGAGING WITH EDUCATIONAL TOOLS

Overall engagement of educational opportunities, both internal and across the supply chain, is increasing. These results demonstrate that companies have recognized the value of compliance education. Overall, companies are increasing their commitment to education, with a 20 percent increase of companies reporting the use of a dedicated learning management system since 2017, and more than two-thirds of all respondents indicating they use digital resources for education.

While the most common type of training is internal, companies facing increasing struggles with supplier engagement may consider expanding educational opportunities to those in their supply chain. Education and training resources can provide essential information that increases supplier understanding of requirements, and enables their participation in compliance programs.

Figure 1.0: The projected staffing cost for 2018, compared with the actual cost, calculated using Appendix A.

THE STATE OF COMPLIANCE IN 2018

The 2018 State of Compliance shows a correlation between manual processes, increased scope of regulations and demand on compliance teams. Contributors to compliance programs are in a range of cross-functional roles, ranging from financial teams to legal and engineering. The disparity between actual compliance budgets and the true cost of interdepartmental efforts presents a fragile environment where regulatory changes may present undue pressure on a team already operating at, or over, capacity. Companies in this situation are exposed to significant risk and destabilization from growing regulatory compliance requirements.

Companies are engaging technology and education as they recognize more resources are needed moving forward with compliance programs. They are expected to adapt by:

→ Embracing technology to automate manual processes

→ Increasing education for both employees and suppliers

→ Shifting towards heavier engagement of consultants for process and regulatory requirements

→ Leveraging third-party platform solution vendors

This leads to the conclusion that the current state of compliance is not sustainable, and there is remarkable room for efficiencies to improve processes. As companies continue to deal with increasing demands on compliance departments, a cultural shift towards the technology available today is expected to replace tedious, labor-intensive processes.

ADVISOR & CONTRIBUTOR ACKNOWLEDGMENT

ROPES&GRAY

Ropes & Gray – a global law firm of approximately 1,200 lawyers – helps clients efficiently and effectively manage the increasingly complex and rapidly developing demands of supply chain compliance and corporate social responsibility. Our leading supply chain compliance and CSR (business and human rights) practice offers clients a comprehensive approach to supply chain compliance and CSR through a global team with members in the United States, Europe and Asia. Senior members of the practice have advised on supply chain compliance and CSR matters for almost 30 years, enabling us to provide a long-term perspective that few firms can match. Our experience spans a significant number of regulations, industries, geographies, commodities, goods and services.

For further information on the practice, visit www.ropesgray.com or contact Michael Littenberg at michael.littenberg@ropesgray.com.

Deloitte.

Deloitte & Touche LLP is the brand under which tens of thousands of dedicated professionals in independent firms throughout the world collaborate to provide audit, consulting, financial advisory, risk management, tax, and related services to select clients. In the U.S., Deloitte & Touche LLP provides industry-leading audit, consulting, tax and advisory services to many of the world's most admired brands, including 80 percent of the Fortune 500 and more than 6,000 private and middle-market companies.

Assent

Assent Compliance is a third-party data and risk management company providing cloud-based SaaS solutions that identify and assess third-party risks, educate stakeholders on regulatory and data program requirements, and increases transparency between businesses.

APPENDICES

APPENDIX A: THE TRUE COST FORMULA

Using the following formula and additional resources, it is possible to calculate true cost estimates for compliance programs at various business sizes.

→ Sw = Monthly Costs of Staff Wages Conducting Activity

Using http://www.payscale.com to collect average salaries for listed job titles, we can apply a basic formula to calculate annual human resource costs:

[Hourly wage x hours spent annually] x [all staff efforts]

EXAMPLE

([Compliance Manager FTE 40$/hr x 2,000 hrs/yr = $80,000/yr]) + ([Legal clerk: 20$/hr x 360 hrs/yr = $7,200]) + ([Admin: 20$/hr x 360 hrs/yr = $7,200]) = $94,400

→ Ov - Overhead of 20% = $18,880

→ Sw - Average cost of staff wages (per annum)

→ So - Average cost of software

Total Annual Cost = Sw + Ov + So