THE STATE OF COMPLIANCE 2019

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PRESENTED BY:

Assent compliance & risks ptc ROPES&GRAY

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ABOUT THE AUTHOR

Natalie Picot is an independent researcher and strategy consultant who earned her Master of Business Administration from the Stanford Graduate School of Business in 2015. Natalie has researched and consulted for companies across a wide range of industries. Her work includes market research, competitive analysis and strategic positioning. Prior to her time at Stanford, Natalie spent four years in the compliance and research groups at Soros Fund Management. She earned her bachelor's degree from the University of Pennsylvania in 2009.

WELCOME

Welcome to the State of Compliance 2019.

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. Two years later, with support from industry specialists and the study's independent researcher and author, Stanford MBA graduate Natalie Picot, the State of Compliance report continues to deliver key insights.

We are pleased to present you with this report for the third consecutive year. Your responses have allowed us to understand the baseline for compliance programs and the challenges companies face within the evolving compliance environment as they move between old world standards and processes towards new world concepts that embrace sustainability and technology.

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

Andrew Waitman
CEO, Assent Compliance
Executive Sponsor

EXECUTIVE SUMMARY

The State of Compliance 2019 expands on the data collected in the 2017 and 2018 reports, which evolved from a gap in data availability in the compliance industry. This year, industry experts developed an updated question set in order to collect data and provide analysis for companies to leverage in compliance program design and business decisions. This year's report provides a year-over-year comparison of the demands faced by compliance teams, and examines how teams plan to address them.

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

The 2019 survey question set focused on the following areas: compliance teams within organizations, supply chain complexity and the cost of compliance, the structure of compliance programs, year-over-year demand on teams, and how companies collect and analyze data throughout their supply chains.

KEY FINDINGS

- Companies are spending an increasing amount of time on compliance, and predict the increases will continue.
- Enterprise-level companies have complex supply chains and, as a result, encounter significantly higher compliance costs than mid-sized and large companies.
- Companies are reporting the use of both third-party solutions and manual processes for a hybrid approach to compliance.
- While the use of third-party software has increased over past year, so has the use of manual processes, indicating that companies have not centralized their programs under one solution.
- Mid-sized and large companies are typically more dependent on manual processes than their enterprise-level counterparts, which are more likely to embrace third-party technology.
- Companies using third-party solutions report consistently higher satisfaction with their compliance programs.
- The actual cost of compliance continues to be higher than predicted by compliance professionals. Companies still leverage labor-intensive processes across decentralized teams and, as a result, they do not necessarily understand the true cost of compliance.

- Teams are maintaining a decentralized structure, with full-time compliance professionals likely to be located at a central, corporate level, though spread across various teams and departments.
- The European Union (EU) Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) Regulation and the EU Restriction of Hazardous Substances (RoHS) Directive remain prominent for compliance teams, with more than 70 percent of companies in scope of both regulations.

The data collected through the study indicates that the current state of compliance is shifting toward technology, but remains suspended between manual processes and automation. Companies are still in a state of flux, as time spent on compliance continues to increase each year.

BACKGROUND

There is a significant gap in the availability of compliance industry data in the market today. Leaders in this space recognized the value of this data, and collaborated with an independent researcher to identify the information that would be most beneficial across verticals and organizational structures.

PURPOSE

The purpose of this survey and subsequent analysis is to provide companies with benchmarks to aid in defining and building their compliance programs. The insights available in this report will guide companies in planning budgets, assessing resources, building internal and external training programs, and selecting tools. The insights will also help companies evaluate methods to manage increasing regulatory pressures.

METHODOLOGY

The population of this data collection initiative was defined by compliance industry experts in various fields worldwide. The study targeted professionals who work 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 U.S. Foreign Corrupt Practices Act or the UK Bribery Act.
- Australian modern slavery legislation (federal or New South Wales).
- California Safe Drinking Water and Toxic Enforcement Act (Proposition 65).
- California Transparency in Supply Chains Act.
- U.S. conflict minerals (Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act).
- EU Conflict Minerals Regulation.
- EU Medical Device Regulation.
- EU Non-Financial Reporting Directive.
- U.S. Federal Acquisition Regulation (FAR) Final Rule on Combating Trafficking in Persons.
- French Corporate Duty of Vigilance Law.
- EU REACH Regulation.
- Global RoHS legislation.
- UK Modern Slavery Act.
- U.S. legislation prohibiting the importation of goods involving modern slavery (Section 307 of the Tariff Act and the 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 that companies in defined verticals submit the completed survey to the research team for analysis.

The survey was circulated to a contact list of relevant companies via email. Email was selected as the most appropriate vehicle to distribute the study due to its versatility as a communications tool. Via email, companies can be contacted directly, but decide for themselves the most appropriate time to complete the study. Social media outreach was also conducted in order to touch an extended audience and ensure a diverse selection of professionals were given the opportunity to participate 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 participants. In order to protect the integrity of the study, compensation (via a gift card) was given 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.

A submission screening was conducted by asking all participants to identify whether they work in the regulatory compliance space. Those who indicated they did not handle product compliance, corporate social responsibility or vendor management in their roles were removed from the sample.

Email invitations to complete the survey were sent on April 9, April 11 (two separate emails), April 16 and April 18, 2019, by three different partners. Researchers closed access to the survey on April 21, 2019, after collecting 239 responses from verified participants belonging to the target demographic. The survey was also promoted on partner social media accounts.

The respondents were given the option to select one or more verticals, and primarily represented:

INDUSTRY VERTICALS

19%	AEROSPACE & DEFENSE
21%	AUTOMOTIVE
35%	ELECTRONICS
33%	INDUSTRIAL EQUIPMENT
21%	MEDICAL DEVICES & LIFE SCIENCES
9%	OIL & GAS
21%	RETAIL
26%	OTHER

The results of this survey are statistically significant at a **95 percent** confidence interval, with a 5 percent margin of error.

SURVEY DESIGN

The survey was designed with input from partners 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:

SURVEY SECTIONS

CONTENT CONTRIBUTORS

Partners in this study include the following companies:

- Assent Compliance
- Compliance & Risks
- PTC
- Ropes & Gray LLP

These partners 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 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 leveraged to meet these requirements, and how efforts are changing year over year.

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

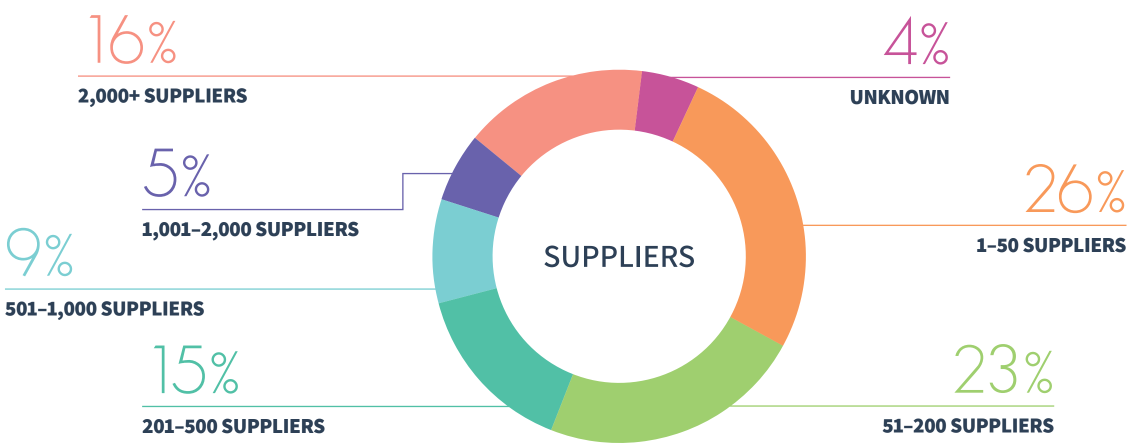
COMPANY INFORMATION

Survey respondents indicated that their companies operate within multiple industry verticals, with slightly more than half of all respondents operating in two or more verticals. The verticals with the most representation were electronics (35 percent) and industrial equipment (33 percent). The distribution of public and private companies tended toward private companies, with 57 percent of all respondents coming from private companies and 43 percent from publicly-traded companies. Enterprise-level companies were significantly more likely to fall within the publicly-traded category.

A broad range of company sizes were encompassed by the survey, with 24 percent of companies operating with 5,000 or more employees.

There was a relatively even split between companies that sell products to an end user vs. on to further assembly. Slightly more than half of all companies surveyed have two or more product lines (52 percent), with 27 percent of companies indicating they have 41 or more product lines.

The size of the supply chain greatly varied, with companies indicating the following supplier counts:

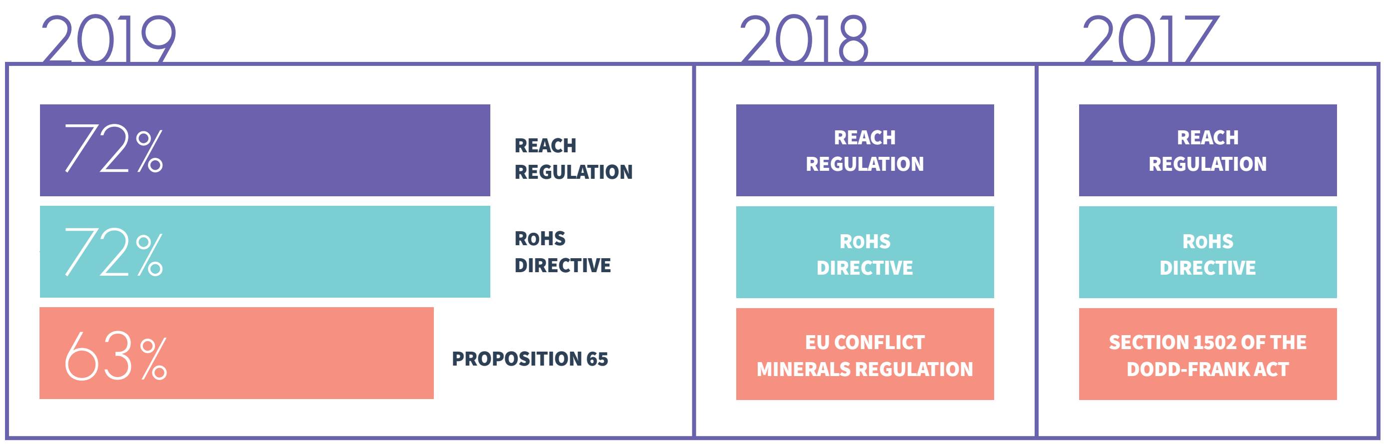


A LOOK AT THE REGULATORY LANDSCAPE

The majority of respondents' compliance programs recognized at minimum four areas of compliance, with more than half of all respondents indicating they are in scope of the EU REACH Regulation, EU RoHS Directive, Proposition 65 and Section 1502 of the Dodd-Frank Act for conflict minerals. In 2019, Proposition 65 displaced the EU Conflict Minerals Regulation as the third top in-scope regulation for companies, while REACH and RoHS remained first and second respectively for the third consecutive year.

Enterprise-level companies report being in scope of 1.5 times the number of regulations as mid-sized companies, which can be attributed to an increase in regulations applicable to public companies. While only 19 percent of mid-sized companies surveyed are publicly-traded, 91 percent of all enterprise-level companies are publicly-traded and face increased regulatory reporting requirements. This is consistent with the report's 2018 findings, which concluded that publicly-traded companies face a significant increase in regulatory pressure, such as the requirement to report on conflict minerals under Section 1502 of the Dodd-Frank Act.

TOP THREE IN-SCOPE REGULATIONS



Companies surveyed for this report are defined as mid-sized, large and enterprise-level, based on the following annual revenue criteria:

MID-SIZED

≤ $100 MILLION

LARGE

$100 MILLION TO $800 MILLION

ENTERPRISE

$800 MILLION ≥

SUPPLY CHAIN COMPLEXITY

The supply chains of enterprise-level companies are significantly more complex than those of mid-sized and large companies, which increases compliance costs. Enterprise companies are more likely than smaller companies to operate across multiple industries (three on average), and manage considerably more parts and product lines. Smaller companies are also less likely to source externally-manufactured parts than larger companies, which reduces the compliance burden.

When it comes to managing suppliers, which can include qualification, education, outreach and contract management, enterprise-level companies deal with a significantly higher number of suppliers (averaging 2,000+), in comparison to the 51 to 200 suppliers typical of mid-sized and large companies. This increases the likelihood that suppliers will be located abroad, increasing the need for multilingual support and a trade compliance framework.

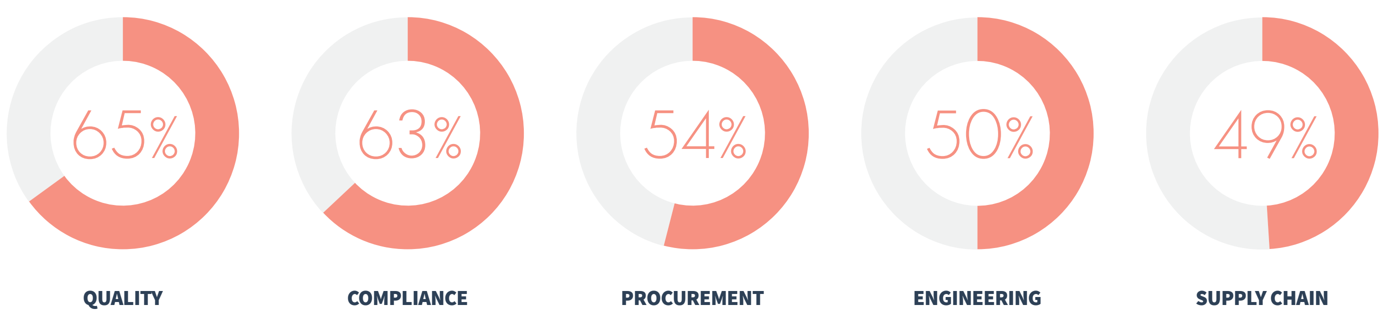
YOUR COMPLIANCE TEAM

On average, companies indicated they have approximately five internal employees involved in compliance, with 11 percent of all respondents indicating teams of 50 people or more, and another 18 percent indicating teams of 10 or more. The majority of teams operate at the corporate level, but individuals are located in different departments. Fifty-four percent of respondents said product compliance is managed at the corporate level.

AVERAGE FULL-TIME INTERNAL COMPLIANCE EMPLOYEES BY COMPANY SIZE

Compliance teams are likely to be managed at the corporate level. Fifty-four percent of respondents indicated that teams are fully managed at the corporate level, while 31 percent indicated they are partially managed at the corporate level. On average, the employees involved in compliance are located across several teams, with the average compliance team spread across 4.7 departments.

The departments most likely to include employees dedicated to compliance are:



While respondents were given the option to select legal, audit, IT, risk management, administration, sales, human resources, finance, investor relations or other in their responses, the top five departments involved in compliance were identical to the results from the 2018 report. From 2017 to 2018, the top five departments were also identical in rank, which suggests there have been no significant shifts in the composition of compliance teams over the past year.

The only change from the 2018 results was the order of these top five teams. In 2018, respondents indicated that the majority of employees working on compliance were in a dedicated compliance department, with the quality department ranking third. In 2019, quality was the most common department to include employees dedicated to compliance. Respondents also included research and development as an emerging division to include compliance functions.

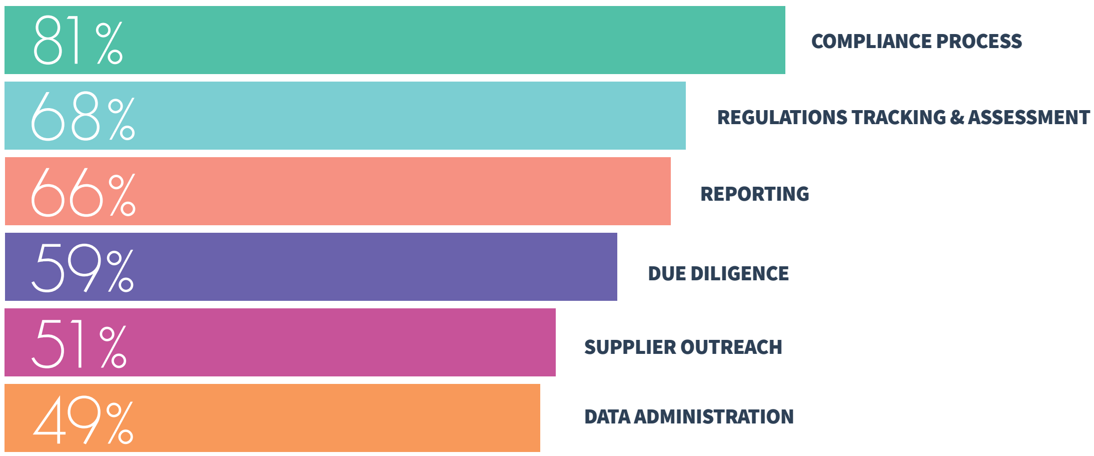
WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

The dispersion of compliance professionals across various teams at the corporate level indicates that the structure of compliance teams remains decentralized, with few changes since 2017. As new team members are added, they are more likely to be located in the quality department than engineering, which illustrates that while compliance functions still have a place in engineering departments, companies are refraining from allocating additional compliance resources to them.

The diversity in departments involved in compliance demonstrates that there is no single approach to compliance. Teams are also structured differently across companies, with a mixture of cross-departmental duties. This indicates there are multiple paths to achieving compliance goals — however, some organizational structures may be more efficient than others.

In terms of responsibilities assigned to employees, the most common is compliance process, with regulations tracking and assessment taking second place.

TOP COMPLIANCE TASKS



Survey respondents were asked to gauge how much more time their companies are spending on compliance-related efforts in comparison to three years ago

- → Ninety-one percent of survey respondents reported their teams are spending more time on compliance efforts since 2015.
- → This is an increase from the 2018 survey, which indicated that regulatory demands are growing exponentially each year.
- → On average, companies are spending 16 to 25 percent more time on compliance-related activities, which is consistent with findings from the 2018 report.
- → Sixteen percent of all survey respondents reported spending 51 percent more time on compliance-related activities — significantly more than the 9 percent who indicated no increase.

INCREASE IN TIME SPENT ON COMPLIANCE

NO INCREASE	9.09%
0–5%	8.64%
6–10%	10.91%
11–15%	15.00%
16– 25%	22.27%
26–50%	18.18%
51% OR MORE	15.91%

Survey respondents were then asked to forecast the increase in the amount of time their companies will spend on compliance in the next three years.

- Companies are more optimistic about future demands, and on average, they expect the time they spend on compliance activities to increase only 11 to 15 percent in the next three years.
- Eighty-eight percent of companies expect the time they spend on compliance to increase in the next three years — only minimally less than the 89 percent of respondents who said the same in the 2018 report.
- Fifteen percent of companies expect their efforts to increase by 51 percent or more.

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

With 88 percent of companies forecasting an increase in the amount of time they will need to spend on compliance, it is clear that demands on compliance teams will not subside. Many compliance teams will need at least one, if not more, additional full-time resources in the next three years if they continue to operate in their current organizational structure.

RESPONSE TO DEMANDS

The majority of respondents ranked themselves at a 6.1 out of 10 in their confidence to meet the needs of their compliance team's forecasted increase in workload. This is slightly less than the 6.2 average confidence level reported in 2018, indicating that respondents' feelings have not changed significantly over the past year.

Respondents who forecasted an increase in demands on their compliance teams were asked how they plan to manage the increased demand, and were able to select more than one option. The top responses were:

- Repurpose staff towards compliance (33 percent).
- Hire additional staff (32 percent).
- Expand efforts with an existing third-party solution (31 percent).
- Utilize consultants and other outsourced providers (30 percent).

The four most common options had a fairly equal distribution, with a smaller percentage (21 percent) of respondents electing to make no changes to their process. Among feedback in the "other" category, options to manage the demand included:

- Hire a summer intern for data collection.
- Build an internal data management system.
- Streamline existing efforts.
- Spread existing resources thinner.

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

While almost all companies forecasted additional demands on their compliance teams, the nearly even split between the four approaches to managing the burden shows a lack of clarity surrounding best practices. It also highlights the complexity of compliance — companies need to identify specific gaps in their current compliance programs before they can fully evaluate the most effective way forward.

While there is a growing trend toward automating compliance processes, many companies are still managing their programs manually and compliance programs are still largely decentralized. Many companies are not changing their approaches despite the increase in time required for compliance activities.

To handle increasing demands, 70 percent of companies are using software solutions (both internally-developed and third-party) to manage compliance. While 22 percent of companies have eliminated the use of manual processes, such as data entry in spreadsheets, 78 percent still rely on these manual processes either partially or in full. This suggests automation has not been fully adopted across the industry.

The three top challenges faced by companies using manual processes are:

- Consolidating data from various departments.
- Incorporating changes to existing regulations, and complying with new regulations.
- Access to compliance data.

MOST COMMONLY USED THIRD-PARTY TOOLS

In total, 14 percent of respondents indicated they use another form of third-party software, with the most common tool being a variation on Microsoft Excel or another spreadsheet tool. Of the total respondents, 46 percent indicated they do not use a third-party tool, and function solely with email-based systems.

The majority of respondents who work with third-party software indicated their desire to consolidate all their tools into one platform solution.

PROGRAM SATISFACTION

Overall, respondents indicated they were more satisfied with their compliance programs now as compared to three years ago, despite a clear increase in time spent on compliance.

However, when asked how they would improve their current compliance programs, only 12 percent said they would maintain the status quo.

Given the option, respondents would enhance their compliance programs in the following ways:

IMPROVE PROCESSES	55%
IMPROVE TRAINING AND/OR EDUCATION	53%
PROCURE TECHNOLOGY	37%
ADD STAFF	32%
INCREASE BUDGET	30%
RESTRUCTURE (CENTRALIZE VS. DECENTRALIZE)	17%

Other ways respondents would like to see compliance programs improved include:

- Better use of existing technology.
- Increased corporate buy-in.
- Improved supplier data acquisition.

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

Companies are spending more time on compliance every year. Compliance teams are using a varied set of solutions to address compliance challenges, with no clear focus on standardization. Mid-sized and large companies are more likely to put a focus on improving training and/or education, while enterprise-level companies are more likely to improve processes.

As 55 percent of companies seek to improve processes, this demonstrates respondents are cognizant of existing inefficiencies in compliance programs, and shows there are difficulties in scaling alongside regulatory changes.

Data collection is the most labor-intensive aspect of a compliance program, with teams using a variety of different methods to accomplish their goals. Respondents were asked how they collect data. While a number of companies are beginning to use online portals where suppliers can upload data, and outsourcing data collection, most companies (87 percent) are still using manual processes for at least a portion of their supply chain data collection efforts.

HOW COMPANIES COLLECT THEIR DATA

87% **MANUAL EMAIL**

30% **ONLINE PORTALS USED BY SUPPLIERS**

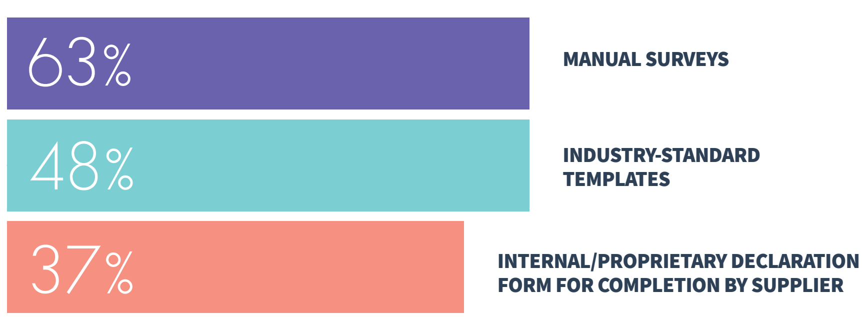
27% **PHONE CALLS BY INTERNAL RESOURCES**

27% **THIRD-PARTY/OUTSOURCED DATA COLLECTION**

When asked what tools companies use to collect their data, 63 percent indicated they use manual surveys (created through Microsoft Word or Excel, for example), while 48 percent leverage industry standards and templates and 37 percent leverage internal/proprietary declaration forms. This data has shifted since 2018, with 20 percent fewer respondents using manual surveys, and an increase in companies using both industry standards and templates, as well as internal/proprietary declaration forms. Respondents did note that the exact tool used is dependent on the regulation.

WHAT COMPANIES USE TO COLLECT THEIR DATA

DATA COLLECTION TOOLS



Respondents were asked about their biggest challenges in the data collection process. Achieving a reasonable response rate was the top challenge, displacing supplier follow-up and escalations, which was the top challenge in 2018 and the second most challenging aspect of data collection in 2017.

TOP DATA COLLECTION CHALLENGES

ACHIEVING A REASONABLE RESPONSE RATE

ANSWERING SUPPLIER QUESTIONS

CREATING QUESTIONNAIRES

Data analysis and due diligence processes are the next steps in the compliance process. The majority of companies that responded to the 2018 State of Compliance survey indicated they use multiple methods of data analysis, with 78 percent performing manual reviews using internal resources. The 2019 respondents indicated that when conducting due diligence and analysis, centralizing compliance data is the top pain point.

TOP DUE DILIGENCE & ANALYSIS CHALLENGES

1. Centralizing compliance data from various sources.
2. Creating effective data analysis and due diligence programs.
3. Evaluating compliance data.

WHAT DOES THIS MEAN FOR COMPANIES & INDUSTRIES?

This data indicates a dependence on manual processes, consistent with findings in the 2017 and 2018 reports. Compliance teams find challenges in centralizing compliance data, creating effective data analysis and due diligence programs, and evaluating compliance data once it is acquired. 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 interpret the quantitative and qualitative data collected from survey respondents, as presented in the results section of this report.

IT TAKES A (DECENTRALIZED) TEAM

Compliance efforts are interdepartmental and include team members in roles from the following departments:

- Quality
- Compliance
- Procurement
- Engineering
- Supply Chain
- Legal
- Audit
- IT
- Risk Management
- Administration
- Sales
- Human Resources
- Finance
- Investor Relations
- Research & Development

Respondents indicated that, on average, they have team members in five departments involved in company-wide compliance efforts, with employees most likely to be found in the quality, compliance or procurement departments. Enterprise-level companies are likely to have larger compliance teams, with a head count in the 10–20 range.

The inclusion of the research and development department in this list was as the result of company inputs via the “other” option. This addition demonstrates that compliance considerations begin early in the product design phase, with regulatory input factored into design decisions.

An increasing number of companies are bringing supply chain data into research and development in order to reduce costs and improve processes at this stage of the product life cycle. Companies considering compliance data in the research and development stage will find value in tracking future restrictions that may limit the use of particular substances.

THE COST OF COMPLIANCE IS UNREALIZED

Year over year, this report has found that companies do not understand the true cost of compliance. This year, respondents indicated they spent between $50,000 and $150,000 USD on salaries for employees in compliance roles. However, the average compliance team was found to include five internal employees, which is inconsistent with the reported salary range.

Using the true cost formula outlined in Appendix A of the report, the true cost of compliance was calculated. This formula includes company size, product lines, suppliers, and whether compliance is centralized or decentralized at the corporate level, among other factors.

The average true cost of compliance for companies was found to be:

MID-SIZED

$295,337

LARGE

$527,092

ENTERPRISE

$1.1 MILLION

This illustrates that costs extend beyond salary for full-time, dedicated compliance employees. Costs also accrue in processes related to design, governance, compliance tolls, supplier engagement and data governance. These numbers demonstrate that the majority of companies significantly underestimate the true cost of their compliance programs.

The costs associated with enterprise-level companies' compliance efforts can be attributed to:

- Greater regulatory scrutiny as public companies.
- Involvement in multiple industry verticals.
- Supply chain complexity.

RELYING ON MANUAL PROCESSES IS NOT COST-EFFECTIVE

A reliance on manual processes leaves companies vulnerable to cost increases stemming from regulatory shifts. A majority of companies (87 percent) use manual emails to survey suppliers for at least a portion of their compliance program. Companies are more likely to use their own surveys than industry-standard templates, which can be used in tandem with automation to streamline processes.

This highlights the need for a shift toward adoption of industry-standard templates and platform-based solutions that address multiple needs simultaneously, as existing manual processes are time-consuming and unsustainable in this evolving environment.

DEMANDS CONTINUE TO INCREASE YEAR OVER YEAR

For the second year, there have been consistent and significant increases in the time spent on compliance. With 91 percent of survey respondents reporting an increase in time spent — up 4 percent from 2018 — there is a clear correlation between the increase in regulatory demands and the time required to manage compliance programs. The second most commonly reported compliance task was regulations tracking and assessment.

With companies expecting to spend an average of 16 to 25 percent more time on compliance-related tasks, and factoring in the true cost findings, companies can expect the following budget increase by 2022:

- Mid-Sized: $59,067 USD
- Large: $105,418 USD
- Enterprise: $223,994 USD

While these are reported averages, the companies that reported a forecasted increase of 51 percent or more in time spent on compliance could expect to see increases ranging upwards of half a million dollars.

COMPANIES PLAN TO DEDICATE MORE TIME, NOT MORE MONEY, TO COMPLIANCE

While almost all companies (88 percent) forecasted an increase in time spent on compliance over the next three years, very few would change their existing programs by adding budget.

This shows that companies are more likely to invest time rather than financial resources toward compliance. A third of companies plan to reallocate existing staff toward compliance tasks to manage this impact. However, the financial impacts are still significant when the cost of labor is considered, which contributes to a skewed understanding of the true cost of compliance. Additionally, pulling resources away from other important tasks to manage increased compliance requirements can have an impact on overall business results.

Companies that invest internal resources toward finding process efficiencies, eliminating manual tasks and adopting industry standards will be best positioned to see a return on the time investment, versus companies that invest time toward repeating manual processes.

LARGER COMPANIES ARE MORE LIKELY TO USE MULTIPLE STRATEGIES FOR SUPPLY CHAIN DATA MANAGEMENT

Mid-sized companies are most likely to manage compliance programs using strictly internal resources and spreadsheets, while enterprise-level companies are more likely to use a third-party solution. Mid-sized companies are less likely to use multiple solutions, which is indicative that fewer companies of this size use technology and third-party solutions in their programs.

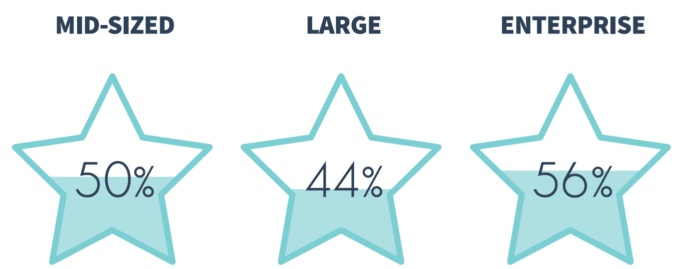
However, enterprise-level companies are slightly more likely to use a mix of solutions. This convergence of dated, manual processes with technology shows that while third-party solutions have been embraced by this segment of companies, they have not been consistently, fully integrated across supply chain data management programs.

Approximately half of all enterprise-level companies are using a combination of technology and manual processes to manage their compliance programs.

ENTERPRISE-LEVEL COMPANIES ARE MORE SATISFIED WITH COMPLIANCE PROGRAMS

Overall satisfaction with compliance programs differs by company size, with the majority of companies indicating they were either neutral or more satisfied with their compliance programs than three years ago.

Companies that were more or significantly more satisfied with their compliance program than three years ago:



Despite managing complex supply chains, enterprise-level companies reported the highest program satisfaction. This aligns with the enterprise approach toward procuring third-party technology, allowing for scalable solutions that provide benefits that increase in value as complexity grows.

COMPANIES EMBRACING TECHNOLOGY HAVE THE MOST IMPROVED PROGRAMS

Respondents were asked to gauge their satisfaction with their current compliance programs compared to three years ago. Companies of all sizes that have embraced technology and automation report higher satisfaction than those that rely on manual processes.

Forty-three percent of mid-sized companies that use manual processes reported increased satisfaction, while 75 percent of companies of the same size that use third-party solutions rated themselves as more or significantly more satisfied. In turn, 47 percent of companies that use internal software solutions reported higher satisfaction with their compliance programs.

For enterprise-level companies, 53 percent of respondents indicated they are more satisfied with programs that include manual processes, and 65 percent are more satisfied with programs that include an internal software solution. Of those that use a third-party solution, satisfaction is higher, with 82 percent of respondents indicating they are more satisfied with their compliance programs than they were three years ago.

This demonstrates that while many companies use a variety of methods to collect data, companies that utilize a third-party solution are most likely to have implemented process efficiencies with technology and report higher program satisfaction levels, as compared to three years ago.

PROGRAM SATISFACTION: MORE OR SIGNIFICANTLY MORE SATISFIED

	MANUAL SOLUTIONS	INTERNAL SOFTWARE SOLUTIONS	THIRD-PARTY SOLUTIONS
MID-SIZED	43%	47%	75%
ENTERPRISE	53%	65%	82%

PROGRAMS ARE NOT BUILT TO SCALE

As companies face consistently growing year-over-year demands on their compliance programs, they seek to improve processes. New compliance challenges emerge each year as regulations increase in scope and complexity, and companies fall under new and emerging global regulations. The desire to examine and improve processes indicates that existing compliance programs have not been built to scale.

Companies look toward process improvement, but also education and technology procurement to meet these challenges. As compliance programs evolve to match the shifting regulatory landscape, it is critical that companies evaluate the scalability of the changes they bring forward. While many companies indicated they plan to reallocate staff toward compliance over the next three years, this method will face scalability and sustainability challenges as requirements continue to grow.

Companies will need to gain a thorough understanding of their compliance processes in order to build a program that can scale effectively, while embracing technology and automation of manual tasks.

The 2019 State of Compliance shows programs at a crossroads between dated processes and innovative technologies, in transition from the old world to the new world. As companies report a year-over-year increase in demand, more are turning to automated solutions, resulting in stronger overall program satisfaction.

Meanwhile, few companies have realized the true potential of technology. Many that use third-party solutions have not fully leveraged them across all of their compliance departments, maintaining a hybrid approach using both technology and manual processes.

Many programs are still in flux as respondents seek improvements to compliance programs and processes, but lack direction in how to move forward. Companies at this crossroads will need to adapt, or face significant risk and program destabilization resulting from growing regulatory compliance requirements.

Despite having the most complex supply chains, enterprise-level companies that embrace third-party solutions have seen the most progress in their programs. When companies find themselves at the intersection of compliance and technology, they can leverage both as strategic business advantages rather than view them as corporate burdens.

Companies that successfully navigate the shifting regulatory landscape adapt by:

- Eliminating manual processes and implementing technology across programs.
- Leveraging third-party solutions to improve program efficiency.
- Evaluating strategies for scalability pre-implementation.

The current state of compliance is suspended between the old world and the new world, with significant room for technology to provide efficiencies, and improve programs and processes. As the regulatory landscape continues to evolve, companies will look to their peers for best practices in compliance management. They will follow the lead of companies with the most complex, demanding supply chains, which face the biggest compliance burdens but use innovative solutions to deftly navigate the evolving regulatory environment.

ASSENT COMPLIANCE

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

The Assent Compliance Platform offers solutions for product compliance, corporate social responsibility and vendor management, streamlining supply chain data management for companies around the world.

COMPLIANCE & RISKS

Compliance & Risks helps manufacturers, retailers and their supply chain partners monitor and manage requirements, regulations and standards for a cleaner, safer and better world. The company creates business advantages for clients by providing reliable legislative information, insights and actions through C2P, the company's knowledge management software platform, as well as consulting, market access, managed services and other solutions.

The company is recognized as the end-to-end global regulatory solutions provider across the technology, consumer goods and retail, industrial goods and life sciences sectors.

Headquartered in Cork, Ireland, Compliance & Risks also has offices in Brussels, California, London and New York.

PTC

Since 1985, PTC has been enabling customers to stay one step ahead of the competition by combining strategic vision with leading, field-proven technology. PTC technology helps companies quickly unlock the value now being created at the convergence of the physical and digital worlds through the IoT, augmented reality, 3D printing, digital twin, and Industry 4.0. With PTC, global manufacturers and an ecosystem of partners and developers can capitalize on this promise of physical digital convergence today and drive the future of innovation.

ROPES & GRAY LLP

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. The firm's 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 Ropes & Gray to provide a long-term perspective that few firms can match. The firm's experience spans a significant number of regulations, industries, geographies, commodities, goods and services. For further information on the practice, visit ropesgray.com or contact Michael Littenberg at michael.littenberg@ropesgray.com.

APPENDIX

THE TRUE COST FORMULA

A model was built to calculate the true cost estimate for compliance programs at companies of various sizes. For transparency of the methodology used, the model was built around three main assumptions:

- → Each company maintains a basic database, and collects the required data.
- → Compliance programs are supported by internal resources only.
- → The company maintains a methodology to remain compliant with changing regulations.

The trust cost formula includes full-time equivalent (FTE) efforts for tasks related to:

1. Design/governance processes.
2. Investment in tools to support compliance programs.
3. Supplier engagement.
4. Data governance.

As a result, we needed to understand the FTE efforts for each major task per department that contributes to fulfilling our base assumptions.

Using payscale.com to collect average salaries for listed job titles, a basic formula was created to calculate annual FTE costs:
[Hourly wage x hours spent annually] x [all staff efforts]

EXAMPLE

Process Date:

([COMPLIANCE MANAGER FTE: 40$/HR X 2,000 HRS/YR = $80,000/YR])

+ ([LEGAL CLERK FTE: 20$/HR X 130 HRS/YR = $2,600])

+ ([QUALITY FTE: 50$/HR X 150 HRS/YR = $7,500])

+ ([PROCUREMENT FTE: 50$/HR X 100 HRS/YR = $5,000])

+ ([ADMIN FTE: 30$/HR X 300 HRS/YR = $9,000])

= $104,100

+ OVERHEAD OF 20 PERCENT = $20,820

+ NON-FTE = $20,500

Total Estimated FTE Costs = $145,420