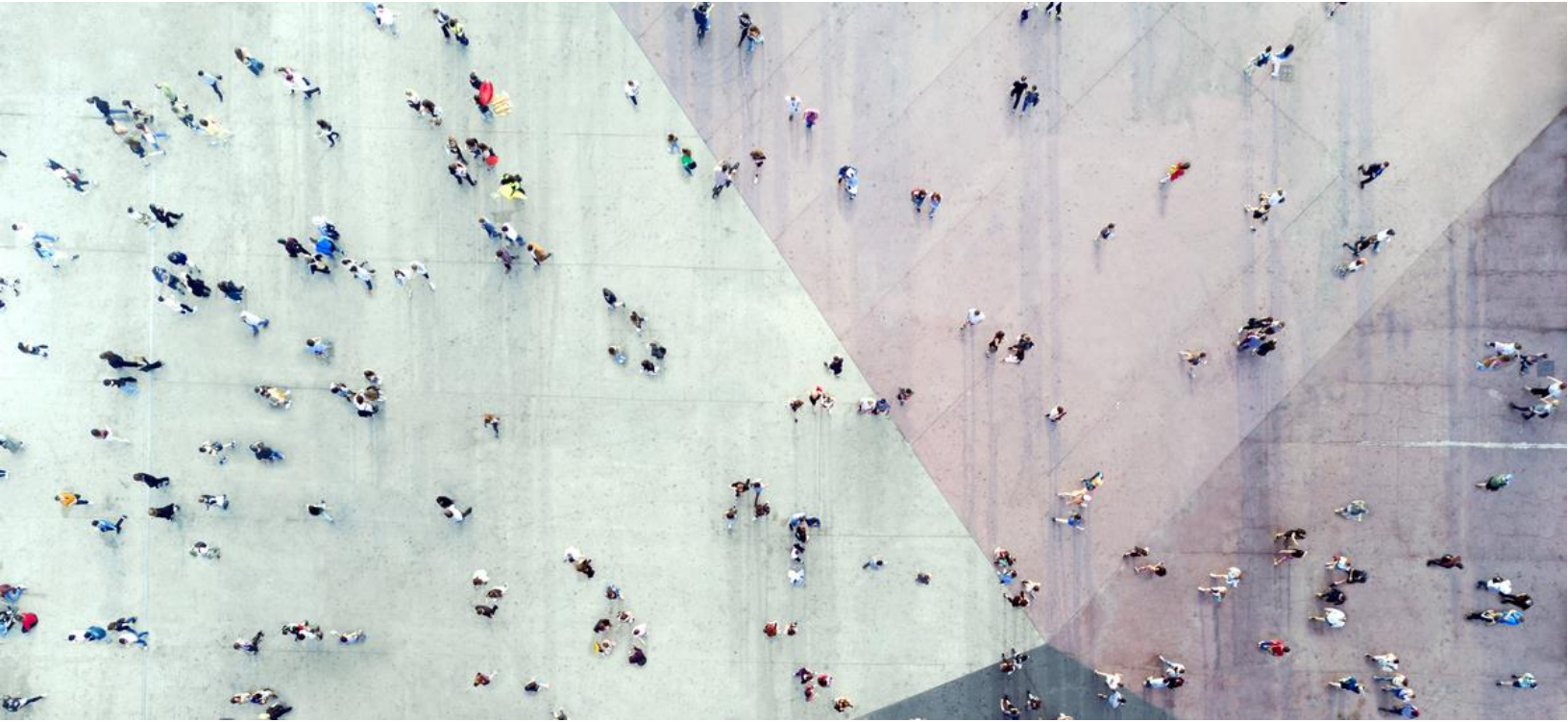


WHITEPAPER



Increasing efficiencies within centralized and decentralized third party compliance programs

Published by Blue Umbrella

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Overview

As the United Nations Global Compact [discusses](#) in their business anticorruption guide, different compliance models have their own strengths and weaknesses with regard to control, consistency and understanding of local nuance. While decentralized compliance departments have regional teams that are closely attuned to their local compliance environments, centralized compliance departments tend to retain greater control and consistency over their processes. Though each model has its own weaknesses just as it has its own strengths, with careful consideration and program structuring these weaknesses can be addressed and managed in a compliance department.

This whitepaper is meant to guide you through the strengths and weaknesses of centralized and decentralized compliance models, and how to improve programs operating on either model.

1. Compliance Models

Centralized compliance typically involves a single, central compliance team operating in one location, with a top-level Chief Compliance Officer who retains central oversight over the business's compliance functions, determines compliance policies and sets guidelines.

Decentralized compliance, by contrast, maintains a more widespread and flexible structure, with multiple compliance offices across various regions. Compliance officers sometimes report to their respective local supervisors, who are usually mid-level managers, but also hold responsibilities to a central legal or compliance function. Typically, there is some degree of oversight from the core even in a decentralized compliance model.

Although hybrid programs that combine both features exist, centralized and decentralized compliance structures are the two predominant model types.

As with any organizational structure, both centralized and decentralized compliance models have their own strengths and weaknesses. The ideal model for each organization depends on the organization's own unique business needs, expectations, resources as well as internal politics and company culture.

KEY TAKEAWAYS

- ✓ **Centralized compliance** usually features a single, central compliance team in one office under a Chief Compliance Officer.
- ✓ **Decentralized compliance** usually features multiple compliance teams in different offices globally, reporting to local supervisors as well as global legal or compliance teams
- ✓ Each model has its own strengths and weaknesses, and the ideal model depends on an organization's own needs

2. Model Strengths and Weaknesses

1. Centralized Compliance

A centralized model's key strengths include its high degree of program control, ability to consistently apply processes, effective intra-team communication and ability to share resources among team members. With all compliance functions under their jurisdiction, the program's Chief Compliance Officer can maintain central oversight and direct control over compliance, clearly establishing the program and ensuring it is being applied consistently across all areas. Since all team members operate in the same location, communication between team members is typically strong and resources can be more easily shared within the team.

Although centralized models allow for a greater degree of control, they also tend to be less flexible, and thus it is harder to adapt or change a centralized program if required. The local nuance and regional expertise that decentralized models possess are also lost when compliance is housed in one location.

KEY TAKEAWAYS

- ✓ **Key strengths in centralized models:** high level of control over program, consistent application of processes, effective communication, ability to share resources among team members
- ✓ **Key weaknesses in centralized models:** less flexibility, less local nuance and regional expertise

2. Decentralized Compliance

Flexibility and understanding of local nuances are chief advantages of a decentralized model. With more mid-level managers, each compliance team retains more autonomy and can quickly make time-sensitive decisions without waiting for approval from a top-level authority. Local compliance teams also possess a deeper understanding of local nuance and the risks specific to their region, allowing them to better evaluate, mitigate and deal with cases in their jurisdiction.

Without a compliance function spread across multiple locations and teams, however, decentralized programs are prone to inconsistent applications of the program and poor communication. The large number of decision-makers in a decentralized program often results in less coordination and consistency of policy application across teams, in addition to diffuse or vague compliance responsibilities for the team member. Similarly, it is difficult for compliance to piece together a larger picture of risk within the organization because risk information comes from multiple, disparate sources. As such, it is challenging to track how risks are evolving and where they are originating across the program.

KEY TAKEAWAYS

- ✓ **Key strengths in decentralized models:** flexibility, understanding of local nuances
- ✓ **Key weaknesses in decentralized models:** inconsistent application of processes, poorer communication, difficulty understanding risks across entire program

3. Increasing Efficiencies Within Models

After assessing the benefits and disadvantages of both models, how can you determine which one is better? The answer depends on the specifics of your own organization and its business needs. The size, structuring and nuances of your program will determine what model fits best for you.

The challenge for compliance professionals is to find a solution that reduces pain points in each compliance model without compromising the advantages. Without resorting to large-scale operational and potentially disruptive changes, third-party compliance technologies can actually be employed to accomplish this, providing controls and accommodating for the pain points in your program while still preserving its strengths. Certain elements of effective technologies such as flexible workflow automations or user hierarchy can help increase efficiencies within compliance programs regardless of the compliance model used.

1. User Hierarchy

The ability to establish user hierarchies is extremely useful, as it allows for stricter data privacy measures and greater control over program structure.

Although beneficial for any program, this is particularly useful for those operating on decentralized models, which typically involve multiple compliance teams that are spread across the globe. Effective technologies can restrict a compliance user's accessibility so that they only see third parties relevant to their jurisdiction or third parties they are responsible for, ensuring irrelevant and potentially confidential corporate information stays private.

Conversely, user hierarchy can also provide total visibility for a global chief compliance officer, or greater access for multiple mid-level managers, who may require more information at the regional level. For decentralized programs, the ability for technology to provide this degree of control across all its compliance teams can help with establishing a strong, well-defined program while still accounting for local requirements and data privacy concerns.

KEY TAKEAWAYS

- ✓ User hierarchy functionality promotes data privacy and greater program control, which is especially useful for decentralized programs
- ✓ Different levels of user hierarchy can allow users to see only information relevant to their region or their responsibilities, or can allow managers greater access for central oversight

2. Centralizing Compliance Functions

Regardless of whether your organization operates using a centralized or decentralized model, both models can benefit from centralizing their compliance functions. Centralization involves integrating all relevant compliance information in a single technology platform, including a third party's information, third party risks, due diligence reports, questionnaire documents and more. For programs with multiple offices, putting all compliance information in one location vastly improves organization and allows compliance team members to cross-reference once-disparate pieces of information.

Centralizing compliance functions allows users worldwide to easily access, use and update required information from the same source. Similarly, technologies allow users to communicate with other compliance team members about relevant changes through the platform. This is particularly useful for decentralized compliance programs, which often face communication challenges and have difficulty documenting how risks are changing across their program.

KEY TAKEAWAYS

- ✓ Centralizing compliance functions consolidates all compliance information in a single platform, such as third party information, reports and relevant documents
- ✓ Compliance centralization leads to better organization, better documentation and a deeper understanding of third party risk across the program

3. Integrating Technologies

Integration is also a related aspect of program centralization, and while it can benefit both compliance models, it holds significant value for decentralized programs. Many compliance programs involve the use of multiple sources and systems for their program, such as HR programs, procurement programs and finance systems, as well as traditional paper or file folders. Since information is disparate and spread across various platforms, it can be difficult to document, track and manage information, especially for decentralized systems which have information scattered across several office locations. Sophisticated technologies will be able to integrate enterprise-level systems with their own platform in order to house all compliance information in one place.

KEY TAKEAWAYS

- ✓ Integrating disparate information sources and systems leads to improved documentation, information tracking and information management

4. Integrated Risk and Truly Global Due Diligence

Closely related to centralizing a compliance program's functions is integrating risk and due diligence within a platform. Once a program is centralized, effective compliance technologies will be able to integrate risk and due diligence onto the platform, putting all relevant risk information like due diligence reports, questionnaire responses and flags, other risks and issues and risk calculations in one place to generate a comprehensive risk profile. When third party risk information is integrated into a platform, compliance professionals can cross-reference different pieces of risk information and evaluate them as a whole, resulting in a holistic understanding of what risks exist for a third party and how to manage them.

Technology can also help to standardize due diligence scopes across jurisdictions, particularly in a decentralized model. One of the challenges of allowing regions to operate their own fully or semi-autonomous third party compliance programs is that due diligence scope and quality can vary greatly from region to region. While regional teams typically prefer to retain control of their vendors and have direct interaction in case of any follow-up on report findings, moving to a truly global provider who can meet both such criteria is a central building block to a fully defensible program.

Similarly, once risk is integrated into a platform, technology can be used to see the larger scope of how third party risks are evolving across a jurisdiction, an entire region or your entire program. This is particularly relevant to decentralized models, which often have difficulty understanding how risks are changing on a wider scale. Effective platforms will be able to extract data on such information and create relevant statistics.

KEY TAKEAWAYS

- ✓ Risk and due diligence that is integrated within a platform helps provide a high-level, holistic understanding of your third parties
- ✓ Choosing a global due diligence provider can provide your local teams with local contacts for follow-up and more control, ensuring a globally consistent program
- ✓ Where third party risks are originating from and how they are developing throughout your entire program can be understood through technology
- ✓ Effective technologies can provide statistics and data on how your third party risks are evolving

5. Flexible Workflow Automations

Whether your program is centralized or decentralized, a significant challenge for both models is reducing the time spent on manual labour and repetitive, administrative processes. With workflow automations programmed into third party platforms, it is possible to greatly relieve such processes, allowing you to instead to engage in high-level work like decision-making or risk remediation.

The most effective workflow automations can be tailored to your specific needs, allowing compliance programs to adjust outcomes based on very fine, very specific criteria. For example, your organization may want to order a high-level due diligence report whenever a third party is in a medium-risk jurisdiction and works as an agent. By automating report orders based on these criteria, or any other

criteria you may require, you can delegate low-level, manual tasks to the platform and save your own time and resources for tasks that will add more value to your program.

KEY TAKEAWAYS

- ✓ Both models suffer from time spent on administrative processes that add little value
- ✓ Workflow automations, especially those that can be tailored to your business needs, can eliminate manual labour, saving you time and resources

About Us

Blue Umbrella is a global risk management company specializing in high-quality, high-volume due diligence. Our unique and disruptive approach to third party compliance has culminated in STATUS, our flexible and AI-enabled platform which charges no licensing fees or annual fees for due diligence consumers. We have a global footprint and presence, with operating centers in North America, EMEA, Asia-Pacific and Latin America. We are leaders in providing technology and research to implement a robust system of controls focused on FCPA, UK Bribery Act and other regulatory and reputational risks.

We employ over 250 full-time, in-house research analysts fluent in over 40 languages who conduct research on legally obtainable information for due diligence in both English and local languages. With professional training for researchers and 3-tier quality checks prior to report delivery, our due diligence is of the highest quality.

STATUS, our AI-enabled compliance technology, was built by compliance professionals and for compliance professionals to increase efficiencies within your team while relieving administrative burden. The platform centralizes all relevant third party information and works to align with your compliance needs, workflows and processes. Our system harnesses advanced technologies and Artificial Intelligence to highlight potential issues for you, vastly reduce administration and improve the speed of onboarding. Purpose-built for compliance, STATUS allows for a high degree of flexibility with automations, workflows, questionnaires, integrations and more. STATUS offers a variety of user-friendly features, such as a user hierarchy function and the ability to send and receive various documents within the platform, all of which can be configured with the help of over 50 in-house developers. We are constantly innovating with STATUS, actively integrating with other platforms and scheduling wholesale upgrades so that we can continue to bring you the leading compliance technology on the market for years to come.

Our friendly and professional STATUS support team offers immediate assistance around the globe. Our success team boasts over 16 region-specific client success managers that are happy to assist with any questions, concerns or suggestions you may have and actively work with you to cultivate a positive, long-term relationship.

To discuss anything raised in this whitepaper or how STATUS can help you, please contact:

Allan Matheson, CEO
allan@bluedd.com
+1 778 385 4777

More information on STATUS: <http://www.bluedd.com/status.html>