



BPM in India

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“Thou Shalt Comply.....!!”: *The BPM Angle*

The Economist terms it one of the ironies of modern business that regulation, which is a concept designed to reduce risk by protecting the interests of companies, customers, and society at large, is today one of the more serious risks that companies face (Ref 1). While there have always been regulatory requirements for companies, post 2002, once SOX (Sarbanes-Oxley Act) came into the picture, it has not been ‘business as usual’ for companies listed on the American Stock Exchange. Since then, the rest of the world has also been progressively affected in a similar manner. Today compliance to regulations is a serious activity for companies (depending on which regulation is being discussed), and significant money, effort, and other resources are invested to ensure compliance.

Since most of the controls in organizations are implemented on the internal processes, it is interesting to investigate the impact of BPM on process-based compliance management. In this Column, we will focus on the Indian industry and analyze the spectrum of compliance implementations through a BPM lens. Our attention is directed more to the aspects of compliance to corporate regulations and standards that have a direct impact on operational processes where BPM has a higher influence.

Dimensions of Compliance

If there is one thing that characterizes the compliance scenario, it is the rising complexity faced by companies in managing compliance. In the area of compliance regulations, to paraphrase the over-quoted cliché, change is the only constant. In an environment ever-changing over the years, there has been a continuous increase in government laws and regulations, industrial standards, and internal company policies. These cover standards and codes of practice like ISO 9000 quality management certification, CoBIT and BS15000 (ISO 20000) dealing with controls for IT departments, etc. On the other hand, government legislations and regulatory requirements have been growing over the years: Basel II for banks, SOX, HIPAA (Health Insurance Portability and Accountability Act) for healthcare, and so on.

Globally, compliance has spawned huge spending with the market value for compliance software and related services estimated to be \$32 billion in 2008 (Ref 3). Needless to say, a lot of this is driven by the regulatory mandates prompted by the sensational business collapses and scandals of the last few years. The cost of compliance today is a significant element that companies have to deal with, especially so for large multi-national corporations operating independently across regions and having parallel compliance initiatives in each region.

Indian industry has similar regulations, e.g., banking industry regulations as defined by the Reserve Bank of India (Ref 4), financial management regulations, corporate governance regulations in addition to specific laws and regulations valid for particular industries / departments / process types, etc. (e.g., Safety, Data Security Act, etc.), and, finally, internal rules and regulations within each company. The multiplicity of the regulations that a company has to deal

with adds to the complexity of the situation.

Compliance in India has not received its share of attention in terms of analysis and articles as compared to compliance in the western world. One of the reasons could be that the Indian economy has been highly regulated and, hence, companies had to comply with the existing regulatory setup from day one. Thus, the cost and effort of ongoing compliance is not highly significant. However, new regulations being introduced result in considerable investment for implementation. For example, the introduction of the KYC (Know Your Customer) regulations in the banking domain required considerable change management, both for the banks as well as for their customers.

The business network is getting increasingly complex as the Indian economy expands into higher growth, newer models of business, partnerships, etc. Consider the example of auto manufacturing where the manufacturer relies on partners to create components for its products. If the supplied components are non-compliant, then the manufacturer's product is also at risk, with potential for serious reputation and financial damages (Ref 1).

Compliance in India: A Cross-sectional View

It is useful to analyze the compliance dimensions in India across sectors based on ownership, as the patterns of compliance adoption have some linkage to the type of ownership.

Government departments: As elsewhere, typical government departments in India are highly procedure driven, conveying the impression of bureaucracy. On the other hand, this approach serves well to ensure that the interests of all stakeholders (in the larger context of things) are taken care of. Regulatory controls in this sector focus on aspects of safety, fiduciary concerns, environment, etc., depending on the area of operation. These controls are built into the processes and procedures with appropriate checks and balances (rigorous audits, governance and monitoring mechanisms, etc.). Additionally, here, processes are primarily human-oriented with automation at low levels or in pockets. Computerization has been implemented in some areas, especially for high volume and citizen-facing processes (e.g., railway bookings, income tax payments, etc.), and the government has demonstrated significant commitment to increase the automation footprint. However, internal functioning of several departments is still largely manual, with computers relied on more for data storage than for workflow automation.

Public Sector: The public sector in India covers both the service sector – nationalized banks, insurance companies, utility providers, etc. – and the manufacturing sector with companies in diverse industries, viz. electronics, machinery and tooling, ship building, etc. The companies in the latter sector operate relatively more independently as compared to government departments but are subject to audits and reporting to relevant government departments. These companies are subject to the same controls and regulations as is the private sector in similar industrial sectors. One characteristic of these companies is a high level of process orientation with lower automation footprint as compared to the private sector. However, in the last decade or so, automation levels have grown in sophistication, with several public sector companies investing heavily in ERP and other systems to aim for continued competitive advantage in the face of increased competition. Here, key challenges include change management, training, and motivation of personnel to adhere to the controls in the processes along with the requisite governance practices.

Private Sector: The private sector in India is very large and very diverse in size, nature, maturity, etc. The companies range from globally ranked multinationals to small-scale sector companies. As elsewhere, they are subject to a plethora of local, national, and international regulations based on their areas of operation. The maturity with respect to managing compliances varies widely, depending on the company and the sector in which it operates. On one end, we find companies with fairly low workflow automation and lower levels of process compliance maturity, while, at the other end of the spectrum, we have companies that manage their processes with a high degree of maturity (along with controls well documented and tracked) and with a high level of automation to monitor and track the controls. Increasingly, more Indian businesses are attaining multi-national/global status, and are typically cross-listed in one or more world exchanges. All of these

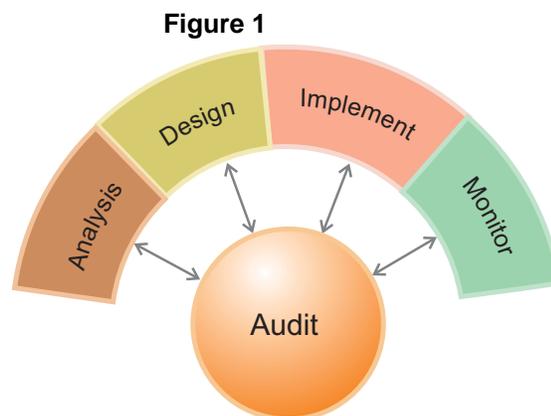
contribute to more mature compliance management, as a result of strict corporate governance and disclosure norms across the world. The SME sector in India also has a high degree of automation based on low-cost IT products, which are homegrown in many cases. India-based BPM vendors (Skelta, Newgen, etc.) are proving their adaptability and cost-value to different industry sectors by implementing new regulations as solutions on their platforms.

The industrial and economic climate in India, which was traditionally highly regulated by the government, has transformed significantly in the last two decades. Many of the previously highly regulated sectors in India, like banking and insurance, are increasingly opening up and witnessing a certain amount of flux in the regulatory climate. Similarly, the telecom sector has been deregulated significantly and is today witnessing high levels of competition, especially in the mobile sector. On the other hand, existing regulatory norms are changing rapidly in tune with the market and economic imperatives. Companies in this sector face the need to be more nimble in compliance with regulatory norms and guidelines. Similar dynamism exists in other growth industry areas such as aviation, retail, and others.

How does BPM fit in?

Analyzing the nature of compliance management, while keeping in the mind the BPM context, reveals a lifecycle with distinct stages:

- Analysis: Understand, analyze, and interpret the regulation or law as applicable to the organization's processes.
- Design: Design and model the processes by identifying the changes and controls required. Identify the verification mechanisms, alerts, reporting, and auditing requirements.
- Implementation: Deploy the changed business process, including IT changes, training, etc.
- Monitoring: Monitor the business processes (continuously, or based on exceptions) through alerts, reports, and dashboards to take corrective and preventive actions.
- Auditing: Periodic audits of the relevant business processes (both internal and external audits) to verify compliance to the regulations.



Various methods and tools are being used to address the different stages of compliance management for specific regulations. Given the nature of BPM, it can add value in all stages in

the above lifecycle. While the Analysis stage is predominantly the domain of consultants, processes modeled using BPM tools will be useful to map the regulations to the processes, as is the case, as well, with the Design stage. Several vendors provide case studies in Indian organizations where BPM tools have been used for enabling workflow, document management, etc., for aiding in compliance. The flexibility of BPM tools is useful in implementing new controls, which keep changing over time. However, most of these tools focus on point solutions for specific problem areas. The monitoring aspects of BPM tools (BAM) are relevant for the next phase in the lifecycle where process data can be extricated from the BPM tools and provided as inputs to reports and dashboards. Increasingly there is the need for real-time alerts and monitoring so as to proactively spot and prevent or reduce the impact of non-compliance. Global surveys reveal that companies have expressed a high need for process monitoring (Ref 1), and this is increasingly so in scenarios where a BPMS has not been implemented; in other words, there is the need to mine the data from a legacy system and provide process-relevant dashboards that can bring to light the status of compliance in the processes. Early experiments by some vendors have demonstrated this function successfully in the Indian market.

There are several tools or suites in the market under the generic name of GRC (Governance, Risk, and Control) tools that attempt to cover some or all of the above lifecycle. While we will not analyze the pros and cons of these tools, it is pertinent to note that BPM tools and methods have the potential to partner effectively with these tools to increase effectiveness.

The typical BPM methods and techniques for modeling, implementation etc., apply in these scenarios, albeit with variations to factor in the controls, for instance, notations for modeling controls. It is interesting to note the challenges faced by large companies with business units or divisions across several countries and with variants of similar processes implemented across geographies. These companies have realized that it is expensive and complex to maintain processes, systems, and the relevant compliance related controls independently in each geography. Techniques such as process harmonization techniques are arrived at with a single or a smaller set of harmonized processes (global process with local variants built in).

Being and Staying Compliant: Challenges & Patterns

Process Rigor: A factor that is of substantial aid in compliance is the process culture in Indian companies. The ISO 9000 standards have been fairly well adopted and entrenched in several Indian companies in government, private, and public sectors. Mature companies merge the controls on processes that are required for different regulations into their Quality Management System (QMS). This means that the deployment, monitoring, and governance of the controls are linked to the health of the QMS in the company. While the ISO 9000 focus has been arguably uniform, with moderate to high maturity level of process documentation, the implementation of this system in practice may vary depending on several factors: senior management involvement and drive, training and communication to the process participants, strength of the process culture, and so on.

Automation: As an important enabler to ensure uniform deployment of the controls, automation levels vary depending on the automation footprint covering the process, importance of the process (either for the business or for external regulatory bodies), and so on. In many companies, the core processes feature a higher level of automation, as is also true in their finance and accounting processes, as a result of regulatory requirements. Government departments tend to have relatively less coverage of automation, with islands of automation being the norm; however, recently government has begun to increase investment in automation. The automation footprint already high in the public sector and more so in the private sector allows easier process compliance implementation and tracking. Again, since these companies are relatively new, and/or since the computerization was done relatively recently, the systems tend to have newer technology with greater adaptability to change. Opportunity exists (particularly in the government and public sector) for use of BPM systems on top of large systems such as ERP – vertical functional products to provide compliance implementation and tracking capability.

As with any other economy, the banking, insurance and related sectors face the greatest compliance requirements and, hence, are early adopters of technology that accommodate

regulations. Most of the customers facing processes that require controls are faced with high volume processes, which are best handled through automation. While a process can be automated, some inputs and aspects of the process remain manual (e.g., manual data entry and verification) as the level of automation and integration across enterprises may vary. For instance, the KYC for opening bank accounts faces this challenge since there is no one single document that is accepted as the identification document. Passport, Voters ID, Tax ID number, etc., are all accepted, whereas the means for verifying the authenticity can only be achieved through manual verification as it cannot be verified against a single database. The Indian government has initiated a Unique Identification number project to address this challenge, which will eventually ease out many existing process challenges. Similarly, the Indian Government Tax Department is investing heavily in automation, and, hence, enterprises may find it easier to handle the financial regulatory audits as the data will be provided through the existing IT systems on a regular basis.

Further, processes that are external-facing need to be considered for redesign to handle both manual and automated workflows, depending on the nature of the customer segment being dealt with. Even if the organization automates its processes, the customer or partner may use a manual process/input.

Managing Information: One of the major IT related challenges faced in compliance management is managing the volume of information generated, i.e., capturing the required information correctly and storing it systematically to ensure that it can be retrieved accurately when required. This situation is of particular relevance to government departments that collect and store large amounts of data that can be leveraged by appropriate BPM technology to track process compliance. This indicates a requirement for process instance details to be stored along with the process execution data.

Speed versus Control: A control related challenge in government and related sectors is the dilemma of speed versus control. In some cases, the controls built into the process can substantially slow it down (especially when automation is at a lower level), which affects the overall goals of the process. Bypassing the controls is sometimes resorted to (especially when process breakdown occurs), which brings in attendant risks, particularly if a safety dimension exists in the operations. Other challenges include suitable mechanisms to ensure fiduciary control in the areas of inventory control, revenue receipt, purchases, etc. The opportunity here is to redesign the process with the optimum number of controls to ensure the process goals are met, especially around timeliness, while keeping the risk exposure under control. In addition, there is considerable opportunity to bring in the right technology to speed up the process. For instance, for a field-based process, appropriate low-cost technology – e.g., mobile phones, hand-held devices, etc. – can help enhance communication and speed up decision making and at the same time ensure adherence to required controls as well.

A noteworthy implementation of compliance that we have seen is in a services company with the following characteristics: focus on clear identification and mapping of risks to business processes, mapping of processes, and regular updates (managed by a central SOX team). Most of the important processes are automated implying that the implementation of controls is easier with lesser chance of deviation.

Cost of Compliance: Yet to emerge as a key issue in India and one of the major challenges for large global companies is the higher cost of ensuring compliance. Cost will undoubtedly be an area of future concern as companies grow and spread out thus increasing their exposure to regulatory requirements.

Summary

As mentioned above, there is not much published material on compliance in India, especially from the process angle. Perhaps the extent of change required is less here and the investment and effort is not as considerable as in other economies. However, some recent events in the corporate world do call for more focused attention on compliance. Further, as Indian companies

spread their wings and take on global status, there is increased need to bring in mature process based compliance practices, tools and technology to stay compliant.

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