Accelerating transformation through regulatory change

How regulation can drive connected and sustainable change

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Executive Summary

In this highly regulated and constantly changing environment, the leaders of tomorrow will be those that view disruption as an opportunity – those that see regulatory change as a catalyst for transformation, rather than an obstruction.

For some, the opportunity may present itself through the process of a reactive response to a specific regulatory change or challenge. For others, prudent ‘horizon scanning’ will uncover more proactive strategies to transform the enterprise ahead of expected regulatory change.

In addition to the significant advantages of avoiding regulatory challenges, fines and penalties, organisations are also finding that, by leveraging regulatory change as a catalyst, they can improve business flexibility, enhance decision-making, capture efficiencies, drive productivity and reduce risk. They are demonstrating that regulatory change can serve as a valuable accelerator to transformation.

At KPMG, we have seen first hand what it takes to truly leverage regulatory change as an accelerator and catalyst. In this report, we share some of our findings and insights. We look at how to best structure a transformation plan and strategy; we provide tips on how to create the optimal team for transformation; and we share insights on how leading companies are driving continuous transformation through regulatory change.

Here is a summary of what we know already.

Change is the new ‘business as usual’
Business leaders need to be comfortable transforming in an environment where change is constant.

Regulatory change is today’s reality
Regulation is driving a shift in corporate strategy and operating models.

Maintaining trust is vital to protecting value
The ability and agility to demonstrate compliance, control and performance on demand is key to growing value.

Value is shifting from siloed functions to connected capabilities
Integrating the right skills delivers more value than having a set of standalone functions in the organisation.

Finance is the catalyst of change
In its role of being a custodian and a co-pilot, Finance is at the heart of organisational change and has become vital to drive transformation across the business.

Companies are using regulatory change to win
We have worked with large global companies that already use regulatory change to accelerate transformation.
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Regulatory change is an unavoidable reality

The regulatory environment is continuously evolving. The volume and complexity of regulation is steadily increasing. Regulatory remits are expanding. Public scrutiny is rising and fines and penalties are becoming more severe. It’s easy to see why many decision-makers view regulatory change as a burden – a necessary cost of doing business.

However, a number of today’s leaders are starting to see regulatory change as more of an opportunity than a threat. They are beginning to take a ‘big picture’ approach to managing regulatory change and are thinking more holistically about the real impacts of upcoming regulation, the drivers of change and the cross-functional implications of transformation.

Data security and privacy is becoming increasingly important to clients and end consumers, thus putting it at the forefront of the regulatory agenda.

Accounting standards are continually revised and updated to keep pace with the changing macro-economic environment.

General Data Protection Regulation (GDPR)

International Financial Reporting Standards (IFRS 7, 9, 15 and 16)

Groceries Supply Code of Practice (GSCOP)

Tax – e.g. National Minimum Wage regulations

The Reporting on Payment Practices and Performance Regulations

Markets in Financial Instruments Directive (MiFID I & II)

Certain businesses are now being held to account for their treatment of suppliers and other third parties. They must be able to provide evidence of compliance and performance on demand in order to satisfy regulators.

Regulation is no longer industry specific. In the economic environment, sectors interact and impact each other and regulation is evolving to reflect this.
...which enables accelerated transformation

Regulation is rapidly becoming a new platform upon which companies are accelerating transformation through connected thinking, leading practice processes, optimal data management and insightful reporting across multifunctional capabilities.

For many organisations, the real ‘light bulb’ moment happens only once their current practices and/or processes have been called into question, or as a reactive response to a specific regulatory change. Others, however, have made it a habit to continuously and proactively monitor the external and internal environment to identify new opportunities to accelerate change.

The reactive response is still the most common position

Remediation provides a solution that is developed and executed to mitigate the more immediate risks that organisations are exposed to. However, using this level of change as an entry point for transformation will require a longer term vision.

In many cases the timescales are more rigid and very aggressive. Meeting deadlines will not only require commitment from the top of the organisation, but also a significant degree of control and clarity to execute the programme.

Decision-making must be agile to accelerate the programme forward to robust completion. The need for facilitation is critical to maintain a governance model that drives performance and change.

Cross-functional transformation should take place alongside remediation. Technology should be leveraged to achieve short-term change, but also to construct a more transformational view.

Scanning the horizon is more than a ‘nice to have’

Businesses should adopt a proactive outlook and continuously monitor their policies, processes, ways of working and the external environment. This requires a data-led capability that can predict and enact change through existing channels.

Prioritisation of areas being monitored should be aligned to the overall organisational strategy. CAPEX allocations may be impacted or influenced by this exercise.

Finance will play a central role due to their unique ability to align shareholder value and regulatory requirements.

Programme management moves away from intense facilitation to a more consultative approach where forward-looking capabilities become more relevant.

The role of Finance is integral to restore trust and protect value in a new regulatory environment

In the majority of businesses, Finance is the most connected function in the organisation and sustainability is largely reliant on their ability to provide insights and predict financial and operational impacts.

This ability to utilise data to move from cross-functional insights into actionable decision-making renders Finance essential for the protection of value.
By addressing known causes of failure, leading organisations are going beyond siloed and reactive change initiatives to seek out valuable enterprise-wide benefits. In many cases, these are leading to improved business agility, enhanced flexibility and greater scope for enterprise growth.

When using regulatory change to accelerate transformation, organisations are hoping to achieve:

- **Updated organisational ecosystems**
  End-to-end value chains and supporting operations are integrated and aligned with business requirements, resulting in significant efficiencies and optimised service delivery models.

- **Integrated IT systems that are ‘fit for purpose’**
  Leveraging automated, cloud-based technologies and processes, systems remain on the cutting-edge of the market, scaling to meet the needs of the business.

- **Data-driven insights and reporting**
  Reporting is highly automated, multi-dimensional and insightful. Reporting requirements are clear and aligned with an integrated planning process, thereby driving actionable decision-making.

- **High levels of trust in data**
  Data is high quality, accurate and easily accessible by the business. Data management frameworks are clear and followed. Management information is timely, relevant and actionable.

- **Strong accountability and sponsorship**
  Leadership is highly visible and takes ownership of initiatives, leading to strong levels of oversight and congruence to the overall organisational strategy.

- **Holistic ways of working**
  Collaboration across support functions is high, leading to streamlined processes, coordinated activity and effective communication across the enterprise.

- **Robust documentation and adherence**
  Policies and processes are well-documented and readily available to users, enabling high levels of control and visibility over process and policy changes.

- **Relevant policies and processes**
  Policies and processes capture changes in the internal and external environment, allowing the organisation to exploit new opportunities for efficiency and technology enablement.

- **A culture of sharing**
  Key business knowledge is widely shared, documented and retained. Active resource and succession planning ensures that critical business knowledge is not lost.

- **A better view of the evolving landscape**
  Constant horizon scanning and open communication with relevant external parties allows the organisation to identify and prepare for change before it occurs.
Case study: From compliance to transformation

Our UK headquartered client is a leading global retailer with a complex supply chain. The company works carefully with its suppliers to secure prices that enable it to operate efficiently and maintain its competitive position in the saturated retail environment.

Following an external audit from a key industry regulator, our client discovered non-compliance and inefficiencies in its commercial operations.

KPMG helped the company to globally deliver short-term fixes, but also to identify long-term automation solutions in its back office function.

### Benefits delivered

- Achieved the highest net improvement score for change in practice in 2016
- Increased the number of written agreements with suppliers to 80%
- 99.5% of suppliers now paid on time
- Supplier invoice queries resolved in less than 5 days

### Ensuring sustainability – opportunities for automation

**Client objectives:**
- Ensure complete compliance with the industry regulations
- Achieve better data quality
- Reduce operational costs

**Approach:**

1. Assessed the opportunities for automation
2. Developed our client’s automation capability
3. Supported the technical architecture build
4. Deployed the bots
Manage your response to change

Transformation at any level can easily become a highly complex exercise. It is essential to have clear, structured principles in order to minimise disruption and produce tangible results. While no two transformation strategies will be identical, there are a number of components that can help organisations accelerate their transformation journey while simultaneously resolving highly sensitive issues.

Understand the issue

- Agree scope, objectives, milestones and deliverables
- Engage and integrate leadership and impacted functions to accelerate successful delivery
- Ensure active health checks through active risk and programme management

Manage your portfolio

- Be aware of the wider impact of the project on other in-flight initiatives, the business and its stakeholders
- Maintain congruence with the overall organisational strategy

Build a fluid governance model

- Define a governance model with clear escalation channels that connects the governance with deliverables
- Continuous review of governance model viability to maintain alignment to programme requirements
- Enforce accountability to ensure active participation

Assess capability and capacity

- Understand capability requirements and match with available resources
- Define roles and responsibilities
- Succession planning to overcome resource changes
- Upskill key internal team members
- Proactively reward good performance
Create a data-led mentality

- Assess & safeguard (1-4 weeks)
  - Make decisions based on insightful outputs
  - Ensure leading practice data, information management and reporting
  - Maintain security safeguards to protect sensitive information
- Test (1-2 weeks)
- Deploy (2-4 weeks)

Leverage the power of digital

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<thead>
<tr>
<th>Data</th>
<th>Operations</th>
<th>Controls</th>
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</thead>
<tbody>
<tr>
<td>Present</td>
<td>Future</td>
<td></td>
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<tr>
<td>1. Legacy system</td>
<td>1. Cloud : Agile</td>
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<td>3. Errors</td>
<td>3. 100% human error</td>
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</table>

- Minimise manual interventions to build sustainable solutions and reduce human error
- Maximise the functionality of tools and technologies to accelerate results

Influence your GPO community

- Planning
  - Encourage collaborative participation between all project stakeholders that may operate from multiple global locations to highlight and manage cross-team interdependencies
- Knowledge share
  - Manage time-zone restrictions and facilitate accelerated responses
  - Ensure agile re-planning and re-prioritisation of activities in light of new information
  - Perform continuous knowledge management
- Quick response
- Multiple time zones

Design your engagement model

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<thead>
<tr>
<th>Internal</th>
<th>External</th>
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<tr>
<td>Direct</td>
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<td>Indirect</td>
<td>Unions</td>
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<td>Shareholders</td>
<td>Media</td>
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- Identify all internal and external stakeholders who need to be proactively managed
- Develop and execute a focused communications and stakeholder management plan
- Secure buy-in by ensuring stakeholders understand the rationale for change

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Case study: An employer’s story

KPMG recently worked with one of the UK’s biggest corporate employers to effectively remediate regulatory non-compliance in its legacy system and working practices. Our client’s journey to proactively remediate and eventually transform itself as an employer, is illustrated below.
Benefits delivered:

1. Active engagement with regulatory bodies
2. Robust change management within the organisation
3. Clinical execution of remedial activities
4. Identification of future transformation opportunities

4. Handover to business as usual

- Remediate remaining colleagues and leavers
- Reviews of other businesses (subsidiaries and 3rd parties)
- Regulator engagement
- Ongoing monitoring of deliverables transitioned to BAU

4. Remediate and transform

- Implementation of changes in policies
- Implementation of changes in process and existing system
- Ongoing review of legacy system for non-compliance
- Remediation of colleagues and leavers
- Helpline query response
- Internal and external comms

3. Remediate and transform

- Data Analysis for historic remediation
- Gaps in data filled by “approved” assumptions
- Policy review for future policy change
- Develop solutions to communicate and respond to current and previous colleagues
- Helpline query response
- Remediation of colleagues and leavers
- Internal and external comms

2. Deep dive

- Ongoing review of legacy system for non-compliance

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Drive connected thinking through integration of capabilities

An accelerated transformation or remediation programme requires a team with a variety of skills, working together in a robust programme environment – a simple consolidation of resources will not suffice. Rather than focusing on titles or traditional functional roles and expectations, emphasis should be placed on securing a team with the correct mix of capabilities and characteristics.

**Interpreter**
- Perform comprehensive data analysis
- Manage data privacy and security
- Design and perform MI Reporting
- Prepare benefit case

**Custodian**
- Manage legal requirements and non-compliance risk
- Perform legal review and advise on proposed communications and solutions

**Change strategist**
- Develop communications and public relations strategy
- Prepare, review and execute stakeholder communication plans
- Execute operational change management

**Regulation expert**
- Provide advice on non-compliance issues across multiple regulations
- Assist with formulation of solutions, operational responses and communications
- Technical sign-off on key deliverables
- Build strategy to sustain solutions beyond short-term changes
- Sustain network of regulation SMEs to discuss, predict and propose change
The value of integrating capabilities over functions is becoming a key feature in high performing organisations, where change is constant. An optimal team requires the right balance of navigation, integration, planning and execution skills to deliver results.

**Business architect**
- Proposes minimum viable product and long-term initiatives
- Redesign processes and controls for delivery
- Manage change requests and rollout
- Develop and execute testing strategy
- Propose tools and methods to sustain initiatives

**Technical and data scientist**
- Assess viability of short-term and long-term initiatives
- Design and execution of data strategy
- Develop solutions and perform testing
- Stabilise technology-enabled solutions

**Operational accelerator**
- Overall programme set-up
- Programme planning and integration
- Execute operational performance management and workshop facilitation

**Programme shaper**
- Maintain end-to-end solution authority
- Provide strategic decisions, guide the team and help manage major risks
- Provide Executive (Board level) updates
- External stakeholder management, if required
Embrace continuous transformation

Sustainable transformation is not a one-off activity. In a world where change is the new ‘business as usual’, organisations need an operating model that can enable and support future business requirements. This requires businesses to think of their transformation as more of a continuum than a journey.

The transformation continuum

1. Data and Reporting
   - Harmonised data model giving one version of the truth and enabling insightful reporting

2. Service delivery model
   - Global function with strategic sourcing – all processes executed in optimal locations

3. People and Capability
   - Recruitment and retention of the right talent, aligned with the operating model

4. Process
   - Leading practice standardised processes that are business-led and automated, where possible

5. Technology
   - Automated applications and tools that are aligned with standardised processes

6. Governance and Controls
   - Risk-based preventive controls integrated with the technology landscape

Digitally accelerating transformation

In the modern evolving business environment, organisations must embrace digital technologies as part of any transformation. Emerging tools and automation allow businesses to process data faster and provide more impactful insights than ever before. Organisations must not only be equipped for the present, but should also be prepared for what is yet to come.
The paradigm shift

Ready to shift your perspective? Take a look at these 9 key insights that can help you realise the value of leveraging regulatory change to accelerate transformation.

Connect the reg-dots and adapt
Regulation is evolving and becoming an enterprise-wide concern, rather than a specific functional requirement. New operating models will be required to manage a portfolio of regulatory programmes efficiently and sustainably.

Use data to quantify and cultivate
Emerging regulatory frameworks and the convergence of multiple programmes over a period of time have increased the need for organisations to adopt data-led, actionable decision-making in order to prioritise and deliver compliance.

Let Finance play the central role
Make Finance an active navigator in the performance of the business by encouraging cross-functional exposure and connectivity, thus allowing the Finance function to serve as the catalyst for change.

Digitally protect your organisation
Finding a digital solution that meets present requirements and can flex to address future developments is a key success factor in becoming compliant at a lower cost, whilst extracting more value from your investment in technology.

Integrate the right capabilities
Drive continuous transformation by integrating the required skills through traditional capabilities, such as programme management, as well as fresh methods that include analytics, process mining and smart automation.

View regulation as a bedrock for innovation
Regulatory change can generate solutions that drive productivity and growth through reduced failure rates and the production of insightful analysis. Staying ahead of regulatory change can also help build stakeholder trust which, in turn, allows future growth and value generation.

Create the ‘one-stop shop’ for leadership
Driving and successfully implementing regulatory change in an organisation is an ideal pathway to future leadership. Cross functional steering, technical control and strategy alignment are essential requirements for executing regulatory change and are crucial skills expected from any C-suite executive.

Remediate swiftly and transform sustainably
Continue to scan the regulatory environment and transform proactively, while managing any unexpected non-compliance issues with rapid and clinical execution, including quick fulfilment of the required resources.

Treat regulation as an opportunity, not a threat
Businesses that effectively preempt and ensure compliance with new regulation are in a better position to exploit untapped opportunities and maintain their competitive advantage.

Let Finance play the central role
Make Finance an active navigator in the performance of the business by encouraging cross-functional exposure and connectivity, thus allowing the Finance function to serve as the catalyst for change.
With special thanks to all the Directors in Corporates Finance Transformation for their contributions.