

# THE VALUE OF AUTOMATED PLANNING FOR COMPLIANCE AUDITS

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## Report Highlights

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Compliance to regulations and the need to manage risk are still the primary drivers when it comes to EH&S.

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The cost-prohibitive consequences of poor compliance enhance the value of automating planning for compliance audits.

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Best-in-Class firms exhibit the foresight necessary to ensure successful automation of compliance audits.

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Leaders are five times more likely than Followers to complete 100% of audit action items.

Organizations can optimize time and conserve scarce resources by automating their planning for future compliance audits. This report shows how Best-in-Class firms pave the way for such automation via their forward-looking actions, strategies, and capabilities.

## 2

**Audit prioritization can be greatly improved by automating plans based on historical compliance performance data and various risk indicators that suggest priorities for future audits.**

Companies that aspire to be better stewards of the environment and their workforce invest in strong environmental, health and safety management, otherwise known as EH&S. EH&S affects all levels of an organization, from plant manager to CEO. EH&S compliance has always been important from an operational perspective, but now it has become increasingly important in benchmarking, brand reputation, sales, marketing, sustainability, and more.

While often driven by regulations, EH&S in manufacturing is the right thing to do. Sound EH&S practices also bring financial benefits to the table. A safe, healthy, and environmentally-sound work environment impacts a project's bottom line both directly and indirectly. Direct costs associated with incidents (lost costs, worker's comp claims, insurance costs legal fees, etc.) are minimized by good EH&S management. Indirect costs that follow incidents include the lost productivity occurring when people spend time dealing with an incident. In the end, a safe work environment boosts employee morale which, in turn, increases productivity, efficiency, and profit margins. When people feel like they have a safe, healthy, and environmentally sound work environment, they feel like they can make a difference. There are fewer staff absences, less staff turnover, and an improved quality of work.

Over time, companies developed a systematic way of complying with EH&S regulations. Corporations began tracking key measures and looking for ways to improve their performance. Then, in the 1990s, improvements in data technology management made it easier for an organization to analyze its operations. Around that time, corporations began to merge oversight for EH&S to drive EH&S progress across all operations.

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## The Importance of EH&S Compliance

Today, the importance of EH&S regulatory compliance has only grown more critical. Global companies operating across different countries and geographies are exposed to a high risk of regulatory noncompliance. In this context, coping with the high volume and diversity of regulations and gathering the data required to achieve compliance is critical to avoid the risk of noncompliance and protect brand reputation.

Audits are a primary instrument used to assess EH&S compliance. Organizations use audits to monitor their compliance status with regulations. The compliance audit is effective at identifying regulatory program development needs and implementation gaps, and recommending how to gain immediate compliance and minimize liability. Additional benefits often include penalty avoidance, meeting a customer's mandate or demonstrating that a facility is in substantial compliance and thus more valuable to a buyer or seller. However, the challenges that hinder audits today are numerous, too. Audits are a major investment. They take time, distract facility personnel, and cost money. Audits must also "add value." With EH&S now a standalone profit-and-loss center, the auditing organizations must do more with less and add to the bottom line. Lastly, audits can be an emotional exercise, making it hard to focus. Ensuring success requires the EH&S organization to identify goals and objectives as well as set expectations.

## The Value of Automating Planning for Compliance Audits

In an era of limited resources and a changing EH&S environment, the value of automating planning for compliance audits is clear.

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**Compliance to regulations, and the need to manage risk, are still the primary drivers when it comes to EH&S.**

Auditing practices must focus on effectively measuring compliance while delivering a reasonable return on the investment (ROI).

To optimize time and conserve resources, companies must prioritize audits to focus on the most important ones first. Audit prioritization can be greatly improved by automating audit plans. Rather than making a subjective determination of priorities, intelligent audit management software brings logic into the prioritization process, using historical performance data and various risk indicators to suggest priorities for future audits.

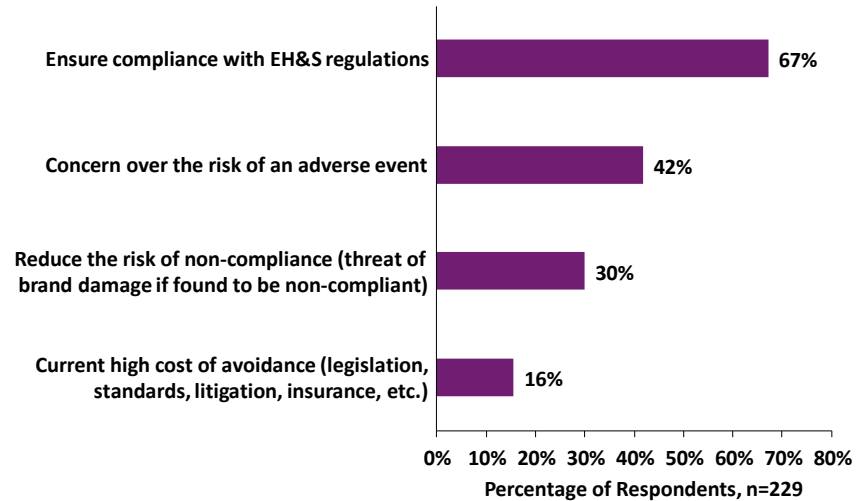
Companies can then focus on configuring the prioritization rules to match their specific needs and industry, automating audit plans going forward. The intelligent audit management system then suggests the audit types that the company should focus on first. This type of automated audit planning allows organizations to deploy their compliance efforts more efficiently, thus reducing the costs of compliance.

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#### **Pressures Drive the Need to Focus on EH&S Audits**

Among the many pressures facing EH&S professionals face, compliance issues such as regulations, adverse events, and risk of noncompliance are all critical. Compliance to regulations and the need to manage risk are still the primary drivers when it comes to EH&S (Figure 1).

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**Figure 1: Top EH&S Pressures: Compliance Looms Large**

Source: Aberdeen Group, March 2017

Aberdeen's Environmental, Health, & Safety (EH&S) Survey reveals the top two health and safety pressures today are insuring compliance with EH&S regulations (67%), and concern over the risk of an adverse event (42%). When an adverse event does occur, the need for damage control, including brand protection, kicks in (30%).

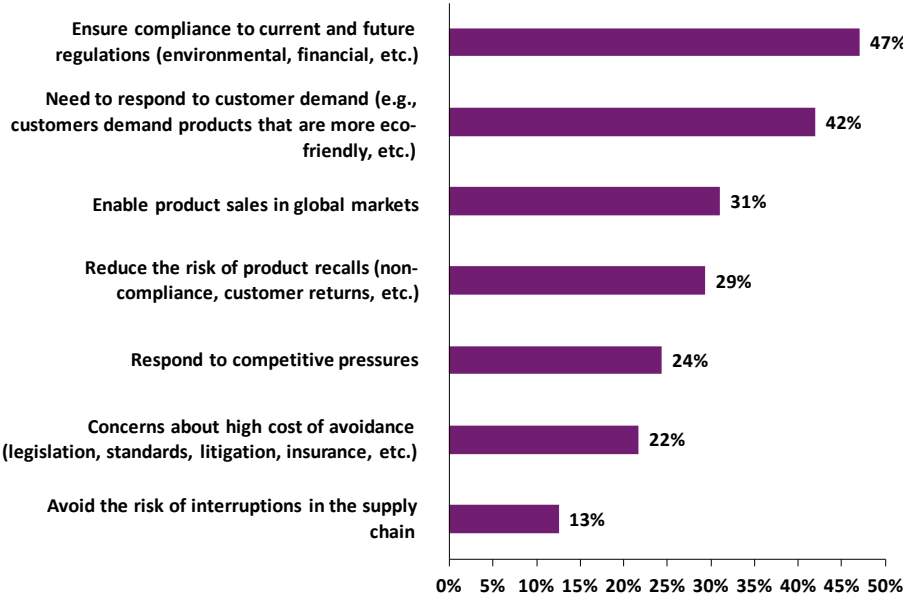
Next, we explore the specific pressures impinging on compliance operations. This mission-critical risk is connected to the overall operation of the business, which can't function well without meeting these compliance pressures (Figure 2).

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**Best-in-Class:**

For the purposes of this study, “Best-in-Class” companies are the top 20% of those surveyed who have outperformed their peers in recordable injury frequency rate, performance against corporate plan, overall equipment effectiveness, and percent of on-time audits.

**Figure 2: Top Compliance Pressures: All Connected to Business**



Source: Aberdeen Group, March 2017

To be sure, compliance begins with assessing conformance to current and future environmental and financial regulations (47%), but the need to respond to customer demand is almost as important (42%). Likewise, compliance ensures that product sales in global markets remain healthy, reduces the high cost of product recalls, and is a necessity if one wishes to avoid the cost-prohibitive penalty costs of poor compliance: costly litigation, increased insurance premiums, and more.

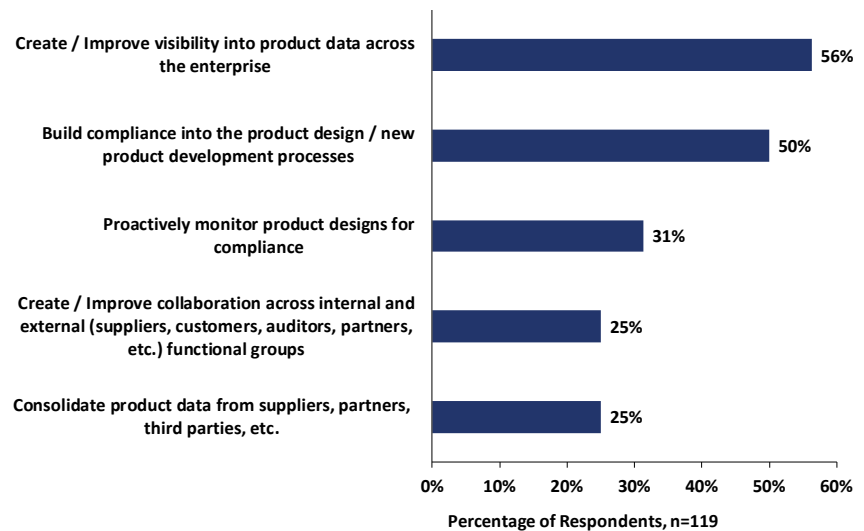
**Best-in-Class Strategies Set the Stage for Effective Compliance**

Too often, manufacturers use hindsight as a lazy method to create EH&S compliance strategies, adding strategies as an afterthought when incidents occur. Alas, this method proves fatally flawed when a serious incidence causes irreparable harm.

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However, Aberdeen Group research shows that the Best-in-Class exhibit the foresight necessary to ensure the successful automation of compliance audits (Figure 3).

**Figure 3: Strategic Actions for Compliance by the Best-in-Class**



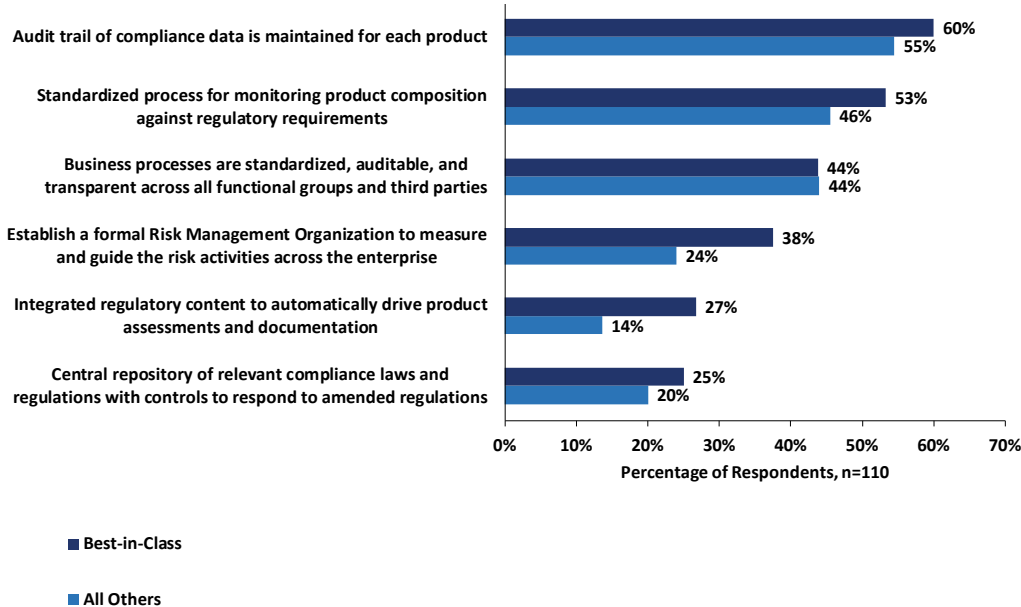
Source: Aberdeen Group, March 2017

Best-in-Class firms have it figured out; by incorporating in the strategic instrumentation for compliance into their development processes, they fare better than All Others. Foundational strategies for Best-in-Class success include building compliance into their new product development processes and promoting visibility into this data across the enterprise. They also proactively monitor their product designs for compliance and collaborate extensively with compliance auditor partners.

### Capabilities for Automating Compliance Audits

Best-in-Class firms prepare for automated planning of compliance audits by implementing the necessary business capabilities to ensure success in prioritizing future audits (Figure 4).

Figure 4: Business Capabilities for Compliance



Source: Aberdeen Group, March 2017

The goal of the capabilities listed above is to keep tabs on compliance issues that don't pass muster; reduce the cost of audits; do more with fewer resources; facilitate interactions with regulatory bodies; and ensure that the firm's reputation is upheld.

Best-in-Class firms have implemented these capabilities in three areas:

- ➔ Processes. Best-in-Class firms maintain compliance data audit trails for each product, as well as monitoring product composition against regulatory requirements (in case a



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“red flag” pops up). In addition, they standardize their business processes, making them auditable and transparent across all functional groups and third parties.

- ➔ Organizational. Best-in-Class firms are 58% more likely than All Others to establish a formal risk management organization to measure and guide risk activities across the enterprise.
- ➔ Content. Best-in-Class firms are 93% more likely than All Others to have integrated regulatory content, automatically driving product assessment and documentation. This can be an important trigger for prioritizing specific future compliance audits. Also of interest, Best-in-Class firms are also 25% more likely to keep a centralized repository of relevant compliance laws and regulations. This has two advantages. First, a central repository identifies compliance gaps. Users encountering new (untracked) regulation may enter it in their central repository. Second, these new revelations provide important information to prioritize future compliance audits around specific regulations that have changed or have been amended.

Together, these three capability areas maximize the value obtained through automated computer audits.

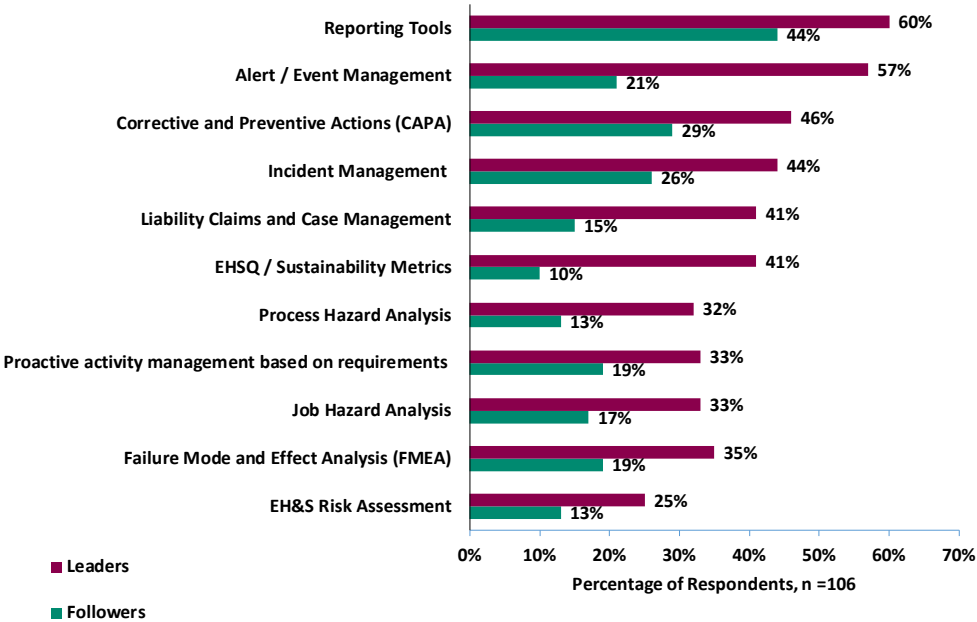
### Software Enablers: The Key to Automating Audits

Best-in-Class companies turn to software to automate planning for compliance audits. Past Aberdeen Group research reveals that Best-in-Class companies are 54% more likely than All Others to automate compliance audits through software. Why? Because in

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today’s fast-paced EH&S environment, a manual or paper-based system simply cannot keep up with the exacting demands of compliance auditing (Figure 5).

Figure 5: Software-based Enablers for Compliance



Source: Aberdeen Group, March 2017

Leaders are 36% more likely than Followers to deploy software-based Reporting Tools for compliance. Also, Alert/Event Management is a foundational technology for prioritizing future EH&S audits, and Leaders are 71% more likely than Followers to deploy software-based Alert/Event Management. Reporting Tools supporting Alert/Event Management make it easier to create triggers for future EH&S audits by calling out discrepancies between observed states and desired states of compliance.

Leaders are 74% more likely than Followers to perform proactive activity management based on requirements. Aberdeen Group

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Leaders are

5x

more likely than  
Followers to complete  
100% of audit action  
items.

notes that proactivity is an important cultural prerequisite to beginning or sustaining execution of an automated compliance auditing strategy.

And in terms of following up, Leaders are 59% more likely than Followers to deploy Corrective and Preventive Actions (CAPA) software to close the gaps discovered during compliance audits. This pays off, as Aberdeen Group research finds that Leaders are over five times more likely to complete 100% of audit items on time as compared to Followers.

#### Summary: The Science of Compliance

In the current EH&S environment, random compliance audits are no longer suitable. To effectively meet mounting EH&S and compliance pressures, compliance should be an ongoing initiative supported by automation.

To optimize time and conserve limited resources, Best-in-Class companies are pursuing automated planning of EH&S compliance audits. This systematic, targeted approach employs intelligent audit management software to bring logic into the prioritization process, using historical compliance performance data and various risk indicators to suggest priorities for future audits.

Strategically, Best-in-Class organizations have responded well to the automated planning challenge. Not only do Best-in-Class firms pursue strategies to enable greater visibility into processes and products, they are building compliance into their new product development processes. They are also more proactive in monitoring compliance.

Since the 1990s, the rise of EH&S management software systems has helped firms focus on measurement techniques and tools.

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Now is the time to shift the focus to automated planning by deploying software to prioritize and rank the need for specific types of future compliance audits. Setting alert and policy triggers up front can reduce the risk of adverse events, keep organizations in compliance with regulations, protect the corporate brand, minimize costs, and meet sustainability mandates.

The value to the organization of automated planning of compliance audits is threefold, and benefits the company by helping increase revenue, save money, and manage risk more effectively. Automated planning “operationalizes” compliance audits by positioning the business to increase its revenue by enhancing its reputation with customers, the public, and other key stakeholders. Automated planning also saves the firm money by targeting future audits on areas where the need is greatest and thus have the greatest potential impact on the bottom line through cost avoidance of noncompliance. Automated planning of audits also manages risk through ability to predict and prevent adverse outcomes.

Together, these three benefits of automated planning transform compliance audits into more of a systematic science and less of an emotional exercise or a set of random activities. These benefits form the nucleus of a fully compliant corporate EH&S strategy built on a fully-integrated management system that is proactive and responsive to employees **and** recognized for its excellence by both customers and third parties. Such an EH&S strategy is also forward looking in recognizing the important role of compliance in an EH&S world that also increasingly concerns itself with sustainability in a global economy.

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#### Related Research

[\*Mitigating Risk Through Proactive Incident Management in the Cloud\*](#); December 2016  
[\*Simplifying the Audit and Inspection Process\*](#); April 2015

[\*Transforming the Culture of Safety with Leading Indicators\*](#); August 2016  
[\*Incorporating Mobility on the Plant Floor to Improve EH&S Performance\*](#); April 2016

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Since 1988, Aberdeen Group has published research that helps businesses worldwide improve their performance. Our analysts derive fact-based, vendor-agnostic insights from a proprietary analytical framework, which identifies Best-in-Class organizations from primary research conducted with industry practitioners. The resulting research content is used by hundreds of thousands of business professionals to drive smarter decision-making and improve business strategy. Aberdeen Group is headquartered in Waltham, MA.

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