



Better Together:

Linking CLM with SIM to Improve Third Party Risk Management

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Better Together: Linking CLM with SIM to Improve Third-Party Risk Management

Organizations today and for the foreseeable future must have visibility into supplier and third-party operations in order to mitigate risks and achieve compliance. But, that is often easier said than done. The visibility challenge is compounded by the growing volume of data flooding the typical procurement organization from multiple, disparate systems. Spend, supplier, contract, and third-party information can overwhelm organizations' procurement, contract, and risk management teams and preclude them from taking prudent action. This report will illustrate how integrated, user-friendly Contract Lifecycle Management ("CLM") and Supplier Information Management ("SIM") solutions can enable the visibility that supports better third-party risk management and improved compliance.



It's a Mad, Mad World

Chief Procurement Officers ("CPOs") and enterprise procurement teams have been responsible for achieving and maintaining compliance to supplier contracts and corporate policies for many years. This has not changed and will not change, particularly as greater internal compliance correlates with superior financial and operational performance and reduced risk (more on this later). If anything, the CPO's responsibility to drive compliance and reduce risk, in many forms, is increasing.

Turn on the television, thumb through a newspaper, or browse the internet, and one will see that risks and compliance challenges are everywhere, impacting enterprises across all industries. Beyond the traditional financial and operational risks that business leaders must manage lies a relatively new set of risks that increasingly fall to procurement and supply management teams to manage, mitigate, and avoid. Conflict, environmental disasters, infectious diseases, human trafficking/modern slavery, political uncertainty, and security concerns are no longer the sole responsibility of a government or host nation. Other

geopolitical risks, like cybercrime, migration, and terrorism, are increasingly becoming supply risks that cannot be overlooked by business leaders. In fact, any enterprise whose digital or physical supply chain originates in and extends through a troubled country or region is put at risk by these and other supply risks. There are also the brand or reputational risks associated with being on the “wrong side” of an issue, like labor abuses or unsafe working conditions, which could result in the loss of brand reputation, customers, and market share, and could manifest in other embarrassing and costly ways like civil litigation.

To address some of these issues, particularly conflict minerals and modern slavery, some governments have passed legislation that places due diligence and reporting requirements related to supply chains squarely on the shoulders of businesses that meet certain criteria, like place of business and annual revenue. Recent examples include:

- **The Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010**
- **The Consumer Financial Protection Bureau (spawned by Dodd-Frank)**
- **The California Transparency in Supply Chains Act of 2010**
- **The UK Modern Slavery Act of 2015**
- **The UK Bribery Act of 2010**

Although the specific thresholds, due diligence, reporting requirements, and enforcement provisions of each Act vary, they all place new compliance burdens on organizations. Many, particularly small-to-mid-sized businesses (SMBs), are not staffed and equipped to achieve minimum compliance with the law or protect their organizations from the actual risks.

Procurement Technologies: Shining Light on Dark Practices

With so many forms of risk residing across global supply chains, and with today’s supply chains extending well beyond first-tier suppliers to third-parties (and in some cases, like the garment industry, even further), gaining visibility into suppliers, third-parties, and the associated risks becomes paramount. It is also important from a compliance standpoint, since failing to comply with internal policies, and



in some cases, governmental regulations, creates further liabilities. These risks and liabilities cannot be managed (or avoided) if they continue to grow in the dark, like toxic mushrooms. They must be illuminated before they can be treated. Fortunately for CPOs and procurement

teams, there are a couple of advanced, yet user-friendly business tools that can help them gain visibility into (and ultimately control over) supply, supplier, and third-party risks, as well as achieve and maintain internal and external compliance.

Supplier Information Management: Fusing Enterprise Intelligence

For starters, digital supply information management (“SIM”) tools are some of the most robust solutions for gaining visibility into supplier operations and risk. They are collaborative data management tools that allow internal stakeholders to centralize and fuse disparate sources of supplier information from across a typical enterprise; including departments that are frequently siloed, like sales, procurement, manufacturing, legal, IT, and accounts payable (AP). They also allow suppliers to directly upload and update their information, including new and updated certifications and financial disclosures, remittance and contact details, products and services, and other business-relevant information. SIM solutions create a consistent and streamlined “single source of truth” for a supplier, no matter which organizational stakeholder accesses the information. And cloud-based (or “on-demand”) solutions enable this information to be accessed at anytime, anywhere, and on any connected device.

With cloud-based SIM solutions, procurement teams can access supply, supplier, and third-party risk information collected by IT, legal, and enterprise risk management (ERM) teams to provide them with the visibility that they need in order to be the “good shepherds” of the organization. Some SIM solutions feature interactive dashboards that not only centralize information, but allow users to drill down into header-level information for a granular view. For example, users can filter their suppliers by category or region, select a supplier, and then view all of the information that the organization has collected on that supplier – AP/financial, legal, marketing, operational, performance, spend, and risk information. They can then identify areas of risk for the enterprise – for example, maybe a supplier unknowingly sources materials from a conflict zone, uses third-party suppliers with questionable human rights records, or sits in the path of a hurricane. Cloud-based SIM solutions can capture and provide a more comprehensive view of a supply base and potential risks.

Contract Lifecycle Management: Keeping Buyers and Suppliers Honest

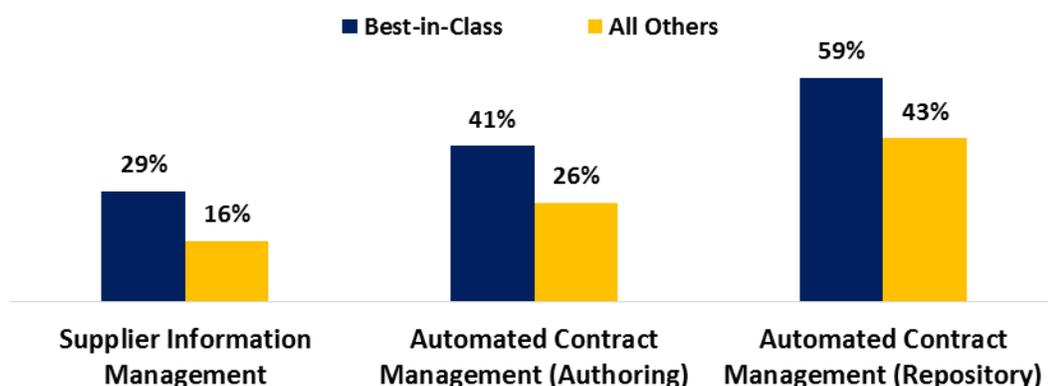
Meanwhile, contract lifecycle management (“CLM”) solutions include digital and automated contract authoring and repository tools, which, in their unique ways, help users to efficiently codify and execute trading partner relationships, and then maintain records for auditing and reference. At a minimum, they can help legal and procurement teams “seal the deal” with a

supplier and make it easier for them to retrieve a contract or review key terms on short notice. But CLM solutions can provide much more value to the enterprise than improved user interface and experience – they can directly improve compliance and risk management.

- **External Compliance:** Sourcing teams use the sourcing and contracting processes to identify the highest-value suppliers and establish, capture, and communicate the terms and conditions of the agreement. They also use the processes to eliminate unqualified suppliers and enforce compliance standards post-contract execution. Sourcing and procurement teams can use CLM tools to automate and digitize these processes and make them more efficient and scalable.
- **Internal Compliance:** Legal and procurement teams can also use CLM tools to audit contracts to ensure that buyers use existing (and preferred) contracts and suppliers to purchase goods and services, thereby driving compliance to corporate policies.
- **Risk Avoidance:** Some CLM tools provide users with customizable, interactive, and user-friendly dashboards and alerting/reporting features that flag sudden global events that could put their operations at risk, like conflicts, labor strikes, or weather-related events. They can also alert users to upcoming expiration or renewals dates and provide them with sufficient notice to take the appropriate action, thereby avoiding the risk of auto-renewing a non-competitive contract.

A recent Ardent Partners survey of 331 CPOs and supply management leaders found that 29% of Best-in-Class procurement teams currently adopt SIM solutions, while 41% currently adopt contract authoring tools, and a further 59% currently adopt contract repositories (*Figure 1*).

Figure 1: Best-in-Class CLM and SIM Adoption



Clearly, there is room for growth in adoption, with respondents strongly indicating planned future adoption for these solutions (not pictured). Although Best-in-Class procurement teams also have room to improve, they have adopted these solutions to a greater degree than their peers, which contributes to the advantages that the Best-in-Class see in several key performance indicators (*Table 1*).

Table 1: 2016 Best-in-Class Performance Metrics

Metrics	Best-in-Class	All Others
Spend Under Management	91%	57%
Savings 2015 (Actual)	7.7%	6.9%
Savings 2016 (Planned)	8.4%	7.2%
Spend that is contract compliant	69%	54%
Transactions that are contract compliant	76%	60%
Contracts stored in a central, searchable repository	76%	58%

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SIM and CLM Solutions: Better Together

Chief Procurement Officers and procurement teams that wield the power of SIM and CLM to gain visibility into suppliers and operations, manage or avoid the associated risks, and achieve and maintain compliance can enhance their efforts by linking the two processes and solutions. SIM and CLM can be powerful solutions in and of themselves, particularly for organizations that suddenly face criteria for certain governmental regulations, like Dodd-Frank or the Modern Slavery Act, and need to quickly aggregate, parse, and analyze large volumes of information (paper-based and/or digital) in order to assess and ultimately achieve compliance. Taken together, SIM and CLM solutions can serve as force multipliers for small teams that are suddenly soaked in multiple streams of procurement and supplier data.

SIM and CLM solutions are already included in many integrated strategic sourcing and source-to-settle solutions suites, which feature single sign-on, common user interfaces and formatting language, and linked processes. As a result, users can – on one platform – take pre- and post-contract information and merge it with supplier information, including compliance certifications, performance reviews, and risk assessments, and populate a supplier dashboard to paint a holistic picture of supplier risk. They can quickly gather whether a supplier that is under contract with an organization is in compliance with the enterprise, meets or exceeds its performance benchmarks, adheres to its supplier codes of conduct, and/or has been in the news for the right (or wrong) reasons. Users can extend this data and

intelligence fusion to third-parties (including their suppliers' suppliers) because enterprises are increasingly being held accountable for the actions of their entire supply chain, not just first-tier suppliers. For example, federal agencies, like the Defense Contract Management Agency (DCMA), are increasingly holding their prime contractors responsible for the operations and efficiencies of their sub-contractors, which will require the DCMA and its prime contractors to gain visibility into and oversight over their extended supply chains.

Being able to examine all of this information on one platform rather than accessing two or more standalone programs increases efficiencies and improves user experience, which in turn helps to drive solution adoption. The more that users adopt CLM and SIM solutions, the better they are able to improve contract compliance and supplier performance and mitigate risk. Greater user adoption can also lead to greater volume processed and greater scale and efficiencies enabled, which in turn, can help procurement organizations strategically source more spend, place more spend under management, and realize greater savings (see Table 1).

Strategies for Success

Gaining visibility into and control over supplier and third-party risk can be challenging even for sophisticated enterprises with dedicated risk-management teams. The task requires constant monitoring of multiple sources of information, different perspectives on risk, and a willingness to reach across the enterprise for help in managing risk and achieving and maintaining compliance. As a result, Ardent Partners offers the following recommendations:

- **Form cross-functional enterprise risk management teams to holistically manage enterprise risk.** Since risk and compliance take multiple forms, it is prudent for CPOs and procurement leaders to enlist help from across the organization in order to round out their ERM teams. Representatives from legal, IT, and the business can work with procurement to collaboratively sketch the supply and supplier risk management landscape with greater detail and be better prepared.
- **Put “feet on the street” wherever possible to learn firsthand about local laws and customs.** Part of the challenge of operating overseas is that experienced business leaders and practitioners often lack knowledge of local laws and cultures, which can imperil business processes and expose organizations to myriad risks. Sending advance teams, or enlisting local representatives who can help orientate the business in the culture and business customs is key.
- **Collaborate with suppliers and enlist their help to manage risk and achieve (and maintain) compliance.** Suppliers know their markets as well as if not better than their

customers. Suppliers are also (or should be) familiar with laws and regulations, and can be valuable business partners when it comes to managing supply risk and achieving/maintaining internal and external compliance.

- **Leverage third-party information and risk management services to round out risk management teams.** When internal and supplier data fall short of painting a complete picture of a supplier or category's risk, there are third-party information services available that can provide organizations with the financial, legal, operational, and security information to add granularity to the picture. Other third-party service providers can provide tailored risk assessments and risk management programs for enterprises that cannot stand up or scale up their own programs in time.
- **Digitize and Automate CLM and SIM processes for efficiency gains and greater scale.** Modern contract and supplier management solutions can perform much of the heavy lifting involved in managing contract and supplier information, allowing practitioners to shift their focus to building collaborative internal and external relationships, analyzing risk, and strategically planning for the future. CLM and SIM adoption correlates with enhanced enterprise performance in the form of greater spend under management, identified and realized savings, and greater internal compliance.
- **Link CLM and SIM to integrate supplier information pre- and post-contract execution.** The value of these solutions can be extended even further by linking them to leverage the full supplier information lifecycle. Cloud-based, user-friendly solutions and suites can enable users to aggregate and manage supply, supplier, and third-party risk from across the enterprise in one location, which can streamline the process, improve user experience, and round out risk profiles for more accurate assessments.

Conclusion

Enterprises today operate in a complex and often dangerous world that is fraught with risk; and the risks are as wide as they are deep in complexity. The most important thing that CPOs and other business leaders can do is to increase their visibility into internal and external operations, third-party contracts, their supply base, and their extended supply chain. Here, SIM and CLM solutions can make quick work of what can be long and paper-intensive processes. Separately, they are robust solutions that can help to drive value, risk management, and compliance. But when linked together, they are stronger. SIM and CLM have the potential to fuse supplier information from across the enterprise onto one platform. And they can simplify the compliance, risk management, and risk avoidance process for end users who value speed and precision over weeks and months of contract review and years of inaction on issues that are vital to the organization.

Appendix

About The Author

Andrew Bartolini, Chief Research Officer, Ardent Partners



Andrew Bartolini is a globally-recognized expert in sourcing, procurement, supply management, and accounts payable. For the last 17 years, Andrew has focused his research and efforts on helping enterprises develop and execute strategies to achieve operational excellence within their procurement and finance departments. Andrew is also the publisher of [CPO Rising](http://www.cporising.com), the news and research site for Chief Procurement Officers and other procurement leaders (www.cporising.com).

Advisor to corporate executives and leading solution providers alike, Andrew is a sought-after presenter, having lectured and presented more than 250 times in eight different countries. Over the past decade, Andrew has benchmarked thousands of enterprises across all facets of their supply management operations and his research has been used as part of the Supply Chain/Management curriculum at several US universities. He actively covers the technology marketplace as well as trends in sourcing, procurement, supply management, and accounts payable and has been published or quoted in leading business publications including The Wall Street Journal, Business Week, Investor's Business Daily, Forbes, and Fortune, as well as the major trade publications focused on procurement and finance.

Prior to becoming an industry analyst, Andrew developed, packaged, deployed, and used supply management solutions on behalf of enterprises in the Global 2000 while working for Ariba and Commerce One. Additionally, his experience in strategic sourcing (where he managed sourcing projects totaling more than \$500 million in aggregate client spend), business process transformation, and software implementation provides a “real-world” context for his research and writing.

Andrew has been named a “Pro to Know” by Supply and Demand Chain Executive multiple times and holds a B.A. in Economics from The College of the Holy Cross and an M.B.A in Finance from Indiana University. He welcomes your comments at abartolini@ardentpartners.com or 617.752.1620.

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Matthew York is a research and analytic professional who for more than ten years has written and managed content, data, and projects for diverse customers -- including scholars, business executives, and senior government officials. His primary areas of research at Ardent Partners include sourcing, contracts, procurement, and supply risk. Matthew also serves as the editor of [CPO Rising](#), drives the firm's social media operations, and has been named a "Pro to Know" by Supply and Demand Chain Executive. Matthew comes to Ardent Partners from Aberdeen Group, where he conducted survey research and data analysis for multiple research practices, including the Global Supply Management, Supply Chain Management, and Business Intelligence practices. Prior to joining Aberdeen, Matthew served for three and a half years in the U.S. Intelligence Community as both a Human Capital Management analyst and an Intelligence Analyst. He earned a B.A. in Political Science from Stonehill College and an M.A. in Political Science from the University of New Hampshire. He can be reached at myork@ardentpartners.com.

About Ardent Partners

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