

Efficient Due Diligence in Third-Party Engagements

- Tata Consulting Engineers

SUMMARY

Businesses often rely on vendors, partners, suppliers, and various other third-parties. They are a great way to strengthen the business and manage fluctuating operational needs.

Tata Consulting Engineers (TCE), to ensure growth in size and geographic spread, engages with multiple third-parties in India and abroad. Third-parties can be vendors, suppliers, or partners in an individual capacity or as an entity. In today's increasingly connected world, it is crucial to safeguard TCE from ethical risks arising from third-parties. Such risks can range from project level to business or enterprise level. To safeguard the organization from such risks, we developed and implemented a robust "Third-Party Due Diligence (TPDD)" process.

We implemented the process in a phased manner in collaboration with the business teams based on the IT-supported workflow. This helped avoid relapse and embed the process in the organization's culture.

After its implementation in 2016, the TPDD process has adapted to various learnings and improvements and scaled up. Currently, 90% of the intended third-parties are screened as compared to 4% before the implementation.

Benefits



Reduced Risk of Dealing with Unknown



Helped Build New Business Relations in a "Trusted" Manner



Clarity of TCE's Transparent and Ethical Partnership Expectation to Existing Partners

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OBJECTIVE



The TPDD practice's objective is to assess, identify, and mitigate ethical and other compliance risks associated with third-parties. It must ensure that TCE engages with entities or individuals aligned with or ready to abide by our values and policies. This objective must be achieved methodically and embedded as part of TCE's culture, powered by IT-backed digital processes.

DETAILED DESCRIPTION OF THE PRACTICE

THE CONTEXT

As TCE, powered by the growth strategies deployed at ground level, grows in size and spread, it must engage with more and more third-parties in India and abroad. This increase in third-party engagements creates a melting pot of technical, commercial, and compliance issues associated with third-parties.

It was critical to ensure that TCE engages with only those third-parties (individuals and entities) whose code of conduct aligns with TCE. This required a centralized, mandatory system to seek, receive, process, and archive code of compliance declarations before any formal engagement with an entity. We accomplished this through multiple customized IT systems created in-house. These had standardized and automated workflows and partner briefing and archival systems that work as locked gateways to downstream systems to create documents of actual commercial engagement with these third-parties (vendors, suppliers, or partners).

TCE paid more than 1000 individuals under the line item called third-party payments or subcontracting payments in FY 2015-16. The number of third-parties was very high, and the challenge was how to make sure that these parties are adhering to the following:

- Tata Code of Conduct (TCOC)
- TCE's policies on Anti-Bribery and Anti-Corruption (ABAC), Gifts and Business Hospitality (G&H), Anti-Money Laundering (AML), etc.

DEVELOPMENT AND EVOLUTION OF THE IDEA

The following illustration showcases the TPDD implementation journey in brief:



Figure 1: TPDD implementation journey

Some of the steps were iterative, and the ideas and loopholes were addressed by frequent updates or changes in the IT systems in an agile manner. Once the systems were stabilized, the frequency of updating the content or document requirements or any process improvements was made once in two years.

DEFINING A THIRD-PARTY

The definition of third-party subject to TPDD was set in the Purchase Request and Ordering System (PROS). For illustration purposes, only outsourced services have been detailed out in the diagram below:

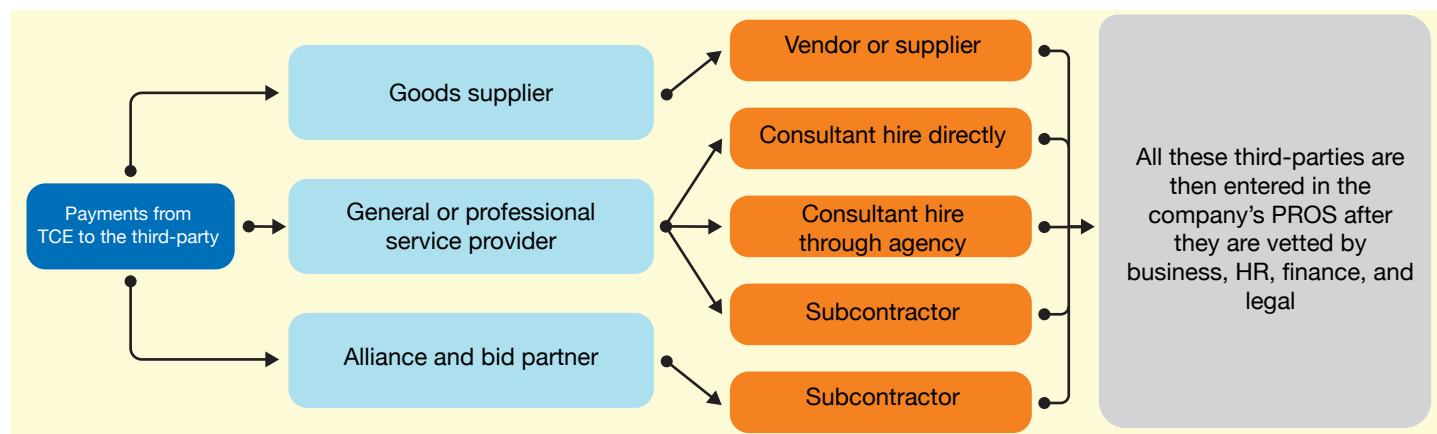


Figure 2: Defining a third-party

THE STAGE-GATE PROCESS

The Stage-Gate process followed the three-eye principle and was made based on the following orders:

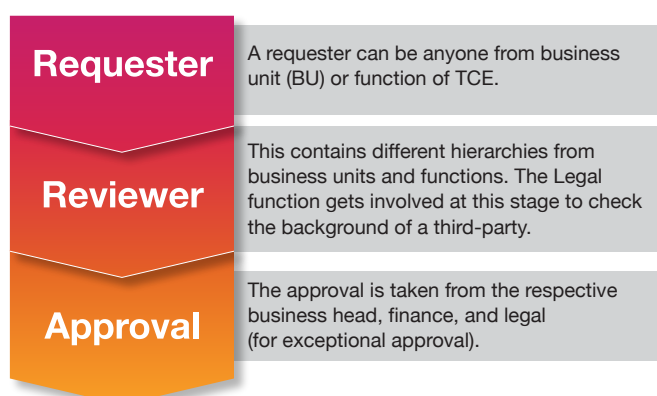


Figure 3: The Stage-Gate Process

We created the following standardized documents and system for the TPDD process:

- Templates of Due Diligence forms
- List of documents required for the domestic and international third-parties
- Self-Declaration forms for the third-parties
- Annual Declaration forms
- E-checking tool (LexisNexis)

The forms and declarations are available on the TCE intranet so that the Requester (business team) understands the requirements before initiating the onboarding process.

For e-checking of the third-party profile, TCE uses the Bridger Insight software called LexisNexis, which provides access to its global database. The BUs and International Marketing Group (IMG) must share the

Further, a “Threshold Limit” of a minimum of INR 10 lakhs per third-party transaction was set for screening through TPDD.

names of the firms and their Board of Directors with the legal function before commencing business discussions.

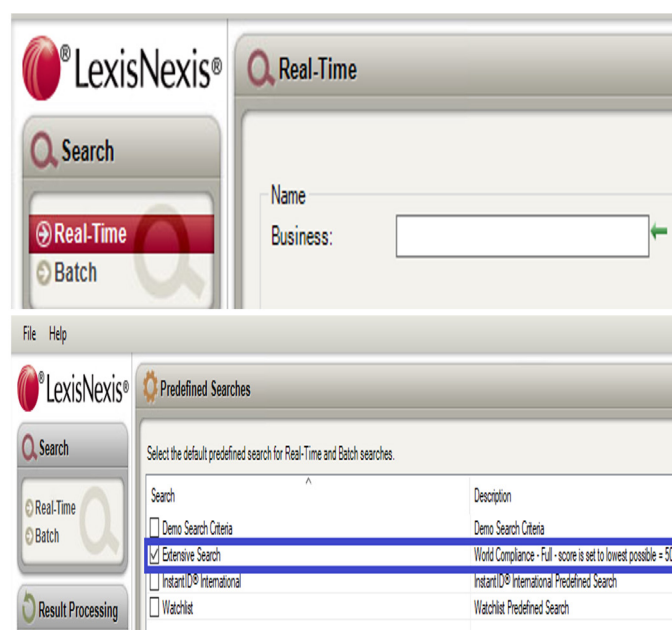


Figure 4: LexisNexis

LexisNexis performs database checks on the background of potential third-party for any adverse records, like:

- Debarment or backlisting from prominent FDIs like the World Bank and ADB
- Debarment or blacklisting from government organizations
- Court judgments and fines
- Imprisonments

Based on the LexisNexis' result and analysis, the legal function gives a “Go” or “No Go” decision for the third-party.

CHALLENGES FACED AND MITIGATED

All business process improvement projects face several challenges. However, the main hurdles we faced were communication and cultural changes. We addressed these challenges by:

- Communicating the objective
- Conducting middle management training via assisted workshops
- Other tools typically used while bringing cultural changes



Figure 5: Challenges faced

BENEFITS DELIVERED TO THE BENEFICIARIES

Benefits of such initiatives are not seen at early stages and are often indirect. Therefore, qualitative measures are difficult, and many times not measurable on the scale.

Nevertheless, benefits were clearly seen after a few months of implementation, and they are:

- **New Third-Parties:** The “Risk of Dealing with Unknown” is reduced. TCE can approach potential business partners with more confidence to build new business relations in a “Trusted” manner.
- **Existing Third-Parties:** TCE’s expectation of a “Transparent and Ethical” business deal is clear to TCE’s business partners. This gives confidence that the business shall grow within such expectations clear to TCE’s existing partners.

CRITICAL SUCCESS FACTORS

Any initiative upon an attempt to launch faces challenges, delays, and resistance. The challenges are more when the business’s derived benefits are not directly correlated with the business’s immediate top line or bottom line. The launch can quickly derail if critical success factors are not identified, understood, and guarded.

The topic of business and enterprise-level risk requires a lot of awareness through workshops and training.

Therefore, communicating for cultural change and creating trust become the foundation success factors. However, this drive does not begin unless catalyzed by the leadership. Both of them meet on a middle ground, and this is where business processes that were frozen by IT systems play their crucial part.

Following is the summary of critical success factors:

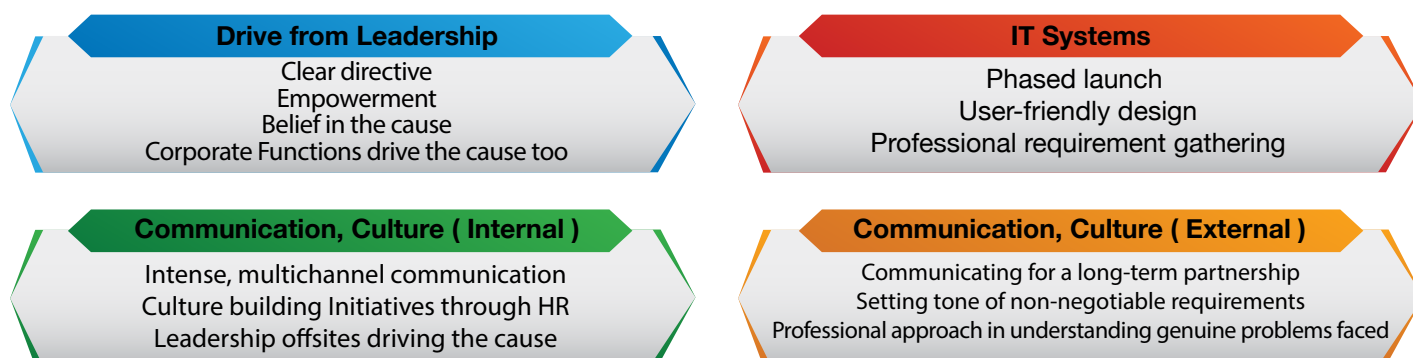


Figure 6: Critical success factors

KPI MEASUREMENT

We track various measures to ensure effective implementation and review of third-parties in TCE. Screening for intended third-parties is done online, and the following parameters are checked annually:

- How often are these third-parties evaluated?
- How does TCE conduct meetings (physical or virtual) between the third-parties and function team in the presence of BUs to encourage open discussion and obtain the right problem or feedback?
- Are there third-parties who have a conflict of interest?
- How many exceptions to the TPDD process have been made since its launch?
- Is any fraud reported from the system?

These parameters are dynamic and are changed or revalidated every two years or as per experience-based learning.

We screened only 4% of our third-parties before their engagement in 2015-16, whereas in 2019-20, the percentage increased to 95%. After four years of the system rollout, the compliance rate is 96%. With the complete system deployment and making it mandatory to submit the Due Diligence forms, we have ensured TCE engages with the right third-party only. Some of the examples of beneficial outcomes are as follows:

- We denied working on the bids where the partner records were not clean. We cannot share the name or country due to confidentiality, but we encountered some three such instances in the past four years.
- TCE also made sure that any parties that are approaching us for a merger and acquisition (M&A) deal are scanned, and we can reject their proposal if we don't find them clean.

LESSONS LEARNT

While the degree of due diligence may vary depending on the risk, it is impossible to predict, with certainty, which third-party is likely to violate laws or the organization's policies on bribery, corruption, etc. Therefore, organizations should consider conducting at least a basic screening of all the third-parties before engaging them.

DO'S AND DON'TS

Do's

1. Map the whole implementation in advance
2. Must conduct requirement gathering workshops
3. Execute the initiative in phases
4. Freeze IT systems progressively
5. Standardize formats and workflows several months before the initiative begins
6. Involve all stakeholders in the process

Don'ts

1. Allow hype
2. Forget to engage external stakeholders appropriately
3. Ignore issues shared by the end-users
4. Make it a top-down initiative

TIMELINES

The TPDD implementation process needs the involvement of all the BUs and functions. Additionally, it is dependent on the number of third-parties and the level of integration for the end-to-end process. Based on the experience of implementation at TCE, an end-to-end TPDD implementation could take 2-3 months.

Along with TPDD, TCE has also started undertaking quarterly and annual training for the third-parties to reinforce the compliance requirements. In 2019, 60% of the empanelled third-parties were covered through physical training, and the rest attended through Audio Video training.

RECOGNITION

We launched the TPDD program in FY 2016 and the third-party training program in FY 2018. The third-parties much appreciated the training program. TPDD process's

features have been recognized by the Internal Auditors (external party) and presented to the Audit Committee.

This document is edited and published by Tata Business Excellence Group. To know more about this practice and its implementation, you can directly contact the practice owners and authors. Alternatively, you can write to us at admin@thetataedge.com.