

The global supply chain compliance landscape is more dynamic today than during any other time in history. Increased stakeholder expectations, heavy fines resulting from non-compliance with environmental regulations, delayed market access due to complex global trade rules, and a multitude of overlapping product integrity requirements are common challenges organizations navigate.

To manage supply chain compliance requirements efficiently and effectively, organizations need not only the knowledge, access to information, and ability to interpret the impact of existing compliance requirements, but they must also have the capability to scan the horizon for new and rapidly emerging requirements.

# What is Supply Chain Compliance?

For the purposes of this white paper, "supply chain compliance" refers to organizational adherence to established guidelines and requirements that relate to each risk domain along the supply chain continuum, as well as to an organization's ability to meet or exceed the expectations of its stakeholders with regard to sourcing, manufacturing and delivery of products. Guidelines and requirements can be in the form of:

- National, state/provincial and local mandatory regulatory requirements (e.g. REACH, ROHS, WEEE, etc.)
- Industry standards (e.g., ASTM)
- Bilateral and multilateral trade agreements
- Internal corporate policy (e.g., supplier code of conduct)
- · Contractual obligations
- Customer and non-governmental organization (NGO) expectations.

Unique challenges exist with regard to effectively managing supply chain compliance risk. Such efforts involve close collaboration among functions within an organization and third-parties, including suppliers, distributors, brokers, and other intermediaries (e.g., freight forwarders). There are a vast number of requirements that must be monitored and adhered to in order to avoid disruptions to the supply chain, potential regulatory scrutiny, and negative impacts to the organization's bottom line and reputation. An effective supply chain compliance program enables better control and visibility into the supply chain, allowing for smoother operations and the movement of goods.

#### **Current Environment**

In today's global market, the lack of visibility into tier 2+ suppliers, internal and external data dependencies, complex interpretation of requirements, and emerging unforeseen supply chain risks combine to create a challenging environment. Supply chains are dynamic by nature and the rapid pace of new product introductions, shifting third-party provider landscape, and global logistics and distribution disruptions further complicate matters.

#### Questions organizations should ask include:

How do we obtain information about our supply chain compliance requirements?

- Do we conduct due diligence of our suppliers and utilize analytics to obtain additional insights on supplier financial viability, contract compliance to service level agreements (SLAs), and third-party affiliations?
- How do we obtain data on product changes made by our suppliers at the material or substance level? Are bills of materials (BOMs), safety data sheets (SDSs), and bills of substances (BOS) complete, verifiable, and linked to our compliance systems (e.g., global trade, product safety certification and testing)?
- Do we rely on supplier certificates of compliance (self-completed acknowledgements of compliance) without independent validation? If we have a supplier verification program (i.e., executed by internal audit, the compliance function, or independent consultants), do we utilize a historically-based transactional approach, or a predictive approach using advanced risk analytics?
- How do we scan for emerging compliance requirements and interpret the impact?

How do we coordinate and communicate compliance requirements throughout our supply chain to enable effective execution?

- Do we have a collaborative, enterprise-wide process for communicating compliance requirements?
- How do we validate compliance execution, either by the business (i.e., operations and logistics) or third-parties (e.g., suppliers, brokers)?
- Do we clearly assign compliance execution ownership and communicate compliance requirements in an effective manner to ensure proper execution?
- Changes to product specifications and the introduction of new products require close coordination among all functions impacting supply chain compliance.
  Does our governance structure enable effective and efficient sharing of information between Research and Development, Engineering, Marketing, Compliance, and the Supply Chain functions within our organization?

# **Compliance in a Dynamic Environment**

The struggles companies face with managing supply chain compliance become more evident when taking a deeper dive into the core issues many organizations face.

- 1. Visibility and transparency: Today's customers and regulators expect nothing short of complete transparency into the origins and composition of products entering the marketplace. As a result, most organizations require real-time information on supply chain activities. Knowledge of what is being purchased, the composition of foods and products (e.g., ingredients, substances, materials, or chemicals), product flow paths, and from whom and where they are ultimately sourced are critical elements of supply chain visibility and essential to supply chain compliance. Lack of real-time visibility into supply chain network nodes and transparency into sourcing practices leave organizations vulnerable to comply within the required timeframes.
- 2. Communication and collaboration: Ensuring constant engagement and linkage of individuals throughout an organization is imperative. Upstream decisions and potential changes to a product or package that are not communicated throughout an organization may present future, and sometimes hidden, downstream impacts. These events have the potential to negatively impact product imports/exports. Delays to market access are likely to occur, and with increasingly short product lifecycles, delays may result in lost sales or product obsolescence.
- 3. Execution: Regulators are increasingly scrutinizing compliance adherence by commercial enterprises, which can result in costly audits and fines. Ineffective execution by the business (e.g., implementing new labeling requirements) may delay normal business operations, require retooling, or result in unsaleable product; therefore amplifying the loss of sales, operational costs or product write-downs.

A supply chain compliance program is a key element of a broader enterprise compliance program. Linkages and interdependencies exist between an enterprise-wide compliance program and *extended* enterprise compliance risks associated with supply chains. Extended enterprise risk management is the practice of anticipating and managing exposures associated with third parties across an organization's full range of operations as well as optimizing the value delivered by the third-party ecosystem. A harmonized and integrated enterprise compliance program – one that includes appropriate supply chain risk-management activities and controls – will eliminate redundant efforts, enable execution, and facilitate adherence to compliance requirements by the business.

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# Deloitte's Enterprise Compliance Framework™

Supply chain compliance is an enterprise-wide responsibility, and collaboration is essential to effectively manage compliance requirements and minimize any disruptions to operations. Guidance from the compliance function(s), sustainability, quality assurance, engineering and the customs / trade group must be timely and actionable to enable effective execution by the supply chain function (i.e., supplier management, sourcing, operations, procurement, and logistics) and third-parties (e.g., brokers, third-party logistics providers, etc.). The Deloitte framework below illustrates the key areas of a supply chain compliance program that organizations should consider.

An effective compliance program should consider regulatory requirements, industry standards, organization codes, stakeholder interests, and leading practices. The framework highlights the elements of an effective enterprise compliance program (inner "wheel"), which should be designed, implemented, and maintained in a consistent manner to an organization's supply chain risk profile (outer wheel).



### **Compliance Program Framework Elements (inner "wheel")**



**Governance and Leadership:** Structures and processes through which the board of directors, executive leadership, and compliance professionals design, implement, maintain and oversee the ethics and compliance programs and foster a culture of ethics and compliance. This area also includes formal career-development plans and programs that help to position ethics and compliance as a key function within the organization.



**Risk Assessments and Due Diligence:** Processes to identify and prioritize ethics and compliance risks throughout the organization. These are thoughtfully designed programs to assign responsibility for mitigating identified risks and also include protocols related to screening new hires, particularly employees in positions of significant authority.



**Standards, Policies and Procedures:** A values-based, user-friendly code of conduct that addresses the key ethics and compliance risks. These are plain-language standards, policies and procedures that together create controls to address key ethics and compliance risk areas that face the organization.



**Training and Communications:** A risk-based ethics and compliance training strategy intended to educate employees about legal and policy requirements, raise awareness, and influence attitudes and behaviors. Systematically developed ethics and compliance training and communication plans are also included which is designed to provide individuals with skills or information related to risks likely to be encountered in the execution of their responsibilities.



**Employee Reporting:** "Speaking up" programs composed of policies, procedures, and reporting channels for employees to ask questions and/or report potential violations or concerns without fear of retaliation. Such programs are often extended to an organization's third parties or suppliers. These also include information systems for the collection of ethics and compliance related data and metrics from throughout the organization.



**Case Management and Investigations:** Case management systems that capture, categorize, prioritize and assign accountability with regard to ethics and compliance questions, disclosures, and potential violations brought forward by employees. This also includes formal protocols and procedures that clarify the principles and steps to be followed with regard to investigations across all issue categories.



**Testing and Monitoring:** Testing programs within the compliance and audit functions that address both the design and operating effectiveness of key ethics and compliance program elements and controls. This also includes the processes for the ongoing monitoring of key compliance risks and early warnings of ethics or compliance breakdowns. Mechanisms for leveraging the output of testing and monitoring activities for continuous improvement of the ethics and compliance programs are also present.



**Extended Enterprise Compliance:** Refers to a holistic, comprehensive third-party compliance program, which, by extension, includes the elements of an effective compliance program referred to in this section. A third-party compliance program helps an organization manage a variety of risk areas throughout the lifecycle of third-party relationships. This also includes a centralized and integrated approach to screening and vetting third-party business partners. It is critical that the integrated approach links the organization's third-party compliance program to the broader ethics and compliance program.



**Continuous Improvement:** Protocols and procedures for helping to ensure that appropriate remedial action is taken following ethics and compliance breaches or failures. This also includes periodic evaluations and assessments related to the design and implementation effectiveness of the organization's ethics and compliance program. Formal mechanisms for feeding risks associated with ethics and compliance failures into periodic risk assessments are also present.



# **Supply Chain Compliance Risk Profile (outer "wheel")**

Most supply chains share common compliance risks, ranging from environmental compliance to product safety to anti-corruption. Each risk domain includes a host of sub-risk and domain-specific attributes that should also be taken into consideration.



#### Trade (import / export)

As emerging economies continue to experience explosive growth, manufacturers are finding lucrative markets for their products where none existed previously. However, with this opportunity comes a need to stay abreast of a wide array of complex regulations that impact where and how organizations do business in other countries. Similarly, companies bringing raw materials or finished products into markets often need to contend with a complex web of import requirements. A strong compliance program should include a formal process for identifying and responding to import and export requirements to ensure that regulations are met consistently across the organization.

Many organizations can benefit from implementing trade management databases and solutions that perform a range of functions, including:

- classifying products across all businesses
- · maintaining a compliant and controlled repository for all sensitive bills of materials and classifications
- automating both import and export processes
- · expediting customs clearance
- · Centralizing and controlling global trade and logistics.



# **Supplier Integrity and Social Responsibility**

Many consumers and NGOs have been especially vocal about such issues as worker exploitation, additives in foods, and fair trade practices. These issues may fall under the umbrella of Corporate Social Responsibility (CSR). In this context, stakeholders are demanding – more than ever before – companies to be more transparent about the social impact of their business practices. As part of an organization's effort to ensure integrity and social responsibility, guidelines requiring companies to report on employee related human rights, anti-corruption and bribery matters, conflict minerals, and other topics that impact their supply chain should be established and monitored.



# **Environmental Responsibility**

Environmental regulations play a big part in supply chain compliance. Governmental agencies such as the Environmental Protection Agency (EPA) and Department of Transportation (DOT) promulgate regulations with which companies must adhere to to avoid significant business impacts. Given the complex regulatory environment, the organization should create a centralized approach for sensing and assessing the changes or additions to the regulations as well as the impact to the organization's supply chain to ensure proactive identification and execution to comply.



#### Product Safety and Integrity

Obtaining safety certifications is critical for manufacturers selling products in the United States. Certification and testing requirements have grown more stringent in recent years after a series of highly publicized recalls. A large array of agencies and regulatory bodies oversee product safety, certification, and testing, in addition to the safety of the work environments for manufacturing those products. A compliance program should include tracking and managing required certifications and supporting documentation that ensures products produced by the organization are compliant with all applicable regulations.



#### Security

As supply chains become increasingly more techy savvy, there is continued exposure to security threats both digital and physical in nature. It is critical to include within a robust compliance program a process for managing and monitoring cyber security threats and risks. By developing a comprehensive program, an organization can ensure that as their use of technology increases, there is a dedicated approach established to keeping the organization's supply chain and related data secure.



#### **Technical Regulations**

The innovative use of materials introduces product design complexity that presents challenges regarding the identification and interpretation of technical regulations. Organizations require full disclosure from their suppliers to ensure proper product labeling, and compliance processes that document the rationale for how technical requirements were interpreted and implemented.



### Labor and Employment

Companies continue to have a responsibility to source products that support fair wages and treatment for employees, as well as safe facilities. Companies are continually working to ensure their supply chains reflect the highest ethical standards. Including ethical sourcing as a component of one's compliance program will help demonstrate the organization's commitment to sustainable sourcing and product development.



# **Logistics and Distribution**

Dynamic shifts in consumer behavior are present today and this relatively new, "right now" delivery pressure is requiring logistics networks and the supporting apparatus to immediately respond. In an environment where the way business is being conducted is changing seemingly daily, it is critical for organizations to have an understanding of their third parties' (carriers, 3PL/4PLs, etc.) compliance standards. As suppliers, distribution centers and consumption points shift, transportation providers need to ensure regulatory compliance is maintained.

# The Path Forward — Mitigating Supply Chain Compliance Risks

The above areas illustrate some of the complexities organizations face in designing a supply chain compliance program, and the measures they can take to mitigate compliance risks. Companies are increasingly challenged to monitor and manage supply chain compliance requirements, and to minimize disruptions that can impact brand reputation, operational execution, and financial performance. Improved visibility, collaboration, and control over supply chain compliance execution are key outcomes of an effective supply chain compliance program.

Companies have several options when designing a supply chain compliance solution that fits their business model and corporate culture. Establishing a centralized collaborative approach to governing supply chain compliance, such as a virtual supply chain center of excellence (CoE), can be an effective construct for a

global, matrix-based organization. Conversely, engaging a third-party to provide supply chain compliance managed services can be a cost effective model for resource constrained organizations that have limited compliance headcount or capability to implement process and technology improvements since an outsourced model requires minimal to no capital investment.

Regardless of the approach taken, a properly designed supply chain compliance program will enable a holistic method for the organization to discover, prepare, analyze, and respond to existing and emerging supply chain compliance risks and requirements. Designing a scalable and flexible solution that leverages advanced analytics will enable organizations to adapt and proactively monitor ongoing compliance in today's rapidly dynamic supply chain environment.



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### **About Deloitte's Supply Chain Risk Advisory Practice**

We help clients achieve their objectives by developing supply chain risk management programs that improve supply chain compliance, enhance assurance of supply and mitigate the impact of global supply chain risks.



"Of the multi-service firms that deliver supply chain risk consulting services through supply chain, operations, and risk practices, the firm Deloitte achieves the greatest combination of breadth and depth."

"Deloitte has some of the strongest SCM capabilities in the marketplace. The SCM practice has both broad and deep functional capabilities... Clients appreciate Deloitte's hands-on, results-oriented approach." "In addition to Deloitte's leading risk practices, Deloitte's supply chain and operations practices are not only the largest in the industry, but also can tout deep technical knowledge including, for example, food science and engineering experts."

Quote Source: Kennedy Consulting Research & Advisory; Supply Chain Risk Management Consulting, 2012 – 2015 Report; © 2012 Kennedy Information, LLC.

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