




Compliance Risk

A Significant Impediment
to Modern Supply Chains



In October 2021, Seagate, the American data storage giant, faced accusations of violating government sanctions by shipping hard drives to Chinese telecom corporation, Huawei.¹ In August 2020, the US Department of Commerce imposed restrictions on Huawei for privacy concerns associated with its devices combined with links to the Chinese government. While the accusations against Seagate are subject to investigation findings, this incident sheds light on a more far-reaching aspect of supply chains—compliance risk.

Supply chains are a hotbed for compliance risks, especially considering the complex nature of modern supplier networks. In the last decade alone, supply chains have been at the center of numerous disruptions across industries such as pharmaceutical, consumer packaged goods (CPG), electronics, agriculture, and automotive, among others.

The Nuances of Supply Chain Compliance Risks

When it comes to identifying the different forms of compliance risks, organizations often share a common set of threats, each with its own subset of risks.

These include:

Corruption and fraud

On June 3rd, 2021, US President Joe Biden issued a memorandum that made the fight against corruption a core issue of national security.² In July, Germany enacted a similar law titled the German Supply Chain Due Diligence Law (also called the Supply Chain Act). This law emphasizes the protection of human rights. It goes into effect on January 1st, 2023.³



Over the last decade, there has been a steady increase in global and regional regulatory activity supporting the fight against corruption.

However, supply chains continue to be a major area of concern for illicit activities like bribery, money laundering, and the violation of human rights. According to the Global Fraud and Risk Report by Kroll, 57% of organizations with a turnover of more than USD \$15 billion consider corruption and illicit activities to have a very significant impact on business.⁴

Environmental, social, and governance (ESG) compliance

As a growing consideration in corporate, political, and economic agendas, ESG's role in the modern-day supply chain cannot be overstated. And it's still growing in importance. Collective pressure from investors and regulatory bodies to implement sustainable supply chain practices has made it necessary for organizations to demonstrate compliance with a wide range of regulatory requirements (such as the Modern Slavery Act).

However, integrating supply chain management practices with ESG goals continues to be an obstacle for a significant percentage of organizations. A recent survey by Avetta revealed that while 77% of organizations have an ESG policy in place, only 39% have been able to extend the ESG scope to their supply chain and contractors.

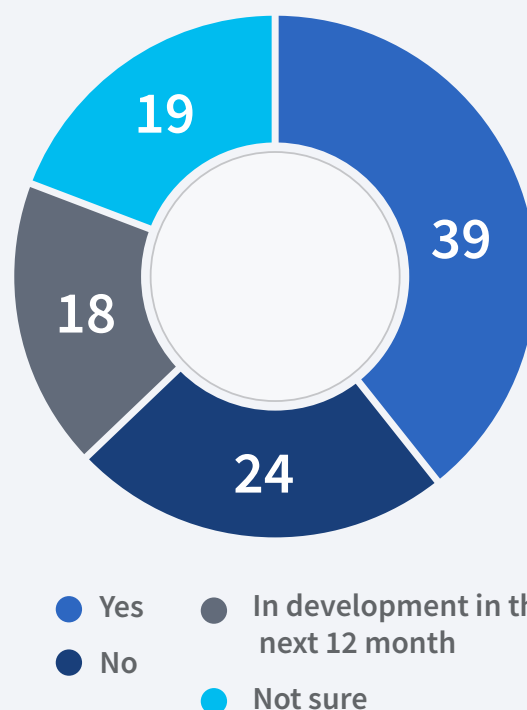


Figure 1: ESG scope extended to supply chain and contractors⁵

Most organizations are not prepared to realize the role of ESG in their supply chains.

Supplier compliance

The globalization of supply chains, while allowing organizations to build resilience, has added several layers of complexity to supplier relationships and risks. Modern-day supply chains are subject to frequent regulatory shifts and rising penalties for non-compliance. Amidst such a volatile landscape, managing supplier compliance has become a necessity.

But with more than 50% of organizations lacking complete visibility into their supply chains, managing supplier compliance often proves to be a difficult task.⁶ Also, the sheer size of most modern supplier networks makes monitoring them a challenge.

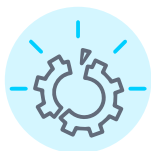
The restricted visibility into supply chains is often a key obstacle in ensuring optimal supply chain risk management (SCRM). One of the reasons for this is because organizations must deal with a siloed structure while managing compliance risks at a high frequency. As a result, compliance teams tend to overestimate the



impact of immediate dangers, like corruption and bribery. They also tend to underestimate the long-term impacts, like the reputational damage caused by a supplier's non-compliance.

Finally, with the pandemic disrupting supply chains across the world and intensifying international trade tensions, organizations often find it difficult to navigate the dynamic regulatory landscape. A recent example is the introduction of rules that prevent US vendors from exporting goods and technologies to military end users in certain markets (China, Russia, and Venezuela).⁷

Source of non-compliance costs:



Business Disruption



Fines, Penalties,
and Other Fees



Revenue Loss



Productivity Loss

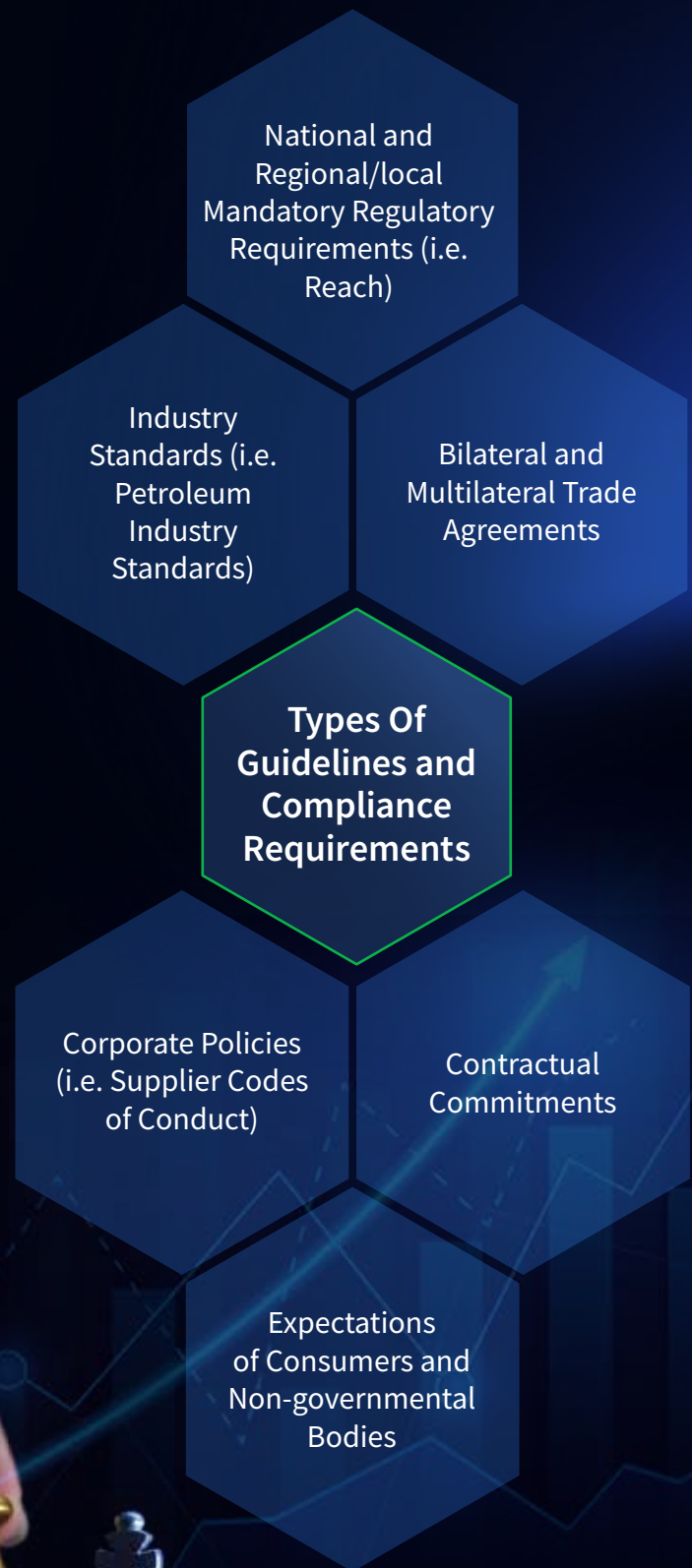


Reputation Damage

Compliance Challenges in Modern Supply Chains

In today's global, macroeconomic market, supply chain compliance is a broad term that could represent organizational obedience to any number of guidelines pertaining to each risk type. Navigating such a diverse landscape of regulations and guidelines requires organizations to develop and nurture a collaborative environment that involves suppliers, distributors, brokers, and other third parties and intermediaries.

However, the current complexities of modern supplier networks threaten to disrupt the supply chain continuum. The lack of visibility into tier-2+ suppliers, internal and external data dependencies, complex interpretation of requirements, and emerging unforeseen supply chain risks are some of the factors that further contribute to this challenging environment.

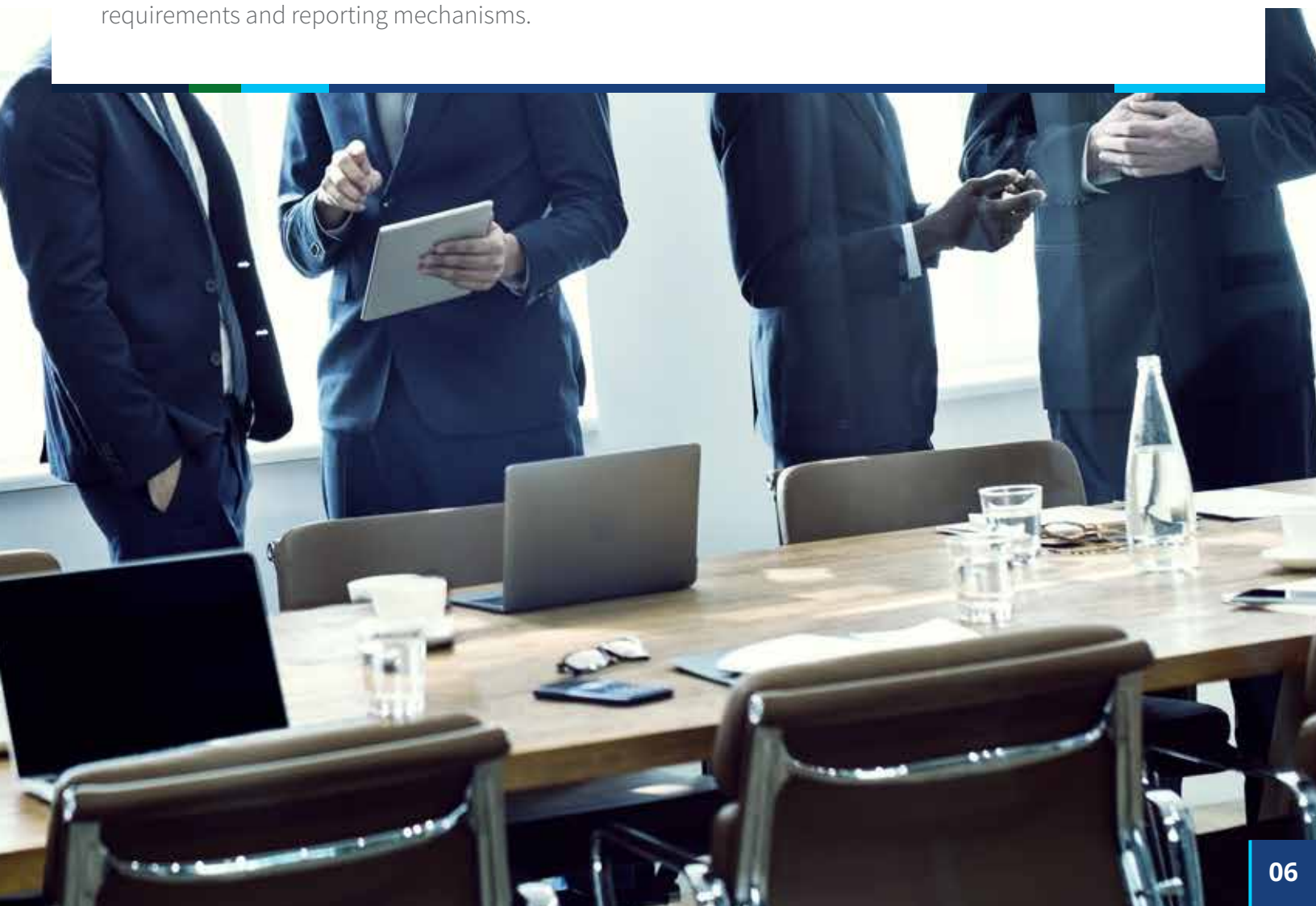


Organizations face financial repercussions of non-compliance, amounting to an average of USD \$14.8 million.⁸

Complex regulatory requirements

Even as organizations continue their struggle to see off some of the lasting effects of the pandemic and the changing market conditions, regulatory bodies have been actively implementing a variety of guidelines. Take the instance of the International Maritime Organization's (IMO) regulation or IMO 2020. The guideline, which came into effect on January 1st, 2020, focuses on reducing sulfur oxide emissions for ocean-going vessels.⁹ Anticipating non-compliance, the IMO has offered additional authority to Port States to tighten the enforcement of the regulation.

Another major reason behind most organizations' less-than-ideal efforts to keep up with regulatory requirements is the lack of regulatory expertise. This is especially true for more tightly regulated industries such as pharmaceuticals, chemicals, and oil and gas. Throughout the supply chain landscape, organizations must adhere to commercial (e.g.: anti-bribery and corruption) and industry-specific guidelines (e.g.: good manufacturing practices). This often makes it difficult for businesses to track and manage the different requirements and reporting mechanisms.



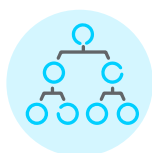
Lack of visibility

Lack of supply chain visibility is one of the greatest obstacles to supply chain compliance. A recent study on UK businesses' risk exposure revealed that 84% of responding businesses cited the expanding supplier network as their key challenge in managing supply chain risks.¹⁰ This is especially true when we consider the nature of today's supply chains where a single disruption could potentially lead to a domino effect.

Trade uncertainties

Over the past five years, global supply chains have felt the effects of several geopolitical shifts. The China-US trade war, Brexit, and the US-Mexico-Canada Agreement¹¹ have all led to varying degrees of trade uncertainties and supply chain disruptions. In light of these events, comprehensive trade compliance data has been increasingly important for organizations to manage their complex global supply chains.

Some trade compliance factors to keep in mind:



Commodity
Classifications



Country-of-origin
Laws and Regulations



Free Trade
Agreements (Ftas)



Duty Schedules



Inspection Regimes

Supplier actions

A culmination of all the above factors, supplier compliance sits at the top of the priority list for organizations looking to eliminate long-term supply chain risks. As the governance, risk, and compliance situation continues to evolve, the challenges with tracking and managing supplier compliance and codes of conduct seem to be on an upward course. According to a recent compliance survey report, 48% of organizations consider tracking third-party compliance to be the primary area of concern.¹² Interestingly, the same report also revealed manual compliance assessment processes to be the next most cited challenge at 44%.¹³

Outdated vendor compliance risk assessment processes are a common contributor to the lack of supply chain visibility aggravated through tools that are no longer effective to create and manage vendor relationships. While offering some degree of user-friendliness, spreadsheet tools fail to offer real-time compliance threat checking— a necessity to manage risks in supply chains today.

The technology and processes gap also leads to inconsistencies in operations that hurt businesses.

Likewise, disorganized, or fragmented vendor monitoring processes are another source of supplier compliance risk management challenges. This has been especially true in the wake of the pandemic where the scarcity of resources led many organizations to resort to decentralized vendor monitoring systems. These systems are not only harmful to managing compliance but can also prove to be time- and cost-intensive and difficult to scale.



Mitigating Supply Chain Compliance Risk

For a supply chain compliance risk management framework to be successful, it must possess a few key characteristics. Irrespective of the size of the organization or the nature of the market it caters to, a well-designed supply chain compliance framework should enable a thorough method to discover, prepare, analyze, and respond to present and emerging risks and needs.

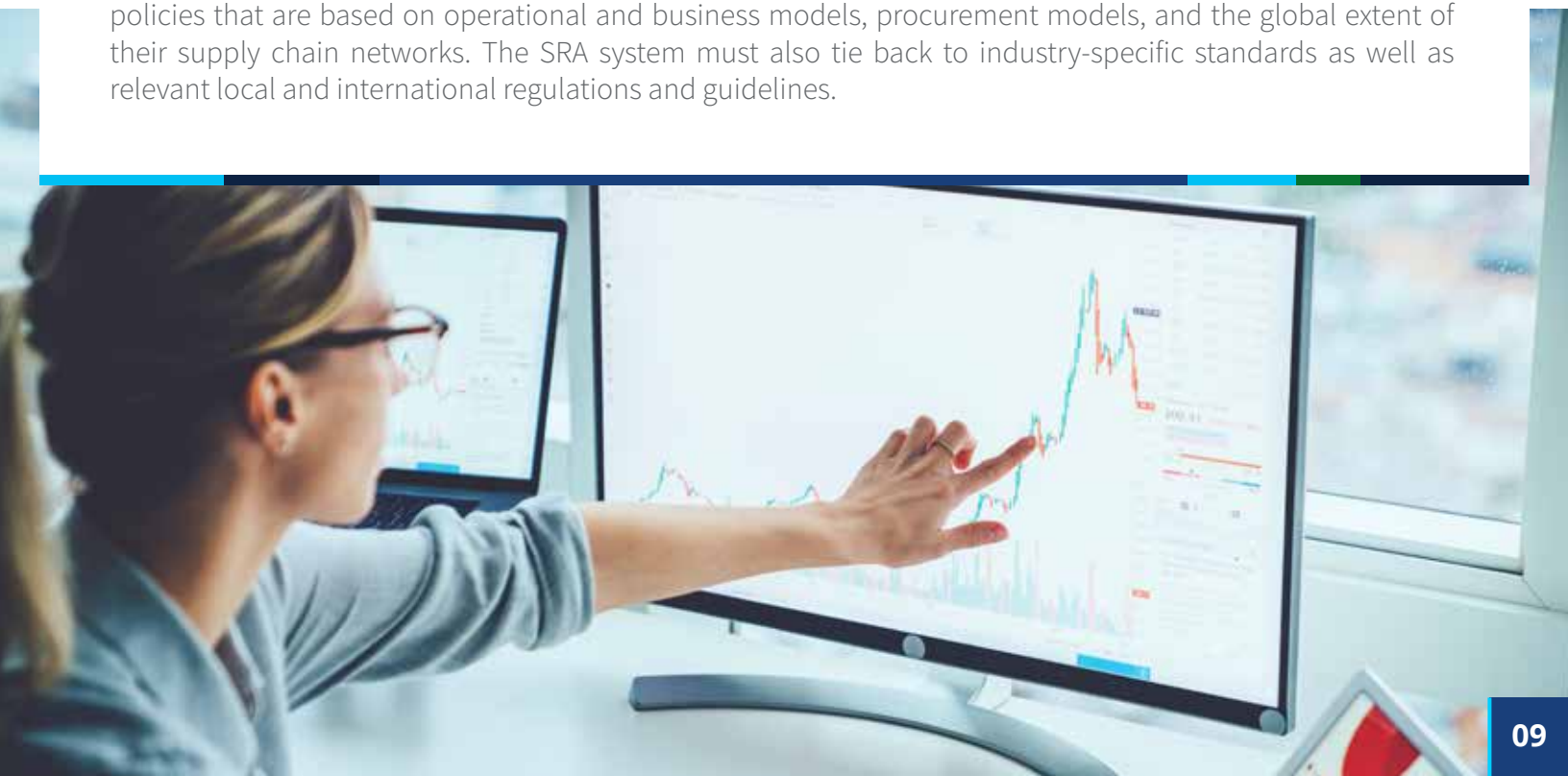
Key aspects of compliance management include improved visibility, collaboration, and control of supply chain compliance efforts.

While each supply chain has needs that are unique to itself, there are some common factors that bespoke compliance frameworks need to consider. Working from the ground up, organizations can begin by using technology to establish a centralized framework.

A system employing industry best practices would include the following:

Supplier risk assessment

A Supplier Risk Assessment (SRA) is the foundation for a successful compliance management system. A properly designed compliance risk assessment system must integrate organizations' own risk mitigation policies that are based on operational and business models, procurement models, and the global extent of their supply chain networks. The SRA system must also tie back to industry-specific standards as well as relevant local and international regulations and guidelines.



Supplier (pre) qualification process

To reduce compliance risks at the procurement stage, a reliable vendor prequalification process can help organizations ensure they work with qualified and socially responsible suppliers. Through new-age automation technology, organizations can seamlessly collect and verify supplier documentation. This could range all the way from certifications to insurance documentation, ensuring a 360-degree view of the supply chain's overall compliance status. A proper prequalification process should also allow for modifying the compliance parameters to cater to an organization or project's requirements.

Supplier compliance audits

When it comes to conducting supplier compliance audits, organizations that rely on extended global supply chains can benefit from a centralized compliance tracking system. With modern digital tools at their disposal, organizations can audit supplier compliance statuses alongside monitoring and managing their quality, cost, security, and performance parameters. Furthermore, the audit system can be tailored to accommodate relevant regulatory aspects and enhance the compliance management system.

Other areas that can help mitigate supply chain compliance risks:



Governance and Leadership



Training and Communications



Testing and Continuous Monitoring

Continue reading to learn how Avetta is the most comprehensive, compliance tracking system that helps organizations around the world manage compliance risk with ease.



Avetta mitigates compliance risk

Avetta One, a multi-risk platform, helps organizations use a wide network of 1.5 million active, qualified suppliers and manage compliance risks with ease. The digital, centralized platform allows organizations to gather safety, sustainability, financial, insurance, and other business-critical information in real-time. This all integrates with the organization's internal performance parameters and is reported over a detailed dashboard. Avetta provides organizations with greater visibility by displaying your supplier's compliance levels.

Learn more by visiting:
www.avetta.com/supplier-compliance



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¹³ Source: *ibid*, 12



About Avetta

The Avetta SaaS platform helps clients manage supply chain risk, and their suppliers, to become more qualified for jobs. For the hiring clients in our network, we offer the world's largest supply chain risk management network to manage supplier safety, sustainability, worker competency and performance. We perform contractor prequalification and worker competency management across major industries, all over the globe, including construction, energy, facilities, high tech, manufacturing, mining, and telecom.

For suppliers in our network, our audit and verification services help lower their safety incidents rate by 29%. As a result, about 50% of members find additional job opportunities within the first year of joining. In addition, our suppliers receive privileged access to the Avetta Marketplace, where dozens of partners offer special discounts for business services like insurance and work gear. Avetta serves more than 375 enterprise companies and over 130,000 suppliers across 130+ countries.