

Improving Compliance Performance in Your Supply Chain

One of the areas moving towards being incorporated into a *best practices* compliance program is that of the supply chain. While many companies have focused significant compliance program effort towards the sales chain, the supply chain is now viewed as an area which requires compliance scrutiny. One of the questions I routinely hear is how to endow vendors in your supply chain with the same urgency of compliance initiative that is present in your company. I recently read an article, in the winter 2012 issue of the MIT Sloan Management Review, which provided some guidance on this issue. It also has wider implications for improving compliance not only in the supply chain but also in the sales chain arena of your company. The article is authored by Erica Plambeck, Hau Lee and Pamela Yatsko and is entitled “*Improving Environmental Performance in your Chinese Supply Chain.*”

The authors break their analysis down into two general areas. The first is “Getting to Know Your Supply Chain” and the second is “Act on Knowledge from Improved Chinese Transparency”.

Getting to Know Your Supply Chain

In this section, the authors suggest five activities which can help your company to foster identification and visibility of compliance into your supply chain.

1. Provide incentives for identifying, disclosing and addressing problems. The authors note that many companies will audit suppliers, which they term “the checklist approach” but that such an approach does little to change behavior. The authors believe that incentivizing suppliers to do business in a more compliant manner will yield more significant compliance performance.
2. Collaborate with NGOs to facilitate compliance education and monitoring. You should encourage suppliers to work with non-governmental organizations (NGOs) in the anti-corruption area so that your suppliers will take greater responsibility towards compliance. This can be done by working with TRACE International, Transparency International or a NGO which works towards a global business ethic of anti-corruption and anti-bribery.
3. Make use of changing governmental attitudes towards corruption. Just as the Chinese government has changed its tune on environmental issues, it has recently done so regarding anti-corruption. This change can be used as a signal to Chinese companies of the need for increased awareness and importance.
4. Work with multi-brand forums to standardize compliance audits. This is an interesting concept which would allow a supplier to receive a compliance audit which could then be used as a reference point in the compliance due diligence portion of your supplier approval process.
5. Encourage anti-corruption transparency as an efficiency tool. While many believe that transparency means additional costs and slows down a sales or production cycle, many

have found the opposite to be true. Companies which operate with greater compliance transparency not only do so more efficiently but also in a more cost effective manner.

Act on Knowledge from Your Supply Chain

With visibility into the five areas identified above, your company is now poised to improve performance. Once again, the authors are focusing on improving environmental performance, but I believe that their seven listed action steps work in the compliance arena as well; they are as follows:

1. Encourage training of compliance professionals. US companies can work towards training Chinese compliance professionals at their home companies. I realize that many out there will proclaim that such training cannot be done but several US companies provide such training to their third party business partners.
2. Put skin in the game. Prospects for the greatest compliance improvements and conducting business in an ethical manner come from locations where both the US Company and Chinese supplier have a stake in the outcome. Not only is training a key, as noted above, but insert a compliance component into the financial of the relationship. Also work with the Chinese company to improve its compliance function through audits and assessments.
3. Learn from your suppliers and facilitate learning among your suppliers. US companies need to confront directly the cultural differences between both cultures. Additionally, a successful compliance program does not simply ram a US law, here the Foreign Corrupt Practices Act (FCPA), down the throats of local suppliers. Learn the nuances of local culture regarding gifts and entertainment from your suppliers and incorporate that knowledge into your training.
4. Collaborate with other US companies to drive change across suppliers. Work with industry groups to mandate that any supplier conducts business in an ethical manner.
5. Build collaborative training centers. This will not require your company to violate the Sherman Anti-Trust Act. Be a leader in your company and set up collaborative learning or training centers for compliance. Just as compliance is the most open business function within the US business community in terms of sharing *best practices*, use this compliance community to lead to ethical business in local suppliers.
6. Use your suppliers to train Tier 2 suppliers. This is a key component of the authors' thesis. You should be able use your direct suppliers to train their suppliers. By creating such multi-stakeholder approaches, the DNA of compliance will be driven further down the supply chain.
7. Tailor programs to local realities. Similar to step 3 above, you must tailor your message to your local audience. This includes your message roll out. Your compliance program roll out must take into account both human resources constraints and other local conditions while providing incentives to suppliers to take ownership of compliance.

This program may not be easy. However, the authors have provided a framework from which you can design an overall approach to inculcating compliance in your supply chain. I believe it portends a growing trend towards partnering with your business relationships to ensure compliance with not only international anti-corruption and anti-bribery regimes, such as the FCPA and UK Bribery Act, but also local anti-corruption laws. The article is well worth a look.

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