

# HOW COMPLIANT IS YOUR SUPPLY CHAIN?







## REGULATIONS AND REPUTATIONS

“It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.” In an ever-more volatile, uncertain, complex and ambiguous global marketplace, American billionaire Warren Buffet’s famous observation seems more pertinent than ever.

Just doing what you are told – in other words, complying with regulations – is no longer good enough. As Hemanth Setty, Global Supply Product Leader at Dun & Bradstreet, says: “Companies are increasingly aware of the value of their brand – and understand how that can influence customers, prospects and the wider marketplace. Knowing who you’re doing business with – and ensuring that your supply chain is compliant – isn’t just a regulatory necessity, it’s good for the bottom line.”

The complexity and diversity of global regulation is driving the convergence of procurement and compliance. Some

63% of procurement professionals are concerned about the impact of regulation on their business in the next six months, according to a Dun & Bradstreet report in June 2018 – while the top four concerns of both procurement and compliance professionals include customer/vendor due diligence and ongoing supplier and vendor monitoring.

An exponential growth in regulation isn’t helping. Since the year 2000, the number of regulations enacted has increased by 110%, compared with the 20th century. Businesses are spending billions of dollars on anti-money laundering and new regulations, such as the UK’s Modern Slavery Act, keep being introduced. Setty says: “A deep level of insight, due diligence and workflow automation is needed to mitigate the risk – and reduce the cost of working with third parties. Without proper visibility, you could be endangering your brand by unknowingly funding illegal and/or hazardous activities.”



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# MANAGING THE COMPLIANCE CHALLENGE

So how do companies manage this daunting challenge? The first step, Setty recommends, is to create and adopt a common ‘Know Your Vendor’ (KYV) process across the business. This will help organizations develop the resources to comply with existing and new laws, conduct due diligence with suppliers, increase transparency and visibility to third parties – and monitor critical changes in relationships. A common KYV approach will also make

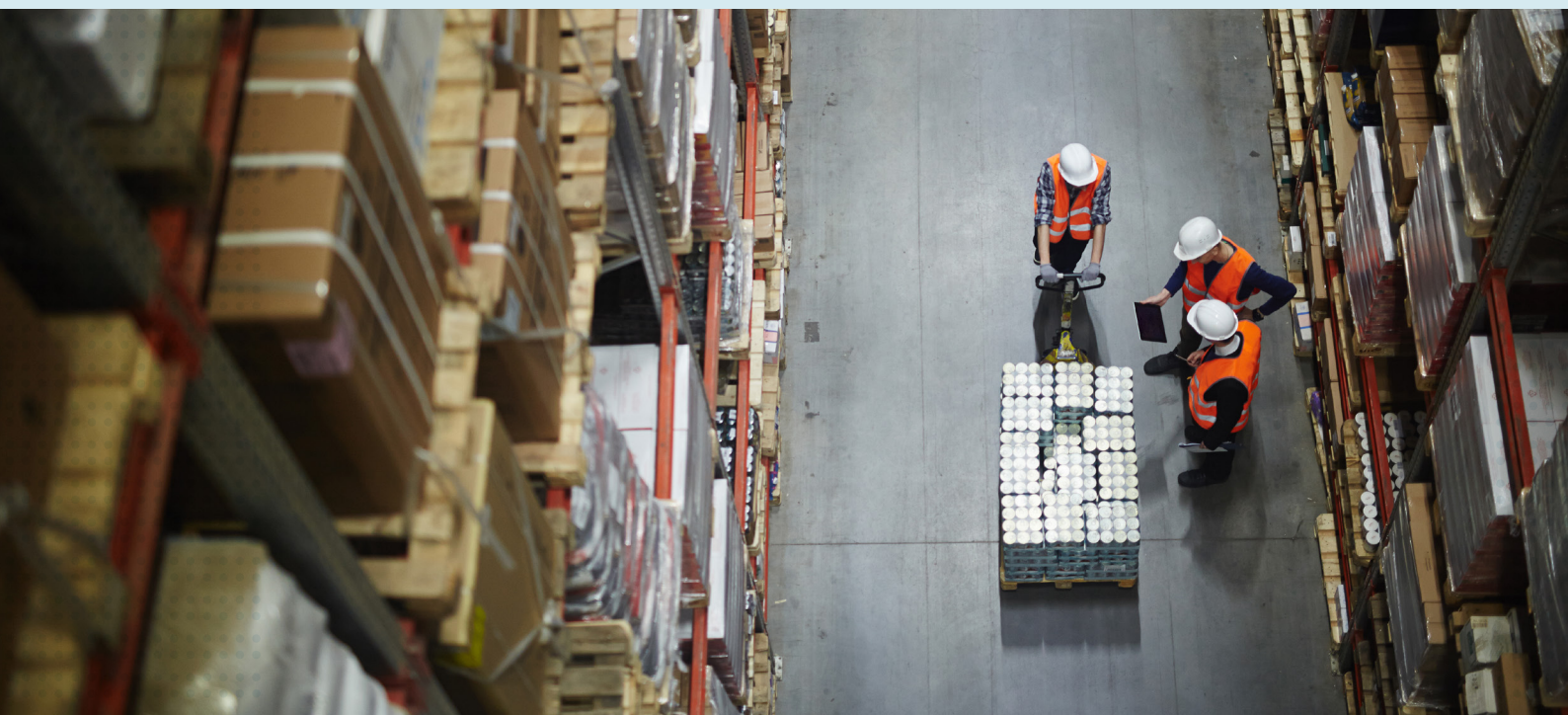
businesses spend trillions of dollars finding – and correcting – incomplete or inaccurate data. As the average Total Cost of Ownership (TCO for onboarding a new supplier is, the Hackett Group estimates, around \$925) mistakes in the process don’t come cheap. If a company has 100,000 suppliers, it has been estimated that 10-30% of those vendors may be duplicated or redundant. Keeping them in the system is just a waste of time and money.



## *Adopt a common ‘Know Your Vendor’ process*

it easier to implement joint procurement/compliance procedures when necessary. This will only happen if companies have the right data – and many don’t. “Much of compliance is about the data,” says Setty. “What you know, what you’re told, what you can verify and monitor are all critical – as is how you maintain and update that knowledge.” Global

“To overcome these problems, it can help to work with a third-party data provider to implement a common underlying data structure,” says Setty. Yet he warns that businesses should not underestimate the complexity of the task – organizations also need to consider such things as beneficial owners, sub-tier suppliers, sanctions, politically exposed persons, watchlists and fraud.







## HUMAN RIGHTS WITHIN SUPPLY CHAINS



*Modern slavery in a supply chain is a critical concern*

Modern slavery has recently become a critical concern for governments, NGOs and businesses across the world. Hundreds of thousands of victims are trafficked every year in a trade that generates \$150bn in revenue – more than the GDP of Hungary, Morocco

or Ecuador. New laws – such as the U.S. Trade Facilitation and Trade Enforcement Act and the UK Modern Slavery Act – require organizations

to explain what steps they are taking to ensure there is no forced labor in their supply chains. Yet the greater risk is to the company's reputation. "If modern slavery is discovered in your supply chain, it can be catastrophic for your brand," says Setty. The onus is on companies to source responsibly and mitigate risk – and to recognise how difficult, and time-consuming that can be to do.

A leading automobile manufacturer has embarked on a multi-year program to investigate its supply chain for human rights, environmental and ethical issues as it works with 21,000 suppliers to go

beyond due diligence. "This automobile manufacturer illustrates what can be done," says Setty. "It has built explicit requirements into supplier contracts, cascaded expectations down every tier of the supply chain, developed – and shared – information with industry bodies and competitors to share information, built where it sells to grow communities and raise standards, and used big data and analytics to get a better idea of what's really going on in its supply chain."

Many CEOs recognize that having an ethical, environmentally friendly, socially acceptable supply chain is good for productivity, performance and the bottom line. Some major corporate investors are driving this shift in attitude. Larry Fink, CEO of BlackRock, the world's largest owner of corporate assets, wrote to businesses it invests in, suggesting that: "To prosper over time, every company must not only deliver financial performance but also show how it makes a positive contribution to society." That view has also been aired by Vanguard, one of BlackRock's largest rivals.



## HOW TO MANAGE AND MITIGATE RISK



*Vigilance and accurate, timely data are key*

The one commodity the world has no shortage of at the moment is risk. As supply chains become longer, more complex and globalized, they are increasingly exposed to an array of risks – Brexit in the UK, trade wars, bankruptcies, extreme weather and volatile foreign exchange markets being among the most obvious. To manage and mitigate these risks, organizations need two things: constant vigilance and accurate, timely data. Solutions include simplifying – or localizing – supply chains, developing and testing contingency plans and negotiating risk transfer in contracts.

The definition of a compliant supply chain is very different now than it was even 10 years ago. Once, companies

just had to satisfy regulators. Now they need to satisfy regulators, investors, suppliers, partners, customers (existing and potential) and, increasingly often, the media. Nor is compliance a “one and done thing” – expectations can change suddenly, as we saw with the media’s recent campaign against plastic pollution in our oceans.

The cost of compliance is increasing – but the cost of not complying is rising even faster. In a social media age, a lot of damage can be done to a brand in five minutes. “Mitigating risk is much more complex than it used to be,” says Setty, “but it can be done – if companies are willing to use data to understand what’s really going on in their supply chain – as opposed to what they’d like to think is going on.”



## SEVEN STEPS TO COMPLIANCE

- 1** Recognize that the roles of procurement and compliance are blurring and encourage them to collaborate.
- 2** Go beyond regulatory compliance and ask yourself: what are our customers, partners and investors' expectations and are we meeting them?
- 3** Adopt a common 'Know Your Vendor' (KYV) process across the organization (see page 3 for details).
- 4** Work with a third-party data provider to implement a common underlying data structure – and ensure that you are collecting all the relevant data.
- 5** Make sure the data is right. Mistakes cost time and money and can damage your company's reputation.
- 6** Develop deep, reliable, global data to help you verify your suppliers are doing business ethically and mitigate the risk that, for example, forced labor is being used in your supply chain.
- 7** Use data analytics to manage supply chain risk, identify potential areas of exposure and protect your company's reputation.





## ABOUT DUN & BRADSTREET

Dun & Bradstreet helps companies around the world improve their business performance. The global leader in commercial data and analytics, we glean insight from data to enable our customers to connect with the prospects, suppliers, clients and partners that matter most. Since 1841, companies of every size rely on Dun & Bradstreet to help them manage risk and reveal opportunity.

Dun & Bradstreet data powers a number of solutions for procurement, supply and compliance departments, that help you to select, manage and establish sustainable relationships with third parties and meet compliance needs by building trusting relationships with customers and partners.

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