Excerpt of Article on Supply Chain Compliance

The Benefits of Supply Chain Compliance

An effective solution for these supply chain risks is the creation and maintenance of a business continuity plan that encompasses the entire supply chain. Additionally, to ensure that compliance exists throughout each level of the supply chain, a supply risk management system needs to be put in place. There are a number of solutions an organization can utilize to mitigate its supply chain risks. Risk assessment, auditing and monitoring, and measuring and analyzing are recommended solutions to mitigating supply chain risks.

Having a combination of both internal and external auditing and monitoring systems will ensure that the optimum processes are put in place. While having internal auditing and monitoring alone will help mitigate some of the supply chain risks, there are downfalls to not utilizing both. Without an external auditing and monitoring team, an organization may need to invest a large amount of time and resources to conduct their own evaluations. Some other concerns with internal systems are whether reports are biased toward the organization, whether the results are measurable or scripted, and whether the process is as cost-effective as it should be. An external team requires very limited internal resources, frees up time of internal resources, and is cost-effective and unbiased. Putting both teams together means the internal team can focus on high-risk critical suppliers while the local, external team monitors compliance of high moderate, moderate, and low-risk providers.

An organization needs to protect itself, its reputation, image, and relationship with its stakeholders. Stakeholders are far more informed, organized, and influential than ever before, and organizations need to be cognizant of that fact to ensure a good business relationship with their stakeholders, and to reduce their risk of reputational damage due to poor supply chain performance. Not requiring compliance of its supply chain can mean serious consequences for the company, and not conducting its own inspections and investigations can lead to an embarrassing situation when someone else discovers the violations. When an occurrence does take place, it is also important to respond immediately and effectively to the news to maintain its reputation with consumers and stakeholders. When Gap responded to allegations of violating ethical laws brought to light by the Observer, they shut down twenty-three operations in India and reinforced their social and ethical codes of conduct in an effort to improve its social responsibility.

Consumers and stakeholders need to know what actions will be processed in reaction to such allegations. By not immediately handling a situation, an organization puts its reputation, brand, and economic growth at risk. Such negligence can even mean fatal consequences for an organization.

Corporations have increasingly found they need to take on the responsibility of their suppliers and vendors. When a supplier conducts suspicious or ethically-questionable actions, its behavior and actions float up the supply chain all the way to the corporation that orders the products or services. Corporations must ensure that the suppliers they are working with are abiding by the same laws, regulations, and ethical standards that they are forced to comply to. Allegations of working with suppliers that engage in unlawful activity can result in consumers and stakeholders boycotting the corporation, causing damage to the corporation's reputation and threatening its economic growth. Such consequences can be disastrous to an organization, causing it to shut its operations down indefinitely.

Assessing risk, auditing and monitoring performance, and measuring and analyzing reports allows an organization to stay on top of managing risks and handling occurrences. With an effective business continuity plan, organizations can access their suppliers' compliance and take action to mitigate their risks.

Each organization will have its own list of risks depending on its industry, processes, operations, interactions with the supply chain, and the geographical locations of the suppliers. With supply chains located all over the world, it is important that regular monitoring is performed to ensure suppliers are operating within an organization's code of conduct and ethics. If a country believes bribery is an acceptable form of doing business, training and policy enforcements are important components to ensure the supplier does not slip up and violate the organization's policies. The FCPA is strongly enforced in the United States and allowing, either knowingly or unknowingly, a supplier to commit bribery violations means serious consequences for organizations located, or doing business, in the United States. Such an occurrence can lead to huge lawsuits, large fines, and even jail time for individuals, not to mention economic losses and reputational damage as a result.