

INTEGRATED TRADE COMPLIANCE STRATEGIES: KEY PERFORMANCE INDICATORS ©

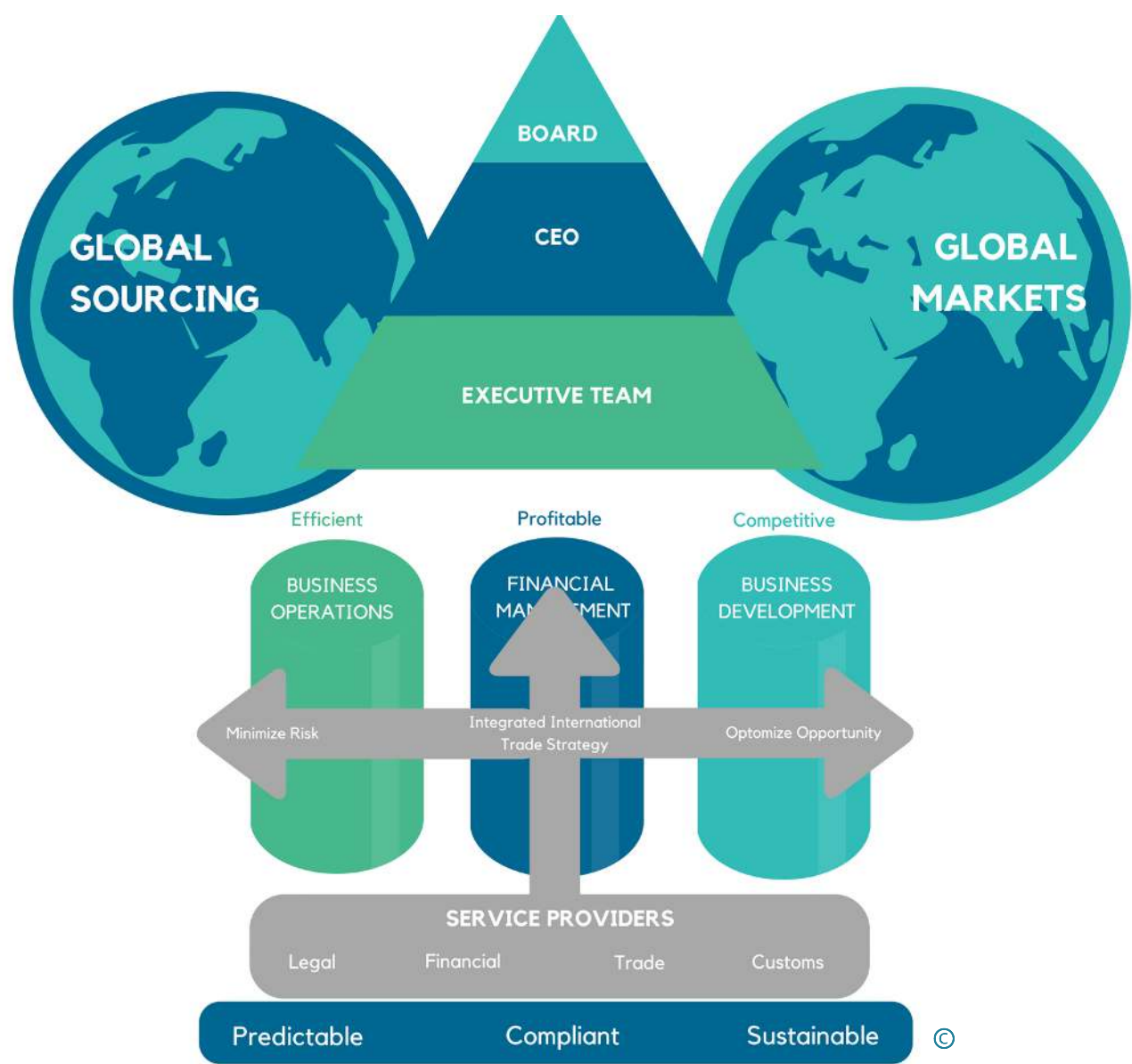


GHY International
GEO. H. YOUNG & CO. LTD. | GHY USA INC.

CANADA'S BEST
MANAGED
COMPANIES
Platinum member

REYNOLD MARTENS
Managing Partner | GHY International

INTEGRATED TRADE COMPLIANCE MODEL



INTRODUCTION

In a world of increasingly complex supply chains and rapidly evolving new markets for North American importers and exporters, trade compliance obligations and expectations have never been higher.

This is being driven by the proliferation of Free Trade Agreements that are opening up new markets and inviting increased foreign competition for domestic and global market share.

Compounding this dynamic is the emergence of increasingly demanding customers, who want more value: innovative solutions, lower prices, better service, and speedier delivery.

This is resulting in a new commercial reality for Canadian and US companies, requiring bold thinking and sophisticated strategies in order to maintain and build competitive advantage, including:

- ❖ Global expansion of supply chains for components, subassemblies, finished goods,
- ❖ Diversification of markets beyond North America into the Eurozone, Asia, South America,
- ❖ Evolution of hybrid manufacturing platforms for domestic and global production,
- ❖ Globally diverse strategic partnerships for manufacturing, marketing, licensing,
- ❖ Increased leveraging of intellectual property to partners and third parties

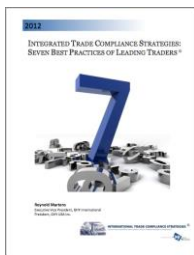
GHY's White paper series is designed to assist global traders by identifying where trade compliance fits within the context of these new realities; offering insight into why and where global strategies may be compromised by non-compliance; and providing ideas to turn trade compliance and risk mitigation into competitive advantage.



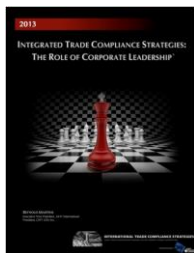
BACKGROUND



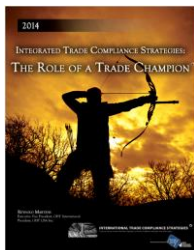
In our first white paper, *"The Case For An Integrated Trade Compliance Strategy,"* which formed the foundation of the series, we outlined key reasons why companies need to adopt a holistic organizational approach to deal more effectively with their burgeoning global scope, and the growing demands of international regulators on critical sales and sourcing activities.



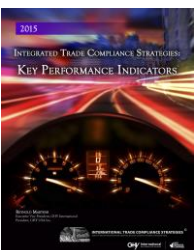
Our second white paper, *"The Seven Best Practices of Leading Traders,"* unpacked best business approaches utilized by proactive companies to successfully navigate their regulatory compliance challenges.



Our third white paper, *"The Role of Corporate Leadership,"* expanded on the foremost best practice of the 7 identified, which is the indispensable role of corporate leadership in making international trade compliance a vitally critical issue throughout the organization.



The fourth white paper in this series examines in more depth the second best practice of leading international traders, which is the appointment of a champion or team to oversee compliance priorities across business functions, and throughout the business cycle, from strategic planning through to business plan execution, and ongoing vigilance.



In our fifth white paper, we examine how leading traders use key performance indicators or KPIs, to track trade compliance variables that align with their company's vision, mission, values, strategy, risk intelligence, and brand reputation.

EXECUTIVE SUMMARY

Successful global traders integrate compliance into their business practices across internal functions, with their supply chain partners, into their sales activities and business development plans, in all of the jurisdictions that they are engaged in.

Beyond basic adherence to regulations as a legal obligation, compliance is viewed by senior leadership as integral to business success, as it protects the enterprise from risks and liabilities, while ensuring the focus of business units is on achieving strategic and financial targets.

Seasoned traders employ key performance measures or KPIs to track and monitor critical metrics that have a direct or indirect compliance consequence.

A survey of Canadian traders in support of this white paper suggests KPIs for compliance are in their early stages of use for compliance variables, with most measures centred on compliance outcomes such as fines, penalties, audit consequences, storage, and demurrage.

As a best practice leader in international trade, Siemens Canada has linked compliance to their company vision, mission, and values. Key performance indicators have been developed for internal departments and external partners for compliance-related activities that create value for the enterprise, protect it from risks, and enhance its brand and reputation.

Testimonials from other leading traders corroborate Siemens' contention that trade compliance KPIs not only provide their enterprises with risk protection, but also competitive advantage.

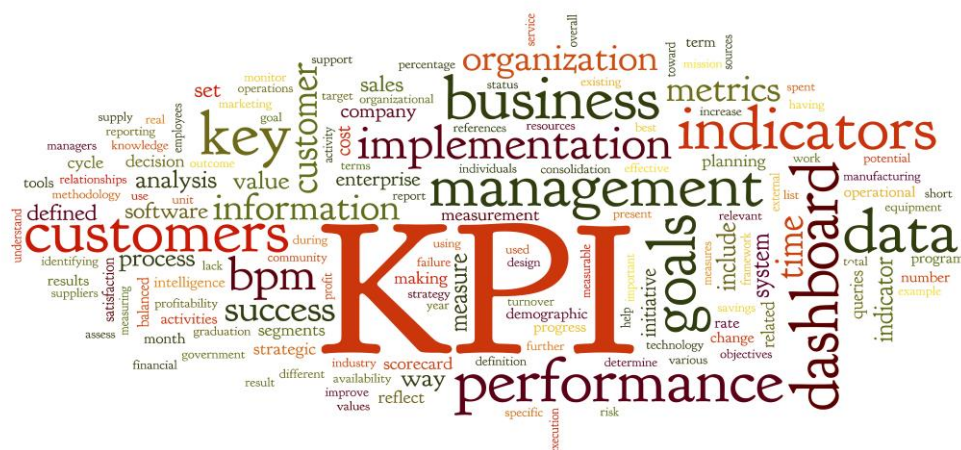
Special thanks to IE Canada, CITT, Siemens Canada, and the respondents to our survey for their assistance and support in the development of this white paper.



"What gets measured gets managed. What gets managed has a higher probability of success, or of taking corrective action to avoid negative consequences." — Reynold Martens, Executive Vice-President, GHY International

They must be measurable, attainable, have a specific owner, and be easily analyzed to arrive at insight that affirms performance is acceptable, or identifies gaps to address and take corrective action against.

- Trailing indicators of performance gaps that require corrective action
- Leading indicators of trends that can predict future consequences
- Create accountability and co-accountability for outcomes
- Increase the probability of reaching successful outcomes
- Mitigate the risks of failure by providing windows to remedial measures



THE STARTING POINT

DEVELOPING RELEVANT KPIS BEGINS WITH REVIEWING 5 KEY QUESTIONS:

1. MISSION AND VISION:

What are our long term goals and objectives?

2. VALUES:

What do we stand for and against - what is our code of conduct?

3. STRATEGY:

How are we going to achieve our targets?

4. RISK MITIGATION:

What could keep us from achieving our objectives?

5. BRAND INTEGRITY:

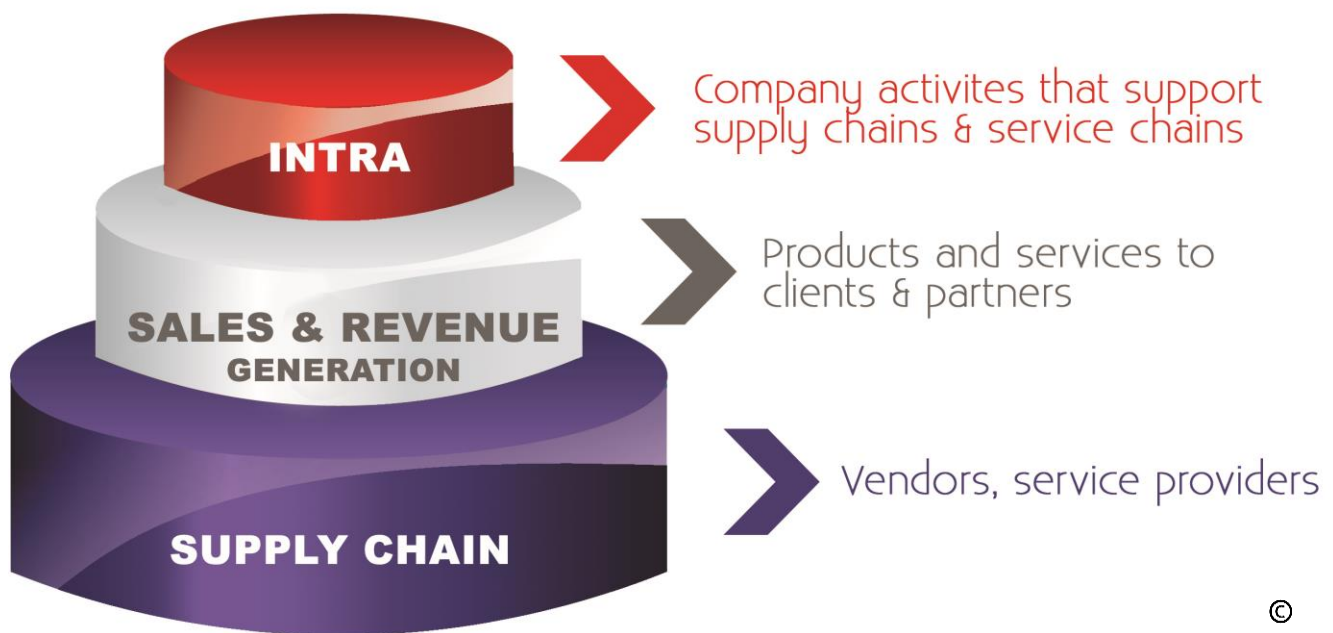
What are reputation deal-breakers for our company?



MAKING THE CONNECTION TO COMPLIANCE

Compliance is about doing the right things, and doing things right, especially where there are both ethical and legal implications. KPIs are guideposts that help to track intentions against actions, where there is a regulatory obligation and consequence.

TRADE COMPLIANCE INTERSECTIONS TAKE PLACE IN 3 MAIN ARENAS:



WHY TRACK COMPLIANCE VIA KPIs ?

Financial, fiduciary and legal consequences create an onus for due diligence and awareness of compliance obligations.

Consequences of being compliant or non-compliant flow uphill to senior leadership, and ultimately to ownership and the Board of Directors.

Due diligence infers anticipating outcomes in terms of positive opportunities that advance the corporate mission, or negative consequences that could impede future success, or compromise the company's reputation.



"With monitoring, we find areas we can work to continually improve, thus raising the bar. Sometimes our KPIs give us areas to consider for targeting improvements, detecting mistakes, or developing alerts."

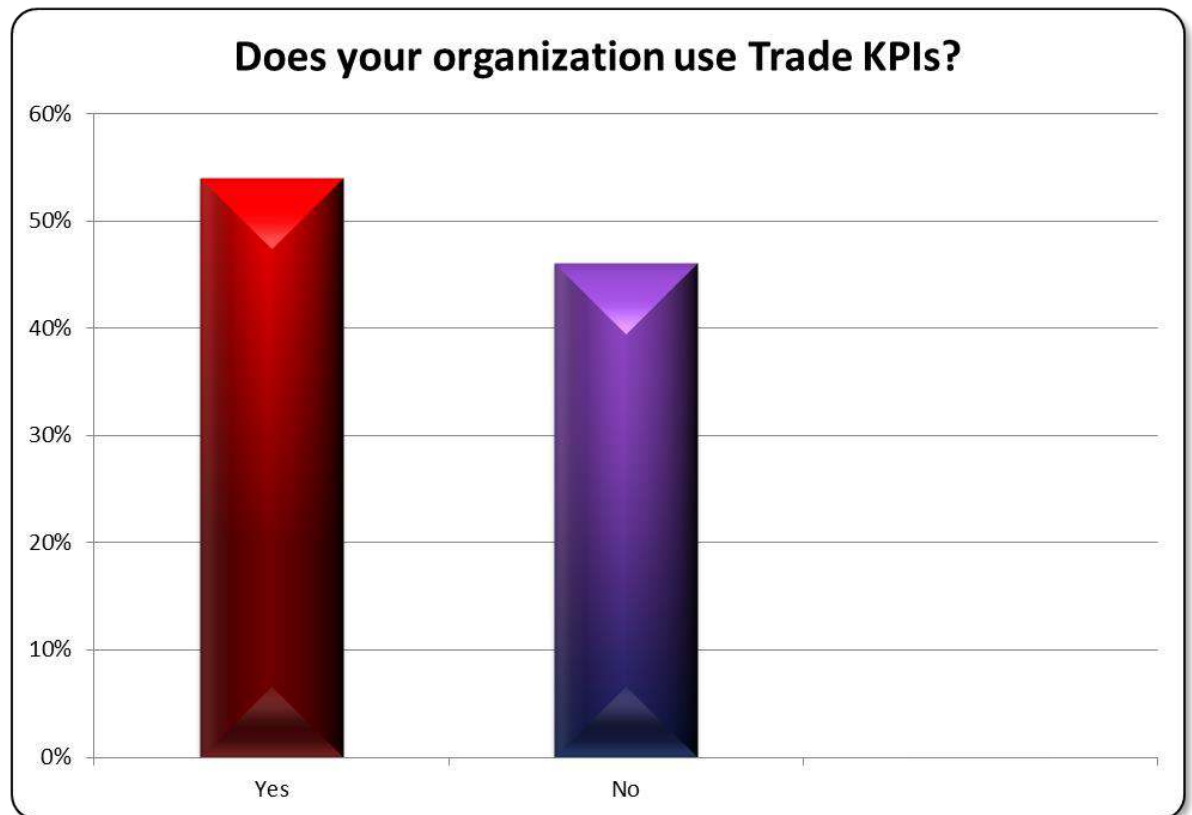
-- Mary Clarke-Palmer, Master Brand Cabinets

TRADE COMPLIANCE KPI SURVEY

To gain insight into the current scope and scale of compliance tracking within the Canadian trade community, we surveyed members of IE Canada (Canadian Association of Importers and Exporters), the CITT (Canadian Institute of Traffic and Transportation), and our clients.

The results revealed several trends that correlate with our experience in the Canadian and US trade communities across a broad cross section of industries, company sizes, and locations.

- 1. Key performance indicators are used by just over half of those surveyed, suggesting the era of full tracking and monitoring of critical business variables beyond basic financial measures, has not yet been fully embraced.**



TRADE COMPLIANCE KPI SURVEY

- 2.** Key performance indicators are linked closely to company strategy, by just over 50% of respondents.



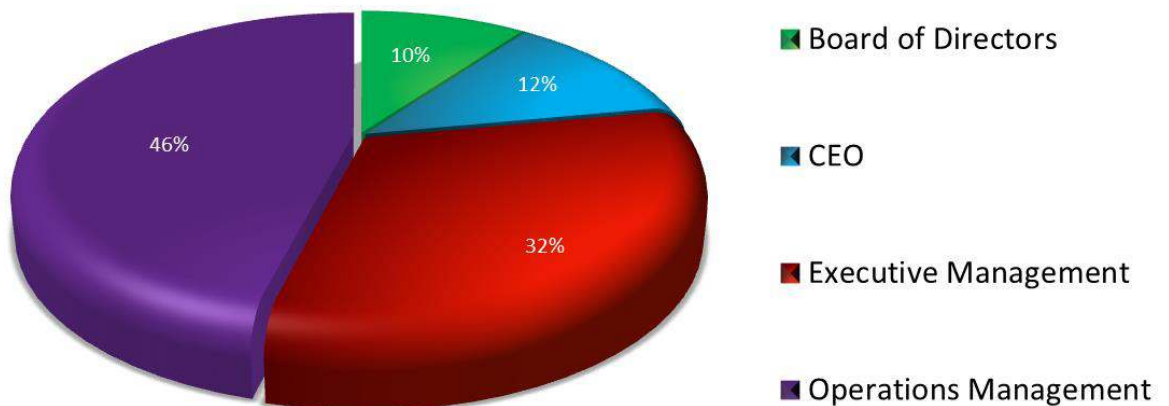
“CIMCO sees compliance KPIs as a way to gain trust with Customs and prevent penalties; our corporate integrity is critical in protecting our brand.”

— Dorothy Holden, CCS, CIMCO Refrigeration, Div. of Toromont Industries

TRADE COMPLIANCE KPI SURVEY

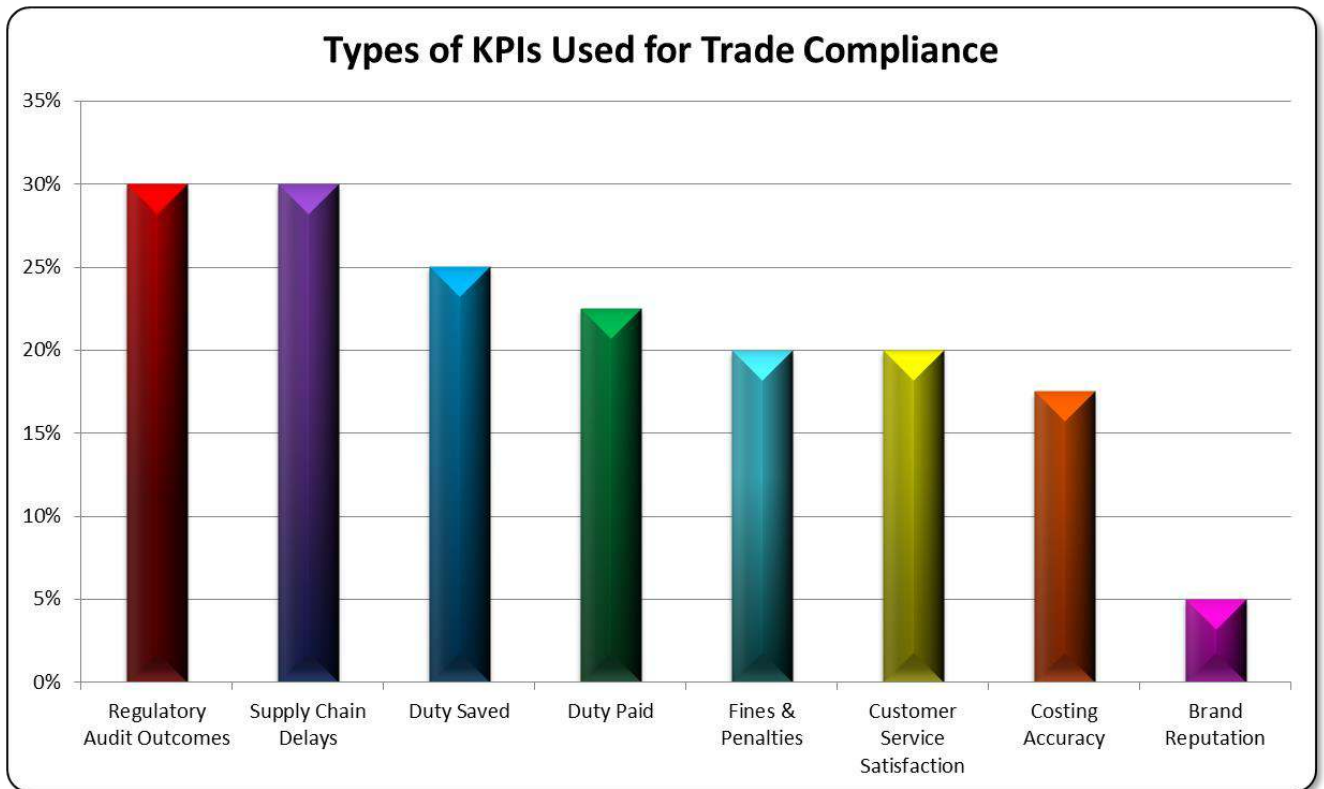
- 3. Visibility for trade compliance performance tends to be focused within the company's operations, with some exposure to Executive Management, and very little to the CEO and Board of Directors.**

Levels of the Organization with Visibility to Trade Compliance KPIs



TRADE COMPLIANCE KPI SURVEY

- 4. KPIs for trade compliance are centred around regulatory audit outcomes, supply chain delays, duty saved, duty paid, fines and penalties, customer satisfaction, and costing accuracy.**



“At Unilever our alignment between corporate strategy and compliance KPIs is focused on savings. Managing trade compliance risk to ensure quota allocation and reduced spend on trade costs is our primary focus. Developing compliance minded KPIs shows the business additional risk information and therefore the need to continue investing in strong compliance programs.”

— Todd Eagles, Unilever

TRADE COMPLIANCE KPI SURVEY

- 5.** A trade champion has been appointed to oversee trade compliance in just over 40% of respondents companies, which corroborates generally with the relatively low number who use a formal system to track and monitor compliance variables as noted in the first observation.



- 6.** Just under 30% of respondents use a formal system to track and monitor specific trade compliance elements.



WORLD CLASS TRADE COMPLIANCE KPIS:

SIEMENS CANADA

Siemens Canada is part of Siemens AG, one of the world's largest engineering companies headquartered in Munich, Germany. Siemens has been involved in Canada since 1912, and employs over 4500 associates at 13 manufacturing/assembly plants and 46 offices. Siemens products and services span the industrial, energy, health care, and infrastructure and city sectors.

"The culture of a company and its values make the difference. People rightly associate Siemens with reliability, fairness, and integrity."

— Joe Kaeser, President & CEO, Siemens AG

It is that tone and direction that sets the stage for the behaviours and code of conduct that is expected of every Siemens associate, and their expanded network of suppliers and partners. The company places a top priority on aligning its business activities around its values of being committed to ethical and responsible actions, achieving high performance and excellent results, and being innovative to create sustainable value.

Compliance at Siemens is defined as "acting in accordance with the rules that govern the way we behave. These rules can be externally imposed through laws or regulations, or internally defined through policies, procedures, and controls."

SIEMENS

TRADE COMPLIANCE KPIs: SIEMENS CANADA

The value of compliance is viewed as improving the company's reputation, ensuring transparency in the markets they operate in, protecting associates and attracting the best and brightest, stimulating the business, increasing productivity, and encouraging innovation.

At Siemens, every measurement must link directly or indirectly with their strategic outcomes, and align with their core values.

Key performance indicators are “tools used to display how value is created for the organization.”

The process for developing KPIs begins with the end in mind, around the business outcomes that are desired, which is then boiled down to a specific and measurable objective and a measurement metric. An owner is assigned and communication protocols established to monitor, share, and engage in remedial action as required.



TRADE COMPLIANCE KPIs: SIEMENS CANADA



\$ Total Value of Imports, Exports

\$  Value of Imports and Exports by Geographic Region

%  Duty Paid as a Percentage of Total Value & by Tariff Treatment

 Duty Avoided Via Free Trade Agreements or Other Relief Mechanisms

 Clearance Times, Delays

\$  Demurrage Paid, Detection Time

 Documentation Lead Time, Clarifications, "First Time Right"

©

TRADE COMPLIANCE KPIs: SIEMENS CANADA



Billing Accuracy, Timeliness



Record Keeping Availability, Retrieval



Examinations Conducted,
Lead Time, Time Lost



Transport Time and
Reliability



Customs Brokers Performance



Total Cost Per Import or Export Transaction

TRADE COMPLIANCE KPIS: SIEMENS CANADA

Each KPI has its own tracking protocol and dashboard to evaluate trends to isolate performance within acceptable parameters, and to isolate non standard deviation.

Cross functional visibility, engagement, communication, and accountability are built into each KPI as appropriate, to ensure there is a 360 degree approach to optimizing performance.

KPIs selected reflect Siemens' commitments and their brand promise, to be ethical, efficient, innovative, serve their clients, and comply with the global regulatory environments in which they operate.

What is noticeably absent are KPIS around regulatory penalties, fines, or sanctions of any kind. Their focus is on the disciplines, processes, and protocols that will ensure they avoid punitive actions, with KPIS providing the dashboard for visibility well before a negative consequence is triggered.

As a world class company, Siemens models how success and opportunity can flow from doing the right things, and doing things right. They view performance measures acting as the accountability tools to meet their goals and obligations to stakeholders, partners, clients, employees, and regulators.

"Fines and penalties are broken down so that demurrage can be captured and mitigated."

— Deanna Free, Diageo

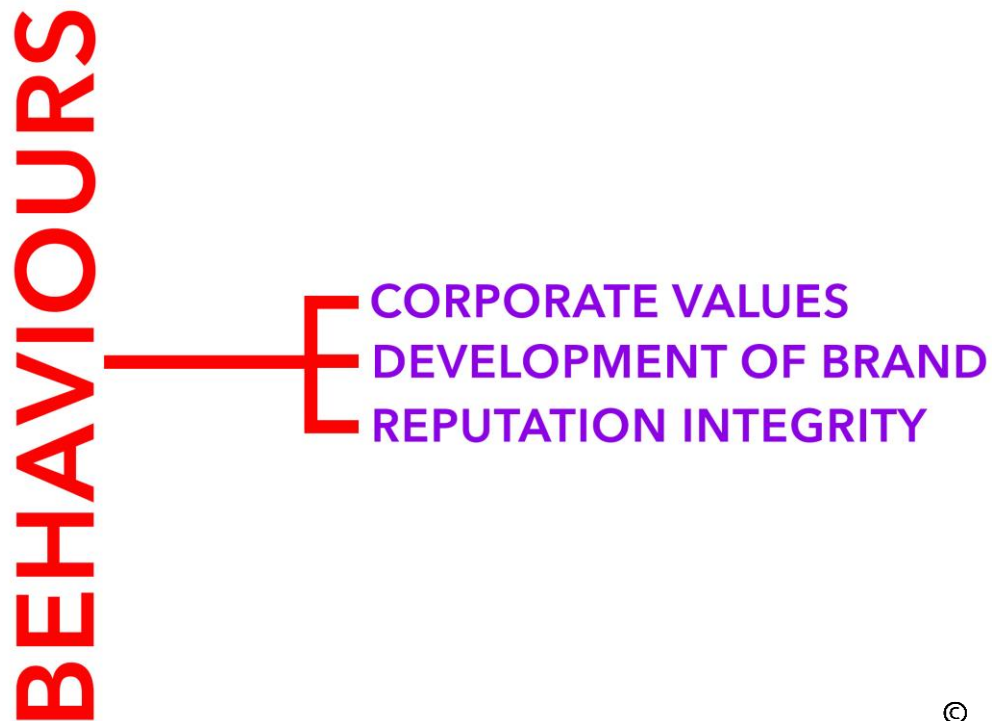


INDIRECT TRADE COMPLIANCE KPIS

Direct performance indicators tend to focus on outcomes that are linked to the operational elements of international trade--the successful execution of the strategic plan, and protection from risks that could compromise success.

What about tracking international trade outcomes that are less obvious, and nonetheless important to enterprise success, such as alignment of behaviours with corporate values, development of the brand, and reputation integrity?

How can corporate leadership stimulate a culture of behavioural integrity, with a corresponding set of measures or KPIS to guide the organization's personal and collective choices?



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INDIRECT TRADE COMPLIANCE KPIs

We offer several areas of performance tracking to bring greater visibility of trade compliance consequences, especially to senior management and board leadership or ownership, around the more abstract theme of integrity alignment:

BEHAVIOURAL INTEGRITY:

- Code of Conduct/ Compliance Tracking • Warnings • Violations • Terminations

REGULATORY COMPLIANCE INTEGRITY:

- Global Audits • Fines • Penalties • Warnings • Reassessments
- Trusted Trader Status Retention

COMMERCIAL INTEGRITY:

- International Contract Disputes • Service/Product Failures • Liability Exposure

BRAND INTEGRITY:

- Client Satisfaction Measures • Client Retention/Loss • Referrals • New Business Won

REPUTATION INTEGRITY:

- International Business Awards/Certifications • Publicity Tracking
- Social Media Surveillance

INTERNATIONAL TRADE COMMUNITY INTEGRITY:

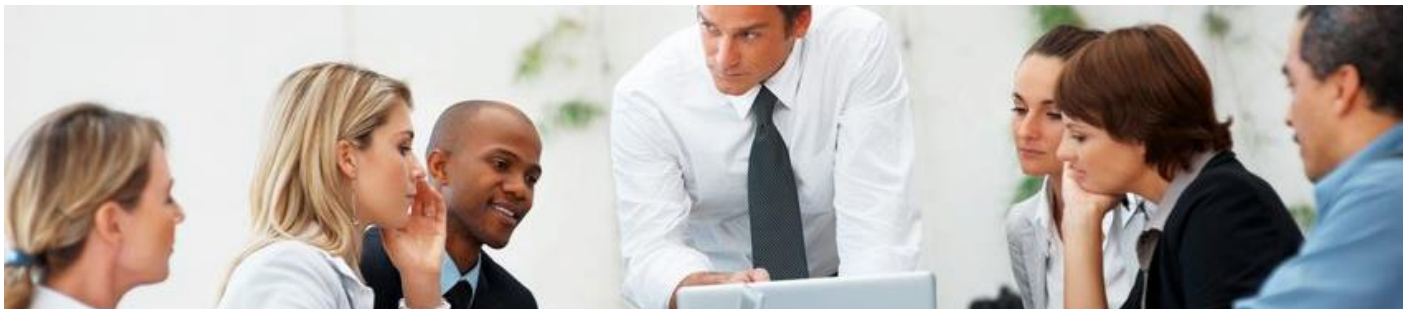
- Industry Service • Board Involvement • International Charities

What's important is identifying measures that link corporate intentionality with the softer or more abstract desirable outcomes of international trade. Without a formal report card, performance or non-performance is left undetected - and unrewarded or sanctioned.



QUESTIONS TO CONSIDER

- 1. Does your company use KPIs to track trade compliance priorities?**
- 2. Is there a clear link between your trade compliance KPIS and your company's values, strategy, risk management, and brand/reputation?**
- 3. Are KPIS tracked visibly and shared regularly within your company by all parties that are stakeholders in the outcomes being monitored?**
- 4. What are you measuring now that does not add discernible value to your company's success, or protect your company from risk?**
- 5. What are you not measuring that would add value or detect risk?**



GHY INTERNATIONAL

Reynold Martens graduated from the University of Winnipeg with a degree in history in 1979. He has been involved in the trade services industry since 1985 and in leadership at GHY international since 1991, where he holds the positions of Board Secretary, Managing Partner, and President and co-founder of the firm's US subsidiary, GHY USA Inc.

He is the architect of GHY's thought leadership platform; author of the firm's published white papers, and a regular speaker at national trade conferences.

Reynold is active in various industry and community leadership roles, including involvement in the Institute of Corporate Directors, and national board directorships with the Canadian Manufacturers and Exporters Association (CME), World Trade Centre Winnipeg, and a past directorship with Canadian Association of Importers and Exporters (IE Canada).

Founded in 1901, GHY International is one of the oldest customs brokerage houses in North America, and was recognized in 2015 with Platinum status by Canada's 50 Best Managed Companies program, in addition to proudly maintaining recognition as one of Canada's 50 Best Managed Companies from 2008 – 2016. Furthermore, GHY International was named a Top 100 Small & Medium Employer in Canada for the year of 2016.



ABOUT THE RESEARCH PARTNER

Cynthia Fortlage is a passionate leader who sees opportunities where others see challenges. She believes that technology is an enabler, and sees possibilities and solutions, not roadblocks and barriers. Cynthia leads an award winning team of professionals who push the boundaries in all things they do.

She enjoys a wide diverse portfolio of responsibility, oversees all aspects of social media as part of her overall business development strategy, and actively participates in business development opportunities, including client visits and sales calls.

Cynthia is the senior executive in charge of information technology and member of the firm's executive team, and strives to develop partnerships in all aspects of delivering customer care.

Cynthia has a certificate in Applied Management: Information Technology Specialization through the University of Manitoba, and is a recipient of the prestigious IBM Innovation Award for the "i" series server in Chicago in 2005. She also shares her passion, knowledge, and insights through written articles, interviews, and public speaking nationally and internationally.

