Integrated Trade Compliance Strategies: Seven Best Practices of Leading Traders ©

REYNOLD MARTENS
Managing Partner | GHY International

BACKGROUND

In a world of increasingly complex international supply chains, trade compliance expectations placed on global importers and exporters have never been higher.

Our previous white paper released in 2011 entitled "The Case for an Integrated Trade Compliance Strategy," isolated silo-based organizational structures as a major impediment to effectively managing the growing demands of global regulators on critical sales and sourcing activities. (See figure 1)

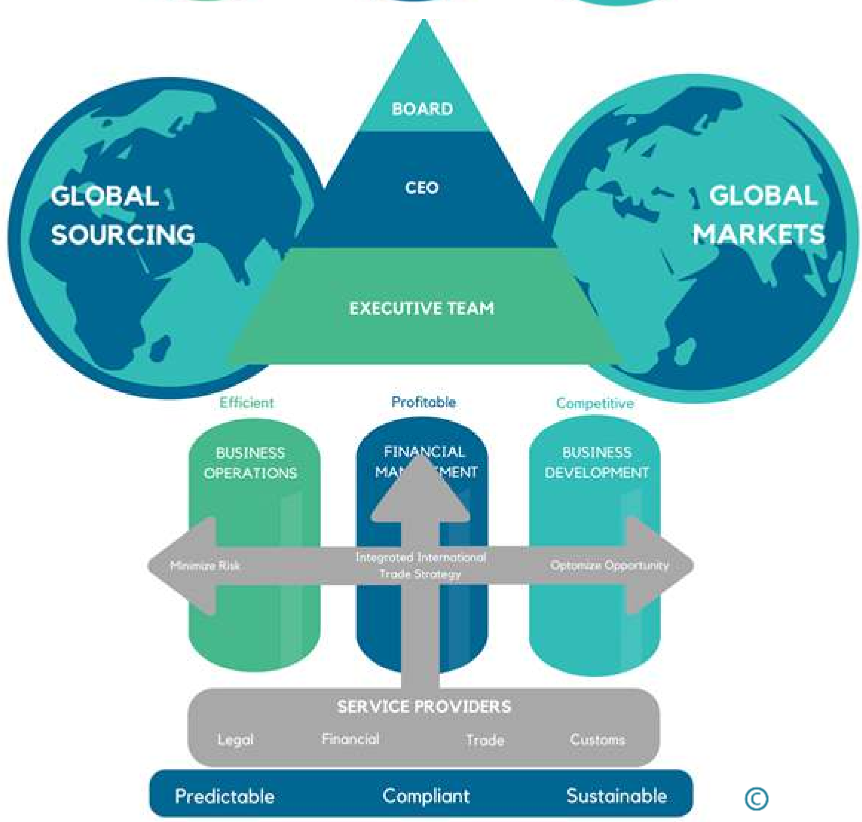
As a remedy, we advocated the case for an integrated approach, premised around horizontal and vertical functional visibility of all compliance "intersections" that have upstream or downstream consequences, with shared responsibility across functional lines and levels, up to and including the board of directors. (See figure 2).

For this white paper, GHY's research team set out to gain greater insight into the business practices of enterprises deemed as being highly compliant and integrated in their approach to strategically managing their trade compliance obligations.

Participants in our survey included industry-leading companies spanning a cross section of diverse industries. One-on-one interviews were carried out with senior executives responsible for trade compliance to explore particular issues in more detail, and the 7 best practices of the group were abstracted and synthesized into this white paper.

BACKGROUND


GLOBAL SOURCING
BOARD
CEO
EXECUTIVE TEAM
GLOBAL MARKETS
Efficient
Profitable
Competitive
BUSINESS OPERATIONS
Product Design-Engr.
Production-Mfg.
Global Sourcing
Supply Chain-Logistics
Shipping
Human Resources
Information Tech.
CDN Customs Broker
USA Customs Broker
FINANCIAL MANAGEMENT
Assets + Liabilities
Cash Flow Mgmt.
Regulatory Compliance
Risk Mgmt.
Financial Report
Administration
CDN Auditors
US Auditors
Legal Services
Trade Services
BUSINESS DEVELOPMENT
Domestic Sales
International Sales
New Export Markets
Contract Mgmt.
Sales Admin.
Marketing
Trade Services
(Exchange + Insurance)
©


BOARD
CEO
EXECUTIVE TEAM
GLOBAL SOURCING
GLOBAL MARKETS
Efficient
Profitable
Competitive
BUSINESS OPERATIONS
BUSINESS DEVELOPMENT
Minimize Risk
Integrated International Trade Strategy
Optimize Opportunity
SERVICE PROVIDERS
Legal
Financial
Trade
Customs
Predictable
Compliant
Sustainable
©

BACKGROUND

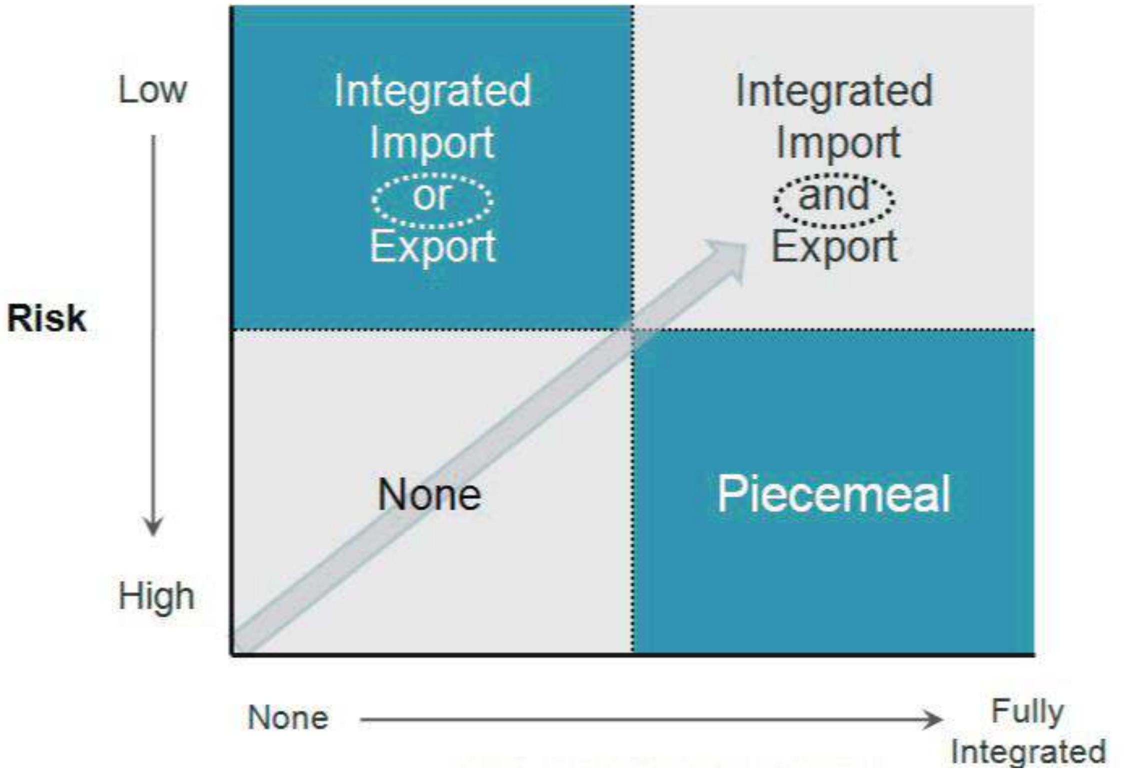


Figure 3:
Integrated Compliance Strategy Continuum.

EXECUTIVE SUMMARY

What we discovered in this survey is that while leading organizations wrestle with "the compliance issue" in different ways best suited to their own strategic architecture and operational capacities, nonetheless there are common traits and best-in-class business practices shared by companies that are working towards successful implementation of an integrated trade compliance strategy.

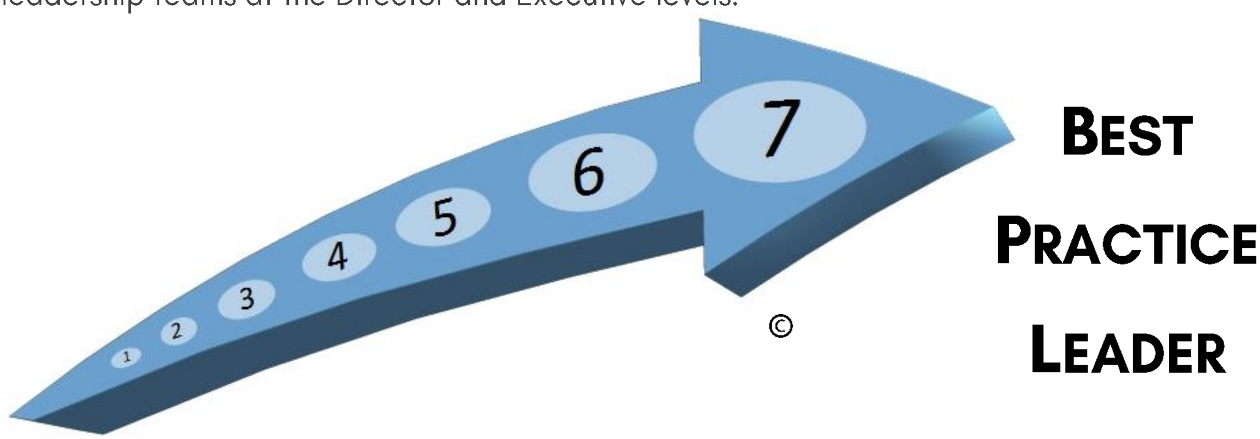
Of the seven "best practices" that we identified, foremost is the need for corporate leadership in this area, and a team willing to actively champion trade compliance as a critical issue across the entire organization.

Best performers all recognize that key performance indicators are essential to the success of any compliance program — "What gets measured gets done" as the old maxim goes. These KPIs are most usually focused on bottom line metrics, but there is also a move amongst some toward measuring other benefits of compliance such as customer satisfaction.

Automated tools, centralized electronic recordkeeping and a visible audit trail are generally recognized as elements of a best practices approach to trade compliance. Effective information sharing about trade compliance issues across horizontal and vertical lines of communication within the organization is another critically important best practice shared by leading companies.

Finally, the degree to which companies integrate trade compliance factors into their business development plans and engage with professional service providers to help them achieve their strategic objectives, are both significant determinants of success. Successful implementation of an integrated trade compliance strategy involves a constant and dynamic knowledge transfer between all the parties who provide service in the legal, financial, trade, customs, and logistics areas under the client's direction.

In a nutshell, rapid globalization, supply chain complexity, and intensifying regulatory vigilance translates into escalating trade compliance risk for internationally active corporations and their leadership teams at the Director and Executive levels.



BEST PRACTICE #1

Corporate leadership has identified global trade compliance as a priority.

The companies surveyed were unequivocal about the important role that can be played by corporate leadership in driving the implementation of compliance- related priorities across the organization. In fact, the impetus for ensuring organizations have a sound risk management strategy must originate at the highest levels-up to and including the board of directors. Compliance with international and domestic regulation needs to be part of the permanent corporate doctrine, and not the venue of one or two departments working in isolation.

Unlike the 40 percent of companies estimated by some studies where senior management are only vaguely aware of trade compliance issues with no involvement, executive officers in firms with an integrated strategy are in fact required to provide regular, routine, and stringent oversight of the internal controls that allow enhanced trade facilitation. At electronics manufacturer Toshiba Canada, for example, the Export Control department reports directly to the president of the company.

Compliance needs to be part of the permanent corporate doctrine.

While generally not that directly involved in detailed implementation or operational administration of compliance measures, senior executives nevertheless retain control over the direction, strategy, and ultimate reporting of the oversight function, rather than allowing it to be devolved down the management chain.

For these companies, assessing risks, reviewing options for their mitigation, and ensuring processes are in place for maintaining the integrity of regulatory compliance, are essential components of the framework for corporate governance at the highest levels of the organization.

Perhaps Christopher Eaton of the Conference Board of Canada put it best in a recent article entitled "What Does Risk Integration Look Like Really?"

"Risk integration can be defined as the embedding of risk-related concepts and practices throughout the organization to further the achievement of organizational objectives."

BEST PRACTICE #2

A "champion" or team has been appointed to own trade compliance across the enterprise.

Our survey findings confirmed that the compliance role is still evolving in response to demands of an increasingly complex trade environment.

At the most sophisticated level, a senior manager of a multinational fortune 5 00 level firm we interviewed related her experience as part of a global compliance team spread throughout the world, that reports directly to the global corporate controller, who in turn is responsible to the corporate board of directors.

Bill Conroy of Tyler Search Consultants notes how a global trade compliance director once explained his role and how his team is perceived internally:

"We are perceived quite well, and we have strong management support. Company personnel tend to look at the compliance program like taking a maintenance drug. They may not like the taste, they may not like the side effects, and occasionally they may even refuse to take it, but in the end, they know they will have big problems without it. Many express relief that they have a compliance team to deal with the government visits."

In addition to helping avoid costly enforcement actions, trade compliance can, and should be, a value-added proposition.

While that traditional view of the compliance role being one of regulatory "cop on the beat" or supply chain security chief is still quite prevalent, there is an increasing trend amongst globally active traders towards recognizing that compliance can, and should be, a more expansive, value-added proposition. This attitude drives the change from merely regarding trade compliance as a burdensome obligation into a proactive and commercially important function. Linking compliance with business success in this way results in the two becoming a single core responsibility, and thus, a more commercially appreciated function within the organization.

BEST PRACTICE #3

KPIs have been developed to measure and report on corporate trade compliance priorities.

The experience of companies we interviewed suggests that organizations with the most successfully integrated trade compliance programs have established goals and objective outcomes against which they routinely measure their performance.

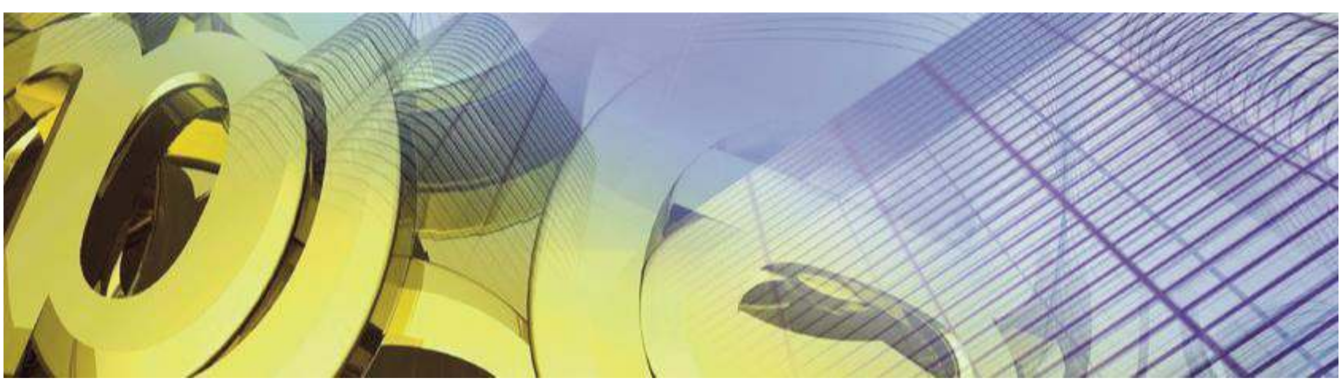
For example, by setting firm targets and closely monitoring the flow of information between corresponding databases, window fashion manufacturer Hunter Douglas reduced the number of tariff discrepancies occurring at the time of release by 95 per cent over the past three years.

The most common trade compliance performance measures are still focused on bottom line metrics such as penalties assessed, duties saved (usually by means of free trade administration) or liabilities avoided. Monitoring the percentage of orders experiencing a Customs hold and tracking compliance infractions not resulting in penalties are other common performance measures used.

KPIs provide performance visibility that reduces surprises and eliminates supply chain "drama".

Some companies however are also looking to other factors when determining the value of compliance. For clothing manufacturer Nygard International, compliance translates into both customer satisfaction and cost savings. Understanding that retailers have a penalty system for late delivery and short shipment of merchandise, Nygard's aim is to avoid supply chain delays resulting from avoidable incidents of non-compliance, thereby significantly reducing the amount formerly budgeted to account for these avoidable losses.

Whatever KPIs are employed to routinely measure and report on performance, respondents frequently stressed that a lack of surprises, "certainty", and an "absence of drama" were also considered to be valuable outcomes of the compliance team's efforts.



BEST PRACTICE #4

Systems have been put in place to track and measure trade compliance variables in supply chains and sales channels.

Automated tools, centralized electronic recordkeeping and a visible audit trail are generally recognized as elements of a best practice approach to trade compliance.

A variety of different software solutions are used by companies to manage their trade compliance functions — internally, through a third-party, via a portal, or with a trading partner. Today, many supply chain software providers have teamed up with global trade management service providers to develop joint solutions that integrate and automate import, export, and trade agreement activities with logistics applications designed to track shipments, provide landed-cost assessment, ensure accurate data management, avoid fines, and leverage trade agreements favourably.

Companies utilizing automated trade compliance solutions are more likely to avoid government fines and penalties.

Nearly half of companies surveyed though still prefer to utilize the system capability provided by their ERP vendors for global trade compliance. Toshiba Canada recently integrated their import database into the company's ERP program so that now when a purchase order is generated (domestic or international) it is first automatically "scrubbed" through a product matrix in the database to identify controlled goods for review and approval by the export compliance department.

Regardless of the particular technology utilized, the compliance systems of best-in-class companies tend to share the following features: online access to trade-related content (e.g., HS classifications), import/export document generation capabilities, automated commodity screening (e.g., for denied, restricted, sanctioned goods before and at transaction), document exchange with service providers, updates and validations to/from HS classifications and product matrix database, and compliance to cargo security programs such as C- TPAT.

BEST PRACTICE #5

Communication and meeting protocols are in place to track current and emerging trade compliance issues.

Effective communication is a perennial challenge within all organizations, but it assumes an even greater degree of difficulty when the issues involved are inherently complicated and both the legal framework and supply chain implications associated with them is constantly changing.

Amongst respondents to our informal survey, regular reporting on the value of trade compliance initiatives according to core performance standards was the most common means of communication between the compliance group and senior management. Aside from companies like Toshiba Canada where some of the compliance group reports directly to the president on a day-to-day basis, communication with top management by the compliance team at most companies is generally limited to issues of critical importance (e.g., infractions, penalty assessments, adverse regulatory change, etc.) or those considered to be of strategic value, for example, setting corporate guidelines and procedures for import/export activities).

Leading firms utilize email notifications and regular cross-functional meetings.

As for information sharing about emerging trade compliance issues across horizontal lines of communications within the organization, most companies surveyed accomplish this via email notifications in addition to regular cross-functional meetings. This collaborative approach seems to align with results of a recent global survey by the management consulting firm McKinsey & Co. in which regular cross-functional meetings were cited by respondents as the most common process for making supply chain decisions.

There is still much room for improvement in this area however. For example, more than a third of the McKinsey study respondents said their operations teams never or rarely meet with sales and marketing to discuss supply chain tensions. Bridging these kinds of functional divides that thwart collaborative action remains a challenge for many companies in creating competitive supply chains capable of fulfilling the requirements of an integrated trade compliance strategy.

BEST PRACTICE #6

Trade compliance factors are integrated into plans for growth and expansion into new markets.

In an increasingly globalized trade environment, more companies than ever before are tapping into new export markets around the world. While this presents tremendous business opportunities, to compete effectively, companies need to be mindful of the various risks involved — chief amongst them, complying with frequently complex regulatory systems applicable to international transactions.

Companies seeking to expand global markets need to be mindful of the myriad of regulatory and trade compliance risks involved.

According to a recent report by Deloitte Financial Advisory Services on global investments, for North American companies looking to expand in emerging markets, "compliance and integrity risks appear to be rising sharply." The report found that increased foreign activity significantly raised the stakes for corporate strategists and compliance officers. More than ever, a cautious "look before you leap" approach should be at the top of the agenda for globally active corporations, the report concluded.

Our best practice research with companies surveyed appears to validate that cautionary warning, indicating that when evaluating potential new markets, leading global traders and best-in-class companies are keenly aware of the need to thoroughly assess all of the legal requirements, security concerns, and supply chain implications involved. As a result, senior executives at these firms routinely incorporate trade compliance risks into their strategic planning process when exploring growth opportunities abroad.

To accentuate that point, one international chemical manufacturer we interviewed spoke about the importance of the firm's reputation and brand as its most important asset, that must be protected when considering any new business development initiative or contract with suppliers or customers. Compliance integrity is viewed as a critical element of the brand's equity, and mandated as a key point of emphasis by company ownership as a result.

BEST PRACTICE #7

Professional service providers are engaged as partners in achieving global trade compliance success.

Almost all companies outsource some degree of their customs activities to professional service providers. In fact, according to Supply Chain Consortium, 86 percent outsource functions such as automated entry filing with customs authorities. More complex compliance- related tasks such as documentation, duty computations, audit management, and tariff classification are split quite evenly between utilizing in-house resources, outside service providers, or a combination of both.

Knowledge sharing between service providers in legal, customs, and financial areas are essential.

Service providers engaged by traders with integrated compliance strategies work in collaboration with the enterprise in their areas of expertise. Their insight is shared with other service provider partners so there is continuity and consistency in the application of trade regulations, or to support commercial decisions that are made.

They are often responsible to a senior executive in the Finance and Administration function for accountability, as it is most likely to be the common denominator that connects the enterprise's other components together horizontally and vertically. Importantly, the company's legal firm needs to be engaged where client-lawyer privilege is appropriate, such as in the case of prior disclosures, reason to believe scenarios, and complex regulatory appeals.

At points there will be overlap between the service providers, especially in the case of audits that span duty, tax, and other government department scrutiny. But ideally the work done for the benefit of the client should be applied where appropriate to areas of cross over, or where collaboration is necessary.

Ideally, the advanced global trader would develop a "responsibility matrix" that identifies commercial activities with international compliance consequences, cross referenced to the core service providers in the finance, legal, trade, and customs areas. The core rationale for creating such a tool is that no one service provider is an island-there are degrees of integration and separation that make it incumbent on the international trader to create synergies around, so that institutional knowledge is shared and leveraged effectively by external stakeholders.

SUMMARY: PUTTING BEST PRACTICES INTO ACTION

In today's globalized business environment, the trade compliance landscape is growing increasingly complex, as are the consequences of failing to comply. Unfortunately, it appears that a majority of organizations still regard the myriad of expanding regulations pertaining to international trade merely as an onerous burden of doing business.

However, an increasing number of best-in-class companies have come to the realization that a truly effective and integrated trade compliance strategy not only mitigates the numerous risks involved, but can actually be a value-added proposition that helps fast-track the seamless movement of their goods across borders, thereby providing them with a significant competitive supply chain advantage.

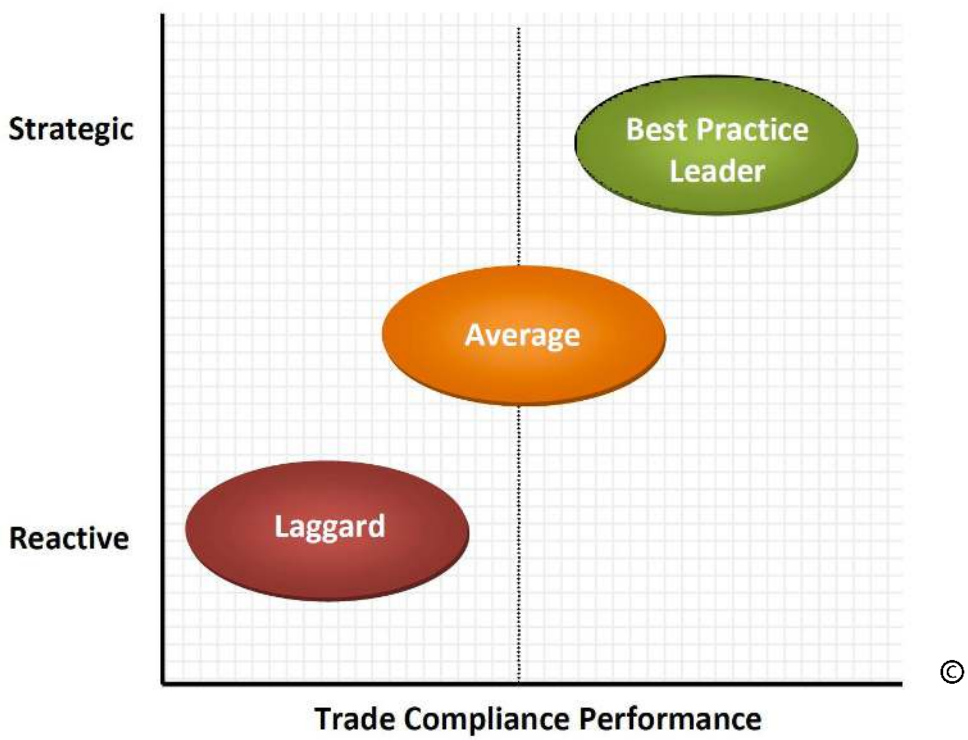
The objective of this paper was to ascertain the similar operational features that exist between best-in-class companies, and to distill these common threads into a number of best practices.

Enterprises that stand out are those where corporate leadership empowers their trade compliance team to champion the cause as a critical issue across the entire organization, aligns performance with strategic business objectives and constantly measures the results, deploys automated tools capable of providing the maximum degree of accounting visibility, facilitates cross-functional interaction about trade compliance issues across both horizontal and vertical lines of communication, integrates trade compliance variables into their business plans, and encourages a dynamic transfer of relevant information between their service providers.

BENCHMARKING QUESTIONS

- Is global trade compliance a corporate priority?
- Do you have a champion who owns trade compliance across the enterprise?
- Have KPi's been developed to measure trade compliance performance?
- Are automated systems in place to track trade compliance variables?
- Are cross functional communication protocols in place for compliance priorities?
- Do corporate plans for growth and expansion include trade compliance factors?
- Are third party service providers engaged as partners in achieving trade compliance?

Where Do You Rank?



RELATED RESEARCH

Global Trade Management
Strategies For Mastering Trade Compliance And Supply Chain Complexity
Aberdeen Group, September 2010

Winter 2009 ICPA Trade Compliance Survey Results
Zisser Customs Law Group PC

Look Before You Leap: Managing Risk In Global Investments
Deloitte Financial Advisory Services LLP

McKinsey Global Survey 2010: The Challenges Ahead For Supply Chains
McKinsey & Company

Trade & Customs Compliance: Strategic Planning For Global Growth
Global Enterprise Institute (KPMG LLP)

Benchmark Report: Export Compliance Management
Braumiller, Schulz LLP

Global Trade Compliance: Benchmarking & Best Practices
Supply Chain Consortium

What Does Risk Integration Look Like Really?
Conference Board of Canada, Risk Watch, September 2010

Our Changing Industry
The Global Trade Professional, Bill Conroy, Tyler Search Consultants

ABOUT THE AUTHOR

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 - 2017. Furthermore, GHY International was named a Top 100 Small & Medium Employer in Canada for the years of 2016-2017.