



Supply Chain Regulations and Exposure


How to Manage Third-Party Risk and Beyond



 Policy & Procedure Management

 Code of Conduct

 Third Party Risk Management

 Ethics & Compliance Training

 Whistleblowing & Incident Management

In today's regulatory landscape, compliance can feel overwhelmingly complicated. Adding to the complexities is the challenge of ensuring your third parties, vendors and suppliers also meet their own regulatory requirements while rising to the standards your company requires them to uphold. Emerging challenges and regulations related to supply chain due diligence – particularly environmental, social, and governance (ESG) considerations, human rights in the supply chain, and ethical sourcing of raw materials and goods – are now a top focus for not only regulators around the world but also from consumers and investors. With an expanding legal landscape, a focus on European regulations and global developments affecting all of these areas, the challenge of effectively managing third-party relationships is paramount.

Some regulations driving change and a need for robust compliance processes, such as the German Supply Chain Act and the European Corporate Sustainability Reporting Directive (CSRD), are already in force. Others are on the way to being adopted into law but already driving the conversation, such as the EU Corporate Sustainability Due Diligence Directive (CSDDD) that is expected to be finalized later in 2024. The United States Securities and Exchange Commission (SEC) is also working on climate-related disclosure rules, which alongside state-level regulations. These rules and others are going to further push companies to adopt additional compliance and disclosure practices to stay on the right side of regulatory scrutiny.

The challenge

Complying with these laws and directives is necessary to stay on the right side of regulators, but more than that – it is the right thing to do. But it isn't always easy. Some of the main challenges include:

Complex regulatory environments: The evolving legal landscape poses a challenge for companies to keep up with various supply chain due diligence regulations globally. With varying jurisdictions and requirements, knowing exactly what you need to do to stay compliant can be a massive headache if all the work is being done manually and across disparate systems.

Data aggregation: Collecting and aggregating extensive information from suppliers, especially those further down the chain such as your supplier's supplier of raw materials, for reporting purposes is a complex and challenging task. The larger an organization is, the harder it becomes to consolidate the information from hundreds or thousands of third parties, vendors and suppliers – and the "nth" suppliers further down the chain.

Stakeholder expectations: Increasing stakeholder expectations, including those of regulators, employees, shareholders, and the public, add pressure on companies to enhance their supply chain transparency. Violations of human rights across the supply chain such as modern slavery or forced labor are causing a swell in the conversation not just from regulators, but from all other stakeholders in your business.

➤ The legal landscape is daunting, but there are many activities you can do now to prepare for disclosure compliance.

The solution

Staying compliant with applicable regulations and disclosure requirements isn't simple. However, the following principles will help apply discipline to your compliance program so you can keep up with your organization's requirements.

Risk-based approach: Adopting a risk-based approach to supply chain due diligence, considering factors like spend, jurisdiction and industry-specific risks, is strongly advised. You won't be able to operate your business without accepting some level of risk, but defining the risks and determining what level of risk your business is willing to accept is a good place to start.

Collaboration across departments: Compliance failures are more likely to happen when risks are categorized and addressed in a vacuum. Collaboration across departments, including Procurement, Legal and IT, is crucial to gather comprehensive information about suppliers and their compliance with disclosure requirements. Risks should be identified and measured using a common taxonomy and scoring system and consolidated into a single view.

Supplier engagement: Engaging with suppliers directly to collect disclosure information and ensuring compliance with modern slavery and forced labor investigation requirements is essential. Too often, suppliers, vendors and other third-parties are left to their own devices post-due diligence and onboarding. But a successful relationship requires ongoing monitoring and planning for potential disruptions to ensure business continuity.

Standard contract language: Developing standard contract language helps ensure compliance across all contracts. Work with the legal department to create standard language in contracts relating to human rights, the environment and deeper supply chain issues. A good approach is to have a catch-all "follow all laws, including all labor laws"-type clause in all contracts, with stronger contractual obligations for higher-risk and/or higher-spend suppliers.

ESG baseline report: Companies anticipating disclosure obligations can benefit from hiring external experts to perform materiality analyses and ESG baseline reports for effective measurement year-on-year.

Prediction



Scrutiny of supply chains will grow stronger by all stakeholders, including regulators, employees, shareholders, other companies, and the public. Most companies will struggle to adapt to quickly changing requirements but will ultimately create successful strategies for doing so.

Your NAVEX playbook

Complying with the many (and evolving) expectations of the DOJ and other regulators requires discipline and data. However, attempting to run a comprehensive and scalable risk and compliance program manually is not only insufficient from a compliance perspective, it creates more work and yields less actionable information for your program.

With the data intelligence and purpose-built solutions from NAVEX One, organizations of any size or industry, in any location, can simplify and consolidate compliance efforts. NAVEX GRC data intelligence solutions bring you GRC data from the different elements of your program along with security and stability from using, analyzing and managing your data in the cloud.

The following solutions work together on the NAVEX platform to help you holistically manage a best-in-class risk and compliance program.

Whistleblowing & Incident Management: Making whistleblowing programs available is necessary internally to comply with multiple global regulations but can also identify and address supply chain issues through a confidential reporting system made available to third parties and suppliers.

Policy & Procedure Management: Facilitate the creation and management of standardized contract language and policies for your suppliers, vendors and third parties. Maintain version control, distribution and access information on attestation to ensure your employees and suppliers are well-aware of your company standards.

Code of Conduct: Your code of conduct embodies your values as a company and is an important touchstone and resource for employees. By going a step further, you can also support the development and enforcement of a comprehensive Supplier Code of Conduct to ensure those values are communicated across the supply chain.

Third Party Risk Management: Your third parties are an extension of your business – but so is their risk. Assist in assessing and managing risks associated with third-party suppliers from initial due diligence to ongoing monitoring throughout the relationship. Implement risk-based approaches to supply chain due diligence and management and establish controls to help with business continuity planning.

Ethics & Compliance Training: Provide training programs to educate both employees and suppliers on compliance requirements that is both engaging and compliant with relevant laws.

The [NAVEX One platform](#) can help you achieve your goals by providing a 360-degree view of your risk and compliance program. With our platform, you can transform fragmented information into a valuable resource that can aid decision-making across all aspects of your business. Learn more about how our solutions can address your essential business priorities.