



Issue Averted

Flip supply chain readiness
from **burden** to **value**

How to avoid supply chain breakdowns, reputational damage, and material fines as your organization faces expanding regulatory requirements and unpredictable global events.

Business used to be *simpler*.

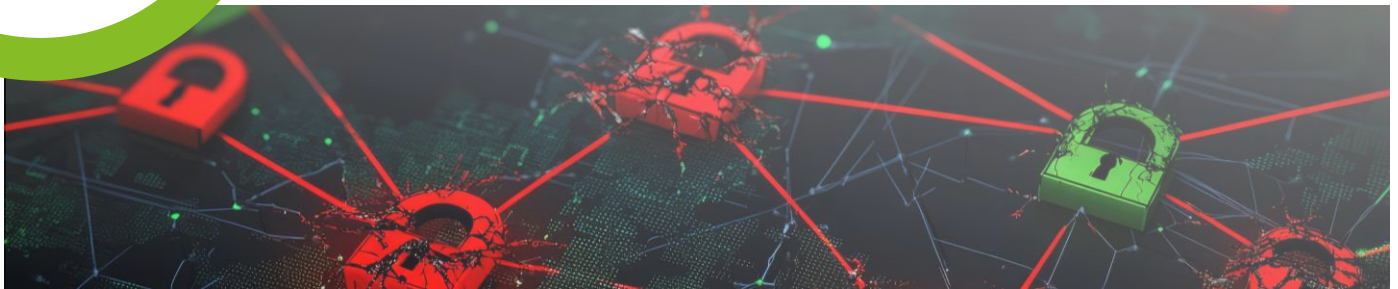
Organizations could rely on well-developed regulations and long-established precedents to inform the management of their global supply chains. Mitigating compliance risk and writing contractual protections was a more straightforward task. We had it so good!

Now, however, new rules, requirements, and risks are coming from all directions. Tomorrow could be the day your company ends up in a *Financial Times* headline for all the wrong reasons. Whether it's new tariff rates or a hurricane making landfall, the semiconductors you rely on from one supplier might need to be quickly rerouted to come from a secondary chipmaker. It could be the moment when supply chain practices turn into reputational damage or when supply chain compliance penalties hit the bottom line. Suddenly, for an issue that had not been on anyone's radar, the C-suite is calling the chief legal officer (CLO) to find out what the contract says, and what the compliance or operational liabilities really are.

The pace of change in supply chain regulation and risk can seem daunting, but it doesn't have to be. Don't panic, take a breath. Rather than letting compliance be seen as a burden that's addressed as an afterthought, with the right knowledge and a proactive shift from abstract compliance policies to concrete operational practices, everyone can work effectively together to bring forethought—and added business value—to dealing with regulatory concerns from day one.



What you need to avoid



Regulatory compliance is becoming an ever-bigger supply chain headache. Regulators are asserting themselves, examining labor practices, environmental impacts, data privacy, and more.

They increasingly favor mandatory disclosure rules that put the burden on companies to hold suppliers accountable.

Businesses are being asked to address forced labor and human trafficking under the UK Modern Slavery Act and the California Transparency in Supply Chains Act, for example. The EU already has rules about purchasing minerals and metals from conflict zones. And if your supply chain runs through the EU, you will soon need to know how their Regulation on Deforestation-free Products (EUDR) impacts your plans.

Software procurement and data management raise additional requirements, demanding a clear understanding beyond just the EU's General Data Protection Regulation (GDPR). Both the new AI Act and Data Act in the EU, among other rules, and additional sector-specific regulatory requirements make the picture even more complex.

There's a broad range of potential risks that might keep a CLO or members of the legal team up at night. And that's before adding in the uncertainty brought on by changing tariff rates and market volatility brought on by unforeseen conflicts or climate impacts. The potential hazards to the business—the things you're trying to avoid—come in three categories:

- **Business discontinuity.** When a link in the supply chain fails, due to a regulatory failure or some other reason, the business may find that it can't deliver the product or service customers expect. No one wants to imagine another global pandemic, but for your business continuity's sake, you must. Because "*Let's see what happens*" isn't a strategy. If one of your suppliers has to be removed from your chain, do your contracts have outs to turn them off and quickly turn on another? What if the lumber you rely on today has to come from somewhere else tomorrow? How do you get your products to your customers if another Suez Canal blockage happens?
- **Penalties and litigation.** The fines associated with the enforcement of supply chain regulations can be material. The litigation or enforcement proceedings may be protracted and costly. Are your contracts robust enough to take the heat and protect your operations?
- **Reputational damage.** Supply chain regulation topics—from child labor to environmental protection to data privacy—can resonate with customers and other stakeholders. Carefully developed brand reputations can be damaged or lost all too easily. Have you worked with your legal team to write the clauses that will protect your business if you have to make a sudden supplier switch?



How to avoid ugly outcomes

Once you recognize what your organization wants to avoid, how do you respond? We propose three pillars to support a company's supply chain regulatory compliance, shifting it from a burden to a business advantage. With leadership's support, your legal and compliance teams can help to drive needed changes in each of these areas.



Operationalize supply chain due diligence

Move from advice to action. The key here is to get beyond checklist compliance to build robust, ongoing processes into your supply chain due diligence across the business. This may demand new technology—systems to improve contract lifecycle management, for example. What's in the contract may well decide your fate when an unexpected global event, compliance dispute, or supply chain scandal arises.

Ensuring that your operations reflect your policies will certainly involve training. Teams need to understand what they are expected to implement. Best-in-class procurement functions add more value when they know how to deliver compliant products and services. Standardized policies and processes help all employees grasp the stakes and see the goals, while also fostering consistency and adding scalability.



Map supply chain exposures

Compliance risks may be hidden in the supply chain. Scrutiny needs to extend not just to primary suppliers, but also to their suppliers and contractors. A European-based logistics company may have the highest environmental and labor standards for its own

operations, but does it know the policies and practices of its contractors in far corners of the world?

Supply chain risks cross borders and jurisdictions. Regulatory obligations need to be traced up the contract chain all the way to the item or service being procured. Your organization may be well-versed in regulatory obligations where you do business but vulnerable to surprises in other geographies touched by your supply chain. Geopolitical disruptions and natural disasters can affect infrastructure, shipping routes, logistics, and timely delivery of physical products. Your scenario-planning map can include regulations and potential controversies in the jurisdictions where your suppliers operate, and your legal team can help write contracts that support your quick response to these issues if they arise.



Monitor compliance as an ongoing obligation

The supply chain regulatory compliance system must be dynamic. Policies should be living documents that are updated regularly; processes should be reviewed and improved continuously. This is not a one-and-done organizational exercise.

Regulations change and evolve, suppliers do too, and your business grows. Suppliers may change their own sourcing for a commodity or product or service, bringing new issues or geographies onto your supply chain map. Compliance reviews cannot be seen as something that only happens when a new supplier is brought on board. Your systems and processes need to be adaptable and scalable.



What your company gains



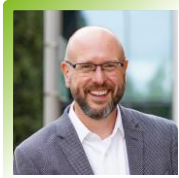
The value of avoiding penalties and reputational damage is likely obvious, but there are other benefits to consider—and these may help secure the budget and commitment for better supply chain compliance. By making the changes needed to improve supply chain regulatory management, and planning for a variety of scenarios where you may have to be flexible, your organization can create a more robust supply chain while gaining a competitive advantage.

A map of regulatory risks can show the path to improved procurement practices. Flexible, agile, and aware contracting can help your organization respond faster to unexpected new tariffs or altered shipping routes. When you anticipate changes, you can act ahead of competitors by stockpiling inventory and executing pre-arranged contracts, which is only possible with thorough scenario planning. When there is central coordination for global supplies for a particular category, the legal team has a sound framework for its involvement. Well-structured

contracts can enable your company to terminate, reroute, or adjust supplier relationships in response to a litany of global events and emerging regulations, avoiding penalties and negative impacts by enabling agile decision-making.

Engaging an experienced, international legal and business partner to help your CLO's team navigate scenario planning offers some significant advantages. A multidisciplinary partner can integrate legal, operational, and supply chain expertise to deliver faster and more comprehensive solutions, combining professionals from a variety of backgrounds to address a broader spectrum of business challenges. With a global network and advanced use of AI, a partner can enable rapid extraction and analysis of contract data, supporting immediate operational and legal responses to disruptions. An integrated approach can streamline processes to have purchase contracts ready in advance, eliminating delays from intra-firm coordination and helping your business progress from legal review to operational mitigation in a matter of days—not months.

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