

Evaluating Supply Chain EH&S Compliance and Risk Management

By Robert Christie

Operational risk and compliance management is increasingly focused on environmental issues across the supply chain. As companies strive to deliver sustainable ongoing improvements in compliance and risk management, they are closely scrutinizing the management of products in the enterprise, especially chemicals and other hazardous materials, with a special emphasis on fulfilling requirements in environmental health and safety (EH&S) regulatory compliance. Risk professionals in property/casualty insurance organizations should evaluate client practices for ensuring corporate compliance with local, state, federal, and international regulations governing the handling of chemicals and other hazardous materials.

In fact, EH&S compliance is fast becoming a major concern, spanning virtually every industry and affecting the entire supply chain, from raw material and finished goods manufacturing to transportation, distribution, and retail. All companies are becoming increasingly affected by and subject to more stringent EH&S regulations and burdened with the associated tasks of EH&S risk and compliance management.

These pressures are compounded by the fact that environmental compliance can be a complex and burdensome task to manage, with companies required to conform to a myriad of local, state, federal, and international regulations for total compliance. While disparate workflows and inconsistent sources of EH&S data in company operations can generate severe and systemic risks, recognizing and responding to this responsibility can help steer companies toward compliance, thus also mitigating corporate risk and protecting the corporate brand. Looking at the client corporation from a product supply chain perspective can help property/casualty risk evaluators determine what practices their client companies should have in place to promote across-the-board compliance.

Increased Focus on EH&S Compliance

While companies have always been aware of certain risks and regulations associated with various activities throughout the product supply chain, compartmentalized silos within the organization have typically handled the management of such issues. For exam-

ple, chemists involved in product development were not necessarily aware of the impact of transportation regulations on the chemical substances employed in new product development. But with the advent and adoption of enterprise resource planning (ERP) systems and the power of the Internet in facilitating efficient knowledge exchange, it is now possible to achieve cross-functional views on compliance and risk activities. Companies that take advantage of such tools gain a competitive advantage.

Notwithstanding the technological and process improvements, global regulations are also increasing in number, scope, and complexity. As a result, managing the information associated with EH&S compliance has become a time-consuming, resource-draining, and often expensive task. Environmental compliance requirements can be more daunting and onerous than, for example, the financial regulations of the Sarbanes-Oxley Act in their breadth and sheer complexity. Because of the intricacies of the requirements, and the financial and human cost of noncompliance, companies are increasingly shifting attention and resources to focus on EH&S compliance at a higher level.

The advent of the global economy also introduces a number of new variables into the compliance and risk equation, and companies are often not in direct control of those variables. The cost of noncompliance or excessive risk is no longer limited to fines and penalties, nor does it affect only certain employees. Increasingly, compliance and risk are closely associated with brand, image, and customer loyalty.

Breaking Down a Complex Undertaking

By conducting a thorough analysis of a company's EH&S program in the framework of a company's product life cycle and supply chain, risk professionals can develop a better understanding of a company's total product risk profile. We suggest first reviewing product compliance, safety, and stewardship functions, beginning with a thorough analysis of three distinct levers that govern EH&S regulatory compliance: regulatory content and information management, compliance tasks and activities, and technology applications and platforms.

An evaluation can start by observing how the company manages regulatory content and information across the product supply chain, both upstream and downstream. What are the activities, tasks, and controls a company has in place to manage compliance and risks associated with the products that are purchased, produced, stored, sold, distributed, transported, or disposed? The company should strategically implement the right mix of platforms, applications, and automation tools, optimized for

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Figure 1

Product life cycle and supply chain framework



A supply chain and product life cycle view of EH&S compliance can illuminate a company's total product risk profile.

both compliance-related tasks and for keeping management informed on how the company is tracking against its overall EH&S compliance plan.

Once the key levers have been evaluated with an eye toward compliance performance improvement and risk management, the company can continue to develop, implement, and optimize key strategies. Ideally, a company should review its business from a product life cycle vantage point — from research and development all the way through to disposal — to gain a better understanding of the critical activities associated with each stage of the product life cycle.

Key risk evaluators in property/casualty insurance organizations can facilitate enhanced product compliance by encouraging client executives and directors to research and apply best-in-class global regulatory content and information, technology platforms and

applications, and activities and tasks associated with delivering compliance. Companies should obtain current and accurate global regulatory data from reputable sources. For technology platforms and applications, a variety of solutions are available in the marketplace that can be readily adopted.

Ideally, one comprehensive, integrated, and qualified provider should supply the content and associated support services. Evaluate compliance tasks and activities closely to discern which activities are best managed in-house and which activities can be most effectively outsourced. A comprehensive view of compliance performance and risk management throughout the supply chain and product life cycle can help companies promote and sustain ongoing improvement. ▣

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