



Industrial footprint optimization: Compliance perspective (article 3/5)

TACKLING COMPLIANCE CHALLENGES PROACTIVELY IN INDUSTRIAL FOOTPRINT OPTIMIZATION



This is the third part of our series “A blueprint for footprint” on the key facets of industrial footprint optimization

When optimizing their industrial footprint, organizations allocate strategic processes to multiple, and sometimes very dispersed, locations and geographies around the globe. While this is mainly addressed from an efficiency, cost and business perspective, compliance considerations are also key.

Addressing compliance challenges proactively not only supports long-term success but also mitigates risks of unexpected issues that can arise from overlooking regulatory complexities. More recently, shifting trade policies, evolving tariffs, rising geopolitical tensions, and changing global regulatory priorities are adding another layer of uncertainty and complexity to existing challenges.

In this instalment, we outline three key challenges that compliance teams face while optimizing industrial footprint and offer recommendations on how to overcome them, building on the industrial perspective explored previously in this series. Further, we present a case study of a recent project illustrating the potential pitfalls of neglecting compliance considerations when implementing footprint optimization strategies.

KEY COMPLIANCE CHALLENGES IN INDUSTRIAL FOOTPRINT OPTIMIZATION



1. Navigating multicultural work and business environments

Companies are comprised of people. Companies do not take decisions per se, employees do - on behalf of the company - and these can positively or negatively impact the company.

The specific decision to perpetrate fraud, simply explained based on the Fraud Triangle Theory postulated by Dr. Donald Cressey¹, is influenced by the convergence of three factors: (financial) pressure, (perceived) opportunity -understood as lack of controls, the existence of weak controls or the possibility to override them- and rationalization, based on the belief that the fraudulent behavior is actually not wrong.

Besides these factors, decision-making is deeply shaped by culture. Actions considered appropriate in one culture may be deemed inappropriate in another, such as practices surrounding hospitality with business partners or conduct during tenders.

From a compliance perspective, operating across diverse geographies and multicultural environments requires a tailored approach to designing, communicating, implementing, training, and monitoring compliance policies and controls. Proactive compliance measures will be effective only when they successfully influence the decision-making process and the behavior of an individual into a compliant one.

¹The “fraud triangle theory” originated from Dr. Donald Cressey’s hypothesis: “Trusted persons become trust violators when they conceive of themselves as having a financial problem which is non-shareable, are aware this problem can be secretly resolved by violation of the position of financial trust, and are able to apply to their own conduct in that situation verbalizations which enable them to adjust their conceptions of themselves as trusted persons with their conceptions of themselves as users of the entrusted funds or property”. Donald R. Cressey, *Other People’s Money*. Montclair: Patterson Smith, 1973, p. 30.

Doing business with third parties across different geographies poses several challenges to the vendor.

2. Centralized vs. decentralized compliance management systems

A dispersed footprint entails having employees, clients and vendor partnerships spread across various locations and countries, likely even at considerable distance from company headquarters. This geographic separation can create a perception of reduced oversight, increasing the opportunity for wrongdoing/misconduct and the risk of regulatory violations.

The key challenge lies in deciding whether to implement a centralized or decentralized compliance management system:

- If centralized, the challenge is to integrate compliance policies and controls into different regulatory frameworks, with rules and procedures potentially varying significantly from region to region.
- If de-centralized, the challenge is to ensure oversight of compliance policies and their effectiveness at the board level across all locations.

This decision must also be taken in cases where the footprint is expanded inorganically through acquisitions, as newly acquired entities may have their own compliance systems and practices that need to be aligned with the parent company's standards.

3. Managing dispersed and shifting vendors in supply chains

Environmental and social concerns, rapid regulatory changes and trade sanctions now demand that compliance is not only ensured across the company but also extended to third parties. In some jurisdictions, compliance responsibilities now extend beyond the organization itself to include third-party vendors, as companies can be held accountable for the actions of their partners.

Doing business with third parties across different geographies poses several challenges to the vendor due diligence and monitoring processes. Effective third-party risk management requires:

- Comprehensive due diligence processes, including watchlist screenings, verification of provided information, and on-site audits for high-risk vendors.

- Balancing the need for thorough compliance checks with the demand for agility in onboarding vendors, especially as companies adapt to shifting trade policies and tariffs. With the recent shift in trade policies, many companies have adopted methods to quickly shift vendor relationships to avoid costly tariffs, which puts extra strain on ensuring compliance in the supply chain.

The dynamic nature of the supply chain also entails more variation in payment terms, frequency and conditions, which pose additional challenges to companies in terms of controls and monitoring.

Compliance management systems, should be designed to address risks proportionately, with stronger controls applied to higher-risk areas.



KEY COMPLIANCE CONSIDERATIONS IN FOOTPRINT OPTIMIZATION

Establishing ONE compliance culture

It is essential to set the tone and conduct of the compliance management system right at the top, as this serves as the ultimate basis for implementing a sustainable compliance culture.

The company's leadership must set the tone regarding expected behavior and demonstrate adherence with traceable action and founded business decisions. Only by setting the example at the top will it be possible for all levels of the organization to learn to adopt, which ultimately leaves little space for rationalization of potential wrongdoing.

Another key responsibility of senior management and the board is to ensure that the compliance function is adequately structured (in terms of seniority, stature, experience and qualifications) and has sufficient funding and resources to function effectively and create and maintain ONE compliance culture across the company, independent of business unit, seniority level or geographical location.

Our key recommendations are:

- Regularly assess, nurture and measure the compliance culture within the organization.
- Promote a “speak up” environment by frequently reinforcing the behavioral guidelines (code of conduct) as well as the whistleblowing systems, demonstrating real willingness to listen and commitment to take allegations seriously. For this, robust response, escalation and investigation protocols must be in place.
- Design and implement a risk-based training program and communication activities. For example, anti-corruption training for employees that interact with government officials should differ from that of the finance team. Likewise, compliance training for the procurement personnel should be designed with clear examples of the real compliance risks they face.

Adopting a risk-based approach and proportionate measures

Risks that could harm a company vary greatly depending on many factors, including the type of business and location of operations. A thorough understanding of the company's risk profile is essential to prioritize efforts and allocate resources effectively.

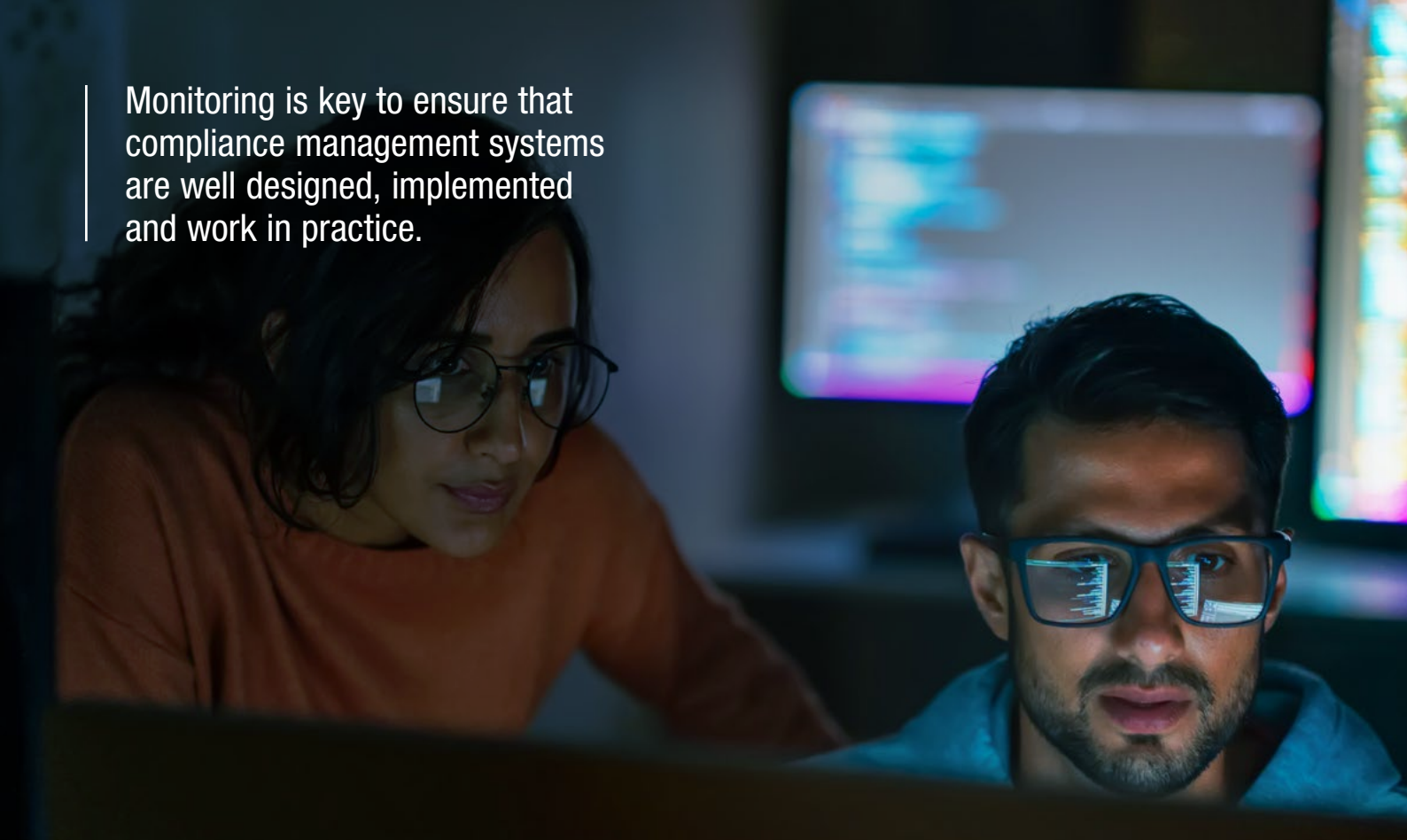
Compliance management systems, whether centralized or decentralized, should be designed to address risks proportionately, with stronger controls applied to higher-risk areas. This ensures that preventive and detective measures are aligned with the company's risk appetite, risk exposure and operational complexity (“*the higher the risk, the stronger the controls*”).

Our key recommendations are:

- Establish clear governance for the risk management system, including risk assessment methodologies aligned with the organization's risk appetite.
- Conduct comprehensive compliance risk assessments, evaluating both inherent and residual risks. Implement a mix of preventive and detective controls tailored to the identified risks.
- Regularly monitor risks and test the design and effectiveness of controls to ensure they remain relevant and functional.



Monitoring is key to ensure that compliance management systems are well designed, implemented and work in practice.



Leveraging technology to manage third-party risk

Managing third-party risk is a continuous process that begins with due diligence and extends to ongoing monitoring of business relationships and transactions. Given the vast amount of data generated by third parties, technology is a critical tool for identifying, assessing, and mitigating risks effectively.

Our key recommendations are:

- Leverage technology to effectively manage third party risk and determine the appropriate level of due diligence for each partner. For example, the first measure could be screening of the vendor database against sanctions and enforcement lists. Then, defining the scope of further due diligence measures based on a pre-defined risk-scoring system (e.g. in terms of industry type, product, location, etc.).
- Deploy advanced analytics and leverage generative AI to further identify high-risk transactions or vendors. Visualization tools can help create supply chain heat maps and implement targeted controls tied to transactional data.
- Ensure data quality and integrity, as reliable data is essential for effective due diligence and monitoring processes.

Continuous monitoring and improvement

Effective compliance management systems must evolve and provide measurable evidence of their success. Without clear metrics, it is difficult to assess whether systems are functioning as intended or to identify areas of improvement. Monitoring is key to ensure that compliance management systems are well designed, implemented and work in practice.

Our key recommendations are:

- Identify red flags associated with high compliance risks and implement targeted controls and monitoring activities to address them.
- Define Key Performance Indicators (KPIs) for each component of the compliance management system. Establish baselines, set objectives, and track progress, focusing on effectiveness rather than merely ticking the box.
- When deficiencies are detected, conduct root-cause analyses, design tailored remediation measures, and report findings to relevant stakeholders to ensure accountability and continuous improvement.



CASE STUDY:

COMPLIANCE RISKS TO CONSIDER IN BUSINESS TRANSFORMATION

A large European industrial firm, with over 2,000 employees located across multiple locations in Europe, conducted a cost-efficiency and footprint optimization program, which entailed the transfer of key production plants to multiple geographies outside of Europe.

After the reorganization, an internal whistleblower raised concerns regarding potential wrongdoing by local management and conflicts of interest with specific vendors in one of the newly established jurisdictions. A&M was engaged and conducted a multidisciplinary forensic investigation to assess the validity of the allegations made by the whistleblower. The investigation uncovered compliance issues including fraud schemes (e.g., asset misappropriation, private corruption) as well as more general governance and internal control deficiencies. Key findings included:

- The corporate compliance management system was not implemented and no adequate compliance policies were in place.
- A compliance risk assessment had never been carried out and ad-hoc preventive and detective controls were not in place.
- There was neither a formal Vendor Due Diligence process, nor procedures to identify and manage conflict of interests.

Following A&M's forensic report, the client dismissed the local management team, cancelled contracts with rogue vendors and initiated labor, civil and criminal proceedings. A&M supported compliance remediation efforts and provided interim management support to ensure business continuity.



HOW A&M CAN HELP

At A&M, we leverage our extensive experience as consultants and investigators to offer end-to-end compliance program support to help our clients establish tailored, risk-based compliance programs and improve existing compliance programs. We strive to make meaningful enhancements while documenting progress, should our client need to present its compliance program to regulators.

Our areas of specialization include:

- Compliance program maturity assessments
- Compliance certification preparation
- Compliance technology assessments
- Proactive compliance audits of our clients and of third parties
- Risk assessments
- Pre- and post-acquisition due diligence
- Self-reporting and monitorships
- Third-party due diligence
- Investigations and remediation

When evaluating or implementing footprint optimization measures, it is essential to raise the costs for misconduct, by raising the likelihood of detection and the probability of punishment. Companies can achieve this by fostering a strong compliance culture with clear behavior guidelines, visible controls, confidence that employees can speak up without fearing retaliation, and management readiness to act on suspected or detected misconduct, regardless of location.

An appropriate tone at the top and strong compliance culture, combined with a risk-based approach and consistent controls, form the foundation of a robust compliance management system. In compliance, prevention is better than cure.

In the next part of our series, we will explore the key tax considerations of footprint optimization. To read the previous instalments of this series, [click here](#)

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