

# Compliance — Necessary Aspects for the Site Selection Process for an Industrial Company

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**Abstract**—Industry is more and more facing global competition and local volatility. To stay on the success path globally for long term international enterprises have to be present in all relevant markets and in all regions. Therefore a key success factor lies in the optimization of the global production foot print. Selection of new sites and evaluation of existing locations have become major relevant strategic decisions for a global company. The complexity of site related conditions necessitates a holistic set of selection criteria to reduce the risk of baseless, irreproducible or suboptimal decisions. The review of the current scientific literature shows, that the used sets of site selection criteria do not reflect in appropriate way the within industry very important new criteria “Compliance” in the meaning of “behavior concerning law and internal guidelines”. In this article it will be described shortly which doctrines are leading today in science, why compliance conformance has high importance for global enterprises in practical business live and why scientific as well as operational sets of selection criteria for global enterprises will have to be completed with aspects of compliance.

**Index Terms**—Compliance, criteria, industry, localization theory, site selection.

## I. INTRODUCTION

The global economy is currently facing substantial challenges. Global GDP growth is below long term trend and there is a noticeable slowdown of industrial production in most European countries. Asia and newly America have already become the engine of global growth and experts are forecasting that the worldwide future growth will mainly take place in Asia [1], [2]. An optimized Global Foot Print of production sites, covering existing and growing markets, is one of the major success factors for global enterprises to make the changes in global economic growth beneficial for their own profitable growth. The selection of new sites as well as regular checking of existing sites with a standardized set of criteria in front of the company strategy leads to this optimized Global Foot Print. But today used sets of selection criteria in scholarship do not include the within industry very important new criteria “Compliance” in the meaning of behavior concerning law and internal guidelines.

Own experiences as a Manager in M&A-/ Corporate Development of a globally leading automotive supplier, discussions and Interviews with experts from other global enterprises as well as scientific research led to the necessity to point out the growing importance of

compliance conformance and that scientific as well as operational sets of selection criteria for site selection will have to be completed with aspects of compliance.

## II. RESULTS

### A. Industrial Localization Theory and Today's Doctrines

In scientific literature there are already existing several industrial location theories and doctrines including the in each case connected classification and sets of criteria for site selection.

Classical- and Neo-Classical theory is strongly focusing on cost for transport and labor as well as advantages of agglomeration in sense of local nearness but not on behavioristic, mental and cultural aspects. On the other hand Behavioristic Theories consider behavioristic, mental and cultural aspects but not the monetary and cost effects. The New Economical Geography again concentrates on reduction of transport costs with the effects on local distribution pattern of economically activities but is configured for economic-political appliance and not for the use within industrial enterprises [3]-[19]. Only the new publications from for example Grabow and Thiessen, subdivide location criteria into Hard and Soft facts in meaning of criteria which can be easily measured, quantified in money and are having direct influence on cost and qualitative criteria which are having indirect effects on the company and their employees' [19]. But those authors do not reflect in appropriate way the today very important new criteria within industry “Compliance conformance” in the meaning of “behavior concerning law and internal guidelines”.

This leads to the need to develop a holistic system of criteria for site selection and evaluation, including Hard and Soft facts. Creating this holistic system including as well as integrating the main aspects of the different doctrines and enriching them with new criteria out of practical life will not only allow a scientific value added. It shall enable global enterprises to do a well-founded and practice oriented comparison between different locations and sites and reduce the risk of baseless, irreproducible or suboptimal decisions regarding sites.

The special focus of this article will be the answer, why Compliance conformance has to be added and followed within site selection processes.

### B. The Importance of Compliance Management in Business Life

“Generally Compliance can be seen as combination of organization, processes and systems, which are securing the accordance to applicable law and internal rules as well as

Manuscript received January 19, 2015; revised May 11, 2015.

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the anticipations of the stakeholders to protect and optimize companies business model, reputation and financial conditions.”[20].

Compliance and Compliance management with regard to business came up end of the 1980<sup>th</sup> within the financial sector in the USA. Companies obligated themselves to implement a system to ensure that all employees are complying legal regulations, especially concerning corruption, money laundering and insider trading. And there is a reason for this self-obligation for a compliance system. In case of breach of legal rules, companies and especially their individually liable members of board are judged in the USA with much lower monetary penalties when they are able to prove that they have made the important regulations accessible to all employees and that they are monitoring the adherence of those regulations. Compliance became an important aspect to reduce risk of liability, especially for the Top-Management.

By reason of business globalization and business relation with the USA, Compliance quickly was transferred to international corporate groups in other countries and business sectors with liability risks.

In the meantime Compliance has developed to much more than the adherence of legal regulations. In the meantime Compliance management includes the publication and monitoring of additional internal regulations, company specific Codes of Conduct and common sectorial ethic rules. Companies are following these additional aspects beside legal regulations to create confidence, to demonstrate a good image of integrity to customers, suppliers, employees and other stakeholders in a public way and to visualize and optimize internal processes. Further on companies intend to make conflicts of interest transparent between their organization and other groups and that they are dealing with them, for example environmental protection.

Today's importance of Compliance and Compliance Conformance can be seen with the fact, that many international enterprises have implemented special organization structures for compliance on Top Management or even Board level, led by a Chief Compliance Officers. More and more the monitoring of the adherence of compliance regulations and -systems is done by external audit companies in addition to the internal follow up. Also in scholarship compliance is receiving rising attention. For example the Frankfurt School of Finance and Management is offering several degree programs for Compliance.

But the strongest reason for this Top management focus and high organizational implementation of compliance remains the self-interest of the members of board and their governing body, because following Compliance means a strong reduction of liability and management risks for those individually liable organs [21].

As already mentioned, Compliance has to secure the adherence of regulations. The specific embodiment is depending on the company's business sector, sales markets, size, strategy, product portfolio, organization, IT structure and the relevant legal, social and internal regulations:

- Legal regulations
- Companies Culture
- internal rules of procedure / companies charter
- other internal behavioral rules / code of conduct

- social values and standards
- guidelines [22]

As a result, Compliance Management cannot be seen as fixed set of criteria to be secured. It always has to be tailor made for the individual company.

Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft has made an independent Compliance Study in 2011 with 173 companies participating and has formed general risk clusters which have to be enriched with the company specific internal rules and aspects. Those Compliance Management clusters are:

1) *Strategy / management*

- Behavior against Strategic Targets
- Behavior against Company's Culture
- Behavior against Company's mission statement
- Damage to Company's image
- Activities not concerning strategic and business planning
- Behavior against Portfolio and Footprint strategy

2) *Operational*

- Acceptance of undue benefit / Corruption “taking money, presents, travels, Consultant Contracts, unjustifiable provisions”
- Giving of undue advantage / Corruption “giving money, presents, travels, Consultant Contracts, unjustifiable provisions”
- Behavior against antitrust law
- Miss Use of Sponsoring
- Unjustifiable Price reductions
- Unjustifiable Provisions
- Favoritism of suppliers “Kick back”
- Manipulation of request for quotation
- Burglary / shrinkage
- As-if-Stocks
- IT-Data burglary; spying
- IT-Missuses of access rights
- Manipulation of HR master data
- Manipulation of travel and entertainment expenses

3) *Finance / accounting / controlling / tax*

- Misappropriation of funds
- Black funds
- Insurance Manipulation “Kick back”
- Falsification of a balance sheet
- Manipulation of inventory valuation
- Manipulation of reporting
- Manipulation of reversing entries or credit vouchers
- Fictive turnover
- Manipulation of financial master data
- Manipulation of key figures
- False environmental reporting
- Manipulation of annual tax declaration
- Manipulation of Corrections & additional declarations

4) *Legal / code of behavior*

- Miss Use or braking of contracts
- Dealing against Data Protection Act
- Dealing against Data protection law
- Dealing against labor protection law
- Dealing against child labor law
- Dealing against antitrust law
- Dealing against environment protection law
- Dealing against Ethic

- Acceptance or giving of undue benefits / Corruption
- Acceptance of presents
- Undue benefits by Events and hospitality
- Undue Business Travels
- Undue Sponsoring and donations

The risks and consequences which are going along with a non-compliance conform behavior are increasing steadily from cluster I. to IV. The risk in cluster I. "Strategy / Management" is, that one or more strategic targets of a company cannot be reached whereas infringements in cluster IV. "Legal / Code of behavior" would cause investigations, mostly high penalties and / or damages for image and reputation [24].

### III. DISCUSSION

As described in this article, Compliance has already reached Top-management attention and high organizational implementation. Reasons are reduction of liability and management risks, creation of confidence, good image as well as transparent and optimized processes. This leads to the conclusion that Compliance aspects are also having considerable influence within a strategic site selection of international group companies. Those compliance aspects should be implemented into the set of criteria for site selection in practical business life as well as in scholarship.

**Example 1:** A potential site is in a country with a high rate of corruption. Within this country it would hardly be possible to receive a planning permission for a production area or an order from a customer without these illegality payments. It is not really imaginable, that an individually liable member of board will face this legal risk in connection with this site, having in mind that his corporate group is having a compliance organization caring for clear regulations and transparency regarding those items internationally.

**Example 2:** There are two comparable alternatives for a new business site to open up new markets. One is a country with only Islam law. Within the Islamic law "Sharia" contract fulfillment is no ethic value. A contract is allowed to be broken at any time, if this means an advantage for Muslim contract partner. The other country has a democracy and a west orientated legislation. In case all the other conditions are comparable, the management of the group will surely select the country, where Contract fulfillment is the normal case and can be followed judicially, if needed.

With these examples it can easily be seen, that Compliance aspects are having serious influence on the decisions regarding sites, also those aspects are no hard facts, which could be quantified in money with direct influence on cost.

A Compliance organization will have to secure all of the above mentioned targets in their company's individual adaption, but not all of them will have impact on a site selection process.

Deduced from the compliance clusters above and the quality of risk, the following compliance aspects concerning site, country or regional selection were selected.

Additional, compliance relevant criteria to be added:

**Legislation** "fit to company's compliance standard":

- Contract fulfillment "can be followed judicially"
- Data protection "can be followed judicially"
- National / regional Labor protection "especially competitors and supplier base"
- National / regional handling with antitrust law "especially competitors and supplier base"
- National / regional handling with child labor law "especially competitors and supplier base"
- Dealing within environment protection law "especially competitors and supplier base"

**National / regional habit** "fit to company's compliance standard & Code of behavior":

- National / regional Ethic rules
- National / regional expectance with undue benefits / Corruption rate
- National / regional handling and expectance of Presents
- National / regional handling and expectance of Events and hospitality
- National / regional handling and expectance of Business Travels
- National / regional handling and expectance with Sponsoring and donations

### IV. SUMMARY

In scientific literature there are already existing several industrial location theories and doctrines including the in each case connected classification and sets of criteria for site selection. The new publications subdivide location criteria into Hard and Soft facts in meaning of criteria which can be quantified in money and are having direct influence on cost and qualitative criteria which are having indirect effects on the company and their employees. But in no publication the today very important criteria within industry "Compliance" is reflected. By conviction of the author, these aspects regarding compliance, deducted within this article are important for the site selection process of industrial companies. They should be considered for site selection process and added within scientific literature as well as for business applications.

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