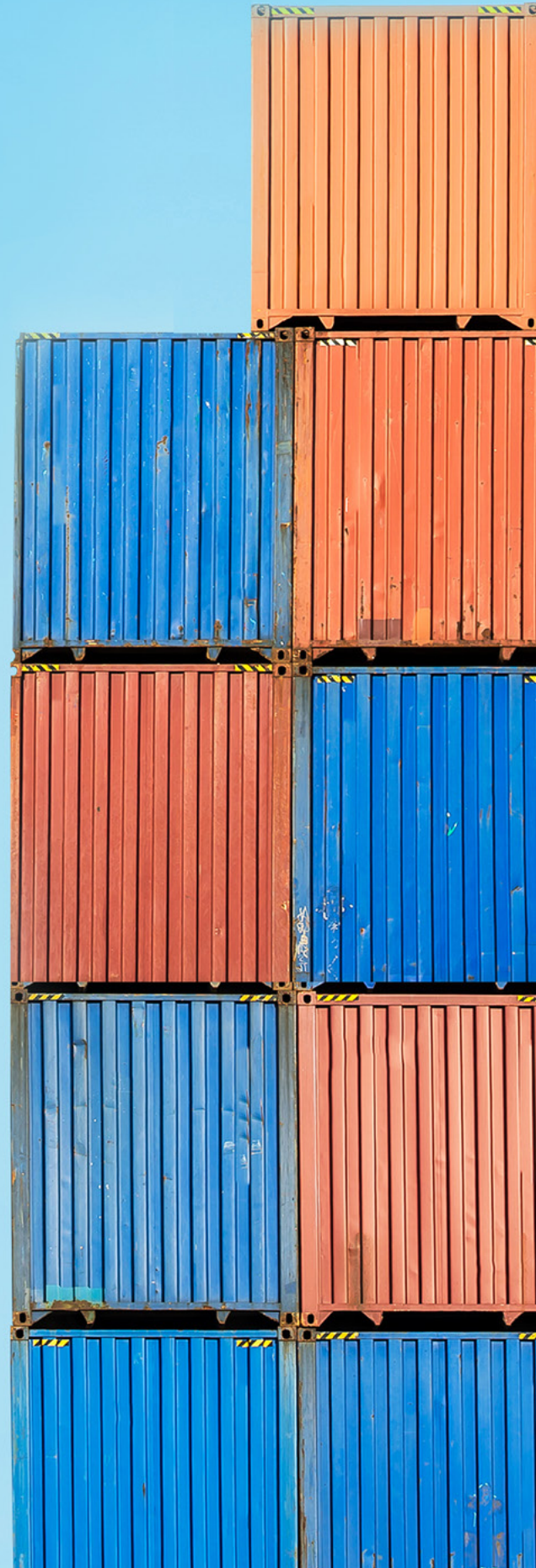**KPMG**

Be an aerospace and defense leader in global export compliance

Essential elements of success

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Why lead?

Export control laws and sanctions programs in the United States and elsewhere are an ever-evolving field, and aerospace and defense (A&D) companies around the world that develop sustainable and strategic export compliance programs will be better positioned and nimble enough to benefit from this continually changing regulatory landscape. The U.S. government, for its part, has signaled an increase in transfers of defense systems to partner countries, and it is more important now than ever for companies to be prepared for work on a global scale.

Establishing and maintaining such a program, however, is not easy and impacts many stakeholders throughout the enterprise. Based on our experience working with clients in the A&D industry, KPMG offers our insights to help companies establish a *leading* export compliance program.
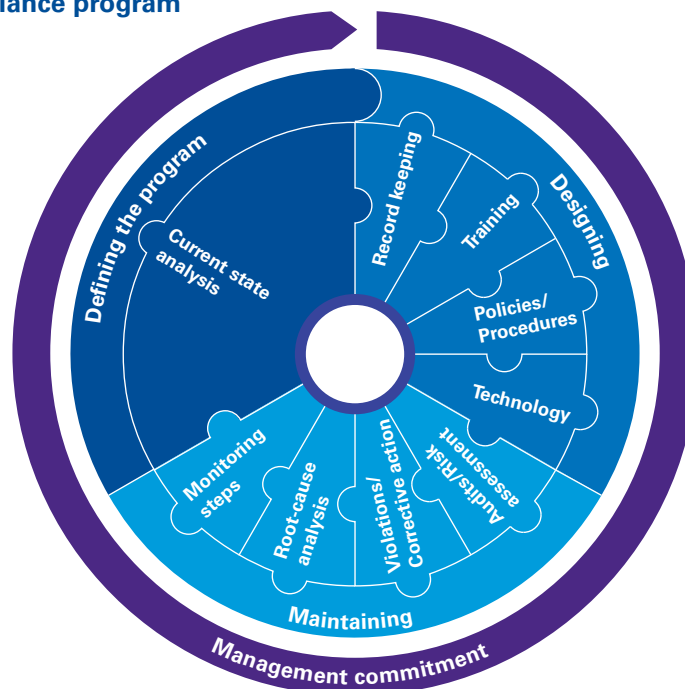
A successful A&D export control program is one that is proactively tied to an organization's vision, business, and planning. It should not merely exist in reaction mode to extinguish fires. Leaders in the field bring export compliance officers into strategic discussions about new business opportunities. Two examples of when an export compliance officer should have a "seat at the table" are:

1. When the organization is vetting possible corporate acquisition targets and there is a need for trade due diligence to identify potential successor liability issues

2. When the enterprise plans to increase revenue through expansion into new markets and there is a need for export authorization planning, sanctions reviews, and technology control plans.

On a day-to-day basis, export compliance officers should be advised when the sales or logistics department, for example, explores the addition of new business partners, as there is a need for restricted-party screening and end-use/end-user reviews before doing business. As these examples demonstrate, best-in-class export compliance support adds value to the business with respect to both the strategic direction and daily activities.

A sustainable and resilient export control program consists of three phases that are best illustrated as segments of a wheel, because progress on improving processes and controls is a continuous cycle (see illustration).
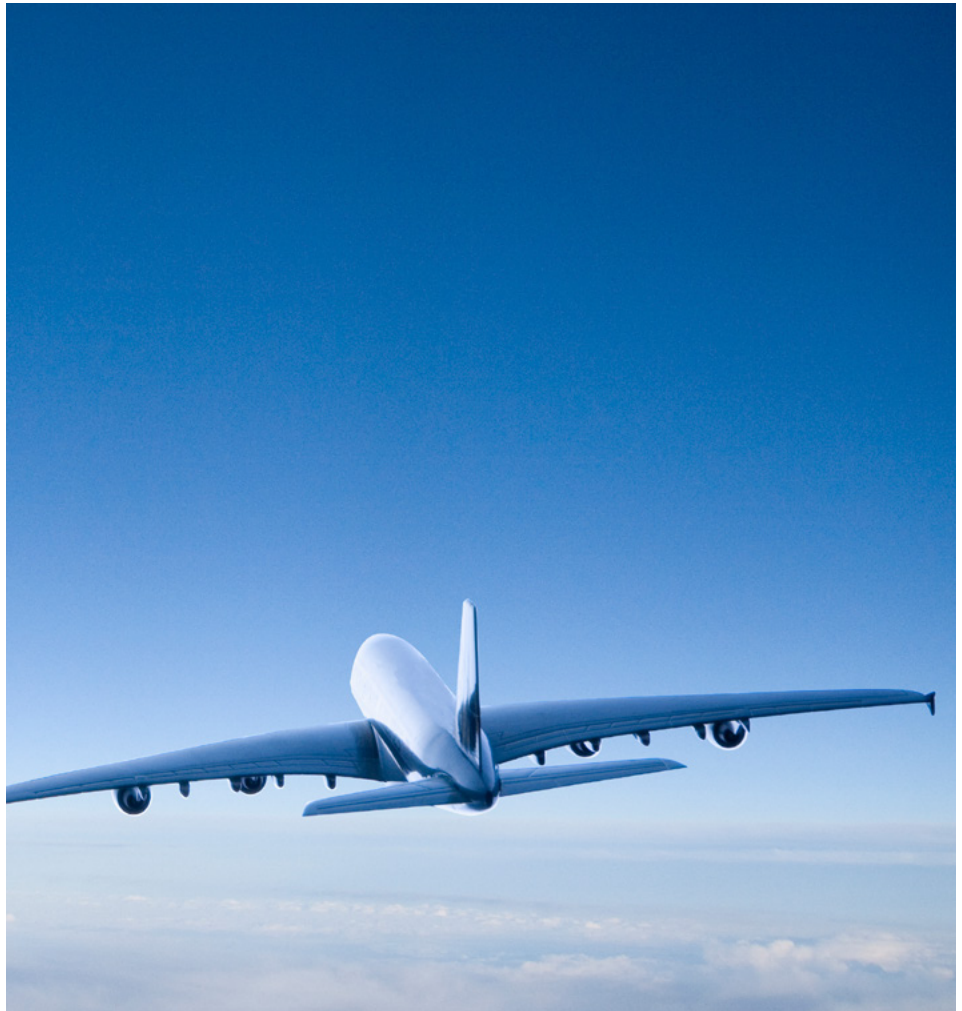
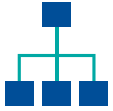## Progressing an export compliance program

These phases are:

1 **Defining the program –** Determining the current state of the program and the direction it should go

2 **Designing the program –** Shaping the overall organization and policies, procedures, and technology to support best-in-class export compliance goals

3 **Maintaining the program –** Monitoring processes and analyzing when things go wrong and taking corrective action; conducting regular audits and risk assessments

The first phase of the export compliance program focuses on determining what export compliance work is done, where and how it is performed, and by whom. This is a necessary step to perform first in order to subsequently define future requirements of the program.

To gain a sense of what is working and what is not, there needs to be a solid understanding of the current scope of A&D export compliance and the accuracy of the work performed. There might be some best practices that can be leveraged across the organization, as well as gaps and resource constraints that will need to be addressed. Depending on the company's scope of export activity, examples of areas to evaluate when defining the current program include: how the company currently executes compliance processes relating to assignment of classification numbers, export authorization management, screening of restricted parties, technology transfers, deemed exports, brokering of defense items or services, and congressional reporting.
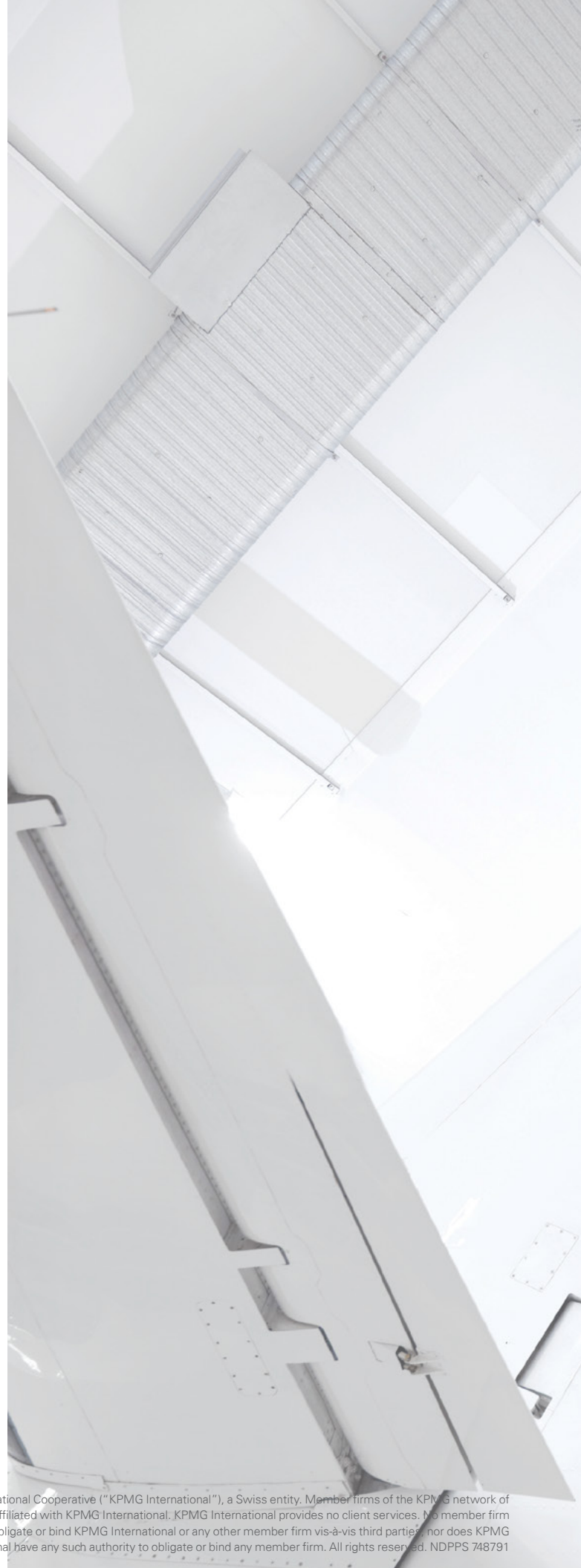
Designing the right structure

Once the current program is defined, the next steps include process decomposition, in which different parts of the export program are taken apart in order to identify the requirements of each of the activities in the program and to understand how the company may leverage these within the broader corporate strategy. Will somebody be necessary at a location to execute a particular step or can the task be performed centrally? Routine, repetitive tasks that do not require a physical presence may be conducted from a shared service center or a center of excellence. It often makes sense, also, to leverage other parts of the A&D business that are performing similar activities. Not every task has to be done by the export compliance function.

The next step is to identify opportunities to streamline processes and begin to determine where to centralize, where to regionalize, which functions to outsource, or which functions to automate. Once this is achieved, designers of the program can begin to develop an organizational chart that shows key roles and responsibilities, and defines the level and type of services provided by the export compliance function. As the organizational structure takes shape, the staffing needs will become clearer.

The right tools for the job

An A&D export control program is designed around its policies and procedures. The way in which organizations adhere to the policies and procedures depends on a number of elements, including risk, training, approval levels, and workflows. A key element is technology; when deployed intelligently, technological tools can provide strong controls while relying less on human intervention and the possibility of errors. Consider which tasks may either be conducted more efficiently through the use of trade technology, e.g., a global trade management system (GTMS) or may even be performed by a "bot"! More than ever, KPMG is assisting companies with supporting processes through GTMS integration and/or implementation of digital labor.

We have found that over time, the automation of routine and repetitive tasks supports efficient, lean processes and reduces overhead costs while enhancing compliance. For example, technology can be applied whenever a policy or procedure is defined as an unambiguous rule, such as "the shipment of product A to country B requires license C".

There is a wide range of software programs that may contain some element of automation of export controls, such as a GTMS, which is where most of the rules will be integrated, and an enterprise resource planning system, where most of the business processes occur.

Not every control of A&D exports can or should be automated. The technology may not be available in the market, or it may lead to more errors than if the action is performed manually, or the particular export process is too infrequent to merit a technology investment. At the same time, though, organizations need to remember that manual processes are not only prone to error, but also produce data that cannot be captured easily in an electronic format. If all the relevant data is not captured, organizations lose the ability to run exception controls and automated audits. Continuous monitoring using technological tools will yield a rich trove of information that can enable the organization to improve its processes.

Deployment and maintenance

As we have seen, defining and designing a leading export compliance program requires careful analysis of complex policies and procedures, automating where necessary to enable people to make the more difficult judgment calls that are beyond the grasp of technological tools. But even the most perfectly designed program of A&D export controls will not be sustainable without careful deployment and continual maintenance.

We recommend the creation of a network of deployment teams. These are cross-functional groups of people that can take centrally developed policies and work with each department to implement new processes in an optimal way, adapting the training in export compliance to the particular needs of each function. Without cross-functional deployment, those functions whose activities affect compliance are left without an understanding of their pieces of the export compliance puzzle and the responsibilities associated with those pieces.

Then, once fully deployed, the business of maintaining the program begins. This involves continuous monitoring, sometimes with the help of software tools, to ensure the procedures are being followed correctly and to identify very quickly weaknesses or instances of noncompliance. In this way, corrective action can be taken rapidly and, where necessary, changes made in the procedures to avoid repetition while holding individuals accountable.

Management commitment

Implementing these three phases of the cycle—definition, design, maintenance—is likely to set A&D organizations on the right course toward best-in-class export compliance. But there is one more element that is essential if the export control program is to succeed, and that is a commitment from the top of the organization to the goals of export compliance. In the illustration on page two, management commitment is the outer circle that surrounds the three phases of the program, because it should be present at all stages of the cycle.

This commitment is not just a statement from the organization's leaders describing the importance of export compliance, but it also forms an integral part of its key strategic initiatives. A commitment to top-quality customer service, for example, may include export compliance as part of the mission.

This commitment can then be flowed down to the organization through goal-setting and milestones, and then reported back up through the organization to leadership.

By setting the right tone at the top, export compliance becomes part of the organization's culture. When every member of the organization is aware of the need for export compliance and acts on it, the company can claim its place as a leader in the field.

Ahead of the curve

As the U.S. government pushes for increased exports to partner nations, companies' export compliance programs must be up to the task of supporting the changing business pipeline. In addition to this recent push for increased global sales and shortening the time frame of executing agreements between the United States and partner countries, the U.S. export control laws such as the ITAR and EAR will continue to be a regulatory system requiring monitoring for changes. Companies in both the United States and abroad with robust export compliance programs will be well positioned to seize these new international opportunities.

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