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# **Trade compliance management**

Exploring the role of in-house trade compliance

International Business

Master's thesis

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Master's thesis

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The study aims to explore the role of in-house trade compliance and how it operates in multinational companies. As such, the study's main research question is “What is the role of in-house trade compliance in multinational companies?”.

Trade compliance oversees that business activities comply with regulatory requirements. In addition, trade compliance activities include optimization of supply chains. The in-house teams are involved in activities such as tariff classification, incoterms consultation, preferential treatment activities, license management, export controls, customs management, screening, and valuation. However, academic research on this topic remains relatively limited despite the acknowledged importance of trade compliance to efficient trading operations and global supply chains. Therefore, this study aims to address this research gap and provide insights into the role of in-house trade compliance.

Based on the study results, in-house trade compliance is both operational and advisory, and companies often emphasize the role of automation and outsourcing in their trade compliance functions. Automation ensures that human error is limited and errors are noticed proactively. Outsourcing releases resources for more consulting work. However, compliance responsibility remains with the company, and the management level should be in-house. As such, it is common for in-house teams to perform audits and spot checks on reported documentation. A common approach to in-house trade compliance is to have a global team overseeing global guidelines and area-specific teams or managers to support and implement compliance in other departments. However, the approach to in-house trade compliance may vary across different companies and industries, and each company may have its unique perspective on trade compliance. Therefore, it is important for companies to carefully consider their specific trade compliance requirements and tailor their approach accordingly.

**Key words:** Trade compliance, customs compliance, compliance management, customs management, customs, compliance automation, supply chain risk management, supply chain optimization, compliance outsourcing

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Tutkielman tarkoituksena on selvittää vaatimuksenmukaisuus -toiminnon roolia monikansallisissa yrityksissä.

Monikansallisten yritysten vaatimuksenmukaisuus -toiminto varmistaa, että yritysten liiketoiminta noudattaa kaupankäynnin sääntöjä ja rajoitteita. Tämä sisältää erilaisia tehtäviä, kuten tulliluokittelua, lisenssien hallintaa, etuuskohtelutehtäviä, toimituslausekkeiden määrittelyä, vienti- ja tuontivalvontaa, tullijohtamista, sidosryhmien riskiarviointia ja tullausarvon määrittelyä. Asiaa koskevaa kirjallisuutta on kuitenkin hyvin rajallinen määrä. Tämä tutkimus tarkastelee trade compliance -toimintaa ja keskittyy sen yhteisiin tekijöihin yritysten välillä.

Tutkimuksen tulosten perusteella yritysten sisäinen vaatimuksenmukaisuus -toiminto on sekä operatiivinen että konsultoiva yritysfunktio. Yritykset korostavat automaation ja ulkoistamisen merkittävyyttä vaatimuksenmukaisuus -toiminnon kannalta. Automaatio ennaltaehkäisee ja vähentää inhimillisiä virheitä datansiirroissa. Ulkoistaminen vapauttaa resursseja kohti konsultoivia tehtäviä. Haastatteluissa kuitenkin painoitettiin yritysten vastuuvollisuutta, koska sitä ei pysty kokonaan ulkoistamaan kolmansille osapuolille. Vaatimustenmukaisuus -toiminnon erinäiset tehtävät pitää säilyttää yritysten sisällä vähintään hallinnollisella tasolla. Erinäisiä tehtäviä yritykset voivat hallita esimerkiksi auditeilla ja pistokokeilla.

Monikansallisissa yrityksissä tyypillinen lähestymistapa vaatimustenmukaisuus -toimintoon on perustaa monikansallinen tiimi, joka määrittelee vaatimustenmukaisuus-toiminnon yleisen linjan ja ylläpitää yleisiä linjoja valvovia aluekohtaisia tiimejä tai asiantuntijoita. Kuitenkin jokaisella yrityksellä on omat lähestymistavat tähän toimintoon, joten jokaisen yrityksen organisaatorakenne on erilainen. Näin ollen on tärkeää, että yritykset osaavat huomioida omat tarpeensa ja räätälöidä vaatimustenmukaisuus -toiminnot tarpeidensa ja riskiensä mukaan.

**Avainsanat:** Vaatimustenmukaisuus -toiminto, tullijohtaminen, tullitoiminnot, toimitusketjujen riskienhallinta, tullitoimintojen automaatio, kansainvälisen kaupan säännökset, tullitoimintojen ulkoistaminen.

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# 1 Introduction

## 1.1 Background for the topic

Freedom of trade has been one of the main fundamentals of Western society, with its legal system guaranteeing that companies have the freedom to make personal business decisions without fear of government interference. However, trade is regulated in certain aspects as governments are entitled to protect their general interests. The heightened number of armed conflicts, organized crime, and trade wars has increased the control by governments towards trade and trade-related agreements. Due to this, companies engaged in cross-border trade work with complex regulatory requirements and standards that vary from one country to another. (Hauser 2021, 473.) In addition, global supply chains must navigate between several customs borders as goods are refined from raw materials to end products with them being moved between countries during this process. Moving such products and resources between customs borders requires compliance with global and domestic rules. (Blanchard, Bown & Johnson, 2016.) As such, compliance with the rules of trade is an essential element of global trade and supply chains. It ensures that companies operate within international trade's legal and regulatory frameworks. Without trade compliance operations, companies risk being non-compliant. Non-compliance will lead to problems with regulatory and enforcing authorities. Governments enforce trade compliance as it ensures that companies engaged in cross-border trade comply with trade laws and regulations. Enforcing trade rules helps to prevent the introduction of illegal, unsafe or inferior products to markets, which can have severe consequences for public health and safety. In addition, it helps to level the playing field for companies, ensuring that all companies operate with the same standards and that no one company has an unfair advantage. (Hauser 2021, 473-475.) Having regulatory control of trade ensures the security of supply for the critical sectors. Such sectors are e.g. energy, healthcare, and defence. By having strict control, they create resilient supply chains which ensure that risks of disruption are reduced in case of conflicts or natural disasters. (OECD 2021.)

Compliance requires an understanding of each market area in which companies are engaged with trade. For this, companies need to thoroughly understand customs processes, including import and entry processing, tariff classification, valuation of goods, declaring country of origin, and duty assessment. These processes are complex and require a certain level of expertise. As such, companies should consider implementing in-

house experience with trade-related compliance or trust a third party with trade-related compliance. Any business with import- or export-related trade is associated with trade compliance, even if it is just a small part of their overall trade. As such, all companies, but especially multinational companies, should consider implementing trade compliance operations. (Reynolds 2020; Melia 2019.) In-house trade compliance helps to mitigate supply chain risks from beginning to finish. A company's trade compliance processes can be especially beneficial when unpredictable challenges occur in trade, e.g., embargoes, sanctions, and COVID-19 trade restrictions. (Barth 2019.) Even though much focus is on controlling trade risks, trade compliance can have a significant role in optimising supply chains. Trade compliance can support the implementation of trade compliance systems and automation projects within the supply chains that can lead to considerable savings in time and resources. (Dozier 2023.)

With constantly rising and changing regulatory demands, companies and their supply chains put pressure on in-house trade and customs teams to find solutions to soaring tariff costs. Still, at the same time, operational tasks require significant resources to maintain compliant trade. Outsourcing or delegating activities between functions is a viable option to meet the requirements. By reducing resource-heavy daily tasks, trade compliance managers can focus on bringing strategic value where it matters, the advisory role. (Zuvich et al. 2022.) Making decisions on the execution of in-house trade compliance can be complex as being trade compliant involves a wide range of rules and requirements that can vary depending on the specific industry, products, and markets in which a company operates. Therefore, trade compliance requires careful consideration of various factors and the potential risks and liabilities associated with non-compliance. (Fedorenko 2014, 205.) The approach and size of in-house trade compliance can depend on various factors, such as the complexity of supply chains, the number of markets with trade, the complexity of market legislation, trade volume and characteristics of the products, and the level of regulatory control you can face. Companies should assess their internal needs, capabilities and available resources to determine the appropriate approach for their in-house trade compliance operations. (KPMG 2018.)

The world of global trade is complicated, ever-changing and dynamic. Such an environment demands that companies keep up with the latest rules and regulations in different markets. Companies engaged in international trade face a range of compliance obligations, of which the most noticeable are export controls, reporting requirements,

irregularly occurring inspections by different national administrations, and regulations on product safety. As mentioned earlier, compliance is heavily enforced by various national and global authorities, of which customs authorities are the most visible for trade. Compliance activities are becoming increasingly visible within companies as they must comply with various trade reporting obligations and legislative compliance. (Melia 2019.)

Trade compliance is a broader term encompassing all the processes and policies companies must follow to ensure compliance with international trade laws, regulations, and standards. In contrast, customs compliance is a specific aspect of trade compliance that refers to compliance with customs regulations. This research focuses on studying global companies within the EU that have at least one in-house trade or customs compliance function. The sample population for this study includes experts in trade and customs compliance who have extensive knowledge and experience in global trade compliance. In-house trade- and customs functions require resources often provided by multinational companies (KPMG 2018). For smaller companies, the allocated resources might not provide the desired outcome. As such, small to medium-sized companies rarely have a dedicated in-house trade compliance team. Due to this, the thesis is limited to multinational companies within the EU.

## **1.2 Aim of the study**

Academic research on trade compliance is relatively limited, although companies recognise the importance of trade compliance to their trading operations and global supply chains. The limited amount of academic research on trade and customs compliance is associated with the topic's commercial and legal sensitivity. (Grainger 2016, 18.) Salisbury (2013) notes that trade compliance has limited attention from supply chain scholars. But focus on supply chain resiliency, especially after the COVID-19 pandemic, has started to gain traction, which can bring more attention to trade compliance (Schuster et al. 2021). At the moment, trade compliance is rarely studied as a topic itself. Instead, it is usually mentioned in other popular topics, typically in supply chain risk management. As trade compliance addresses compliance of the regulated environment and supply chain security, it emphasizes its value and necessity for academic research. However, due to the limited amount of study on trade compliance, there are still a lot of gaps in our understanding of trade compliance and more research is needed to understand the topic.

From an academic perspective, there is a clear research gap that this study aims to contribute to. Trade compliance and customs management are researched topics to a certain point. Still, focusing on how the teams are structured and how the responsibilities are divided between different departments has received little attention. In addition, studies on trade and customs compliance are still infrequent as the field is a niche. From a trade compliance management perspective, the motivation of this thesis is to support companies in their efforts to construct a well-performing trade compliance function. The research question is “*What is the role of in-house trade compliance in multinational companies?*” To support the research question, sub-questions are as follows:

- *What is trade compliance?*
- *What are the core activities of in-house trade compliance?*
- *How is trade compliance structured in-house?*

The third sub-question, "How is trade compliance structured in-house?" helps understand the organizational structure, responsibilities and staffing of trade compliance teams in multinational companies. The focus is especially on the customs activities which are a significant part of trade compliance. The study is limited to multinational companies that have their central trade compliance team operating within the EU.

The structure of the study is as follows. The first chapter introduces the study and its relevance. The second and third chapters are literature reviews on the main topics of the study: stakeholders of global trade, trade compliance, and in-house trade compliance. The research design is presented in the fourth chapter. The fifth chapter shows the qualitative research findings and the theory presented in chapters two and three. The sixth and seventh chapters summarise all previous chapters and conclude the study. This study was conducted with qualitative semi-structured interviews with a literature review included. The collected data was analysed with the help of thematic analysis.

## **2 Global trade and compliance**

Institutions of trade are essential in regulating and facilitating global trade between nations and market areas. As in the words of North (1990, 3): "Institutions are the rules of the game in society...". The quote gives an insight into the importance of institutions. Anderson and Marcouiller (2002) emphasise that weak institutions increase transaction costs and hinder international trade, while strong institutions, especially legislative institutions, significantly contribute to international trade. There are formal and informal institutions, both important in their own way but playing different roles in facilitating and managing global trade. However, the roles aren't as straightforward as one might consider. Institutions have several goals; they might cooperate deeply with each other and the government lead institutions. (Anderson 2004, 281-282.)

Trade and customs-related institutions ensure compliance with international trade laws, agreements, and regulations. They aim to promote economic growth and development, improve market access, and reduce trade barriers. As the focus is especially on the customs side of trade compliance, the domestic customs administrations are focused on. Such administrations work to both enforce and facilitate trade based on regulations. (World Customs Organization 2022, 1-2.) Being familiar with the various institutions lays a foundation for why trade compliance is such a complex topic. This chapter introduces the various trade institutions that facilitate and regulate trade. Next, the chapter will get familiarized with administrations that oversee the rules of trade. Finally, the concept of trade compliance and its role in trade is explored.

### **2.1 Institutions of trade**

This chapter focuses on trade-related institutions, which are most closely associated with trade compliance. Trade-related institutions have three important roles to play in global trade: establish rules and regulations, resolve trade-related disputes, and promote trade. While having an important role in guiding the development of global trade, they are also affected by the dynamics of global trade. The role of trade institutions is constantly evolving and complex mostly due to the changing demands and needs of the international trade community which shape the policies and practices they promote and regulate. As a result, they must constantly adapt to ensure that they effectively promote cross-border trade and investment. (Melo & Ollareaga 2017.)

The importance of trade institutions is to ensure that that trade is fair and all involved members play by the same rules they have agreed upon in signed trade agreements. As economic unions keep growing and expanding, harmonization of trade will further develop. This reduces transaction costs, and less time is lost due to bureaucracy in cross-border trade which most importantly makes it easier and cheaper to trade. (World Bank 2018.) By understanding the role and categories of trade-related institutions, we can better understand the complexities and multiple levels of the international environment. For companies, it is particularly important to understand the challenges of trade compliance to succeed in such a demanding environment. The trade institutions set standards and regulations that in-house trade compliance addresses in their daily trade operations. Institutions also offer a neutral space for resolving disputes and ensuring all parties abide by the agreed terms. In addition, they provide valuable support for companies interested in expanding their trade to new market areas in which they do not have experience. (Melo & Ollareaga 2017.)

### 2.1.1 Trade regulators

Trade regulators in simple terms are institutions that set, monitor and enforce set rules and standards for trade activities. There are global, regional and domestic trade regulators. Global regulators such as the WTO apply their rules to most countries in the world, regional regulators, such as the EU, apply rules in its member states, and domestic regulators apply in their own country or even a certain area within the country. The roles of trade regulators do change based on the scope and set responsibilities. (Rylska & Mirus 2001, 1-4.) As trade regulators can be domestic, regional or global. The same rules apply for regulations and trade standards, which can be domestic, regional and global. (World Customs Organization 2022, 1-2.)

Domestic rules and standards can have different impacts on trade depending on whether they create barriers or incentives for domestic or foreign producers or consumers. (World Customs Organization 2022, 1-2.) The rules are set by various government agencies such as the customs administrations and other chambers of commerce which typically operate under the guidance of the Ministry of Finance (Ministry of Finance Finland 2023). Domestic trade regulators focus on setting rules and regulations, monitoring the compliance of set regulations, resolving disputes in trade compliance, and providing assistance by providing training and necessary information. While government agencies

represent their government's domestic interests and priorities, they also ensure that they comply with commitments they have made with regional and global trade regulators. (Netherlands Customs 2023.)

Regional regulators are bodies that are applicable with the help of mutually signed agreements on trade rules called trade agreements and further regional integration. Four different levels of regional and economic integration exist in global trade today. A free trade area is the most modest level of integration where members agree to reduce trade barriers between member states and create regional institutions to settle disputes between member countries. Customs unions (e.g., the customs union between the EU and Turkey) go further by agreeing on standard external tariffs for non-member countries. Common Market (e.g., the European Economic Market) harmonises the instruments of trade and political control to a centralised institution. Finally, economic and political union (e.g. the European Union) is the highest level of regional economic integration. In such a union, coordination of economic and political policies are centralised to one or more institutions that make binding decisions that all member states must follow. (Rylska & Mirus 2001.)

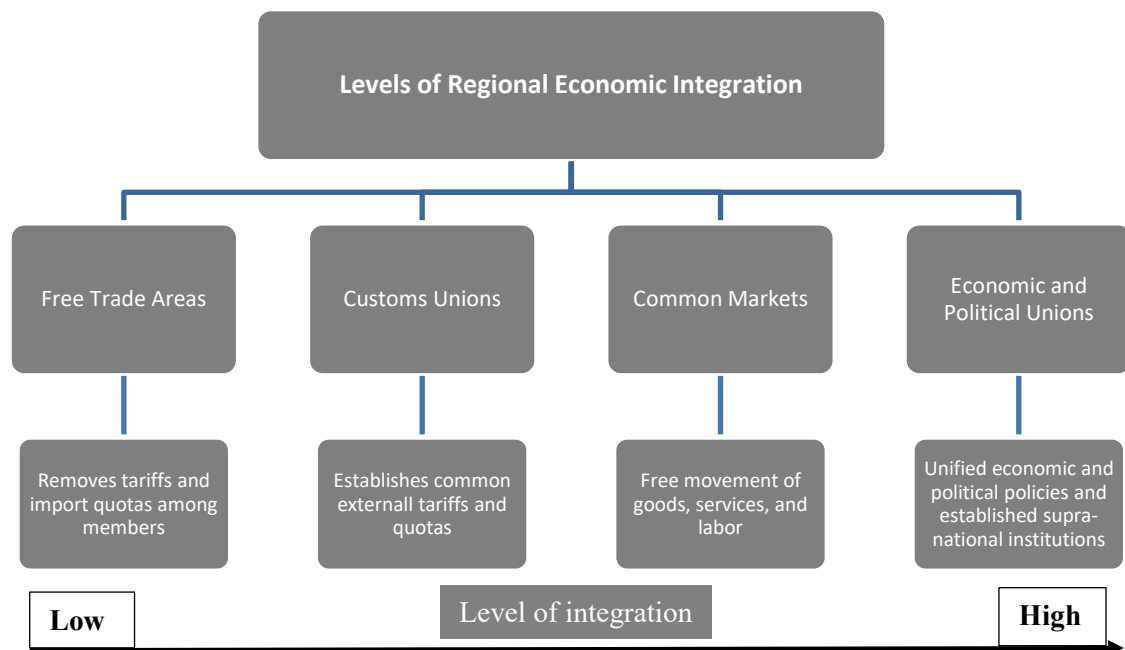


Figure 1 Trade blocks (modified from Rylska & Mirus 2001, 3-5)

Regional integration reduces the number of customs borders goods must cross before arriving at their destination. When you join a particular trade bloc, goods can travel freely

within the area without additional customs measures. These trading blocs have harmonized customs legislation that reduces the barriers to global trade. For example, the EU has a harmonized customs border, but 27 independent national customs authorities manage its borders within their national borders. For companies operating in such areas, cross-border trade is much less problematic. (European Commission 2022.)

Global rules and standards are those that are agreed upon and enforced by international organizations that have wide acceptance or influence to make trade-related decisions. The most recognizable global trade regulator is the World Trade Organization (WTO). The international institutions specify that it has five essential tasks: improving people's welfare, negotiating trade rules, overseeing WTO agreements, maintaining open trade, and settling disputes. (World Trade Organization 2023.) Global rules and standards can affect trade by creating a common framework or level playing field for all countries and regions involved in trade. (McWhinney 2021.) However, being a global institution brings challenges. As WTO makes its decisions with a consensus -decision-making procedure it gives any member state to veto any decision regardless of its size or importance to global trade. This decision-making system does receive criticism as it blocks any significant changes that WTO could make to global trade. (Guan 2018, 77.)

As there are several layers of trade regulators and trade rules, it can be difficult for companies to stay up-to-date on the requirements of trade. This can lead to unintentional non-compliance. As such, markets with demanding regulatory environments can be unfavourable destinations for companies looking to expand their business. To combat this there are government agencies, semi-government-owned institutions, and even completely private trade institutions that provide support for companies and work toward facilitation of trade. (Melo & Ollareaga 2017.) The next subchapter takes a look at the different institutions of trade that work to help companies succeed in new or regulatory-challenging trade markets.

### 2.1.2 Trade promotion organizations

Trade promotion organizations (TPOs) are different organizations that promote trade and investments in certain areas or markets. Such promotional organizations facilitate trade by providing valuable information, advice, and support to companies seeking to export or invest in foreign markets. They may also accompany the development of trade policies and the implementation of trade agreements. The support and information on foreign trade



that such TPOs provide is costly and difficult for the companies themselves to gather. (Giovannucci 2004, 1.) TPOs are important in supporting companies with foreign trade, which benefits the market area or country. As such TPOs are independent but often state-sponsored and guided organizations that support business for foreign companies. (Melo & Olarreaga 2017.) TPOs should be market-driven and focus on the requirements of private companies with the flexibility to adapt to a fast-changing environment. As the primary goal for TPOs is to facilitate import and export activities, it is well positioned to promote trade reforms. (Giovannucci 2004, 4.) Trade promotion organizations can be categorized into three main categories: government-owned TPOs, semi-government-owned TPOs, and private-sector TPOs.

Government-owned TPOs are institutions that promote investments and trade in the country. Such institutions tend to offer a wide range of services including market research, trade counselling, trade promotion, financial support, and different market training programs. (Melo & Ollareaga 2017.) An example of a government-owned TPO is a public organization Business Finland which operates under the Finnish Ministry of Economic Affairs and Employment. The organization provides funding, internationalization services, information, guidance, and networks for different stages of business. (Business Finland 2023.)

Semi-government-owned TPOs as the name reveals, are partially funded by governments but the degree of funding depends on the country. Such institutions have some independence in their strategy and goals even though they are government-funded. Such institutions typically focus on promoting the exports of goods and services from their country, and due to some level of independence, they can be quite effective in this. (Melo & Ollareaga 2017.) Chambers of commerce and patent and registration offices are considered to be semi-government-owned TPOs that are involved in both trade facilitation and trade regulation. They are non-profit organizations that support companies in particular areas. Chambers of commerce depending on their area and size can be either government-funded or completely independent. (Keskuskauppakamari 2023; PHR 2023.) However, the government-funded ones are involved more in regulatory demands for example by providing trade-related documentation such as certificates of origin that some countries could demand in exports. (Visuri 2022.)

Private-sector TPOs are organizations sector-specific, representing a particular industry, a group of industries, or a more general area of trade. An example is the Technology Industries of Finland which is considered as a lobbying organization for technology industry companies. They aim to advance the interests of their members by promoting and lobbying for favourable policies, providing networking opportunities, and offering educational and training resources. Private sector TPOs can be found in all sectors of the economy. Private trade institutions do not rely on legislative enforcement but on reputation, lobbying on behalf of their members and certificate-based influence. The Fairtrade certificate is an excellent example of a private trade organization advocating for fair and sustainable trade. (Melo & Ollareaga 2017, 24-25.)

Trade promotion organizations are great institutions to seek support for trade and compliance-related questions regardless of the government's involvement in their funding. In many cases, companies will have to cooperate with such organizations as customs authorities might demand certain documentation for trade activities for example for importing or exporting any foodstuffs in the EU, it is suggested to consult with the Finnish Food Authority -institution for any necessary product certificates. (Finnish Food Authority 2023). TPOs play a complementary role for customs administrations by supporting the compliance efforts of companies. They often collaborate on different projects to promote trade and compliance. It is in the interest of customs administration and trading companies that trade is facilitated and risks are minimized. As such next focus is on domestic customs.

## **2.2 Domestic customs administrations**

Customs administrations are essential to international trade and an important economic and trade policy driver. The World Customs Organization defines customs administrations as “*key government agencies established to apply international, regional and national policies and laws to goods crossing borders* “. (World Customs Organization 2010.) Customs administrations are authorities that are trusted to enforce customs policies and regulations. Each country has its customs administration, typically working under the Ministry of Finance. (Ministry of Finance Finland 2023.) Customs administrations oversee that companies comply with trade regulations, pay their duties and taxes on exported goods, customs clear goods with correct and relevant documentation, and provide vital regulatory information to companies trading goods. In

addition, they also work towards facilitating trade both on domestic and global levels. Customs administrations play a valuable role in enforcing efficient and competitive global trade. The objectives and activities are diverse and vary depending on the country. (Netherlands Customs 2023.)

Even though customs borders have been reduced with regional agreements, trade barriers are still a daily challenge for trade. Trade barriers refer to various regulations and government sets of measures that make the trade of certain goods or services challenging. The most serious impact of trade barriers is the loss of business opportunities but even the minor effects of requiring more time with documentation lead to additional costs to the companies. However, areas and unions, such as the European Union, are an example of a facilitated trade area without internal tariffs on goods and services traded which encourages cross-border trade between the members. The union has harmonized rules by which every member state must abide. However, trade barriers especially outside of the EU do exist due to protectionism policies that protect national critical industries from unfair foreign competition. The four main protectionist instruments are tariffs, subsidies, quotas and currency manipulation. (McKenzie 2020; Amadeo 2022.)

Customs authorities have two main objectives in trade: facilitation and control. Trade facilitation draws the majority of discussion in global trade, but trade control also has an essential role. Trade facilitation and control refers to the activities and processes involved in facilitating the smooth and efficient flow of goods and services across international borders while ensuring compliance with the laws and regulations governing international trade. These two objectives are sometimes conflicting and, as such, difficult to find a proper balance between the two. Customs authorities face the expectations to achieve uncompromised trade facilitation at the minimal possible cost and risks. (De Wulf & Sokol 2005; Widdowson 2007.) The digitisation of customs processes has been seen as one solution to this challenge of facilitation and control. (Pope 2020, 19).

### 2.2.1 Trade facilitation and control

Trade facilitation doesn't have one standard definition, but in its simplest form, it means reducing bureaucracy between customs borders and their activities. (Grainger 2011, 41.) In addition to being an economic issue, it is also a political, ethical, administrative, business, technical, and technological issue. As such, many different parties and institutions are affiliated with it. The facilitation issues are relevant on all levels of trade,

not only international. However, the implementation of trade facilitation does follow a top-to-bottom approach. The final decisions behind facilitation are up to the policymakers. (Grainger, 2016.) With efforts to further facilitate trade, many countries have developed customs and trade simplification certificates (security certificates). Such simplifications are granted to companies that undergo voluntary KYC processes, meet pre-determined metrics and demonstrate that they can be considered compliant partners. Companies that achieve reliable status face less interference or inspections from customs and border authorities for non-risk goods. This is one of the many incentives trade enforcers offer to facilitate trade. While this has a facilitation effect, there is also increased customs control by motivating companies to be trade-compliant proactively. (Grainger 2016, 19.) One example of a security certificate is the Authorised Economic Operator, which has an important role in trade compliance. The AEO concept builds on a Customs-to-Business partnership, which requires an ongoing relationship between the two parties. It works with mutual transparency, correctness, fairness, and responsibility. As a result, the AEO certification benefits both parties, making it an effective customs control tool. (European Commission, 2023.).

Trade control is the process of regulating the flow of goods and services across borders. This is overseen by the customs authorities. The goal is to ensure the protection of national security, public health, and the environment. The two main types of control are the export and import controls, in which restrictions can be applied depending on the risks. Such trade controls have a significant effect on both inbound and outbound trade. Depending on the government's policies the customs administrations choose an appropriate approach to risk management. (Dow Jones 2023.) Customs risk management involves identification, analysis, evaluation, treatment, monitoring, and risk review. The constantly increasing global trade volume and technological advances have pushed towards the development of customs practices. As such, the modern risk-based compliance models are built on four pillars: the legislative framework, administrative framework, risk management, and technological frameworks by customs. (WCO 2022.)

The existing risk management tools and practices support evaluating the risks and finding an appropriate balance between facilitation and control. In practice, these risk management measures mean assessing the risk level of goods and controlling them accordingly. High-risk goods are subject to strict customs controls and more extended customs processing, while low-risk goods pass the customs process quickly. In addition,

customs authorities can evaluate companies based on their transparency and cooperation with customs authorities, so it is in the companies' best interest to be proactive and compliant. Figure 3 below provides insight into how customs authorities can approach facilitation and customs control. Policymakers and companies can identify opportunities and challenges and develop strategies to optimize their international trade activities by analysing the factors that impact international trade through facilitation and control. (Widdowson 2005, 91-92.)

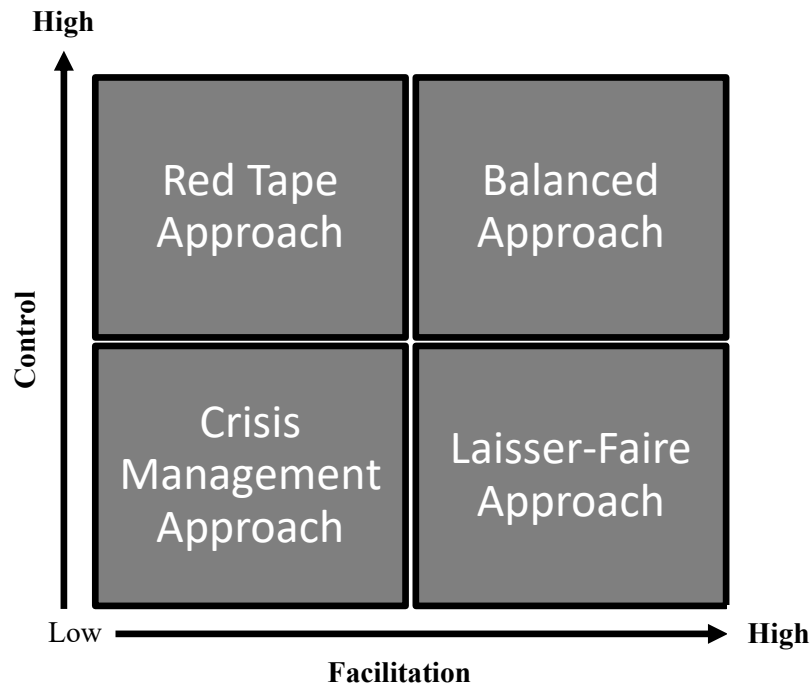


Figure 2 Customs control matrix (Widdowson 2005, 92)

As the figure above presents, there are different styles that customs administrations can choose as their customs control approach. *The Red Tape Approach* prioritizes control and has received criticism due to the modern expectation of minimal customs intervention. (Widdowson 2005, 92.) However, this approach is still used in countries with high and complex bureaucracies such as China (Bray, Bermingham & Cassella 2018). *The crisis management approach* is neither high in control nor facilitation. This approach does not benefit the administration in any way. (Widdowson 2005, 92.) As such this strategy is not a viable option as a customs control strategy. *The Laisser-Faire approach* puts facilitation first, it relies on the trading community to comply with regulations. While it can be a practical approach, it includes risks of non-compliance. (Widdowson 2005, 92.) Compared to the previous, the balanced approach seeks to

optimize the benefits of facilitation and customs controls. Even though balancing control and facilitation can be seen as zero-sum due to the opposite natures of both, it does not necessarily mean that they are mutually exclusive. (Widdowson 2005, 92.) It could be seen that the majority of the trading world utilizes this approach if there are no obligations to focus on either facilitation or control only.

As the trade environment faces constant changes, new technologies are required to ensure that the chosen customs control strategies are possible to enforce. The digitalization of customs provides unique opportunities for customs administrations to improve both control and facilitation at the same time. In the text below, the digital options that could improve customs efficiency will be discussed.

### 2.2.2 Digital customs risk control

Digital customs risk control is the utilization of digital tools in data analytics, risk-based targeting, and automation. The development towards such tools has been happening in a slow base but during the COVID-19 pandemic, customs administrations had to implement temporary and permanent changes to their customs procedures to achieve facilitation even in exceptional times. During this pandemic, the digitalization of customs procedures saw significant advancement. The rapid development highlighted the need to move towards digital risk-based customs processing. (Pope 2020.)

The concept of Authorised Economic Operator (AEO) is an excellent example of how customs administrations developed a system to replace their personal labour-intensive customs controls with the self-control of companies. The benefits for companies are the improved efficiency of moving goods between borders as such reducing costs. In addition, the AEO status brings reputational benefits in business-to-business relationships, especially for forwarding or third-party logistics companies that rely heavily on their reputation as reliable logistics partners. The collaborative relationship between the enforcers and complying parties has increased the appreciation towards solutions that offer efficient information exchange. As such, digital solutions have become key strategic factors for trade facilitation. An extensive amount of literature has been conducted in helping the implementation of ICT solutions in the context of international trade and customs. These solutions have transformed how customs authorities operate, enabling them to automate processes, increase efficiency, and enhance risk management capabilities. The end goal is a fully digital customs processing

in which the customs information is shared systematically and automatically between the companies and customs. It would solve the long-lasting issue of customs delays associated with the absence of timely communication between the two parties. (EU4Digital 2023; Butter, Liu & Tan 2012, 273.)

The vision of achieving fully electronic customs is supported by various international organizations, including the World Customs Organization (Holloway 2009, 13). Article 6 of the UCC underscores the importance of employing electronic data-processing techniques for all information exchange and sharing among customs authorities and companies. Implementing fully electronic customs aims to enhance operational efficiency, reduce costs, and expedite operations, which aligns with the UCC's goal of expediency. (Wolffgang & Harden 2016, 4). As the transition towards fully electronic customs requires significant investment in ICT systems, the transition period should be set with realistic expectations. (Holloway 2009, 13).

### **2.3 Compliance in trade**

Compliance should be a key priority for any trade-related company. First, there is a significant risk of legal and financial consequences with both accidental and incidental non-compliance. Non-compliant companies face the risks of fines, penalties, loss of permits and certifications, and even criminal charges. In addition, failure of compliance can also lead to disruption of the supply chain due to a lack of internal control, delays in customs clearances, and a damaged reputation with associated parties. Second, to reduce costs and optimize duty savings. By having clarity on the available preferential tariffs, there is a possibility to increase competitiveness and profitability. (KPMG 2018.). Third, compliance improves the efficiency and quality of trade operations. The improvements are achieved by automating tasks, improving data accuracy, and implementing working practices. Such improvements ensure better risk management and a better position to adapt to changes in the trading environment. (Melia 2019; KPMG 2018.) Compliance is not only associated with following the rules and regulations set by the regulators. Many rules are set by the corporations themselves based on their values and there are standards within certain industries which all are as valuable to follow. The following Table 1 presents the different types of compliance there can be.

Table 1 Types of compliance

Compliance type	Description
Legal compliance	Ensuring that the organization follows relevant laws in relevant areas (McMenemy 2019).
Regulatory compliance	Following regulations, guidelines and standards set by external authorities such as customs administrations (e.g. environmental- and quality standards) (Rouse 2023).
Corporate compliance	Following the internally set standards and ethical practices based on corporate values (Lauren 2019).
Industry compliance	Following the standards and best working practices set by an industry. Ensures quality, safety and consistency (Kramer 2019)
Professional compliance	Following the codes of ethics and conduct set by a profession. Ensuring that service is up to the profession's set standards (Leisering 2022).

Compliant companies take steps to ensure that their operations are conducted following all relevant compliance types. This requires a thorough understanding of how such compliance activities are conducted in the company and its partners. Many processes need to be polished such as diligence on potential business partners, developing internal controls and policies to prevent corrupt practices, and providing training and support to employees to ensure they understand and comply with applicable regulations. Such activities are often conducted with the help of in-house compliance experts. (Melia 2019.) Significant progress in combatting non-compliance has been achieved by modernising compliance management. However, acknowledging and sanctioning non-compliant activities is not enough to battle non-compliance. Working towards transparency and efficient guidance and recognising compliant operators (e.g. AEO status) help develop compliance towards the modern risk-based compliance management. (Fjeldstad, Filho & Raballand 2020, 126.) Ultimately, companies prioritising ethical and responsible business practices are more likely to succeed in the global marketplace over the long term. Ethical actors build strong relationships with partners, customers, and other stakeholders based on trust and mutual respect. (Adda, Azigwe & Awuni 2016.)

To ensure that the company operations and in-house processes meet the set requirements of different groups of compliance, there should be consideration of having an in-house function that specifically focuses on improving compliance activities to mitigate any



possible risks in trade and in-house processes. In addition, such function ensures that a company's international business practices align with ethical and responsible standards. By establishing and implementing effective compliance programs and dedicated teams, companies can demonstrate their commitment to compliance with regulatory authorities and the general public. (Deloitte 2020.) In-house trade compliance is such a function and as such it will be explored in the next chapter.

### **3 In-house trade compliance**

Due to the complex and extensive compliance requirements in global trade, many sizeable companies may prefer to establish in-house trade compliance operations that support their business operations by markets or worldwide. Such teams are responsible for implementing compliance activities to meet the requirements of trade regulations and ensuring compliance with legal and ethical standards. (Miller 2017, 438.). In-house trade compliance does have a broader purpose, even though the name might suggest otherwise. In-house trade compliance teams can have an important role in optimizing supply chain operations, improving cost-effectiveness, and driving overall business success. By managing trade compliance in-house, companies have a greater understanding of their supply chain processes and trade overall. Implementing working compliance activities can increase efficiency, reduce costs, and reduce delays. (Zajko 2022.) Having in-house teams provides better oversight and control over the company operations, enabling better monitoring and auditing of in-house and outsourced compliance activities. Such a controlled and proactive approach can proactively and promptly identify possible compliance issues, avoiding costly penalties, fines, and legal action. However, smaller-sized companies may not have enough resources and competencies to manage compliance effectively. Having a working in-house trade compliance requires investments and a clear vision from the company. To implement in-house compliance teams, software and automation tools, and training programs, significant investments are needed. Companies must also stay updated with the changing regulations and laws governing international trade, which can be complex, time-consuming, and resource-heavy. (KPMG 2018, 14.)

Efficient in-house trade compliance operations should be involved with different departments engaged in trade-related activities. This can include logistics, legal, finance, and procurement departments. Due to the wide range of collaborative activity with different departments, trade compliance should not be subordinated to one singular department, as they should be able to monitor the overall performance of compliance and trade. As such, it should be considered that the head of trade compliance would report directly to the company board. This helps to ensure that trade compliance is well included in the company's overall strategy. In addition, it ensures that the necessary resources and support are provided to achieve the required level of compliance. (Grytz & Muller 2016.)

This chapter is based on Andrew Grainger's (2016) study on customs management in multinational corporations, which remains a rare academic paper, to provide insight into the role of in-house compliance activities. This research paper serves as the basis for the content of this chapter. The paper has valuable insights into managing this business function's activities, challenges and complexities. The structuring of this chapter is as follows. First, the role and background of trade compliance specialists are explored. Next, the activities are further inspected. Finally, the different available tools of trade compliance are examined.

### **3.1 Profile of trade compliance manager**

The in-house trade compliance experts and their teams are responsible for overseeing their company's compliance activities. As trade compliance is affiliated with numerous departments, they have a wide range of activities. While ensuring compliant trade, they also optimise and facilitate activities. The in-house compliance teams consist of diverse backgrounds and trade expertise. Having diverse know-how in such teams ensures that in-house trade compliance programs have a strong understanding of international trade laws and regulations and experience with the tools and processes involved in managing and improving in-house compliance. (Grainger 2016, 17-18, 25-26.) To further understand the in-house trade compliance function, it is important to understand what a compliance manager is, what they actually do and how can someone become a compliance manager.

#### **3.1.1 What is a compliance manager?**

The compliance manager is an employee of a company that ensures that all trade-related activities are done in a compliant manner. The requirement is to work with management to efficiently identify and manage regulatory risks. In any events where non-compliance is noticed, compliance managers should be included in the investigations and corrective actions. (Haeyns, Battle & Li 2021.) Compliance experts ensure they are up-to-date with the domestic and regional legislation (e.g. EU customs union legislations) by constantly communicating with enforcing authorities, following up on changing legislation and being included in compliance-related courses arranged by authorities or specialised consultant houses. However, compliance managers still face challenges in extending their compliance know-how due to a lack of available studies and extensive material on trade

compliance. Participating and following up with customs briefings helps with keeping regulatory requirements up-to-date. In addition, many compliance experts actively participate in developing customs legislation by providing their input to policymakers and other regulatory administrations, which can positively influence future regulatory outcomes. (Grainger 2016, 17-18, 25-26.)

Depending on the vision of the company some may prefer to have area-specific experts supporting compliance activities. In contrast, others prefer to have whole teams with different specializations of compliance. A key advantage behind having trade compliance teams is the diverse backgrounds and skill sets, such as legal, accounting, and logistics expertise, to tackle the complex and ever-evolving landscape of global trade regulations. Such diverse skill sets may provide more value, especially by having more robust risk assessments, compliance programs, and training initiatives and more effective management of third-party service providers, such as brokers and forwarders. A bigger team or teams can also provide resources to manage compliance obligations across different regions or markets, share best practices, and stay on top of emerging trends and developments in trade regulations. (KPMG 2018.) The structuring of teams may also vary based on the industry and the complexity of rules in the company's markets. Within the team, there may be different levels of seniority and specialization. For example, a manager or director may oversee the team, with specialists in customs compliance, export controls, and sanctions compliance reporting to them. Some team members may also have expertise in certain regions or markets, such as Asia or Europe. (Miller 2021.)

### 3.1.2 Working as a trade compliance manager

As in-house trade compliance managers are responsible for implementing compliance measures, their time should be resourced effectively by delegating non-essential responsibilities to focus on bringing the most value to the company. (Grytz & Muller 2016.) Grainger's (2016) study demonstrates that in-house compliance co-operates with several trade-related departments that participate in compliance-related activities. The number of activities is significant, which motivates the implementation of in-house trade compliance teams to guide and oversee the supply chains and trading operations. Depending on the company, the emphasis on compliance activities can be different, as the company's vision determines where the focus should be. (Grainger 2016, 26-27.) However, regardless of the chosen strategy for in-house compliance managers, the

activities presented in Table 2 are activities that each trade compliance manager is involved in either directly or indirectly.

Table 2 The key tasks of in-house trade compliance (modified from Melia 2019)

<b>Key elements of Trade Compliance</b>	
<b>Tariff classification</b>	The process of assigning a specific code to a traded product based on its category, type, and other characteristics to determine the customs duties and taxes that apply to it. Fundamental for customs procedures such as duty rates, the origin of goods, Intrastat, export controls, and many others. (European Commission 2021.)
<b>Preferential and non-preferential treatment</b>	Preferential treatment refers to granting certain goods or countries more favourable treatment (e.g., lower duty rates). It is based on trade agreements between countries or areas. On the other hand, non-preferential treatment (origin data) is required in each cross-border trade. The data informs the origin of the products being shipped. (TAXUD 2022.)
<b>Incoterms</b>	Incoterms are a set of standardized trade terms utilized in international trade. They define the buyer and seller's shipping responsibilities, costs and risks. Having clear incoterms reduces the chances of misunderstandings and disputes. (Segal, Mansa & Kazel 2023.)
<b>Licence management</b>	Overseeing and managing the licenses and permits required for a company's international trade activities. Having the correct licensing is vital to avoid supply chain disruption. (Melia 2019.)
<b>Export controls</b>	Certain products are subject to export controls based on tariff classifications. The expectation is correctly classifying the products and complying with the appropriate legislation (e.g., ensuring proper licensing). (Melia 2019.)
<b>Customs management</b>	All companies involved in international trade are subject to customs controls or investigations. Therefore, having a clear action plan and cooperation with authorities can help resolve issues quickly and without disrupting the supply chain. (Melia 2019.)
<b>Partner and sanctions screening</b>	Screening is an important part of risk management and should be an ongoing process that ensures that any changes or new information about partners are captured. Screening is especially important to ensure that trade is not conducted with sanctioned countries, undesirable parties, or any other risky entity. (DCED 2017; Gorny 2022.)
<b>Valuation</b>	Valuation is the establishment of value for imported goods, which helps to calculate customs duties, VAT obligations and any required trade statistics. Every shipment must have an appropriate valuation, and the declared valuation must be proved correct in case of an investigation. The traditional valuation method follows the six valuation methodologies approved by the WTO. (Chen, Mansa & Williams 2023.)

As the table above shows, the skills and know-how demand of a compliance manager are broad and require specialized knowledge and expertise across various areas. Due to this companies often have compliance teams so each compliance manager can focus on their expertise.

Compliance managers have also a guiding role in-house. As such, being approachable to both colleagues and government authorities is a valuable trait as information needs to be shared and received. Building good relationships with colleagues creates a low threshold for compliance-related questions. They are the first point of contact for customs and compliance-related issues or questions within the company. Compliance managers provide valuable insight and support to various functions such as procurement, logistics and production. Consultation can be provided on such issues as customs obligations, special customs declarations, or tariff classifications for new products. Overall, customs and trade teams are utilized as a support and advisory function at all levels of the supply chain. Secondly, compliance experts can utilize administrative systems to identify and correct customs declarations and document errors, thereby proactively reducing the risk of penalties and delays. The tools and systems used to do this are examined in Chapter 3.3. Third, in-house trade compliance management may also consider outsourcing certain functions to external logistics providers or customs brokers. This can help streamline operations and free up time and resources for customs managers to focus on more strategic tasks. (Grainger 2016, 26-27.)

### 3.1.3 Becoming a compliance manager

The education background of compliance experts is often based on studies in law, business, or a related commercial field (Grainger 2016, 25-26). Hayes, Battle & Li highlight that the position of a compliance officer is not an entry-level position. Usually, the minimum requirement is a bachelor's degree, but companies usually look for advanced degrees such as a law degree or a master's degree in business administration.

Compliance experts are anticipated to have a unique and complex understanding of political, economic, and trading factors and the ability to create in-house policies and compliance strategies. (Danet 2007.) In addition, experience utilizing modern management techniques and developing existing compliance strategies is essential for the success of in-house compliance. The expectation is to develop in-house compliance programs from a necessary cost to a more value-driving function. Such expectations can be met with tools such as automation, predictive analytics, and presenting the costs of failure with compliance. (Greenwood, Torcasi & Kral 2020).

Becoming a compliance manager requires experience. Such experience should be acquired in entry-level positions that focus on trade-related regulations and compliant

trade. (Indeed 2023.) Such experience can be gained through working for example as a customs clearance broker, trade-related consultant, freight forwarder, or as a trainee in any governmental agency that regulates and enforces trade. While the exact responsibilities for trade compliance positions differ depending on the role, the common requirements are analytical skills in interpreting data, conflict management skills, problem-solving skills, strong communication skills, experience in building compliance programs, and time management with multitasking skills. Such positions require so-called life-long learning in the industry to remain up to date to have the latest know-how and skills to succeed in the field (Pepperdine 2023.)

### **3.2 Trade compliance activities**

In-house trade compliance activities are the actions and tasks that the companies take to ensure compliant trade. Grainger (2016) has categorized the activities into three interdependent categories: logistics support, supply chain management (optimization), and regulatory compliance. Baier, Beckmann and Heidingsfelder (2020) highlight two important elements for trade compliance: strategic trade control and supply chain security. However, the approach of Baier, Beckmann and Heidingsfelder only considers trade compliance as a function of ensuring compliance with relevant laws and regulations. However, both papers do agree that the trade compliance function can reduce risks and improve company efficiency, especially in the supply chains.

In international trade, logistics is critical in ensuring the unrestrained movement of goods from suppliers to customers. This includes activities such as transportation, export declarations, storage, and inventory management. Having efficient logistics operations reduces costs and improves delivery times. (Croxtton et al. 2001, 13.). Trade compliance is closely linked with logistics as trade compliance ensures that goods are moved according to all relevant regulations and licenses. It helps to ensure that goods move between customs borders with minimal delay, disturbances, and costs. Depending on the goods and the certifications that the company has acquired, the customs authorities might still decide to hold on to goods for further inspections. For minimal delays with customs clearance, in-house trade compliance or customs teams cooperate and advise the logistics function to comply with authorities efficiently. Customs clearances require accurate and complete information and that all necessary duties and charges are paid. If companies are proactive and have a good reputation with customs authorities, delays and penalties

for accidental non-compliance can be avoided. The typical approach is to work towards earning the AEO status, which is particularly relevant for EU businesses. (Grainger 2016, 24.) The status entitles simplified customs procedures, clearance benefits and expertise of customs administrations across the EU (Finnish Customs 2023).

Supply chain management and optimization is recognized as a critical business process that integrates several business processes across the supply chain. Streamlining such operations is an excellent opportunity to reduce costs, improve quality and reduce lead times. (Croxtton et al. 2001, 13.) Global supply chains are subject to higher risk factors compared to localized supply chains. Underestimating risks of global supply chains and lacking the demanded risk mitigation strategies can lead to painful outcomes. (Chopra & Meindl 2012, 148.) Trade compliance is one of the functions to mitigate supply chain risks. By ensuring that all export and import-related documentation and processes comply with local regulations, companies minimize possible risks of non-compliance that lead to delays, fines, and other supply chain disruptions. In addition, companies complying with regulations can be entitled to preferential treatment or tariff reliefs. Such preferential treatment eligibility is due to trade agreements that result in lower customs duties, faster customs processing, and efficient clearance. The number of payable duties is determined by four main factors: tariffs, valuation, country of origin, and logistics decisions. Additionally, the company's location can have further affected applicable duties. Especially for businesses in particular customs areas such as the EU provides opportunities to buy goods without paying any import duties if goods are of EU origin or previously cleared to the EU customs area. (Grainger 2016, 24-25.)

Regulatory compliance is one if not the most important category for trade compliance activities and businesses overall. Compliance is not simply following the rules from regulators but a more complex process that includes organizational culture, understanding of regulations in-house, and how regulations are interpreted. Three frontlines can be considered where compliance takes place: the regulatory frontline where regulation and education take place, the management frontline where either compliance-promotion or compliance-limiting takes place, and the individual frontline where individual decisions influence compliance. (Li & Rooij 2022, 715). However, this categorization by Grainger focuses especially on the management side even though the regulatory and individual roles have influence as well. The focus of compliance for trade is around preventing possible customs and trade legislation violations and ensuring customs obligations such



as paying customs duties are conducted correctly and without delay. To achieve such goals, in-house trade compliance can implement trade and customs control systems to minimize risks of non-compliance, especially in human errors in internal and external partners (e.g. forwarding partners). Several offences in compliance measures can lead to loss of advantageous customs processing which hinders the ability to customs clear goods efficiently. Due diligence is important for companies that might work in questionable trade environments that pressurize company personnel to breach company guidelines and pay bribes for efficient clearance of goods. This puts the company at huge risk and could face criminal charges and blacklisting in trading. In-house trade compliance is relied upon to ensure all cross-border trade is conducted compliant. (Grainger 2016, 25.)

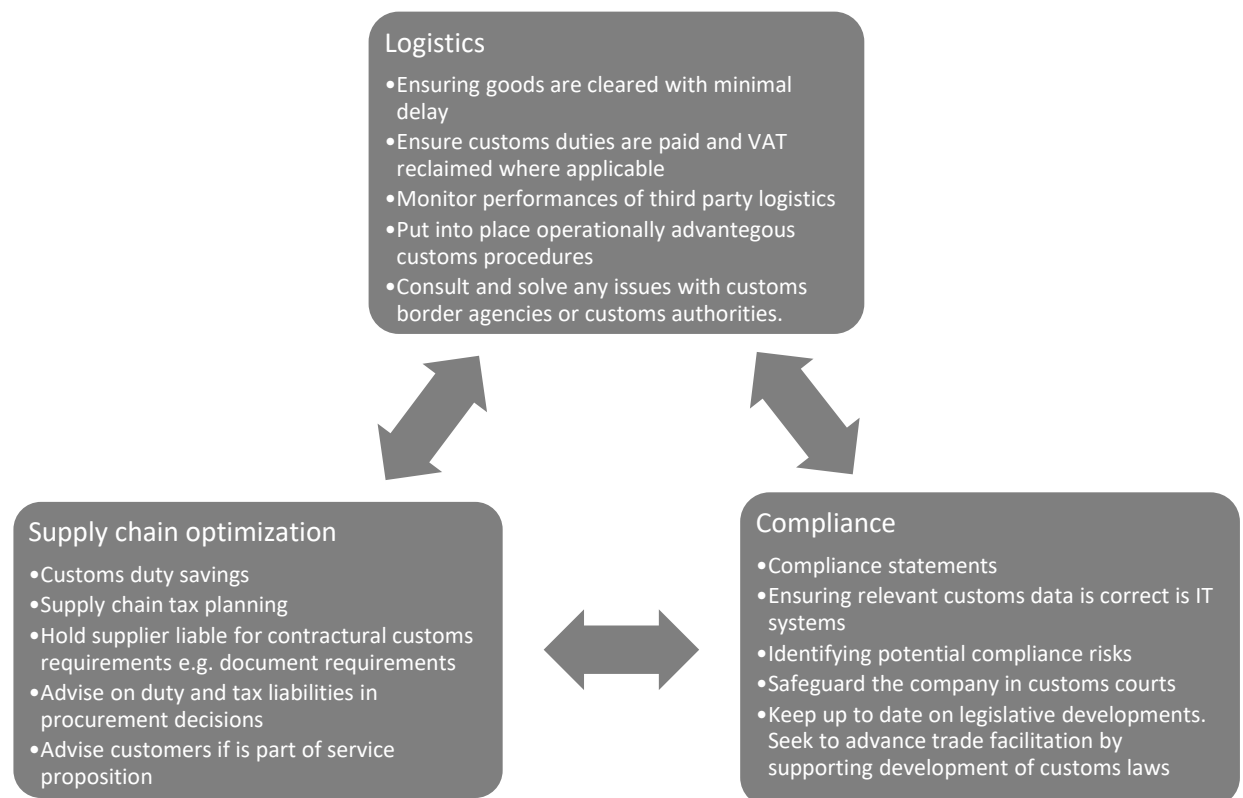


Figure 3 Activities of in-house trade compliance, focus on customs (Grainger 2016, 29)

### 3.3 Trade compliance strategies

In-house trade compliance activities can be time-consuming and labour-intensive but there are opportunities to streamline activities. Various approaches and tools can be

utilized to improve in-house trade compliance control. There are two mechanisms that in-house trade compliance commonly utilizes to maintain efficient control: improving compliance management tools and contracting resource-heavy activities to third parties. (Grainger 2016, 25-26.)

Many companies rely on their internal administration systems in their in-house trade compliance activities. Such systems are generally known as compliance management systems (CMS). Parker and Nielson (2009, 6) advocate appropriately designing and implementing systems to identify, correct, and prevent noncompliance. These actions also reduce the reliance on third-party service providers contracted to perform some compliance activities. A typical CMS procedure is the implementation of standard operating procedures (SOPs), which document how processes should be executed and in which order. SOPs allow in-house trade compliance to implement guidelines and limitations in how other departments handle customs and trade activities. Furthermore, training and education on trade compliance can help ensure that other departments know the necessary actions for compliant trade. For further control of compliant trade, information technology is widely utilized. Systems such as enterprise resource planning (ERP), trade automation tools, and different compliance management software can be used to ensure compliant operations. (Grainger 2016, 26-27.) Developing and implementing compliance management systems helps to ensure that the company has control of its in-house and outsourced activities. This can include having a tariff classification system or other supporting monitoring tools that are managed by the trade compliance team. In addition, compliance teams may conduct audits and spot-tests to monitor the company's trade activities. Such activity includes reviewing documentation and records to ensure the company, especially contracted third parties, work according to the guidelines of the company. Automation can improve trade compliance management systems by automating processes for identifying and addressing compliance issues. Automation can help companies save time and reduce errors by noticing irregularities in their compliance activities.

Contracting compliance-related activities is the second mechanism that in-house trade compliance can utilize. Contracting tasks with high transactional work frees up the resources of in-house teams and ensures that the trade compliance specialists can focus on the advisory role, bringing more value to the company. Nowadays, it is a trend to create a distinction between trade governance and trade operations by outsourcing the

operations. (Zuvich et al. 2022) A contemporary approach is suggested to outsourcing as this ensures that strategic control of outsourced compliance activities remains within the company. (Fedorenko 2014, 205). For companies, it is common to contract logistics activities to third parties such as freight forwarders, who are an attractive option for companies as they provide all-round services in the supply chain, especially focusing on moving traded goods and facilitating the needed compliance paperwork. (Llanto et. Al. 2013, 17.) Such services are attractive for companies as instead of doing resource-heavy manual clearances themselves, companies trust the clearance activities to third parties, which do the necessary export and import declarations on behalf of the company. The forwarder should work based on the provided instructions and documentation which they receive either manually from the responsible department or with the help of ERPs that share the necessary instructions. The relevant instructions are tariff codes and other customs-related information for clearance. The in-house trade compliance team supports such activity by including classification information in the ERP. (Grainger 2016, 31-32.) The article by Nielsen & Parker (2008) argues that third parties have several ways to influence compliance. For example, it is more likely that companies comply with the law when there is a third-party monitoring activity and are ready to take action if any non-compliance is found. It is important to include third parties in the development of in-house compliance strategies. However, Edvardsson and Durst (2019) argue that there is a risk that outsourcing can undermine the company's knowledge base if the wrong activities are outsourced. Such a decision could negatively impact the company in the long run. Evaluating the viability of outsourcing trade compliance activities depends on multiple factors. Such is the centrality of the compliance function, compliance risk, in-house control, costs, information technologies capability, and relationships with third parties. In addition, there are indirect drivers for outsourcing decisions: product-related, process-related, and network-related. (Selviaridis & Spring 2007, 128.) Outsourcing knowledge-intensive functions is only recommended when in-house expertise is insufficient to carry out a needed task (Edvardsson & Durst 2019, 4). External partners, such as consulting houses, provide services on niche topics or markets that customs managers can utilize in customs-related projects (Edvardsson & Durst 2014, 795).

While the two mechanisms might seem like two separate approaches, they complement each other. Combining both instruments allows more control over compliance activities while maximizing the available resources that in-house trade compliance teams have. The

decision to outsource compliance activities to third parties versus automating and keeping activities in-house should be evaluated. This decision should be based on factors such as the level of expertise required, the company's capabilities, the cost of outsourcing versus automation, the extent of compliance obligations, and the ability to manage compliance risks effectively. In addition, companies should carefully evaluate their trade compliance requirements and goals to determine the most suitable approach to compliance control resource and risk vice. By combining both instruments and taking a strategic approach to in-house trade compliance, companies can achieve effective in-house compliance programs that reduce risks and costs. (Financier 2019.)

### **3.4 Synthesis**

The literature introduced the relevant topics for trade compliance. First, the different parties that influence trade compliance were explored. The three important categories were discovered to be the regulators, the enforcers, and the facilitators. For the facilitators, the most recognizable parties locally are governments and their decision-making administrations while globally significant parties are organizations such as the World Trade Organization and more regional unions such as the EU. The regulators set the rules and regulations that companies need to comply with to continue their cross-border trade operations. Enforcers are tasked to monitor and ensure companies conduct their businesses according to the rules of trade set by the regulators. The most noticeable enforcers of trade are the customs authorities. While many other government administrations can influence trade compliance, the customs administration is one of the central parties for enforcing cross-border trade. Customs authorities face the challenge of ensuring that trade is both secure and efficient at the same time. Especially in the most technologically developed customs administrations, there is a wide utilization of automation, data analytics, and collaboration with companies to increase the performance of customs while maintaining high levels of security. In addition, customs administrations focus on education on compliance-related topics as most of the non-compliance is related to unfamiliarity with existing or changing regulations. The final category of the trade facilitators are all the institutions, both government-owned and private organizations, that work to support companies in their efforts to conduct compliant trade. Such institutions are, for example, chambers of commerce that provide valuable info to companies and at the same time can be part of compliance by providing necessary documentation for trade. Private institutions focus more on lobbying and making changes with the help of

reputation. They can create certain standards for their sectors and companies can be motivated to follow such standards to showcase themselves as a reliable partner. All previously mentioned categories influencing trade play an important part in compliance of trade. Any company that participates in cross-border or domestic trade will encounter mentioned parties. At this point, it is important to highlight that compliance has several different types of compliance e.g. legal, corporate, and industry compliance. For the full list see table 1 in 2.3. Cooperating with such institutions demands knowledge of compliance and it is useful for companies to have an in-house expert to oversee their compliance operations. Trade compliance encompasses most of the compliance types as it must consider the outbound and inbound factors of compliance. For this reason, the next chapter focused on the trade compliance managers and teams that lead the in-house compliance programs.

The next theory chapter as mentioned above focused on the in-house trade compliance function. The focus was to bring up the demanding and complex requirements of in-house trade compliance. For this, first the background and requirements for trade compliance managers were familiarized with. Next, the trade compliance activities were more thoroughly inspected, and finally the different strategies such managers can utilize based on previous existing literature. This brings a comprehensive understanding of the trade compliance function.

Starting with the profile of trade compliance managers, the expectations are that compliance managers have a strong regulatory understanding of global trade. The typical requirements at minimum are a bachelor's degree in a related field with practical experience in regulatory, customs or trade-related positions. The lack of available scholarly material for compliance managers is a challenge but is expected due to the constantly changing environment of trade and its regulation. The activities of such compliance managers are complex and require at least some level of understanding in logistics, law, and commerce. Depending on the company and its business, some activities are more important than others. Table 2 in 3.1.1 provides a good summary of the various activities trade compliance managers face. As the demands are wide and complex, especially the larger scaled companies consider implementing whole teams to work on compliance. This ensures that there is enough expertise on each task, and enough resources are allocated to minimising non-compliance.

Grainger (2016) mentions that even though there is existing literature associated with trade compliance and customs management, there is still an extremely limited number of studies with a focus on the companies and how their in-house trade compliance programs operate. Grainger's study (2016) describes the activities in three categories: logistics support, supply chain management, and compliance. Even though there is existing literature on each category separately, the study of Grainger fluently collects them together to provide a summarized look on the in-house trade and customs compliance management function. In addition, the same study describes the different methods compliance managers utilize in achieving their compliance activities: being approachable in-house and constantly in contact with external stakeholders, wide utilization and improvement of company administrative systems, and outsourcing of activities where it makes sense.

## 4 Research design

The research design provides insight into the decisions made by the study's writer. Its primary purpose is to define methods and procedures for making the study with a clear roadmap (Myers 2013, 2.) However, in qualitative research, such a roadmap is not as clear due to the nature of moving back and forth between different parts of the study (Maxwell 1996, 4). As such, this chapter provides insight by introducing, explaining, and critiquing the choices of this study. As Figure 6 below summarizes, the research approach is introduced first. Next, data collection and sampling are described, which is followed up by data analysis. The final part evaluates the study, and any ethical concerns are introduced.

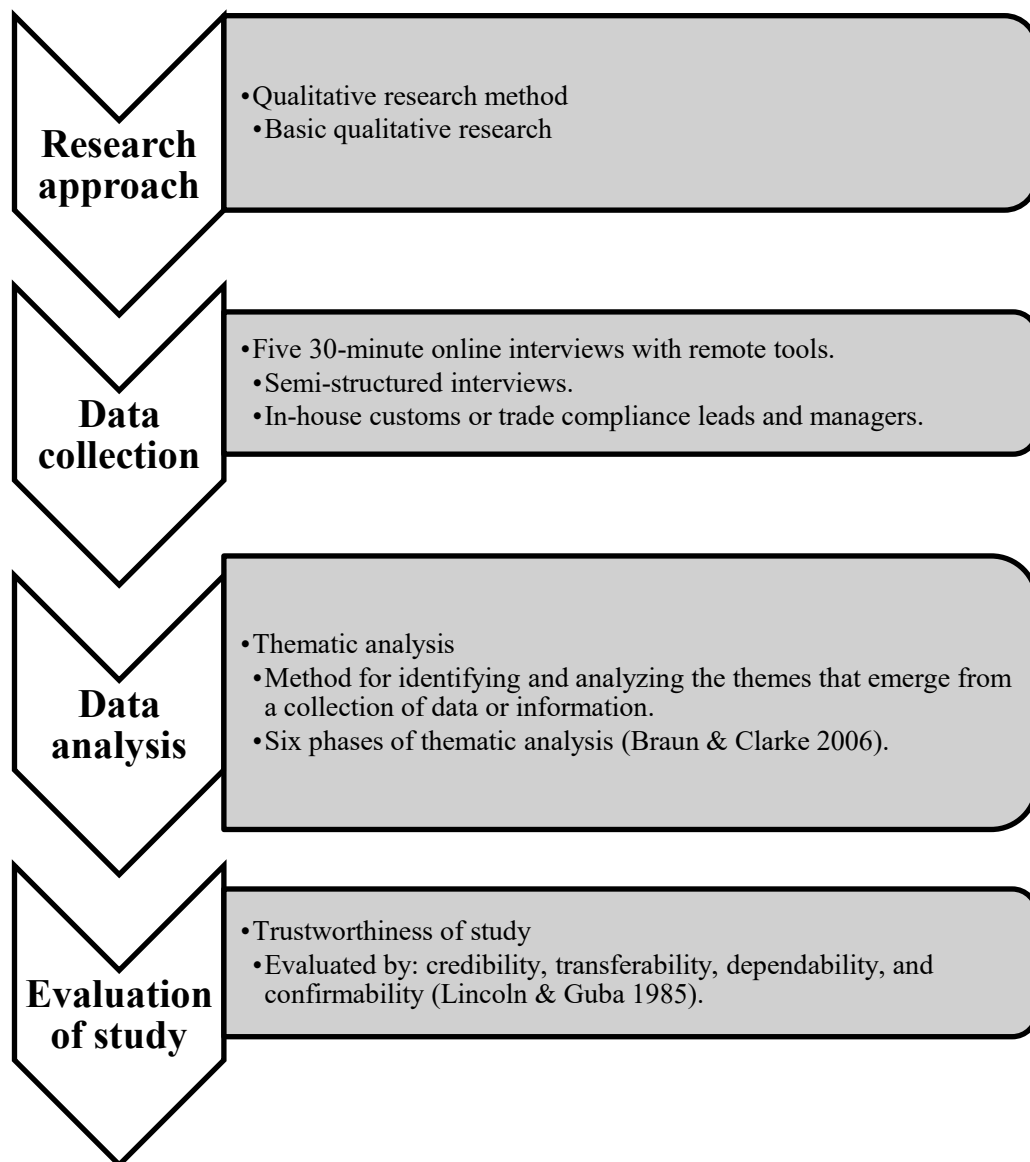


Figure 4 Summary of research design

## 4.1 Research approach

An important factor to consider when conducting research is whether a qualitative or quantitative approach is more suitable for the study's objectives. Understanding both approaches and their applicability is crucial before choosing the most suitable one. The significant distinction between the two methods is in the research techniques and the basis for those techniques. For example, qualitative research methods advocate for small sample sizes and in-depth interviews to understand a particular problem and provide a comprehensive picture of the observed phenomena. Meanwhile, quantitative research methods are based on producing measurable outcomes from large sample sizes and numerical data. (Gauthier & Hawley 2015; Eriksson & Kovalainen 2008, 5; Ghauri & Gronhaug 2002, 87-88.) However, there has been a growing discussion that making a clear distinction between qualitative and quantitative is unnecessary and seeing them as overlapping and complementary as both are sometimes necessary to provide an understanding of a chosen phenomenon (Al-Busaidi, 2008, 12).

Qualitative research consists of three major components: data, the analytical procedure, and the writing of the final report. In addition, it is important for the study to be familiar with the topic which is written and to have research questions that clearly distinguish what type of data will be collected and how it will be analyzed to achieve a relevant conclusion to the study. The study's objective and its study questions determine the methodological decisions. (Arbnor & Bjerke 1997, 8; Ghauri & Grønhaug 2005, 87.) Qualitative research often is based on questions that start with what, how, and why, as they lead to descriptive and explanatory responses that focus on the cause and effect of the phenomenon. These questions are especially common and useful in qualitative business studies, where they can help to explore and understand the dynamics and challenges of various business contexts. (Eriksson & Kovalainen 2008, 4-5, 39; Bryman & Bell 2007, 401, 427.) The research problem and its sub-problems are formulated in this study using similar questions.

Qualitative research has three primary purposes: exploring, describing, and explaining a phenomenon. The study questions require answers in such detail that surveys or any other quantitative approaches cannot fulfil the purpose of this study. (Hesse-Biber & Leavy 2011, 10-14; Lewis, Saunders, Thornhill 2007, 133-134.) In addition, the Grainger study from 2016 supports the qualitative research approach as topics related to customs and



trade legislation require a technical and deep understanding of the topic to achieve long, robust discussion. The topic of compliance, especially in-house compliance, is viewed by many companies as commercially and legally sensitive, which requires establishing trust between both sides. (Grainger 2016, 21.) This study aims to expand and extend the existing theory by considering a wider term of in-house trade compliance. Study of Edmonson and McManus (2007) highlights the importance of evaluating the previous state of studies on the topic. As the topic of compliance is still in a developing state, qualitative research can help in generating new insights and even new theories. This study supports the qualitative research approach as in their study the interview focus was on the management-level as in this study as well.

Qualitative research is focused on understanding how people experience the world. Therefore, qualitative research focuses on interpreting and understanding a selected topic. (Eriksson & Kovalainen 2016, 4-5.) Although it is flexible and focuses on obtaining rich data, there are several different styles to approach qualitative research. Basic qualitative research, phenomenology, grounded theory, ethnography, narrative analysis, and qualitative case studies are the six commonly used strategies in qualitative research. The six various approaches share the fact that they are all qualitative research methods, but what sets them apart is their different focuses, which can affect how the research question is presented. Although a multiple case study approach might be appropriate for this study, it is intended to examine situations within a specific context (Ghauri & Gronhaug 2005, 115). This can be difficult for in-house trade compliance studies because every multinational company approaches trade compliance differently. As such, the structuring and in-house practices can differ significantly (Grainger 2016, 27-28). The most reasonable approach was ultimately decided to be basic qualitative research. Understanding how people interpret their experiences and lives is the primary goal of basic qualitative research. This applies to all other qualitative approaches, but they also have an additional dimension that separates them from each other. As such, already expressed by its name, basic qualitative research is the most generic approach to qualitative research and the most common approach found in education. (Merriam & Tisdell 2015, 22 – 25, 37 – 38.)

## 4.2 Data Collection

The next step was to decide on the data collection approach. Qualitative data can be either gathered with primary sources or secondary. The researchers collect primary data themselves, and secondary is obtained from previous studies. There are various styles to gather qualitative data, including observation, focus groups, case studies, longitudinal studies, surveys, or one-to-one interviews. (Smith 1991, 155; Hirsjärvi, Remes, Sajavaara 1996; Ghauri & Gronhaug 2002.) Primary data for the study was collected with 30-minute interviews utilizing remote tools. Interviews are considered to be the best form of data collection. As such, it was the most suitable collection method. Interviewing is a flexible method of gathering data that enables the interviewer to customize the questions based on the situation and expertise of the interviewee. Customizing the questions helps to construct a stronger relationship, allowing the interviewees to express themselves more flexibly and offer in-depth answers to the questions while including topics that the interviewer might not have considered beforehand. (Hirsjärvi et al. 1996, 194–196, 201; Metsämuuronen 2006, 113.) In addition, it is suitable for data collection in commercially and regulatory sensitive cases as it brings a further level of confidentiality that the views are fairly represented with the proper context (Grainger 2016, 21). This further advocates for this data collection method.

In collecting primary data with interviews, there are common approaches to interviews that researchers can choose between. Standardized and structured interviews have pre-determined questions and follow a clear path that helps the researcher to remain in control of the interview. (Eriksson & Kovalainen 2008.) On the other hand, a semi-structured interview is a more lenient approach to interviewing which is based on themes and pre-determined topics that help to guide the interview but do not limit the flow of discussion with strict pre-determined questions (Galletta 2013, 47). For this study, the most appropriate approach was the semi-structured interview. As the name might reveal, a semi-structured interview, also known as a theme interview, is an interview method where everything builds around themes. Rather than focusing on questions, the interviewer and interviewee discuss pre-determined themes. Open-ended questions ensure a free-flowing conversation where the interviewee can influence the direction of the discussion, which helps bring new insights to the interview. In addition, in a semi-structured interview, the interviewer can ask specifying questions from the interviewee, and the interviewee has

some leniency to affect the interview flow. (Hirsjärvi & Hurme 2010, 47 – 48, 66 – 67, 103.)

The one-on-one interviews were conducted with the help of remote tools and pre-determined themes and questions, presented in Appendix 1. The themes and questions were carefully considered and formulated with the help of the operationalization table, visible in Table 3. It is important to note that the study's original topic was exploring outsourcing of customs compliance activities and some interviews were conducted from this point of view. However during the interviews, it became clear that the topic should be explored on a broader scale. As the interviews were conducted semi-structured, the gathered data facilitated the subject change. However, trade compliance is a more general term that considers customs compliance as one aspect of trade compliance. The lenient approach of semi-structured interviews allowed the interviewees to contribute to the study by providing their experiences on trade compliance overall. Before the interviews, the opportunity to review the study questions was presented, or a summary on the study was provided upon request. Compliance and customs-related topics are commercially and legally sensitive. Therefore, the interviews were held one-to-one and complete anonymity was provided to the interviewees (Grainger 2016, 21). Any points or sections requested to be omitted were erased and excluded from the analysed data.

The operationalisation table was created to ensure that the important subjects of this study would be covered. Due to the semi-structured nature of the interviews, interviewees could include topics that they felt were relevant to the study and provide more insight on questions. However, the operationalisation table was an excellent tool for the researcher to focus on the most relevant subjects and keep the interview time effective. The operationalization table that helped to define the questions of Appendix 1 can be seen in the table below. The operationalization table was reformulated as the change of topic took place. However, the theory on which the questions were based remained the same. According to Eskola and Suoranta (1998, 75) the goal of the operationalization table is to bring theory closer to practical life.

Table 3 Operationalization table

Main research question	Sub-questions	Theoretical background	Themes
What is the role of in-house trade compliance in multinational companies	What is trade compliance?	2.1; 2.2; 2.3	Trade environment; Compliance stakeholders; Compliance Education and work experience
	What are the core activities of in-house trade compliance?	3.1; 3.2	In-house trade compliance; Compliance management solutions; In-house stakeholders; Trade control
	How is trade compliance structured in-house?	3.2; 3.3	Outsourcing; Automation; Business markets; Global teams; Market teams

The data was collected from five multinational companies in different industries and countries. The criteria of suitability was based on 2 factors, (1) the company has an in-house trade compliance team and (2) such an in-house team is based in Europe. Before this, one preliminary email interview was sent to receive feedback on the questions. All interviewed companies have their headquarters within the European Union. At the moment of the interviews, all interviewees were part of their retrospective global customs or trade compliance teams in different positions. The questions focused on the background, current role and personal opinions on trade compliance or customs compliance. In addition, experiences on outsourcing were asked, and discussions moved towards centralized and decentralized teams if there was not much outsourcing. The first four interviews were executed between the 4<sup>th</sup> of February and the 2<sup>nd</sup> of March. The final interview was on the 15<sup>th</sup> of December. At the time of the interviews, all interviewees were part of a global team of their retrospective customs or trade compliance teams.

Table 4 Summary of Interviewees

Position	Date	Duration
Customs Lead, Global Customs	04/02/2022	38:38
Director, Trade Compliance	18/02/2022	31:18
General Manager, Global Customs	25/02/2022	25:12
Director, Global Customs	02/03/2022	29:54
Global Trade Compliance Specialist	15/12/2022	54:02

All interviews were conducted remotely via different video call services based on the interviewee's preference. All interviews were conducted in Finnish, but English was used if there was a lack of Finnish terminology on specific topics. Interview topics or questions were provided in advance upon request. All interviews were audio recorded with permission from the interviewee. Every interviewee was informed in advance and again before the interview that complete anonymity would be provided.

### 4.3 Data analysis

In qualitative research, data analysis plays a critical role. Its purpose is to collect data and make it clear to understand so that new insights can be drawn from it. More precisely, data analysis facilitates that relationships, similarities, and differences within the collected data can be identified, themed, and utilized. In qualitative research, a significant amount of data is gathered, so the researcher must determine which data is relevant to the study without introducing bias. As a result, the researcher's involvement is highlighted. The data must be evaluated so that the researcher's personal beliefs and experiences do not negatively impact the study. An excellent tool for this is clearly identifying and articulating them for the reader in the preliminary hypotheses. In addition, the researcher should be open and prepared for unexpected outcomes during the data collection. (Eskola & Suoranta 1998, 19-21, 138.)

Thematic analysis will be the selected approach for data analysis of the gathered semi-structured interviews. According to Bogdan & Biklen (1997), thematic analysis is one of the most popular qualitative research methods to conduct data analysis. Braun and Clarke (2006) provide insight on the process of thematic analysis. It aims to provide methods that find patterns within the acquired data. As thematic analysis is flexible, the researcher

should set clear guidelines. Furthermore, thematic analysis helps readers understand how the analysis is conducted as it follows a set number of steps, which are presented in the table below.

Table 5 Six phases of thematic analysis (Braun and Clarke 2006)

1. Understanding the data
2. Generating initial codes
3. Searching for themes
4. Review of created themes
5. Clearly defining themes
6. Producing report

Using thematic analysis as the data analysis method provides further transparency as it allows the reader to understand the process of analyzing the data. To understand the data (1), each interview was listened to thoroughly and heard again while creating the transcriptions. To help transcribe the data, Microsoft Word's dictation tool was utilized. After this (2), answers with similar characteristics were highlighted by colour coding or circling reoccurring terms, which helped formulate themes in the latter stages. Then (3), such themes from the interviews were compared with the previous literature to evaluate what themes stood out in both. After this (5), the final suitable themes were considered and decided, and (6) the report was produced. The findings are discussed in chapter five.

#### **4.4 Trustworthiness of study**

This chapter focuses on evaluating the trustworthiness of the study. Trustworthiness refers to the degree of confidence in the collected data, interpretation of collected data, and methods used to ensure the quality of the study. Each study should establish and express clear criteria and procedures to inform readers that the study is worth considering, the results can be trusted, and the study includes minimal bias. (Connelly 2016, 435.) The traditional approach would consider the trinity of validity, generalizability and reliability, which are all important components of trustworthiness in a study. (Miller 2008, 909; Merriam & Tisdell 2015, 237, 250.) Validity determines how well the researcher managed to fulfil the original purpose and objectives of the study. Generalizability often aims to draw generalizable conclusions that can be applied to a broader population which in the qualitative context may not be possible. The third of the trio, reliability defines the degree

on which the findings of the research are possible to replicate if the study is repeated as closely as possible. Especially in qualitative research, the focus on reliability is on consistency, and a margin of variability in results are tolerated. (Leung 2015, 325-326.) In addition to the previous two, the ethical implications of a study also have an important role as it affects the integrity and usefulness (Connelly 2016, 436). It is important to choose a group for the study that can articulate their experiences on the topic. As the creation process of qualitative research doesn't progress linearly, the study writers thoughts also have a valuable role in evaluating its trustworthiness. (Eskola & Suoranta 1998, 209). Most agree with the necessity to evaluate trustworthiness, but the debate is around what constitutes trustworthiness. (Connelly 2016, 453). The traditional approach, which considers the trinity of validity, generalizability, and reliability, is more suitable for quantitative research, which aims to produce objective and generalizable results that can be replicated and tested using statistical methods. In qualitative research, the data collection, analysis process, and evaluation often happen simultaneously. The researchers own opinions have a role in evaluating trustworthiness. (Eskola & Suoranta 1998, 209). The criteria outlined by Lincoln and Guba (1985) recognize the distinctive features of qualitative research and provide a more comprehensive and flexible framework for evaluating the rigour, trustworthiness, and quality of qualitative research. Qualitative researchers widely accept the criteria and, as such, will also be followed by this study.

Lincoln and Guba (1985) suggest approaching the evaluation of trustworthiness with four criteria: credibility, transferability, dependability, and confirmability. Credibility, also called confidence in the truth of the study, refers to the extent of how well the researcher can provide faithful and accurate description of the reality. Transferability explains how well the study results apply to people in different settings. Dependability again refers to how well the data remain relevant over time. The focus is on whether the same results can be obtained again if the study is replicated by other or the same researcher. Finally, confirmability examines how neutral the researcher can remain and will the finding be consistent and repeatable. The goal is to ensure that the result reflects the study itself and not the biased views or personal interests the researcher could have. (Lincoln & Guba 1985, 291, 300-327; Connelly 2016, 435-436. Each of the criteria will be evaluated further below.

*The credibility* of this study can be evaluated as sufficient. The researcher's background provided the necessary basic understanding of the subject before the study was started as

the researcher worked in the relevant field. Each interview was conducted with remote tools in separate sessions, so the interviewees felt comfortable sharing their experiences. The interviews were conducted in Finnish as it was deemed natural, even though each interviewee was fluent in English. English was mostly utilized to describe key terms as some terms do not have a correct direct translation in Finnish (e.g. trade compliance), such terms did frequently occur in each interview. Each interview was voice recorded with the permission of the interviewee to go through the data several times, which indeed helped to analyse the data better. To confirm that the interview corresponded with the study's objectives, a theoretical background with an operationalization table was used to guide the interview questions and their structure. However, credibility was affected due to the change in the direction of the study, as the focus shifted from customs compliance and outsourcing to a more general focus on in-house trade compliance. As the emphasis changed after a couple of interviews, the focus of the data might not equal some aspect of trade compliance. Nonetheless, the discussions often shifted naturally towards a more general discussion of trade and customs compliance.

*The transferability* of the study may present some challenges and can be questioned. The study aimed to bring a comprehensive view on trade compliance, the in-house activities of the trade compliance team, and the structuring. However, the organisational approach with in-house trade compliance varies between companies. It can be said that each company has their style to trade compliance and the structuring depending on what goals are set for trade compliance. In addition, the companies of this study operate in different sectors, have different products, and have different compliance obligations that all affect the approach to trade compliance. But overall, the trade compliance activities mentioned in the literature appear in each sample company. Therefore, the topic needs more studies and sample companies to confirm that it is generalizable. All in all, transferability is limited due to the structuring differences of interviewed companies and anonymity provided due to being a legally and commercially sensitive topic.

*The dependability* of the study is adequate. The data was collected with interviews, but before this, one pre-interview was conducted to get feedback on the interview questions and gather some additional data before the actual interviews. Since interviews have collected the data the reliability has faced some negative influence due to interviews being generally subjective. Subjectivity was considered in advance, during and after the interviews to ensure the study was with minimal bias. (Lincoln & Guba 1985, 300, 316-



317.) The operationalization table has been presented for the reader to evaluate the question used in the interviews. The question presented was designed to serve the purpose of the study and were based on the theory chapter. This was to ensure that the researcher remained as objective as possible. However, as previously mentioned, the change of direction had an effect on dependability as the focus changed mid-interviews. But this change of direction would not influence the study design, data collection method, or the data analysis itself.

*The confirmability* of the study is fine. At the moment of the study, the researcher worked in a related field, which might lead to some bias on some aspects of trade compliance. To limit the presumptions and biases, the interviews had pre-determined questions, and the interviewees' expertise left little bias in the data. The research process and utilized methods are presented, as well as the operationalization table and the interview questions. This allows others to recreate the study and the research path to some degree.

#### **4.5 Ethics of the study**

Ethics examine the rational justifications for moral judgements. The focus here is on research ethics that refers to any situations where there are moral considerations on the appropriateness, fairness, and reasonableness of a study. The questions to be asked are how researchers should treat the people whom they study, are there unethical activities that researchers should avoid, and what are the responsibilities of the researcher to ensure high standards of ethical level in their study. (Bell & Bryman 2022, 112.) As such, ethical frameworks provide the necessary foundation to evaluate between right and wrong while facing an ethical problem (Wiles, 2013).

All studies must consider and discuss ethical principles on some level. This study followed the ethical guidelines suggested by Wiles (2013), which include informed consent, anonymity, confidentiality, and risk aversion. Each interviewee was contacted either via email or social media called LinkedIn, the message included information on how the interviewee was found, what the study was about, and a request to suggest a suitable date for an interview if they found time to participate in the interview. In cases where the interviewees were interested about the questions, the list of questions was provided. In the email and again, before the interview, the participants were reminded that they would be completely anonymous. Each participant was requested for consent to

record the interviews. After this, they received an explanation on how the collected data and interview material would be used in processed for the study.

In consideration of the sensitivity of the topic, the identities of the participants were not disclosed. Any unnecessary statements that would not bring the study any more value was excluded from the analysed data, as such fulfilling the criteria of confidentiality. The backgrounds of the participants were discussed only on a common level which ensured that the interviewees remained anonymous. To avoid any unnecessary risks, no companies or their related fields were mentioned to avoid detectability. Only their titles were described broadly to provide context for the reader.

Ensuring the safety of participants is another important research practice. As the study was conducted during the later phases of the COVID-19 pandemic, it was vital to ensure the safety of each participant. This was ensured by conducting all interviews with remote tools in a confined space to ensure no risk of eavesdropping could happen. The study itself posed no risk to the participants as the interviews were specifically made to avoid any commercially or legally sensitive questions.

All the material was conserved securely. Data was securely saved on the computer and deleted immediately according to appropriate methods after the material was no longer required. The printed copies were destroyed by getting rid of them in the information security bins.

## 5 Findings and analysis

This chapter presents the analysis of collected empirical data. The purpose of the chapter is to provide a comprehensive analysis of the research findings, highlighting the key patterns and themes that emerged from the data. The data collection samples are from experts of their affiliated companies' in-house trade or customs compliance. A summary of their retrospective positions with the operationalization table can be found in the 4.2 data collection – subchapter.

During this point of the study, it is supportive for the reader and writer to recall the purpose of the study. The study's research question was determined as “*What is the role of in-house trade compliance in multinational companies*”. This study aims to understand the role of in-house trade compliance and how it operates in multinational companies. As such, the sub-questions are presented as:

- *What is trade compliance?*
- *What are the core activities of in-house trade compliance?*
- *How is trade compliance structured in-house?*

These questions provide a comprehensive understanding of trade compliance in multinational companies, including what it is, what it involves, and how it is structured and managed within the organization—as such, answering the main research question.

It is important to note that the beginning stages of the study, especially the third sub-question, focused initially on outsourcing trade compliance activities. However, during the latter stages of the literature review and especially during the interviews, it turned out that outsourcing trade compliance-related activities is relatively minimal and only applicable to processes associated with documentation or filing simple declarations. Moreover, even those processes are overseen by in-house personnel. Therefore, the third sub-question was modified to explore the structure and hierarchy of in-house trade compliance teams.

### 5.1 Compliance in trade

Compliance in global trade can be challenging due to the complexity and ever-changing regulatory environment. Therefore, multinational companies participating in cross-border

trade should consider implementing in-house trade compliance functions or programs to oversee their trade – and supply chain operations. Trade compliance activities are strongly visible in the supply chains, especially with risk control and actions taken after non-compliance has been noticed. Especially in the interviews a remark was made that usually more compliance staff is recruited especially after a mistake has occurred. So, it can be said that hiring in compliance is precautionary but sometimes also reactionary. Based on the recruitment advertisement you can get a good view of which part of the company there are compliance challenges. This does occur more frequently in companies which have their trade compliance programs in the early stages.

“It is interesting to browse through job advertisements on trade compliance, as you can sometimes see the reason for a sudden new position. Often this is a reaction to a compliance-related mistake that has happened.”

A trade compliance program can bring several benefits to the company, not only from a regulatory standpoint. For example, trade compliance can enhance competitiveness through preferential agreements and lowering customs duty and tax burdens. Based on the literature, trade compliance, in simple terms, is the practice of ensuring that a company’s international trade activities are following relevant laws and regulations. In many cases, customs compliance is an integral part of trade compliance. However, trade compliance goes beyond customs compliance and involves understanding and following other laws and regulations related to international trade. In comparison with the literature, there are similarities but also some disparities in how trade compliance is seen. Both the interviews and the literature do highlight the special importance of customs compliance for trade compliance. An excellent example of this is the interview-based citation below which highlights the role of customs compliance.

“There cannot be a trade compliance function without including customs compliance within it.”

Especially in companies with bigger teams, there was more discussion of the value that trade compliance provides. It is seen as a value-providing function, this was especially noticeable with the constant trade compliance projects with the companies. In companies with smaller-sized trade compliance operations, the function was seen as a mandatory function and there were much fewer projects going on. This can also be explained by the limited resources they have.

Compliance activities are an essential part of modern business operations. Ensuring that trade is facilitated, optimized and compliant are all important factors of a successful business. However, the degree of in-house trade compliance implementation depends on the business and company size. Smaller companies rely on third-party logistics providers for their export and import-related compliance. While larger-sized companies tend to establish logistics departments that operate with global trade, which for them, is a practical way of ensuring compliance. In most interviews, operative manual compliance activities (e.g. customs clearance) were the responsibility of logistics teams with the help of third-party forwarders. As a result, the tasks of in-house trade compliance focused on more of the advisory role. This was especially noticeable in companies with big teams, this is most likely due to the advanced level of trade compliance. In smaller teams, there was more focus on the operational tasks but even in those, there was discussion on moving towards an advisory role. As such, it can be considered that compliance roles are heavily moving towards consulting specialist roles and the manual tasks are either outsourced or managed by the logistics teams. This supports the argument of the core goal of trade compliance: ensuring compliant trade.

“Trade compliance is about ensuring and taking care that we’ll be doing this work tomorrow as well.”

To ensure compliant trade, the focus of trade compliance should be on developing and harmonizing processes. This is noticeable as each company had projects ongoing to improve information flow and improve internal monitoring of compliance activities. Monitoring third parties acting on behalf of the companies were under monthly reviews to ensure compliance. Although compliance includes legal obligations, it also provides strategic advantages for companies that want to succeed in the global market. By being compliant in trade, companies can ensure that they will be able to continue their global trade operations in the future and benefit from the opportunities and challenges that global trade presents. The compliance function should be primarily an advisory role to ensure the resources allocated are effectively utilized. Doing manual work such as customs clearing rarely brings any additional value to the companies. The next citation summarizes quite well the consensus on manual activities.

“I don’t see a lot of added value in bringing manual work back as an in-house activity. As discussed, I think that in the near future, manual work will disappear or will be significantly reduced during a certain time frame. But the consultative activities will remain.”

The development towards the advisory role was supported by automation tools, which were a popular topic amongst the specialists. Automation was seen as a solution to the waste of resources as much less time would be spent on surveillance of activities and more focus could be allocated towards consultation of special cases. Another important factor was the harmonization of teams as companies face challenges of ensuring coherent compliance globally if each team has a different approach to trade compliance locally. This challenge was addressed by most companies by having a global team setting the global standards that each team must implement in their local trade compliance programs regardless of the market they operate in.

## **5.2 In-house trade compliance**

In the development of trade compliance programs, there should be a consideration on what activities should remain in-house and what is more efficient to outsource. In theory, anything can be outsourced but it does not necessarily mean it should be done. As with any activities that are trusted to a third party, the responsibility in the end remains within the company.

“You can outsource responsibility, but you cannot outsource accountability.”

In-house trade compliance is an advisory role and includes operational activities. In-house teams not only provide consultation on compliance issues but actively participate in implementing compliance measures. In the interviews, the most typical activities were recognized as tariff classifications, valuations, license management, screening of stakeholders, and resolutions of compliance incidents. Negligence of the operative side can cause the risk of losing oversight of business operations. As such, it should be close to business decision-making. This underlines that trade compliance should be involved in all aspects of the business, from sourcing new markets to the execution of trade transactions. Especially the management side of the operational processes should be in-house, as the following quote from one interview highlights.

“We didn’t have an oversight of what happened with the third parties (customs processes). As we didn’t have control over the processes, it was difficult to say what was happening in them. The technical execution can remain with third parties, but the management of such processes should remain in-house.”

Each of the 8 key activities of trade compliance presented by Melia (2019) was present in the activities of trade compliance managers. Especially, activities such as valuation and tariff classification were mentioned as essential activities in the majority of the companies and were the direct responsibility of trade compliance teams. In other activities such as incoterms, preferential treatment, and customs management the trade compliance teams have a more managerial and consulting role overseeing that they are conducted correctly. For other activities such as licence management, export controls, and screening the trade compliance teams are not necessarily directly involved but provide important input on them. The outsourcing was focused on moving activities that are manual work and do not necessarily require specialised expertise. This is especially the case for customs clearances where all the necessary data is provided in advance to the third party and their task is to manually report them. So, in such cases, the role of trade compliance experts is to define the classification, incoterms, and possible valuation in advance. Even these tasks can be reduced with advanced ERP as the once-determined classification instructions will remain for similar future cases. As such, it is important to ensure that the trade compliance programs have the necessary resources to implement projects that streamline data transition from in-house to third parties. Trade compliance teams should focus on the consultative role and constant development of trade compliance programs. Outsourcing the consulting activities is not necessarily effective as it is extremely demanding work for third parties that do not necessarily understand everything that happens in-house. At the bare minimum, it is suggested to keep a global trade compliance team in-house that will oversee all compliance operations. Two main groups of activities arose: operational activities and managerial advisory activities. Although during the interviews, it was common that the higher position trade compliance positions are specifically advisory as they bring the most value for companies, the operational activities are often conducted by local market teams, other departments such as logistics, or outsourced with cooperation with logistics.

One of the key themes that emerged from the interviews was the role of automation for compliant trade. Most interviewees indicated they were involved in or planning some projects related to automating trade or supply chain-related activities. These projects included automating the exchange of customs import and export documents and information among internal and external parties and enhancing the automation of tariff classification of traded goods. Ongoing projects on classification were mentioned in

several interviews as this would reduce manual work significantly. In addition, they were part of many projects happening within the supply chains. The interviewees also foresaw that the automation of tools and the transition to electronic documentation would reduce the operational tasks for in-house trade compliance but not the accountability for accurate documentation and reporting. Currently, in too many of the interviewed companies, the data transition between companies and third parties is executed to some degree via email communication in export or import activities. This is not an effective approach and causes unnecessary work and has a risk of human error. In addition, archiving of such documentation and data has to be done manually. They identified processes such as classifying goods, valuation, preferential issues, screening, and export controls as core activities that would remain in-house in the future. They also emphasized the need to keep updating such processes in response to changes in the business environment. The main implication is that automation would enable a further shift from manual work to preventive and post-control advisory roles utilizing IT systems.

Trade compliance programs challenge companies to consider how they do their business daily and in the long term. Considering how companies can further improve their compliant business brings them many benefits, especially with the reduction of supply chain risks. Compliance in companies is receiving more recognition as companies are expanding their trade compliance teams and some are even planning on doubling their team size in the future. This highlights the demand for compliance experts in the field. As the activities are demanding and require specialised expertise, trade compliance experts typically have a degree in either business or legislation, with a higher-level education. Based on the interviews, the most typical way to gain experience in trade compliance was by working in government compliance-focused administrations or building a career in big consulting houses that provide customs and trade compliance services. An especially important skill is to interpret the law for the benefit of the company.

“The base of competence is built around the capability of interpreting law and regulatory requirements and shaping business processes around this. It requires a certain level of understanding of law literacy, but the customs compliance competence was gathered largely through daily work.”

Customs and compliance expertise for multinational companies within the EU is concentrated in the Benelux area and is the go-to area for acquiring know-how and trade compliance experts. As such, many companies have centralized compliance teams in this



area, especially the global compliance teams. It does make sense as the Benelux region is the logistics hotspot for Europe and compliance is strongly associated with logistics.

“Trade and customs compliance expertise in Europe is heavily concentrated in the Benelux area. The majority of multinational companies have their primary trade compliance teams located either in the Netherlands or Belgium and then have smaller teams or even one person in other countries.

Trade compliance teams cooperate with several in-house departments, such as logistics, finance, sales, and law. In addition, there are external parties such as the customs authorities and different regulatory administrations. To cooperate with such functions, several years of experience is required to succeed in such consulting roles. This was highlighted in the interviews.

“To be in an advisory role, you need experience of a few years to advise sales on how they should negotiate their logistics, incoterms etc.”

As the trade compliance programs are demanding companies prefer to build such programs area specifically. This is due to the regulatory differences between market areas. For example, an EU-specialised trade compliance expert might not necessarily succeed in the Asian market as they will lack the contacts and regulatory know-how in the area. As such, hiring a local expert or experts is the typical approach of companies. However, the global guidelines are still set by a centralised team that oversees that the company strategies are implemented correctly in each market area they operate.

### **5.3 Structure of in-house teams**

The structure of in-house trade compliance depends on the specific requirements and objectives of the company. However, some key elements are usually present in the structuring. For example, a common way to structure the trade compliance function is to split responsibilities into global and market-specific teams or managers. Some market team tasks can be performed by logistics teams, market-specific managers, or outsourced to third parties. This specific approach to in-house trade compliance emerged in several interviews. In short, the global teams focus on creating and overseeing guidelines for trade compliance, and market-specific teams implement, support, and oversee the compliance processes based on the guidelines.

As mentioned above, global trade compliance teams focus on overseeing the development and implementation of the organisation’s overall strategy and policies for trade

compliance. Often under the finance function, this team collaborates with senior management to ensure that trade compliance is aligned with the broader business strategy and that the company's trade activities comply with trade laws and regulations. The global trade compliance team also advises and assists the market area teams in implementing the global guidelines and can advise on more complex trade compliance questions. Such teams tend to be centralized on some level, usually in the same country as the head office. However, the members of a global team are not necessarily working in the same country but can utilize remote tools. Besides setting global guidelines, the global trade compliance team can perform other trade compliance activities, such as valuation, legal advice, supply chain optimization, customs operations, and systems integration and implementation. The tasks vary depending on the company's industry, markets, and available resources.

Implementing trade compliance policies and procedures within specific geographic regions or market areas is the responsibility of the market area teams. These teams collaborate with local customs authorities, regulatory bodies, and other stakeholders to ensure quick reactions to trade regulations and offer guidance and support to employees and other stakeholders on trade compliance issues. Moreover, the market area teams monitor and track the company's trade activities within their assigned region or market and report any potential compliance issues or risks to the global trade compliance team. Market-specific teams may also work closely with forwarders. Forwarders often have extensive knowledge of the various trade regulations and requirements that apply in different markets. Such third parties also have ready systems for customs clearance. As a result, they can provide valuable assistance to trade compliance teams in ensuring that a company's import and export activities are efficient and comply with regulations.

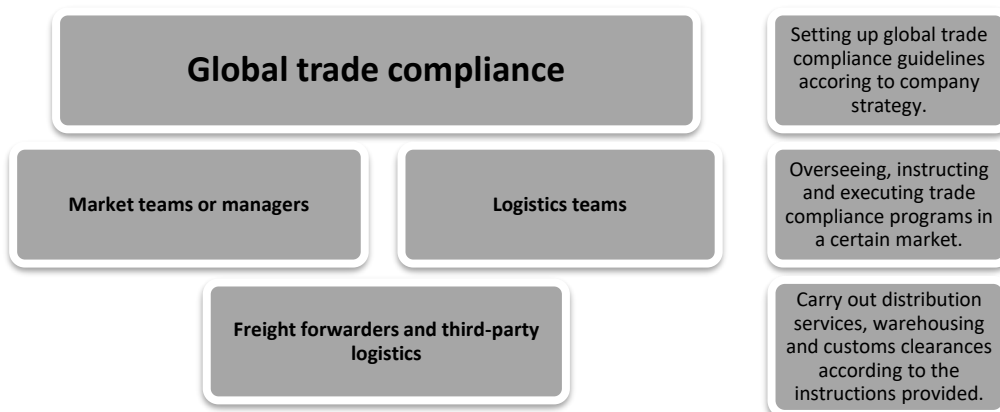


Figure 5 Summary of in-house trade compliance structure

## **6 Conclusions**

This chapter provides conclusions based on the study's main findings and discusses how they contribute to existing studies of trade compliance. The goal was to get insight on what is in-house trade compliance. The findings are presented and organized according to themes that emerged during data analysis. The data analysis was conducted with an abductive approach which had constant dialogue between the relevant literature and empirical data. In addition, the practical contributions are considered, as well as the limitations with suggestions for future studies.

### **6.1 Theoretical contributions**

Existing literature acknowledges that there is a lack of research and complete understanding of company trade compliance programs. This study focused on providing insight into the in-house trade compliance function and how it is structured. The literature focused on trade compliance, the in-house managers and compliance overall with an emphasis on customs compliance. Based on the literature a theoretical framework was created with three sub-questions to answer. Then the data was collected to answer said sub-questions. With the examination of three sub-questions, the study can provide a comprehensive insight into multinational in-house trade compliance operations that confirms the limited existing literature on the topic while providing more knowledge to the field. The observations made based on the literature review were confirmed and recognized within the study, at the same time some new relevant elements were included.

The literature does discuss trade compliance and customs compliance. On many occasions, the literature mixes these two terms as there is still a lack of a clear definition for both. However, it is important to highlight that customs compliance is a part of trade compliance which is a wider term for the function. For example, under trade compliance, there can be a law function or VAT team in addition to customs while under customs compliance there is usually a team focusing purely on customs-related topics. As such many companies name the function as global trade and customs compliance to make it clear.

From the literature, the study of Grainger on Customs management in multinational companies (2016), which focused more on the management and typical activities for customs experts emphasises the broad range of different know-how and skills required to

succeed as a customs manager. As such the study tried to expand on this by examining the backgrounds of the trade compliance management and how they have ended up in their positions. The empirical data showed that trade compliance managers are highly educated with skills gathered working in challenging and constantly changing environments. Most of the skills required are developed working in either consulting houses, government agencies or growing within a multinational company. Melia's article on trade compliance presents eight prominent activities of trade compliance. This thesis aims to confirm that these activities are part of the in-house trade compliance operations. While each activity was present in the interviews, there were differences in who was responsible for them. It is worth mentioning that there was not a lot of discussion in previous literature about the two levels of activities, the managerial and operational. However, the consensus was that in the future trade compliance will move towards a more consulting approach within companies. Currently, the activities mentioned are usually split between global trade compliance and market teams. How the activities are split between global and market teams differs from company to company, but the activities were still present in each interview. However, a typical pattern was that more of the operational, especially manual activities, were responsibilities of the market or logistics teams. Such teams were then responsible for informing and overseeing that outsourced parties worked according to the company's instructions.

The structure of trade compliance has not been directly discussed in the literature but it is mentioned indirectly, especially in supply chain security-related literature. This highlights that it is a valuable part of the supply chains, especially from the viewpoint of security. The literature positions it under the finance function and this was indeed confirmed with this study. In most cases, the highest-ranking trade compliance manager reported directly to management. This study especially contributes to trade compliance literature by providing insight into what kind of in-house trade compliance teams exist. Many previous studies have focused primarily on the activities of in-house customs managers, and the perception of how the in-house teams are structured and how their tasks are split has not been addressed.

## **6.2 Managerial implications**

Along with the theoretical contributions discussed, this study provides insight into trade compliance that can be especially useful on the managerial level seeking to develop or

evaluate their in-house trade compliance operations. Three key points can be drawn based on the findings of this study: (1) trade compliance should be considered as a strategic business function. (2) Companies should hire qualified trade compliance professionals. (3) Companies should invest in their trade compliance programs.

Trade compliance while being a valuable function might face challenges in establishing performance metrics. While it is involved with several functions that have opportunities to save costs or improve efficiency these are not necessarily the metrics companies should focus on in evaluating compliance performance. While having challenges in presenting metrics to the management, the trade compliance function may suffer from reduced investment in future projects such as automation which is valuable for improving compliant activities. Easy options would be to focus on measurable activities such as the number of declarations, duty savings, or the number of penalties and their reductions but all of these do not provide the true oversight of trade compliance performance. As trade compliance is a multilayered function, no single metric can evaluate its performance. However, more focus should be towards compliance activity metrics which are the core of trade compliance. Such metrics can be around the amount of compliance development projects teams participate in, the number of audits completed, time spent with customs authorities and other government agencies, or even the amount of saved resources in effectively utilizing third parties. Another issue is the preventive nature of compliance, if everything is done compliantly, trade compliance won't necessarily be quite visible. As such, for trade compliance to reach its potential it is important for companies to see it as a strategic function and should be close to the management. This will ensure that trade compliance is aligned with the business strategy, and it can have a positive influence on all parts of the business.

For in-house trade compliance to be effective it demands competent people leading it. Especially important skills are knowledge of trade regulations, the ability to apply trade regulations to business processes, experience in working with government agencies, and excellent communication and interpersonal skills. In addition, it is important to make sure the values of the company and candidates match as they will oversee the compliance processes. There can be challenges in finding competent personnel for the job, as such it is important to choose the location wisely, especially for the global trade compliance team. A strong suggestion is the Benelux area which already has a strong concentration of compliance experts and compliance-related consulting houses in addition to Benelux

being in the central area in Europe making it convenient for multinational companies. Another working solution is developing people in-house who understand the company and its culture. By taking in fresh graduates the companies have the unique opportunity to develop them in skills valuable for the company. This does require identifying the skills required, developing training programs, and mentoring the candidates but this should not be anything that would be new for multinational companies. Such activities bring opportunities for companies to further cooperate with local universities in developing trade compliance programs. In addition, to having a larger pool of candidates, cooperation can improve the positive reception of the company among fresh graduates of the partner university.

Investing in trade compliance brings more value compared to the cost. In its way, this continues from the previous key point of investing in competent people. Competent people need the right tools to succeed. Especially in trade compliance, there are still many inefficiencies in the daily work. Many activities are still processed daily with emails, documents are archived, and data transmission overall is done manually. Used resources could be saved by either partnering with a third party, creating global instructions or automating processes in-house. Some of the benefits in investing towards automation are: increased efficiency, reduced risk of error and human mistakes, improved reporting accuracy, and increased overall insight on processes. Especially for automation, there are direct opportunities in classification, valuation, documentation, or screening and this is already in operation in many companies, especially the ones with developed trade compliance programs. Outsourcing will free up resources towards other trade compliance activities, but it won't be effective without effective management and automation tools. Third parties still need to be instructed correctly and monitored so that they complete their tasks in a compliant manner without mistakes in reporting. Further monitoring must be implemented especially to ensure that all preferential treatment based on classification is ensured. This is where automation has a significant role in monitoring and informing compliance management. Investing in outsourcing with automation is the key to ensuring efficient, cost-effective, and compliant trade operations for the company.

### **6.3 Limitations and future research**

Chapter 4.4 discussed the trustworthiness of the study. One of the study's main limitations was the change of direction after a few interviews were conducted. In addition, the differences between industry and markets lead to different approaches to in-house trade compliance. Finally, the resources to conduct this study were limited, both resource and experience vice, as it usually is with a master's thesis. Only five interviews with companies in different industries were conducted, a relatively small pool to draw generalizable conclusions.

There is limited research on trade compliance, and many studies focus only on customs compliance. However, there is a clear link between trade compliance and customs compliance, in which customs compliance can be seen as a part of trade compliance. Therefore, future studies should focus on trade compliance to provide more insight into the topic. A couple of suggestions for future research are provided. First, future research should focus on companies in similar industries and markets as the regulatory environment changes significantly based on the area market and industry requirements. In addition, future research should have a larger pool of interviewed individuals and companies to ensure generalizability. Finally, the research should be repeated on some levels from time to time to ensure that there have been no significant changes in trade compliance, as the regulatory and trade environment can change dramatically even in a short time frame. In addition, a study that would focus on combining automation and outsourcing in trade compliance could be really valuable for companies.

## 7 Summary

This study aimed to explore the role of in-house trade compliance in multinational companies and gain insights into how it operates within the context of global trade. Trade compliance ensures that business is conducted according to regulatory requirements and has various activities such as tariff classification, preferential and non-preferential treatment, incoterms consultation, license management, export controls, customs management, screening, and valuation. These activities are critical to ensuring that companies comply with local and international trade laws and regulations and avoid penalties or problems in their supply chains. However, academic research on this topic remains relatively limited despite the acknowledged importance of trade compliance to efficient trading operations and global supply chains. This study aims to address this research gap and promises insight into the role of in-house trade compliance in multinational companies.

In-house trade compliance is both operational and, at the same time, advisory. Such positions require competent personnel and as such majority of the compliance management has a higher education in either law or business. Many gather their know-how by working in entry-level positions starting from operational roles and with time growing towards consultative roles. However, trade compliance is constantly developing towards being an advisory role primarily. This development is made possible with automation, different IT compliance systems, and outsourcing. It is important to note that many projects that trade compliance teams participate in are targeted to facilitate operations of other functions, such as logistics. Rarely are the projects towards the automation of the in-house trade compliance function itself. Still, there are instances where automation can support the in-house compliance teams, especially in audits, monitoring and other risk controls. Routine administrative tasks may be outsourced to external partners and in-house automation tools can be utilized to forward necessary data. However, responsibility remains with the company, and the management level should be in-house.

The study acknowledges that the approach to in-house trade compliance may vary across different companies and industries. In addition, each company may have its unique perspective on trade compliance, influenced by factors such as industry regulations, organizational culture, and risk tolerance. Therefore, it is important for companies to



carefully consider their specific trade compliance requirements and tailor their approach accordingly.

The research methodology employed in this study involved qualitative research methods. Data was collected through semi-structured one-on-one interviews following ethical guidelines. The open-ended interview questions are based on the themes identified in the operationalization table and the theoretical framework—however, the original questions focused on customs compliance which then were modified to suit the study better. The interviews were conducted in 2022 with multinational companies that had a higher probability of having in-house trade compliance teams. The data collection involved conducting semi-structured audio-recorded interviews with the interviewees' consent. The data was analysed with the help of thematic analysis, which focuses on common themes and patterns.

The study's findings were consistent with the previously existing literature. However, this study included more insight into the structure of in-house trade compliance, which has not been included in previous studies. This research concluded that multinational companies have a global team to set compliance standards and market teams or managers to support the implementation of set compliance standards. Outsourcing and automation are valuable tools for efficient trade compliance management and should both be utilized with each other. Management of compliance should always remain in-house due to accountability. This study also provided managerial implications through three recommendations and discussed limitations and future research.

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## Appendices

### Appendix 1: Interview Questions

#### Interviewee and company

Role in Company

Background (studies & work)

Company and important markets

#### Trade compliance activities

How is trade or customs compliance structured in-house? For example, is there a global team and an area-specific team?

Who are the closest in-house functions you cooperate with? Who do you cooperate with outside of the company?

What are the typical activities you are engaged in?

Do you agree with this categorization?

- Logistics support

- Supply chain management (optimization)

- Compliance

#### Outsourcing

Do you outsource any of your activities to third parties?

#### *If any outsourcing activities*

How are such third parties outsourced?

In the future, do you see more tasks outsourced or returned in-house?

Are you involved with the decision-making of resources and outsourcing?

What risks and opportunities do you see in outsourcing?

Anything else to add on the topic of trade compliance?