

REGULATORY COMPLIANCE

Finance Executives Call for Optimizing Processes and Systems



A report prepared by CFO Research Services
in Collaboration with Oracle Corporation

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About this Report

U.S. companies have had to comply with international trade, federal, and state regulatory requirements for generations. But the combination of new regulations such as the Sarbanes-Oxley Act of 2002 and closer scrutiny from investors and boards of directors have made complying with regulation a more costly, higher profile activity for companies—and one that poses substantial downside risk to companies and to their senior executives. Advances in information technology and in the interdependencies among companies have made computerized information about business activities a primary source for demonstrating compliance with government regulation. As a result, regulatory compliance is an increasingly visible, data-intensive, and costly management function that requires collaboration among business units, IT, and finance functions.

Now, as most companies have passed through the first year of Sarbanes-Oxley compliance, senior managers are taking a closer look at their broad compliance activities, asking questions like, who within this organization should lead compliance efforts? Is this company well positioned to meet not just Sarbanes-Oxley requirements but also the broad combination of other regimens that we face? What is the optimal technology strategy for gathering and analyzing information for compliance?

With these questions in mind, we sought in this study to explore how finance executives view their role in regulatory compliance, to gauge their overall satisfaction with their compliance capabilities, and to examine their investment priorities for compliance-related activities. To do so, we executed an electronic survey to readers of *CFO* magazine in October 2005 and gathered 185 responses from senior finance executives, the majority of whom work for U.S. companies with annual revenue of more than \$500 million. Nearly all respondents have senior finance titles such as CFO, vice president or director of finance, or controller. Respondents come from a broad cross-section of industries in the U.S. economy, with industrial manufacturing, financial services, high technology, and health care companies particularly well represented. One-third of respondents say their companies have a standardized ERP platform—that is, they have adopted an enterprise-wide solution from a single vendor. The other two-thirds of respondents report a combination of heterogeneous ERP platforms or none at all.

Among the top-line findings of this research are the following points:

- Finance executives see their function as playing a leadership role in complying with a broad array of regulations.
- Finance executives call for improving their existing ERP systems and processes that support regulatory compliance efforts, and show less enthusiasm for new classes of technology.
- Although most companies say they have invested appropriately, finance executives say they will continue to invest in process improvement and technology optimization.
- Companies that have adopted a single enterprise resource planning application say they are more readily able to comply with regulations and that they derive greater business benefit from their compliance efforts.

Finance Leads Compliance Efforts

Finance executives surveyed say the finance team leads compliance initiatives, with support from IT and business unit management. The vast majority of finance executives surveyed—80 percent—say they and their teams lead their companies' regulatory compliance initiatives (see Figure 1). Business management and IT, say respondents, are most likely to be key contributors to compliance initiatives—presumably under finance's leadership.

This leadership role grows from the finance function's unique position within companies—that is, from its broad organizational reach and the growing mandate for finance to ensure sustained, profitable growth. Increasingly stewards of both business performance and of the flow of information throughout the enterprise, finance is the function with the access to information, the analytical view, and the independence that is required to demonstrate adherence to government mandates. It's not surprising, then, that 57 percent of survey respondents say that the finance team is "most important in driving the success of compliance initiatives," followed distantly by "cross-functional teams assigned to compliance" (27 percent), and business unit staff (9 percent).

Although Sarbanes-Oxley compliance has been foremost in executives' minds in recent years, finance is positioned to lead compliance with the full array of regulations that affect their companies. Queried on a cross-section of regulatory requirements, respondents say they are most likely to be subject to labor regulations, industry-specific regulations, and federal and state privacy requirements.

Figure 1. Finance function coordinates and guides broad array of compliance activities, with support from line and IT management.

What role do the following parts of your organization play in initiatives to comply with business controls-related regulation (e.g. SEC regulations, state and federal regulatory requirements, industry-specific regulations, etc.)?

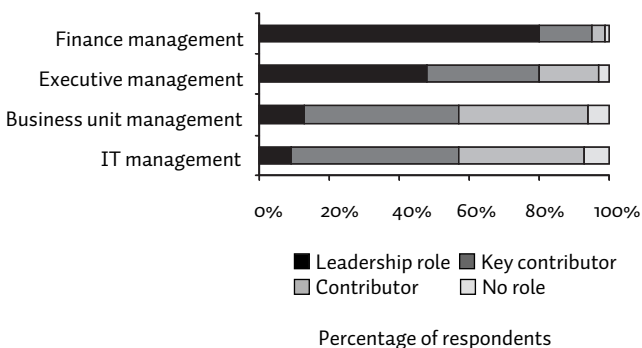
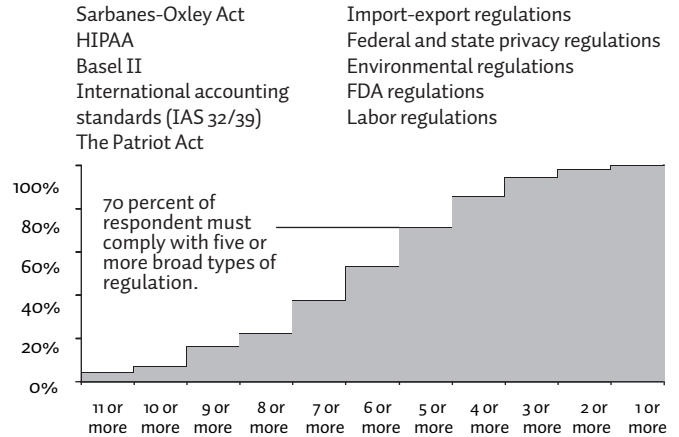


Figure 2. Finance executives say their compliance mandate includes far more than just Sarbanes-Oxley.

Cumulative percentage of companies subject to any combination of:



And in the majority of cases, they use their control and process management systems to manage and document compliance. However, companies are least likely to use control systems to ensure compliance with federal/state privacy and with labor regulations. Compliance's impact on the finance function becomes increasingly clear in light of the number of broad regulatory mandates that companies say they must follow. More than two-thirds of respondents say their companies are subject to five or more broad regulatory regimens or standards (see Figure 2). Thus, in leading such compliance initiatives, finance organizations further expand their role beyond its traditional domain of finance and accounting oversight.

Faced with Insufficient Technology, Finance Executives Embrace Process Improvement

Despite massive investments in controls-related technology in recent years—ERP systems, point solutions, and other applications that consolidate the data required to demonstrate compliance—less than half of respondents see their technology for compliance as wholly sufficient. We infer that companies have relied on manual processes and custom analyses to complete their compliance-related tasks (see Figure 3, next page).

Most survey respondents—55 percent—say they have invested appropriately to meet their compliance tasks, although fully one-third of companies say they've underinvested. When looking to the future, however, companies anticipate continued spending on process improvement, on cultivating internal compliance expertise,

Figure 3. Respondents rate their processes for compliance more favorably than their technology.

To what extent do you agree with these statements about your company's ability to comply with regulation?

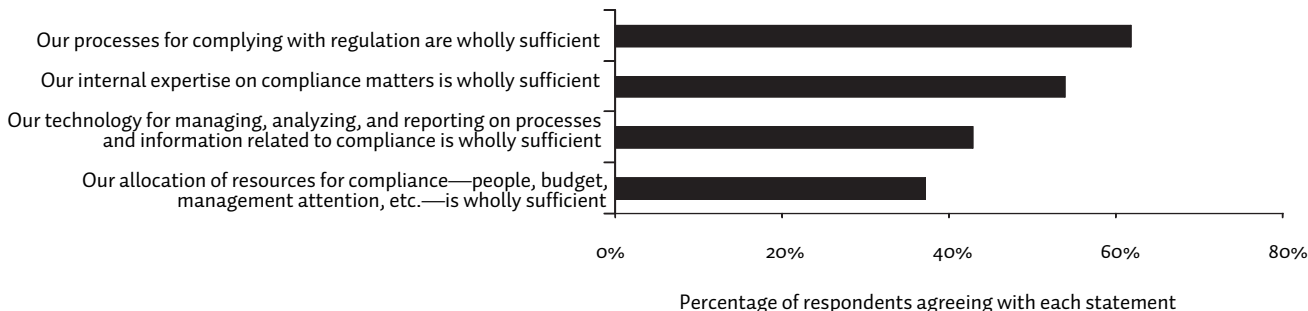
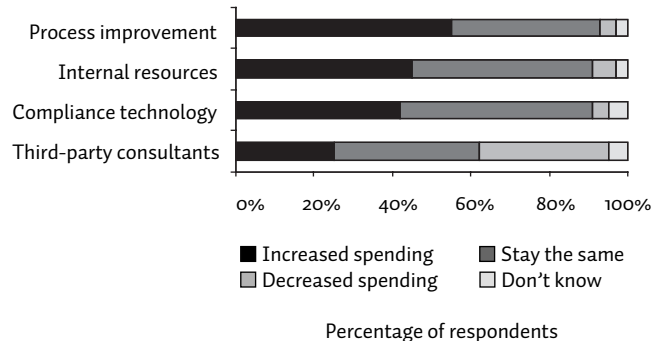


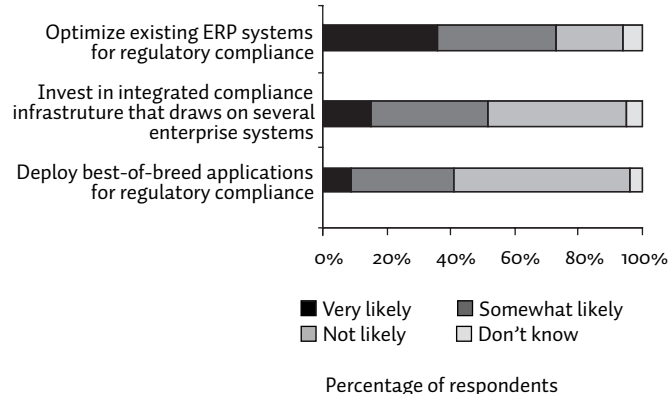
Figure 4. Future compliance investments will be internally focused ...

Over the next two years will your company spend more, the same, or less on the follow items to support regulatory compliance?



...and respondents' technology strategies call for optimizing existing technology.

How likely is your company to take the following approaches to technology?



and to a lesser extent on compliance-related technology. They also seek to rein in spending on third-party consultants (see Figure 4). And, queried on their technology strategies for regulatory compliance, finance executives say they are more likely to optimize their existing ERP systems than to pursue new classes of technology.

Compliance Is a Business Management Problem, Not a Technology Problem

Finance executives in this survey affirm their leadership role in compliance initiatives, saying they and their teams drive these efforts and are instrumental in their success. And while other functions play pivotal roles in compliance initiatives, the breadth and scope of regulatory requirements requires technological, analytical, and organizational expertise that finance is particularly well suited to render.

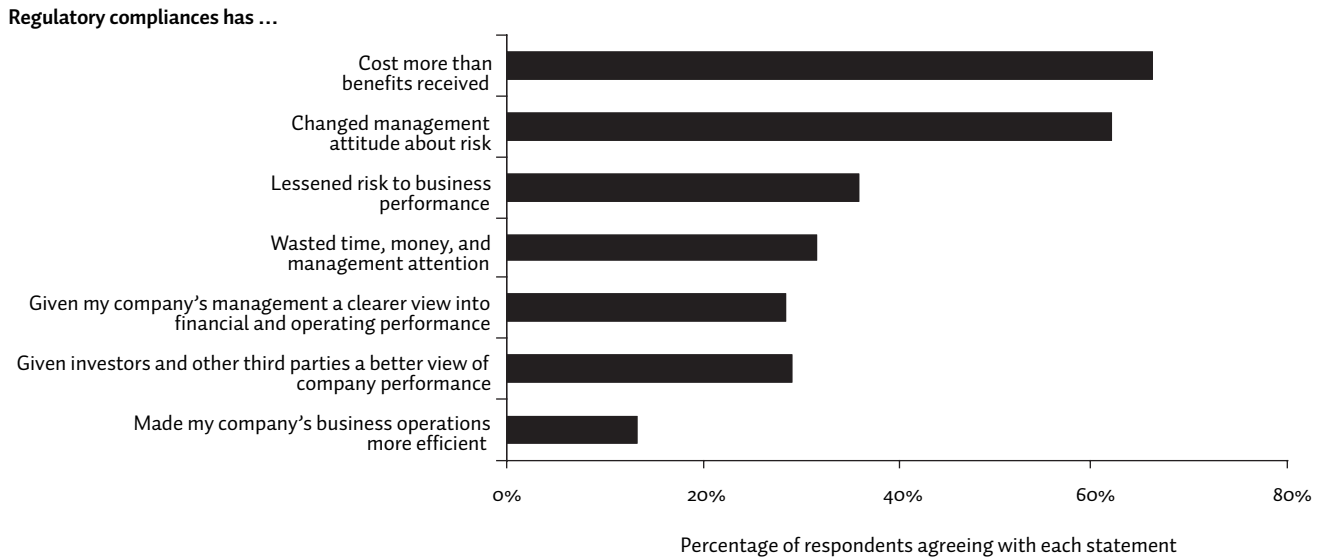
But survey respondents are skeptical of the value that regulatory compliance delivers to their companies—and perhaps with good reason. After all, governments invoke regulation to advance public policy mandates such as environmental, fair-labor, and financial-information quality standards, not to benefit companies or their management teams. And while business benefit can grow out of some compliance activities, survey respondents take a grim view generally of the business value of regulation. Two-thirds say compliance costs more than it yields in benefits, and more than 40 percent disagree with the statement, “regulatory compliance has made my company’s business operations more efficient” (see Figure 5, next page).

But survey respondents don’t discount regulation as a mere hurdle to be overcome; more than 60 percent see a clear impact on management’s attitude toward risk. Thus, finance says that although companies may not consistently receive benefits from compliance activities, management teams are increasingly aware of the danger of uneven compliance.

Bearing this view in mind, finance’s investment priorities for the future seem consistent. Finance executives say that compliance is important, costly, and pervasive. Perhaps most tellingly, respondents say that regulation has

Figure 5. Finance executives view compliance as a too costly and time consuming.

To what extent do you agree with these statements about the impact of regulatory compliance at your company?



changed management's attitude about risk, and also that compliance is an important part of the finance agenda. Accordingly, finance views compliance through its professional lens—focusing on risk mitigation, cost, and optimization of management processes and systems. Thus, finance seeks to optimize its existing processes and systems and to build expertise and minimize risk in ways that are cost effective.

Consolidated ERP Platforms Deliver Better Information

But if regulatory compliance is a managerial problem, it's one with deep roots in the information infrastructure of a company. High-quality, readily available information is a necessary part of nearly any broad regulatory compliance effort. Accordingly, we grouped survey respondents into two segments—those whose companies have standardized on a single vendors' platform for their ERP systems companywide (33 percent) and those that had not (67 percent)—to explore the relationship between enterprise technology decisions and executives' views on compliance.

This segmentation reveals that companies with a standardized ERP platform get the information they need for compliance more readily than those on disparate platforms. Nearly three out of four respondents on standardized platforms say their ERP system is ideal or adequate for providing compliance-related information, while less than one-third

of those with disparate systems hold this view (see Figure 6). That said, it's clear that systems are often far from optimal even at companies with a standardized platform, as more than 60 percent of such respondents rate their ERP system as only "adequate."

This higher quality information identified by standardized platform companies is provided by a combination of their processes, expertise, and technology. Unsurprisingly, standardized platform respondents are more likely than those with disparate ERP systems to say their technology and internal expertise are wholly sufficient to support regulatory compliance (see Figure 7).

Figure 6. Standardized platform respondents say their ERP systems are better suited to providing the information they need for compliance initiatives.

How well suited is your company's ERP system (as implemented) to providing the information you need for regulatory compliance?

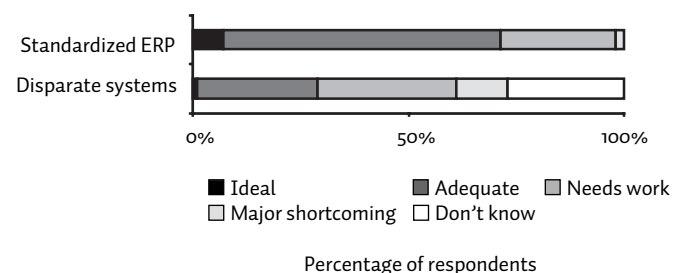
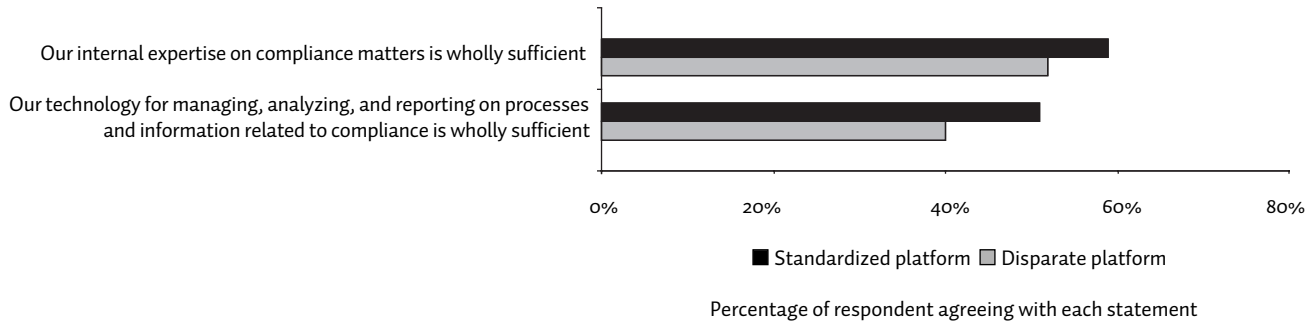


Figure 7. Standardized platform companies are more satisfied with their technology and expertise for compliance.

To what extent do you agree with these statements about your company’s ability to comply with regulation?

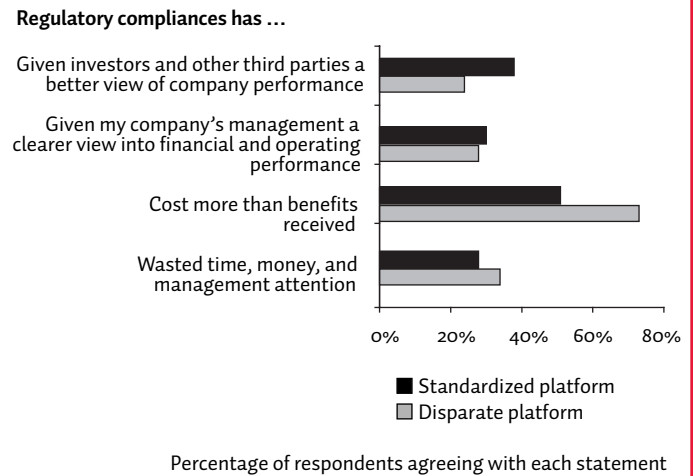


Do these companies with better information and more suitable technology realize greater business benefit from regulatory compliance? Two-thirds of standard platform respondents say they “frequently” or “occasionally” found “process improvement, cost savings, and demonstrable improvements in risk management” through their compliance activities, while only one-half of their peers on disparate systems did. Other survey data indicates that companies with a standardized ERP platform are more likely to say their compliance efforts give a better view of business performance to internal and external stakeholders (see Figure 8).

The standardized and disparate systems segments have similar views on how compliance affects management’s attitude toward risk. But on the issue of the cost of compliance initiatives, it seems clear that standardized platform companies see the cost of compliance in a less negative light. Fully 51 percent of respondents with standardized ERP platforms agree that regulatory compliance has cost more than their company has received in benefits, while 73 percent of their peers running disparate systems hold this view. This is hardly a ringing endorsement of the business value of compliance initiatives at individual firms, but it seems clear that those who’ve invested in a single ERP platform are less strident in their concern about the cost of compliance management.

Figure 8. Compliance at standardized platform companies yields a better view of performance and is more cost effective.

To what extent do you agree with these statements about the impact of regulatory compliance at your company?



Conclusion

Compliance with regulation—with Sarbanes Oxley, the Patriot Act, and countless other requirements and standards—increasingly calls on companies to demonstrate and document how their business operations adhere to specified requirements. In a bid to contain cost, minimize risk, and exploit its unique organizational position and point of view, the senior finance team is emerging as the leader of compliance initiatives at many companies.

Through a survey among senior finance executives, this study finds a trend toward further optimization of business processes and existing ERP systems, and little enthusiasm for new technology, complex systems, and costly third-party consultants.

Executives at companies that have invested in a consolidated ERP platform from a single vendor say they are more satisfied with their technology and the compliance-related information it provides. This segment of companies also realizes greater benefit from compliance activities and sees the cost of compliance less negatively. And while survey data suggests that the consolidated platform companies are more satisfied in their ability to comply with regulation, these respondents also indicate that there's still a great deal of optimization of processes and technology that lies ahead.

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