

An Economist Intelligence Unit executive summary  
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## Compliance and the benefits of investing in information technology

### Context

CEOs around the world have become increasingly concerned about the growing regulatory burden on their businesses. The Sarbanes-Oxley Act in the US, Basel II capital guidelines for the world's banks and various data privacy initiatives have received a lot of attention, but they represent a

mere fraction of the new regulatory requirements on business, to say nothing of existing rules. For example, the management of corporate records alone is the subject of 8,500 U.S. federal and state regulations. The growing volume and complexity of corporate rules has caused firms to rely increasingly on information technology to help manage their

compliance effort. The manner in which compliance is carried out is a crucial business issue. If compliance is monitored badly, corporate executives could land in jail. And even if done well, it can cost a great deal of money. One analyst estimated that American companies will spend US\$80bn in the next five years on compliance.

## Key findings

This worldwide survey of corporate executives, conducted in October 2005 by the Economist Intelligence Unit on behalf of Oracle, explores their views of who is in control of spending on compliance-related information technology (IT), how compliance is being conducted and what effect IT is having on the compliance effort. The most important findings are:

- Compliance-related IT investments can yield good business benefits;
- IT departments are becoming increasingly responsible for compliance and should develop expertise in the area;
- the compliance effort is not sufficiently integrated into other business activities or technology;
- the introduction of compliance-related IT has frequently been difficult and requires careful planning; and
- most companies are coping with the compliance burden, but would find it difficult to deal with the introduction of any new set of important regulations.

### **An investment in compliance-related information technology can benefit your business.**

Companies are seeing two types of important gains from such spending. First, although mandated by regulatory authorities, this investment is necessary for business reasons as well. Fully 34% of companies believe that the spending has been addressing the need to tighten control of information systems that had grown on an ad hoc basis (Question 5), and a further 41% think that it has allowed them to make useful, but not immediately required, changes. Only 16% of respondents consider it a distraction from more pressing concerns. Second, the spending has been having positive side effects. In all, 59% of companies experienced additional spin-off benefits (Question 7). After excluding those companies that have made no investment in compliance-related information technology, the number experiencing benefits rises to 75%.

### **Business intelligence departments are being given an increasing role in compliance, and a further expansion is expected.**

The survey shows that the role of the IT department has increased greatly or somewhat at 66% of companies, and decreased at only 3% (Question 3). Moreover, the IT department most often makes the decisions regarding the acquisition of IT-related compliance systems at 27% of businesses (Question 1), slightly ahead of cross-departmental committees (26%), but well ahead of CEOs (15%), Finance (14%) and Compliance departments (5%). Despite this, in areas of high IT-relevance, such as privacy and security policies, the department plays a leading role only 45% of the time (Question 2), and in areas with less IT-relevance, such as environmental compliance, it plays a leading role only 10% of the time.

**Compliance considerations are not sufficiently integrated into business activities and technological systems.**

Too many companies are still pursuing compliance in a reactive way rather than seeking to internalise it. A full 58% percent of respondents undertaking IT-related compliance initiatives were responding to external forces (Question 6), and only 40% were approaching them as part of a considered, company-wide compliance policy. Furthermore, at the IT level, compliance spending is not integrated from the ground up. In all, 76% of businesses surveyed did not fully integrate compliance software from the outset (Question 4), and 35% added on compliance software after new systems had been introduced. Also, 32% of companies approach IT-related compliance initiatives as discrete projects, rather than as part of a long-term strategy.

**IT-related compliance investment has frequently been painful, and requires careful planning to achieve the desired results.**

Although 90% of new, compliance-related technology delivered the necessary capacity (Question 8), 51% of respondents said this either required extensive overhauls of the original technology or admitted that the system had never reached full capacity. Only 13% found the investments delivered more capacity than promised. Nor was it easy to obtain spin-off business benefits. Of those companies where the investment was designed to bring such benefits, over a third failed to achieve them (Question 7). Indeed, luck may play a part in this. A total of 27% of all companies achieved unintentional spin-off effects, including 6% of businesses where the main goal of the compliance investment was not actually reached.

**Most companies are coping with compliance requirements, but any new major regulatory initiatives might create difficulties.**

Around 33% of companies say they are ahead of the curve on compliance, and are likely to be able to handle any future challenges easily (Question 9). By contrast, 21% are, at best, struggling with current regulations. More worryingly, 46% think that they are keeping their heads above water, but would have difficulty in complying with any big, new set of regulations.

### About the research

Compliance and the benefits of investing in information technology is an executive summary by the Economist Intelligence Unit, sponsored by Oracle.

The Economist Intelligence Unit bears sole responsibility for this report. The Economist Intelligence Unit's editorial team conducted the survey and wrote the paper. The findings and views expressed in this report do not necessarily reflect the views of the sponsor. Paul Kielstra wrote the summary. Our thanks are due to the survey respondents for their time and insights.

October 2005

## Strategic implications

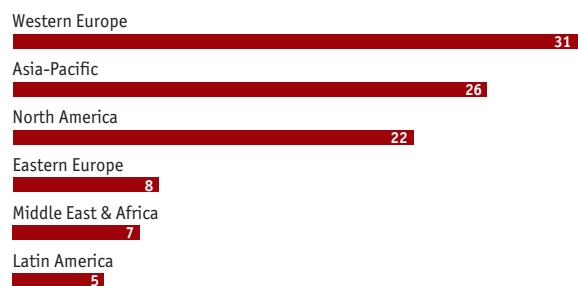
A number of conclusions can be drawn from this analysis:

- Companies need to think harder about how to gain more business benefits from the investment in compliance-related IT. Firms should adopt a co-ordinated approach across regulatory mandates and implement information technology that supports multiple initiatives. Information technology should be selected based on how well it will accommodate future changes in government regulations as well as other aspects of business operations.
- Such benefits are not guaranteed. Careful planning and a focus on best practices are essential to prevent the painful teething problems that many companies have experienced in the introduction of new technology. In particular, spin-off benefits currently seem to be a matter of hit-or-miss. Companies hoping to achieve significant benefits should define clearly what gains they are seeking and follow best practice to achieve them, rather than imagining things will turn out for the best.
- With IT departments increasingly responsible for compliance decisions, and with this trend likely to grow, it is crucial that IT departments themselves either work more closely with the compliance function or develop their own expertise on compliance issues. The latter is becoming particularly common at well-run corporations.
- Most businesses need to raise their compliance game. New regulatory initiatives can spring up rapidly and affect companies that are doing nothing wrong (witness Sarbanes-Oxley). Merely keeping up is not good enough. A well-run corporation must be ahead of the curve.

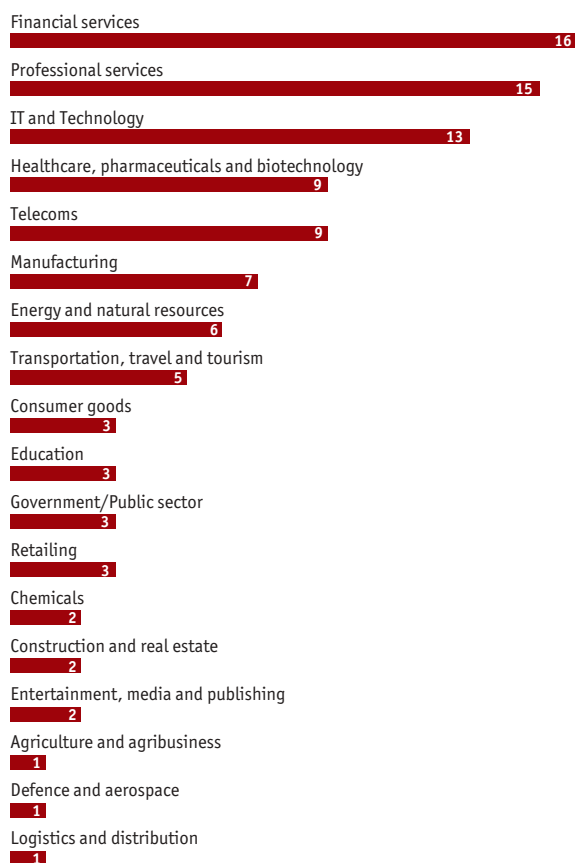
## Appendix

A total of 148 senior executives participated in our online survey on information technology and compliance. The survey was conducted in October 2005, and our thanks are due to all those who responded to the questionnaire.

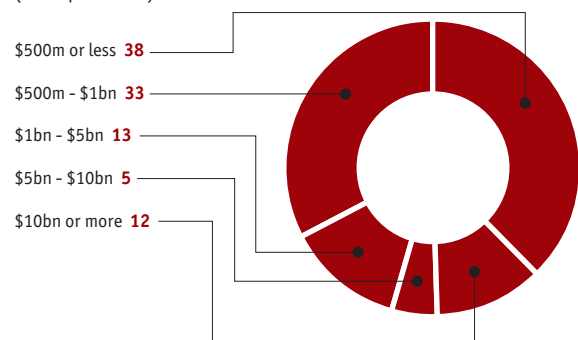
### In which region are you personally based? (% respondents)



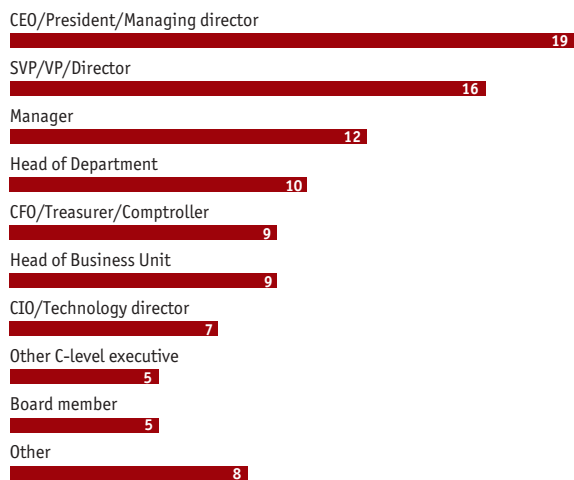
### What is your primary industry? (% respondents)



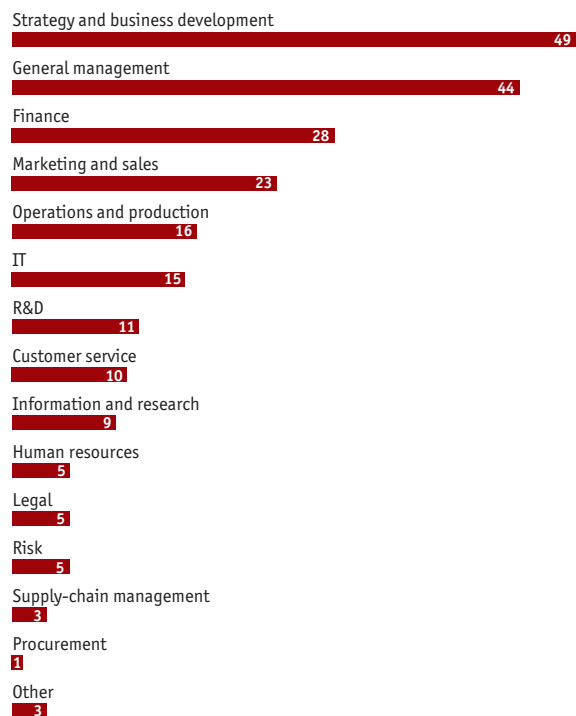
### What are your organisation's global annual revenues in US dollars? (% respondents)



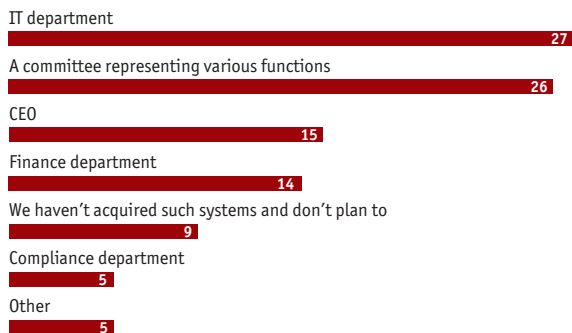
**Which of the following best describes your title?**  
 (% respondents)



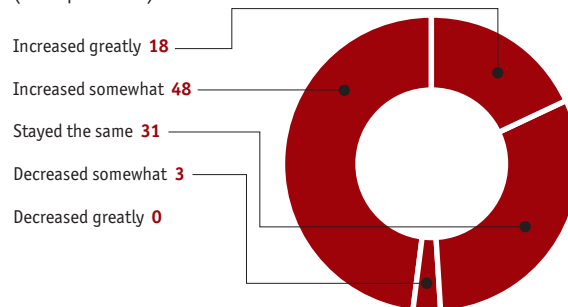
**What are your main functional roles? Please choose no more than three functions.**  
 (% respondents)



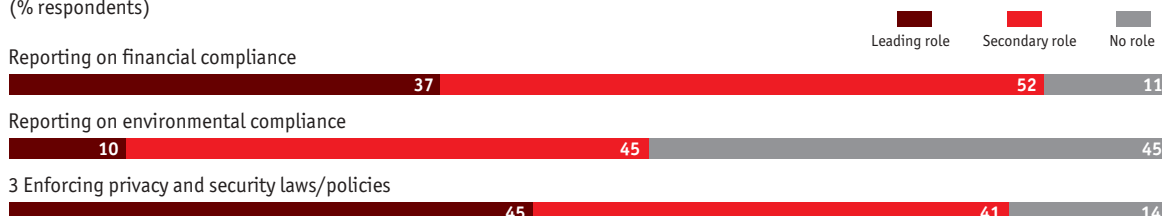
**1. Who makes the decisions at your company regarding the acquisition of IT-related compliance systems?**  
 (% respondents)



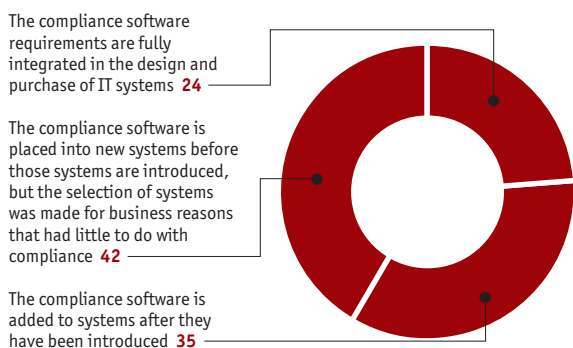
**3. To what extent has the IT department's role and influence in your company's compliance programmes changed in the past three years?**  
 (% respondents)



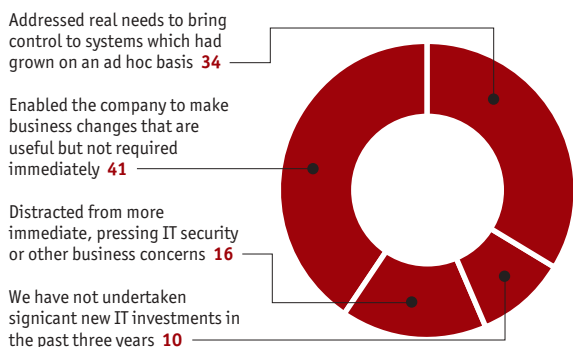
**2. What role does IT play in the following compliance initiatives at your company?**  
 (% respondents)



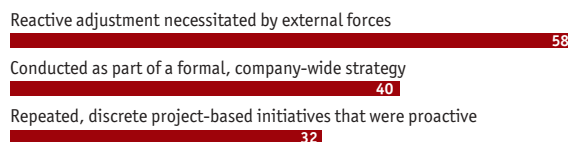
**4. Which of the following statements best describes how compliance software is incorporated into your company's IT systems?**  
 (% respondents)



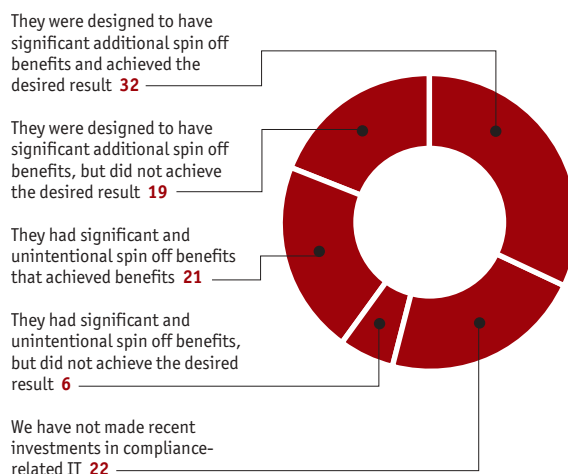
**5. Which of the following statements best describes how IT investments undertaken by your company in the past three years have helped fulfil new regulatory requirements?**  
 (% respondents)



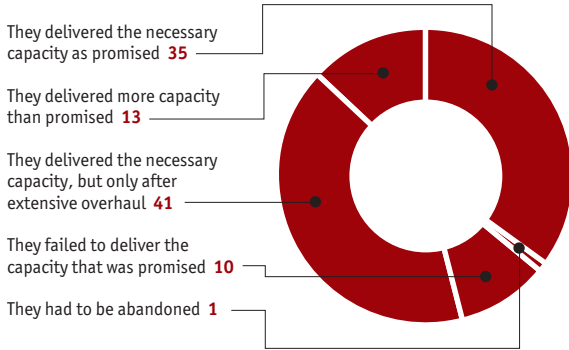
**6. Which of the following characteristics describe the approach to IT-related compliance initiatives at your company? Select all that apply.**  
 (% respondents)



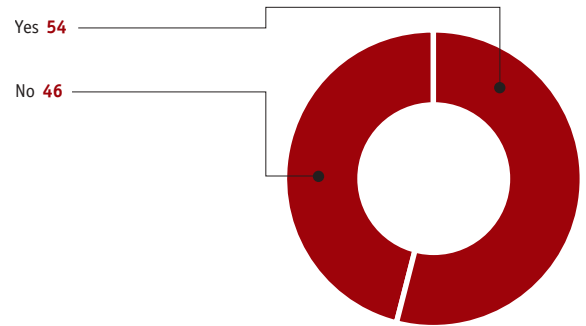
**7. Which of the following statements best describes your company's recent investments in compliance-related IT?**  
 (% respondents)



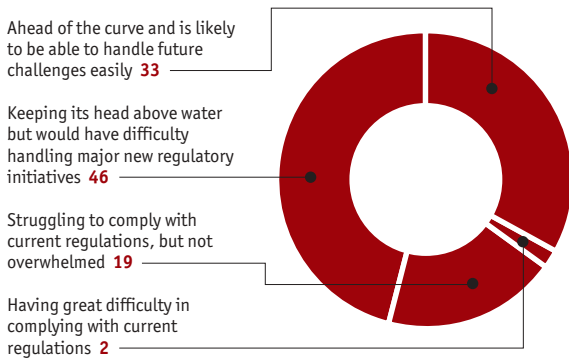
**8. Which of the following statements best describes the performance of your company's compliance-related technology purchases over the past three years?**  
 (% respondents)



**10. Do you have responsibility for, or influence over, strategic decisions on compliance initiatives in your company?**  
 (% respondents)



**9. Which of the following statements best describes your company in regards to IT-intensive regulatory areas (such as financial regulation, data privacy and document retention)?**  
 (% respondents)



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