

An Economist Intelligence Unit report
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Compliance: A work in progress

There is no magic bullet for compliance success, and even the most experienced organisations use a combination of reliable processes and proven technologies to get the job done.

Just when businesses think they have the upper hand on compliance, a new law or regulation is enacted. Whether contending with the requirements of the Sarbanes-Oxley Act of 2002, environmental and safety regulations, the Health Insurance Portability and Accountability Act or anti-money-laundering legislation, businesses

face a never-ending cycle of learning and assimilating new standards and processes.

Identifying, designing and executing the right internal controls to meet those standards in a large, global organisation can be an arduous and expensive undertaking. The complexity of the task and the risk of failure can overwhelm

even the most experienced executive. In particular, the pressure to meet increasingly tight financial reporting deadlines imposed by external policymaking bodies, as well as those mandated by corporate governance rules, has stretched the limits of businesses in every industry. Organisations must operate at optimal levels of

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transparency and efficiency. To meet these objectives, it is critical to standardise core functions to facilitate the provision of information throughout the enterprise and beyond—to regulators, rating agencies and auditors. Ultimately, this venture requires a deft combination of strategic and tactical planning.

Keeping an eye on laws and regulations related to financial compliance, environmental impact, the handling and transport of toxic chemicals, data privacy and anti-bribery laws, among others, is no easy task. However, these are the challenges facing Doug Anderson, corporate auditor of The Dow Chemical Company, a producer of plastics, chemicals and hydrocarbons with US\$49bn in annual revenues. As the leader of the corporate auditing department, Mr Anderson is responsible for managing the riskiest areas of compliance across the company in more than 175 countries. “Just keeping up with so many compliance issues in so many places can be staggering,” he says.

Regulations can vary widely

from country to country and can change frequently, so it is easy to lose sight of compliance requirements, says Mr Anderson. “But we’re granted permission by the government of each country to operate there and we have to be good citizens.”

Managing the overload

Implementing the most effective procedures and technologies to reach compliance goals is a priority for most compliance executives, but, even with the best systems in place, businesses can rely on a healthy number of challenges. Such is the case with Dow, which has been complying with environmental and financial regulations for decades, and now has to meet the requirements of recent legislation, such as data privacy laws that protect the personal and proprietary information of employees, partners and customers.

Transforming Dow, a 100-year-old organisation with legacy technologies, into a business with

consistently accurate and available information was no small feat. The endeavour demanded a collection of new tools and processes, including better change management and process design. Equally as important, says Mr Anderson, are the technological underpinnings of compliance such as standardised business applications, automated controls and data management strategies.

Complying with municipal, state and federal laws in 175 jurisdictions means understanding the legal and regulatory requirements, identifying the safeguards—or controls—to meet those requirements, implementing the controls and, finally, executing them, Mr Anderson explains. Information is at the core of each control, be it supplier, financial or employee data. A significant challenge for large companies is capturing, maintaining, retrieving and protecting that information in a consistent manner. An added obstacle is the need to mine and analyse both easy-to-recognise information, known as structured data, as well as unstructured data, which consists of information streams, such as audio and video files, that are not readily recognised by machines.

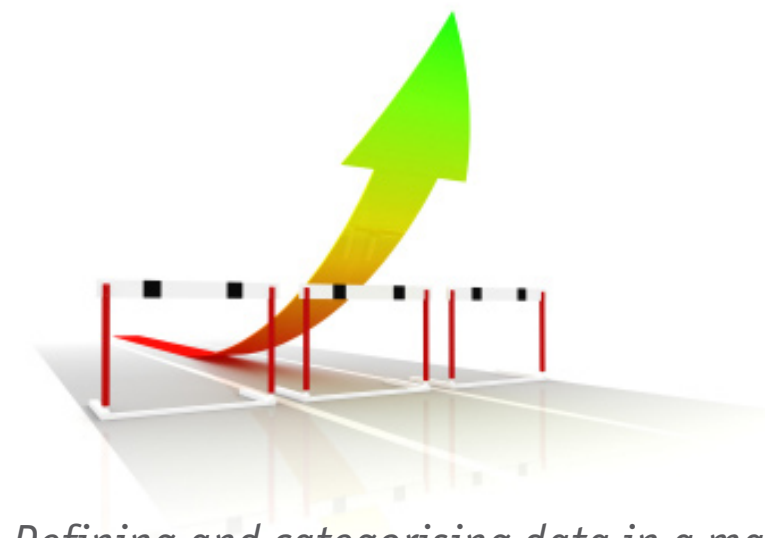
When companies face these challenges, the average enterprise information architecture can prove to be inadequate for manag-

ing a large quantity of varied and disparate data. Even a company with an infrastructure that is only a few years old may find it does not have the ability to synchronise, search across and leverage its data to improve business processes.

Obstacles go beyond operating with outdated infrastructure; it is also challenging to keep up with new compliance requirements worldwide. Dow, for example, captures and maintains all data in standardised systems companywide, but tracking down the information required for compliance assessments and reporting can also be trying, according to Mr Anderson. For example, if there are new compliance requirements in Indonesia, it may take some time to determine which data are responsive to the new compliance need. Then, he says, it takes some effort to identify that data properly in the systems.

Cleaning house

Compliance deadlines are driving a host of data management initiatives, beginning with consolidation, which involves the cleansing, analysis and verification of all enterprise data. Eliminating duplicate data is also a crucial step for meeting compliance demands, as is implementing a data main-



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tenance programme, which essentially mimics the initial consolidation process on a continuing basis. Finally, it is important to create a governance and approval process to establish and secure the ownership, access and distribution of all enterprise data.

In order to improve data management to reach compliance goals, companies must standardise data types across the organisation to meet audit challenges and avoid inaccurate reporting. For example, if research and development refers to a materials supplier as Acme, but accounts payable refers to it as Arco—Acme's parent company—there could be a

problem when the time comes to calculate how much suppliers were paid.

Defining and categorising data in a manner on which everyone can agree is a hurdle, and unless these standards are enforced across the organisation, the efforts are meaningless. Therefore, ensuring that the right information technology (IT) controls are in place to help facilitate compliance is a critical next step. According to Mr Anderson, the more automated the controls, the better off an organisation will be, from a productivity, compliance and financial perspective. "When something is automated you're

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not paying someone to do it," he says. "And the less manual intervention there is, the less likely it is for errors to occur." All businesses are trying to avoid these errors, given the risk associated with compliance deficiencies. Penalties vary according to regulation and delinquency, but they could result in fines, loss of reputation or even jail time.

With hefty penalties in place, businesses must be vigilant not only about the technologies they choose to support compliance efforts, but also about how those systems are implemented. Numerous studies show, for example, that the strength of a project's executive sponsorship will directly affect its outcome; a corporate mandate for a companywide technology deployment increases the chance of success. Careful and thorough planning is also critical for meeting project goals and optimising technology. To that end, mapping out the lifecycle and flow for all information streams will minimise the likelihood of data gaps or inconsistencies. Furthermore, as

compliance affects several business functions—from finance to IT to procurement—it is imperative that any technology related to compliance is able to handle the complexity of the corporate setting and accommodate current and future goals. Finally, to ensure that technology platforms and accompanying analytical tools are easy for both business and IT workers to use, project leaders should solicit input from employees who will be expected to use them.

Aligning business goals with the appropriate technology platforms to satisfy compliance requirements is an ongoing venture for most organisations. Mr Anderson says that keeping up with compliance at Dow means continually investing in improving the systems and technologies that will help it reach compliance goals. "You just have to invest," he says. "It's all so vast and broad and you just don't want to make any serious mistakes."

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