

# INSIGHTS

## Sarbanes-Oxley: Compliance Versus Competitive Advantage

By Monty P. Hamilton

October 2003

Given the extensions by the SEC for compliance with the Sarbanes-Oxley Act, CIOs should take advantage of this opportunity to approach compliance from a strategic point of view, instead of merely as a compliance exercise. If strategically approached, CIOs can have a positive impact on shareholder value.

CIOs have been placed in a very difficult position over the past decade. They have been forced to make the decision between investing millions of dollars on systems such as ERP and CRM, or risk falling behind the technology curve vis-à-vis their competitors. Part of the difficulty is not in implementing the technology, but in truly justifying the investment's returned or in realizing any increases in shareholder value. Now there is a new opportunity for CIOs to have an impact on their company's shareholder value, and it has arrived in the form of a government regulation—the Sarbanes-Oxley Act.

One clear way to improve shareholder value is by providing investors with complete confidence that the numbers they are receiving are 100% accurate, and that the processes by which these numbers are calculated have all the proper controls in place. If CIOs actively participate in and drive the compliance programs for Sarbanes-Oxley and investors possess this level of confidence, then certainly the CIO will be able to claim a

major stake in increasing shareholder confidence and, ultimately, shareholder value.

In order to fully comply with Sarbanes-Oxley and gain stature within his or her company, a CIO must take a proactive approach and preemptive steps in order to get ahead of the new era of SEC compliance. Mere compliance with the new regulations will get just that—a checkbox that you've complied. However, if analyzed from a more strategic point of view, the compliance process can be turned into a very real way to increase shareholders' confidence in the security and controlling of the financial data and the business decisions being made by corporate officers.

The following are action items a CIO should take in order to more strategically address the compliance process.

- **Education.** The CIO's first step is to educate his or her department on the requirements of the new compliance regulations. After educating themselves, they must then educate the other executives and board members on the critical role that information systems will play in determining whether or not a company meets the regulatory guidelines.
- **Internal reviews.** Review the company's processes and procedures under which every

(continued)

**CIOs must take a proactive approach and preemptive steps in order to get ahead of the new era of SEC compliance.**

financial transaction and document is produced. This will help ensure that the information is indeed accurate and well controlled.

- **Identify problem areas.** Identify possible problem areas in terms of documents and filings by reviewing systems and processes. More often than not, systems have built-in controls that produce audit trails. However, manual or highly customized areas may not produce proper trails. Thus, by specifically reviewing the full processes—both manual and automated—potential problems are identified.
- **Audits.** Many positive results may come from independent audits if properly handled by the CIO.

After ensuring that the relationship with the independent auditor is completely unbiased and complies with Sarbanes-Oxley, the CIO should use a proactive approach towards audits. In an ideal en-

gagement, the CIO should be involved, supportive, open, and honest with the auditor. Through an audit, a CIO will learn the company's weaknesses and then use this knowledge for system and process improvements. Inevitably, an independent view of a system, process, or control can only help CIOs more effectively support their companies. To

make sure that a company is benefiting fully from an audit, the CIO must ensure open, honest communication between management and the auditors.

- **Security.** Placing more emphasis on security and identity management will benefit the company.

In today's business environment, companies must provide access to a growing number of users, both in and outside the organization, without diminishing security or exposing sensitive information. In order to manage all users accessing many applications, a company must have heightened security measures in place to protect the digital assets of the company.

In addition to the previously listed action items, the following activities should be implemented to increase shareholder value:

- Ensure that board members have access to the timely financial information needed to make decisions and judgments.
- Make sure the IT department has a strong internal governance framework.
- Institute procedures for receiving, retaining, and dealing with complaints regarding accounting, internal audit controls, and auditing matters—especially confidential, anonymous allegations. This will impress investors and also make employees feel more comfortable coming forward.

(continued)

- After reviewing the internal control processes, a CIO could suggest upgrades or, if needed, new financial systems to enable a more timely presentation of information.

Also, the CIO must always remember that he or she may be held liable for invalid data (e.g., Kenneth Livesay, HealthSouth CIO). Although a CIO may not be specifically required to take any actions related to Sarbanes-Oxley, he or she has a large impact and should therefore take part in many compliance measures.

The best thing a CIO could do for his company is to prepare for a future where more information must be disclosed in a timely fashion about financial and business changes. All of the aforementioned ideas would ease this process for the future, as well as create the positive benefit of increasing shareholder confidence and value. The suggestions outlined here would be a large step in the principal goals of CIOs—to increase shareholder value, increase service levels, and enhance security.

**The best thing CIOs can do for their companies is to prepare for a future where more information must be disclosed in a timely fashion about financial and business changes.**

## About the Author

Monty P. Hamilton is the Managing Partner of Clarkston Consulting's southern region. Mr. Hamilton's experience includes advising clients on major strategic initiatives, such as customer relationship strategies, IT and business strategy alignment, shared services implementations, program office development, and human resource development programs.

#### **About Clarkston Consulting**

Clarkston Consulting is a leading management and technology consulting firm that provides strategic business solutions for clients within the life sciences and consumer products industries worldwide. These market leaders turn to Clarkston to help them bridge the gap between strategy and execution to sustain a competitive advantage. Clarkston is a sought-after business partner because of its recognized industry thought-leadership and superior client relationships, as measured by The Conference Board's survey on client satisfaction. For more information, visit [www.clarkstonconsulting.com/whitepapers](http://www.clarkstonconsulting.com/whitepapers).



Copyright © 2003, Clarkston Consulting. All rights reserved.

This document is provided for information purposes only and the contents hereof are subject to change without notice. This document may not be reproduced or transmitted in any form or by any means, electronic or mechanical, for any purpose, without prior written permission.