Sirius & Company

Conforming to Corporate Govenence in a cloudy technology world

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CEOs must now take personal responsibility for figures in all public statements, under tough new regulations aimed at preventing fraud and giving stakeholders a true picture of operations. They will rely on CIOs to develop systems that deliver strong corporate governance and accountability – and CIOs will often find they are asked to "do more with less". Can CIOs comply without compromise?

Almost a third of chairmen and finance directors of large companies in the UK believe the latest corporate governance rules, including International Financial Reporting Standards (IFRS), are hurting Britain's competitiveness overseas, according to a survey in late 2004 by the Association of Chartered Certified Accountants (ACCA). Some three-quarters of the top directors believe compliance is taking up time they could more usefully spend on improving the company. For example, Aviva, the UK's largest life assurer, estimates it has spent at least £150 million over the past two years complying with new regulatory and accounting requirements.

At the same time, other CEOs have welcomed the impact of some of these new regulations. Vodafone announced that earnings would be £6.8bn higher under IFRS when it released its first-half results in January 2005. And the majority of senior executives believe developments such as the revised Combined Code introduced in 2004 will improve accountability to shareholders.

Yet more than half surveyed believed the guidelines would hamper decision-making by requiring more independent non-executives, since these must now make up a majority of the board. And the compliance headache is getting worse. Fraudulent practices of a handful of senior executives in companies such as Enron, WorldCom and Parmalat have led to a raft of new regulations, such as Sarbanes-Oxley or the new Companies Audit, Investigations and Community Enterprise (AICE) Bill.

It seems boards, shareholders and regulators in the UK have very different ideas about what corporate governance is and what it should and should not be expected to achieve.

One thing is clear: this new legislation to counter Enron-style fraud, coming from both sides of the Atlantic, will make heavy demands on companies' IT systems. A key requirement is for CEOs to certify in writing that all the facts and figures in their accounts and public statements accurately represent the actual financial position of their companies. In effect, this requires CEOs to take personal responsibility for monitoring and control of every figure that passes through their accounts systems, every item stored in their vast databases and by extension, every e-mail (and, possibly, every instant message) that passes through their companies' digital networks.

Software companies' marketing departments have not been slow to pick up on the potential of the new focus on state-enforced corporate governance. It could be good news for all those involved in developing and implementing systems designed to monitor and control the movement of all kinds of data across vast corporate networks. It could be bad news for CIOs who find their budgets targeted by marketers – especially in the Indian technology services sector – seeing another opportunity to reinvent themselves to make short-term sales rather that deliver long-term benefits to their clients operations. CIOs need to make sure they don't fall for the hype, threats and fear being peddled and allow regulatory compliance to become the latest fad – following Y2K, outsourcing and offshoring – that promises much yet delivers little or no lasting value to the business (see *Offshoring: Saviour or Value Destroyer* by Pal). Nevertheless, the most efficient and cost-effective way for businesses to meet the new regulatory requirements will be through investment in some key technologies and improvements to management practices and service delivery.

Decentralised services and unsophisticated management practices are barriers to good governance

Many CIOs doubt their ability to meet the raft of compliance requirements now facing them, according to a study of 400 European CIOs across Europe conducted by Illuma Research in January 2005 (see *Linking CEOs Corporate Governance agenda to CIOs agenda* by Pal). In the UK, 37% of CIOs admitted they were not confident that the IT function would meet compliance and internal governance deadlines, compared to a European average of 29%. UK IT departments also play a lesser role than their European counterparts in compliance programmes, the survey found. Just 32% of UK CIOs questioned said their IT departments were permanently represented in the business' compliance programme, compared with 43% in France and 47% in Germany.

The survey identified a lack of sophistication in senior technology executives' own management processes as one of the main hurdles: more than 33% of CIOs admitted that they did not have an IT governance framework in place to meet internal and external regulations, while 34% said they were reliant on paper-based reports. A further 43% of CIOs relied on face-to-face or conference meetings with managers. Decentralised organisational structures and management processes can also work against good corporate governance. There is no single point of accountability when a company-wide system fails or IT security is breached at multiple points in the business. Furthermore, decentralised IT often finds it difficult to provide users with information from IT systems elsewhere in the company.

The UK CIOs said the biggest internal barrier to achieving regulatory compliance was management complacency, while French IT directors said difficulty in collecting all the required information was the greatest challenge. German IT directors considered poor co-ordination between the functions involved in compliance to be their biggest concern. The major external barrier to achieving regulatory compliance is that the rules set by industry regulators are, themselves, poorly defined.

It is no surprise that European companies are having such difficulties in navigating these challenges when so many are reliant on outdated management practices and processes. To "do more with less" and achieve "compliance without compromise", CIOs first need to develop better management practices and stronger controls over their IT estates (see *Taming the beast: containing spiraling IT infrastructure costs* by Sum).

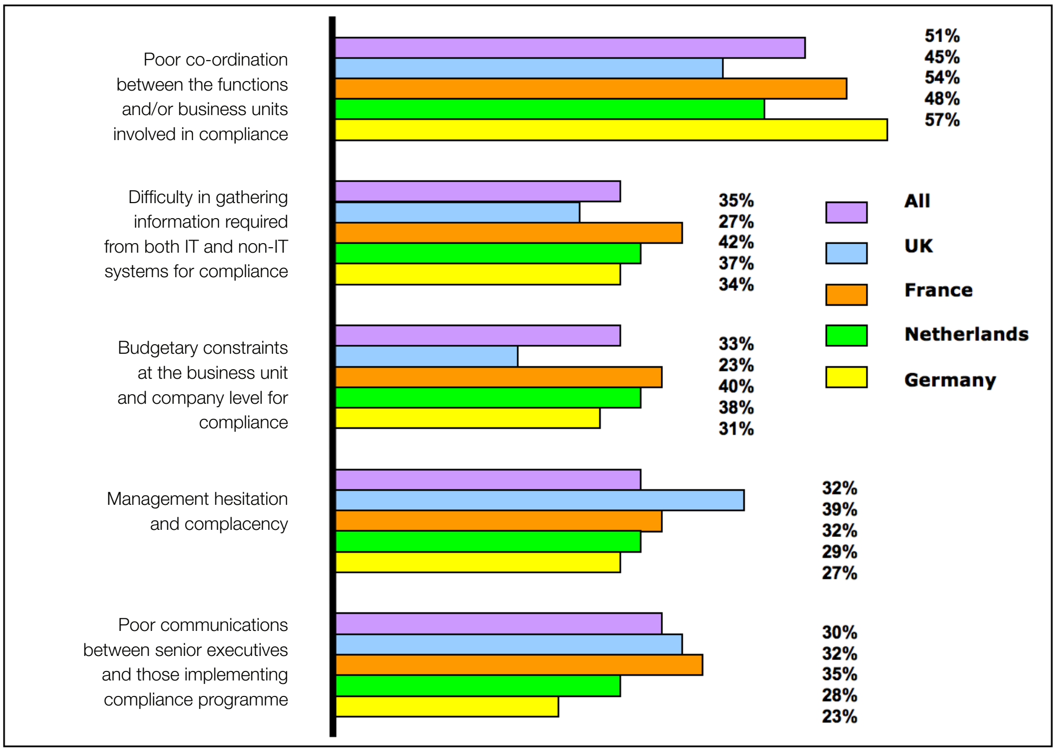

Figure 1: *Major internal barriers to regulatory compliance (Source: Illuma Research – January 2005)*

About the author

Dr. Gina Sum is a member of the Leadership Team of Sirius & Company.