

***Regulatory Compliance: How Does it
Impact Your Business Strategy?***

A Look at BI and Reporting

The cost of regulations introduced since 1997 to British business alone has risen to £30 billion.

– British Chambers of Commerce
March 2003

Governance is finally arriving – and it's in a hurry

In almost every industry, compliance with some form of legislation is a key pain. The global need to comply with domestic legislation to avoid penalties and to also attend to foreign legislation in order to continue trading with partners in these countries has introduced a level of fear, trepidation, and confusion last seen in the moments leading up to the turn of the millennium.

The auditing industry is on the verge of one of the biggest windfalls in its history; ironically, the windfall has arrived as a result of a problem created by auditors in the first place—again, much like the software development industry's cash bonanza in the run up to the Y2K feeding frenzy. Because of the failure of auditors to finger companies like Enron, WorldCom, and Parmalat, governments around the globe are tripping over themselves to pass legislation to control and audit companies' financial reporting, data sharing and security more closely.

The financial price that the greedy and/or inept will pay as part of their punishment is peanuts compared to the price paid by companies to adhere to legislation; the British Chambers of Commerce (BCC), for example, revealed in March of 2003 that the cost of regulations introduced since 1997 to British business alone has risen to £30bn¹.

Some might say that recently passed government legislation is long overdue. It was in 1792 that Alexander Hamilton, first American Secretary of the Treasury said, "Tis time there should be a separation between honest men and knaves, between respectable Stockholders...and mere unprincipled gamblers." This statement of intent followed William Duer's ungentlemanly theft from his government's infrastructure program and subsequent questionable speculation practices. Two hundred and three years later came the spectacular collapse of the hugely successful and historic Berings Bank (itself founded back in the mid-18th century; bought out after the collapse for a mere £1). Nine years on, and a series of spectacular collapses coming as the result of board-level fraudulence and/or ineptitude—Enron, WorldCom, Parmalat, etc.—have finally prompted an avalanche of legislation which is now bearing down on business people in the US and around the globe.

Worldwide, governments are getting pretty tough on business leaders. The introduction of more stringent legislation and proactive monitoring of organizations' business activities has led to a greater need for involvement at

¹ 'Legislation increases pressures on business', James Watson, Computing Magazine, 24th March, 2004

board-level. Executive officers are being held responsible for the legislative compliance of the organizations which they lead. To compound the headache, compliance comes in many guises:

As a result of Sarbanes-Oxley in the US—one of the first and arguably toughest forms of such legislation—everyone in the US now needs a ‘SarboX’-compliant audit by the middle of 2005; otherwise, CEOs and CFOs could be going the way of lifestyle doyen Martha Stewart and Lea Fastow, the wife of former Enron Corporation Chief Financial Officer, Andrew Fastow, only for substantially longer stints.

In June 2004, the Central bank governors and heads of bank supervisory authorities in the Group of Ten (G10) countries (Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, United Kingdom and United States) published the International Convergence of Capital Measurement and Capital Standards: a Revised Framework (the new capital adequacy framework, commonly known as Basel II).

Although Basel II is aimed at banking institutions, the repercussions of the guidelines, which are being adopted and enshrined into law by many countries in the G10 and beyond, are far more wide-reaching. Banks are being asked, and the bigger ones are already being ordered, to know more about their customers and to minimise the risk of uncollectible debt, should a debtor or debtors go out of business. As a result, banks are passing the burden of reliability proof on to their creditors in order to free up the collateral they are being ordered to put aside in order to offset risk.

The USA PATRIOT Act (possibly one of the world’s greatest acronyms to date: Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) means companies must adhere to anti-money-laundering and data disclosure requirements by trawling through, collating and reporting from millions of transactions to find suspicious activity, to distribute this key information to executives within the enterprise, regulators, their compliance department—should one exist—and law enforcement agencies. Executives now need ad hoc query access to check new customers’ backgrounds and must also be able to drill down into individual transactions to investigate cases, in search of key data and fraudulent activities.

Healthcare companies already have the albatross of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) Transaction and Code Standards around their necks. The HIPAA Security Rule compliance cut-off date of April 2005 may be almost a year away, but the HIPAA Privacy Rule compliance date passed over a year ago, in April of 2003.

CEOs and CFOs need to get back financial control of their companies. If they don’t get control back, they fear that they may even end up in jail. Section 404 of the Sarbanes-Oxley Act in the USA, for example, mandates that CFOs have to do more than simply pledge that the company’s finances are in order; they have to vouch for the processes that led up to the figures being published in the first place: auditors now demand a clear audit trail of how and who consolidated the statutory reports.

The renewed focus on governmental scrutiny in what is becoming a tight regulatory environment for business has CEOs and CFOs turning once more to

their CTOs to automate reporting needs for financial analysis, upper- and middle-management decision-making, data integrity, and required reporting to external regulators.

It is critical that CFOs work together with CIOs to ensure that a coherent, effective solution gets put in place to avoid failing the scrutiny of the auditors, should the spotlight fall upon them—which it will. CFOs may have the responsibility for ensuring the books are in order, but, in truth, it is the IT department that holds the key. Gone are the time-consuming, labor-intensive days of huge, dusty, black ledgers: more frequent and rigorous reporting demands automation. Yet, strangely, improved financial reporting is frequently being sought without the consultation of the IT department.

“I’m hearing stories about CFOs not including CIOs in their compliance visions. I think that is a big mistake,” says Gartner Research Director, Rich Mogull.²

The overarching effect of the myriad measures by governments is that companies are now expected to have and use the right data; to know their customers; and to demonstrate that management is in control of every business process. If the businesses fail, then financial penalties, loss of the right to trade, and possible jail time for senior executives may follow.

The way to comply, it is widely accepted, is to have access to up-to-date, accurate data, which can be handed over to authorities and—more crucially—for that data to be presented as information, and information to be transformed into coherent, pertinent knowledge within the organisation and as accurate financial reporting for external scrutiny.

Data, data, everywhere...

It has been said that organizations are data rich and information poor. The challenge is to translate data into information into knowledge.

IT has more or less perfected the art of collecting and storing enormous amounts of information. Every interaction between departments or with the outside world, historical data on past transactions, as well as external market data is entered into information systems for future use. Exponential growth of online data has resulted, and the amount of online data is estimated at having already reached a million terabytes in size.

Data capture and retention is certainly not the problem. Databases like the Progress relational database management system (RDBMS) are bigger, faster and more dependable than we would ever have dreamed in the dark old days of mammoth spreadsheets and creaking hard drives. The Progress® OpenEdge® RDBMS can second—even to the other side of the planet, thanks to incredibly efficient now grow to practically limitless dimensions, can incorporate mind-numbingly complex structures, can retrieve and deliver targeted data in a fraction of a telecommunications networks. Progress RDBMS can self-monitor and self-heal. It can even replicate itself between geographically remote sites to minimize the threat to business of natural and man-made disasters.

² “The Conspiracy”, CIO Magazine, July 1, 2004

Furthermore, data continues to be ‘stove-piped’ across departments while the evolution of IT continues towards enterprise-wide solutions. We have seen applications come of age with the ability to span organizations and integrate with each other. Data has not been heading in that direction: the write-off of sizable previous storage investments, combined with the enormity of the task of sanitizing and amalgamating disparate data silos from across an organization has dissuaded most from undertaking such a project.

Instead, applications have cross-referenced and distributed data held in distinct/independent structures using integration, data adaptor and communication techniques, but there remains for most no way for a non-technical user to get answers quickly. Responses to ad hoc queries can sometimes take weeks, by which time the information may already be outdated.

The new legislative environment brings with it the impetus to address these issues. An organization’s data must be able to be merged and interpreted as a whole. A more holistic view of the business activity is urgently required.

The problem is that data does not equate to information. Data is raw. Information comes from presenting this raw data intelligibly and knowledge comes from transforming and analyzing information. The challenge is to turn disparate data into practical, pertinent business insight.

How to do it? BI comes of age

Certain software vendors have invested over a decade of R&D in addressing this challenge, and the effort has redoubled as legislation has been passed which demands better financial reporting and a more hands-on approach and responsibility for senior company officials.³

The approach has been to employ a single solution to span and combine business data—wherever it may be held in the enterprise—and present this data in useful, easily understood views, which allow the user to drill down from high-level through more specific data sets to individual data records.

Always on the lookout for catchy, marketing-friendly acronyms, this approach to data interrogation is known as business intelligence (BI). BI is not a new concept: it has been around for around a decade. However, in the past, BI has been regarded as little more than a ‘fancy reporting toy’, with its executive dashboards and advanced graphing capabilities. This flippant attitude is fast evolving into a more considered regard for the value of BI; BI companies, having predicted the widespread demand for their products, have undertaken a renewed development effort to provide customers with a powerful new arsenal of tools. As a result, BI is currently an alluring combination of established technology and innovative R&D.

With BI, raw data from various data sources is turned into information, information is turned into knowledge, and knowledge drives profit. BI enables organizations to track, understand, and manage enterprise performance. With BI, organizations are able to improve operational efficiency, build profitable customer relationships, develop differentiated product offerings, adhere to governmental legislation, and avoid non-compliance problems.

With BI, organizations can unlock information held within their databases by giving authorized personnel a single point of access to complex data – a BI portal – in both intranet and extranet environments.

The new legislative environment brings with it the impetus to address these issues. An organization’s data must be able to be merged and interpreted as a whole. A more holistic view of the business activity is urgently required.

³ For an overview of the BI industry through the new millennium, see ‘e-Business Intelligence,’ by Bernard Liautaud with Mark Hammond, McGraw-Hill, 2001.

Users can prepare reports and drill down into the underlying data to better understand what drives their business, without technical knowledge of the underlying data structures. The best BI systems allow users to do this with an easy-to-grasp graphical user interface (GUI) that has a similar look and feel and intuitive interactive approach to the applications they are already using on a daily basis.

BI lets users autonomously make ad hoc requests for information from corporate data sources. This lets business users design their own queries and reports, allowing the redeployment of IT staff which formerly performed these tasks. This generates significant cost savings in human resources, since sought-after, IT-skilled staff can be reallocated to projects that add more value to the organization.

BI is a good for compliance - and for business.

Sarbanes-Oxley et al have triggered an intensified scrutiny of financial results and on-going business management practices to protect shareholder confidence. This has increased usage of BI and financial analysis tools.

BI can shorten financial reporting cycles, provide a more complete and detailed view of operating metrics down through the organization and assist in improving operational control by empowering staff throughout the organization to make informed decisions. A solid grasp of facts and figures is valuable when it comes to negotiating contracts with suppliers and customers. Once senior staff have a clear understanding of root causes, they can be empowered to take effective, prompt action. Improving the quality of business decisions has a direct positive impact by lowering costs and raising profits.

Companies have also realized that although they have invested large amounts of money in large enterprise resource planning (ERP) and customer relationship management (CRM) systems, “BI plays a key role in getting a return from that investment by delivering a unified view of the company.”⁴

As Gartner explains, “BI can enhance and extend an enterprise’s business applications, resulting in a better-managed enterprise”⁵ and that “a strategic approach to BI can pay handsome dividends to enterprises that exploit it properly.”⁶

Lloyds TSB in the UK, for example, has embraced the need for compliance with Basel II and is using it to improve its business performance.

“We’re not running compliance programmes because we have to, it’s because we want to. We have a very rigid business case for these projects and the investment will only come if there is a strong return on investment,” says Sharifi, Lloyds TSB’s credit risk director⁷.

⁴ ‘BI puts managers in control’, Mark Street, IT Week, 23rd, January, 2003

⁵ ‘BI Competency Center is Core to BI Success’, Gartner, July 2003

⁶ ‘BI puts managers in control’, Mark Street, IT Week, 23rd, January, 2003

⁷ ‘Lloyds TSB uses compliance to boost performance’, James Watson, Computing, June, 2004

Almost all businesses rely on assumptions and rule of thumb. However, it is worthwhile to challenge these hunches through detailed analysis of operational data, because assumptions and rule of thumb are frequently incorrect.

For example, Volkswagen Finance had assumed, based on socio-economic profiles, that the customers for a particular model would want longer lease terms and moderately large upfront payments. The BI system told another story, however. Their customers, it was revealed, were looking for shorter leases and much larger upfront payments. This, Volkswagen Finance promptly provided: customers pounced on the new program immediately, resulting in over \$2 million new revenue.

You could make better decisions by hiring more specialist, skilled staff, but this is a large on-going cost. Senior management and the board could define policies for decision making throughout the organization, but this leads to unyielding decisions that do not sit well in rapidly changing business environments.

A better way to improve business decisions is to provide existing staff—from the top to the bottom of the company—with the means of making better decisions based on better information. This is the most cost-effective, and creates the most agile enterprise.

However, what is a good decision? A good decision is one that is made—at any level—which will benefit the organization and allow it to hit targets, or simply to do better—in whichever department the decision is made. In order to achieve this, staff needs the strategic information provided by a good BI solution.

Not only is strategic information a powerful enabler, it is also a powerful motivator. When staff are confident about the information on which they are basing their decisions, then they are confident that their decisions are going to be the best they can be.

The technique of Management By Objectives (MBO) can only work if the employee has a way to monitor progress towards reaching agreed objectives. With BI, each user has the means to see how his or her actions impact the overall corporate profitability. Complex incentive plans may not be as necessary if employees can see which of their actions improve and which hurt overall performance.

With the insight BI provides, organizations can understand and have constant visibility into their key performance indicators and the other metrics that span across their organization. By doing this, organizations ensure their strategy is aligned from top to bottom and across the enterprise from marketing to manufacturing.

Departmentalization causes problems.

BI must be corporate-wide

As ever, of course, legislative compliance and improved business performance through the adoption of a BI solution is not as simple for the larger companies who have dabbled with early investment in solutions at departmental levels. This is good news for those small- to medium-sized enterprises (SMEs), many of whom have yet to commit to BI, or even to consider BI: legislation targeting and compliance auditors have adopted a top-down approach which makes the bigger players the guinea pigs (and may end up making some of them scapegoats).

Many larger organizations have a woefully fragmented approach to BI because of the fragmented accountability and strategic planning due to the size and inertia of such organizations, and a wide-spread, board-level panic due to the overdue and fast-approaching deadlines for compliance. This puts SMEs at an advantage.

The BI market has multiple, generally incompatible vendor offerings. Consequently, large enterprises are making mistakes and leaving themselves at risk from various angles. "Through 2005, users will adopt a staggering amount of disparate and unrelated BI technologies [...] adding to BI fragmentation in organizations."⁸

The lack of a common BI framework results in simple requests such as 'Give me the list of purchase orders and support issues concerning customer A' being slow and/or difficult (or even impossible) to answer if the information comes from disparate systems. These information 'stovepipes' (in applications and departments) result in partial or departmentalized views of the business, impeding users from obtaining a full understanding of their business activities and leading to sub-optimal decision-making. Also, employee autonomy and ability to apply skills and experience in other areas of a business, key to the personal development programs that exist in many companies, will be inhibited if users have to learn a new BI tool every time they move departments.

"Too many firms involve business users late in the process, rather than involve them at an early stage and define the system based on their needs and requirements," says Business Objects' Chief Executive and co-founder, Bernard Liautaud. Too often "companies start with the data they want and build the information system around the data, but it should be the other way around. Companies should design around the user needs, then create or assemble the information for them."⁹

Is this simply another gravy train? Yes, but the gravy is for everyone.

A 2002 IDC study of BI projects undertaken in 43 organizations showed an average ROI of over 430% .¹⁰

For example, British Airways executives suspected that ticket fraud was a problem which was costing the company an enormous amount of money. To address the problem, Peter Blundell, then the knowledge strategy manager for BA, rolled out BI.

⁸ 'BI: Making the Data Make Sense.', Howard Dresner, Gartner, May 2001

⁹ 'BI puts managers in control.', Mark Street, IT Week, 23 January, 2003

¹⁰ 'The Financial Impact of Business Analytics.', International Data Corporation, 2002

“Once we analyzed the data, we found that this ticket fraud was not an issue at all. What we had supposed was fraud was in fact either data quality issues or process problems,” says Blundell. “What it did, was give us so many unexpected opportunities in terms of understanding our business.” Blundell estimates that the BI deployment has resulted in an astonishing \$100 million in cost savings and new revenues for the airline.

The examples of saved costs and increased revenues for those companies who have implemented strategic BI projects are many and varied. Fiat saved a reported \$45 million since implementing BI by providing a clear understanding of their business processes which led to the identification of operational inefficiencies, resulting in reduction of costs.

Owens & Minor estimates a gain of \$60 million per annum from new customer acquisition thanks to a BI solution which helped them differentiate from the competition by providing information-based services to their customers.

The increasing realisation that BI is a key to business success as well as a key to compliance has led to the continued strong growth in the BI market, which is estimated to grow to \$7.5 billion by 2006.

Conclusion

While larger organizations will attract the attention of the authorities who are hungry to show the teeth of the new legislation and assuage the blood lust of the media and the public at large, SMEs will escape the close scrutiny of the compliance auditors for the time being, giving them an opportunity to implement BI properly. The nature of SMEs also promotes speedy, complete BI implementations, allowing them to realize the benefits quicker across the organizations.

Progress believes that SMEs in all sectors can prepare for compliance requirements by investigating and implementing enterprise-wide BI solutions now, thus avoiding botched and/or panic-driven BI projects and non-compliance penalties in the future which larger competitors are currently facing, and realising BI's attendant benefits earlier.

Progress has reviewed the BI marketplace and has entered into strategic partnerships with a select number of the major BI vendors in order to ensure that the Progress DB on which so many of our partners and customers rely can continue to underpin the business and supply the business intelligence required in today's legislative business environment. We believe these BI partners can provide solutions which will assist our community in becoming SarbOx compliant (as well as Basel II, USA PATRIOT, and the raft of other legislation which is troubling businesses around the globe). We also feel that the investment and effort required to implement the strategies can be offset by significant ROI by eliminating assumptions and rules of thumb from the decision-making process in order to cut costs and grow profits.

Based on our understanding of how well they are positioned to assist Progress RDBMS users in taking advantage of BI technologies to improve business practices and adhere to the various legislative burdens facing businesses today, we will happily discuss your requirements with you in order to help you select the best vendor for your purposes.

Benefits of corporate-wide BI you may not have thought of:

- Large step towards legislative compliance – used for and combined with improved business processes will take you to the threshold.
- Improved business decisions.
- Empowered, informed employees equals happy employees.
- Real-time reporting and identification of potential ‘situations’.
- Insight into departments and the effects of the synergy of these departments.
- Ability to realize cost savings and revenue increase.
- Ad hoc querying through simple, generic interface.
- Bird’s eye and worm’s eye view of business health from a single source.

Worldwide and North American Headquarters

Progress Software Corporation, 14 Oak Park, Bedford, MA 01730 USA Tel: 781 280 4000 Fax: 781 280 4095

Europe/Middle East/Africa Headquarters

Progress Software Europe B.V. Schorpioenstraat 67 3067 GG Rotterdam, The Netherlands Tel: 31 10 286 5700 Fax: 31 10 286 5777

Latin American Headquarters

Progress Software Corporation, 2255 Glades Road, One Boca Place, Suite 300 E, Boca Raton, FL 33431 USA Tel: 561 998 2244 Fax: 561 998 1573

Asia/Pacific Headquarters

Progress Software Pty. Ltd., Level 2, 25 Ryde Road, Pymble, NSW 2073 Australia Tel: 612-9496-8439 Fax: 612-9498-7498

© Progress Software Corporation. Progress and OpenEdge trademarks or registered trademarks of Progress Software Corporation in the US and other countries. Any other trademarks or service marks contained herein may be the property of their respective owners.

PROGRESS
S O F T W A R E

www.progress.com

Specifications subject to change without notice.
© 2005 Progress Software Corporation.
All rights reserved.