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Are CFOs Ready for Unified GRC Solutions?

On March 11, 2008 SAP announced new versions of products across its portfolio of solutions for Governance, Risk, and Compliance (GRC). Building on its unified approach to GRC, SAP is releasing new versions of the SAP GRC Access Control, SAP GRC Process Control, and SAP GRC Global Trade Services applications. In addition, the SAP GRC Risk Management application is now integrated with the SAP Strategy Management application, part of the company's Enterprise Performance Management (EPM) solutions. Through its unified approach, SAP strives to enable organizations to drive an integrated corporate strategy that synchronizes the management of enterprise risks, business controls, and global trade compliance. But are CFOs ready to invest in technology solutions for GRC or is this approach ahead of its time?

Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Governance, Risk, and Compliance

The role of the Chief Financial Officer (CFO) is becoming more strategically focused, yet the need to meet fiduciary and statutory reporting and finance related regulatory requirements has only been heightened with the introduction of controls such as Sarbanes-Oxley (SOX). The personal responsibility this places on CFOs has forced them back into involvement in the day-to-day detail primarily to ensure them of a "keep out of jail" card.

Automated tools for governance and compliance assist in elevating them from the depth of the details, bringing them to a higher operating level where they can add strategic value to the organization. The ability to provide better decision support with integrated enterprise data is an important factor in providing both governance and compliance to regulatory reporting. Yet while CFOs are increasingly tasked with managing and mitigating risk, in the context of technology solutions, perhaps the acronym would be better presented as GrC (big G, little r, big C). While Enterprise Resource Planning (ERP) and financial applications provide the systems of record from which many financial risks can be identified, these represent a small percentage of the overall risks companies face today. Others including operational, geo-political, legal, environmental, and market risks can be very real and devastating risks in today's global economy. Yet when CFOs think risk, do they think technology? Do most CFOs equate the need to manage risk with the need to invest in technology?

Categories of Risks

- √ Financial: Includes economic recession, currency exchange, ability to manage cash and profits, etc.
- √ Operational: Do you have a plan for a natural disaster that could close your (or your suppliers') operations?
- √ Geo-political: Do you operate in parts of the world where changes in government can have a major impact on your organization?
- √ Legal: Includes exposure for fraud, product liability, safety or legal filing requirements
- √ Environmental: Are you able to comply with emerging environmental standards, handle a safety crisis or potential climate change?
- √ Market: What are the relative risks associated with a single product line versus product diversity? Could you survive if a competitor began offering a competitive product for free?

Case in Point

Take, for example a global medical technology company that is focused on improving drug therapy, enhancing the diagnosis of infectious diseases, and advancing drug discovery. This company has a team responsible for continually assessing the effectiveness of internal controls. While this group was in place before the enactment of SOX, the company had not invested in technology to assist in the processes." SOX gave us the stick we needed to

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go to management to justify technology spending. We knew sending thousands of spreadsheets around the company wasn't going to cut it," said the Associate Director of Continuous Assurance. "In the '90's my CEO said, 'Just give me visibility to my inventory.' But today we deal with a variety of compliance requirements from SOX to [Health Insurance Portability and Accountability Act] HIPAA, to the [Food and Drug Administration] FDA, to ISO in 70 countries around the world."

The company has an extensive SAP footprint. "You name it, we've got it someplace." But applications had been implemented independently around the world and the group aspired to have common processes. As a result an internal project was launched to move to SAP's latest ERP architecture with ERP Central Component (ECC) and consolidate their ERP footprint. "We decided against a technical upgrade. ECC will take us further, but we anticipate we will gain more value in re-implementing. As a result nothing is sacrosanct. We need to be more than just well-controlled. We need efficiency if we are to have a competitive advantage." While only a few months into the project, Aberdeen looks forward to following the progress of this endeavor.

Beyond Governance and Compliance

It is clear that governance and compliance issues are driving investments at companies like this medical technology company, often spurred by compelling events like SOX or other regulatory issues. The logical next step is to reach beyond this level of compliance and control in order to bring more strategic benefits throughout the organization. But do CFOs have the vision to see enough potential benefits from GRC solutions to get them to adopt? Are they aware they exist?

While not every CFO has made the mental leap from control to efficiency to competitive advantage, SAP has made progress in bringing this message to the market. The business unit combining GRC and Enterprise Performance Management (EPM) is now two years old and boasts 1,646 GRC customers and 733 EPM customers, including those acquired through the mergers with Pilot Software and Outlooksoft (see Aberdeen's May 2007 *Software Giants Vie for CFO Dollars* report) but not including those customers added through the recent Business Objects acquisition. This represents a 46% growth rate year over year from 2006 to 2007, certainly one to be proud of.

SAP GRC Access Control, which provides Secure Segregation of Duties (SOD) and access control over data, enjoys the lion's share of customers in the combined GRC and EPM business unit, yet it is important to note that this 62% of the business unit share is a mere 7% of SAP's overall customer base. This puts SAP in striking distance of achieving its overall goal of cross-selling GRC applications to 9% of its customer base by 2009.

The Role Technology Plays in Risk Management

A key factor in understanding the role technology plays in managing risk is realizing that the true value of GRC solutions lie in their intersection and integration with EPM. The ability to provide better decision support with

Sarbanes-Oxley

The Sarbanes-Oxley Act of 2002 (Pub.L. 107-204, 116 Stat. 745), also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX or Sarbox, is a United States federal law enacted on July 30, 2002 in response to a number of major corporate and accounting scandals including some affecting major high-profile corporations.

The legislation establishes new or enhanced standards for all US public company boards, management, and public accounting firms. It does not apply to privately held companies. Title III on "Corporate Responsibility" mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial reports.

"We've spent 40 years building trust with our clients. My biggest fear is that it only takes one event to destroy it."

~ CFO, SAP customer

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integrated enterprise data is an important factor in managing and mitigating risk. Aberdeen's June 2007 *Intelligent Performance Management: Aligning Day-to-Day Decisions to Meet Corporate Goals* report measured decision-support through a variety of metrics, the most subjective of which was the confidence level in the data being used to make the decisions. In relative terms, we found Best-in-Class 13% more confident than Industry Average performers and 28% more confident than Laggards. Perhaps a better indication is the fact that 71% of Best-in-Class can take action on most exceptions within hours or minutes while 40% of Laggards take weeks or months to respond to most exceptions.

"The average organization is light years behind the vision, and as a result has no ability to tie everything together, gain clear insight into managing through mergers and acquisitions and other disruptions."

~ Doug Merritt, President of SAP Labs & Corporate Officer, SAP AG

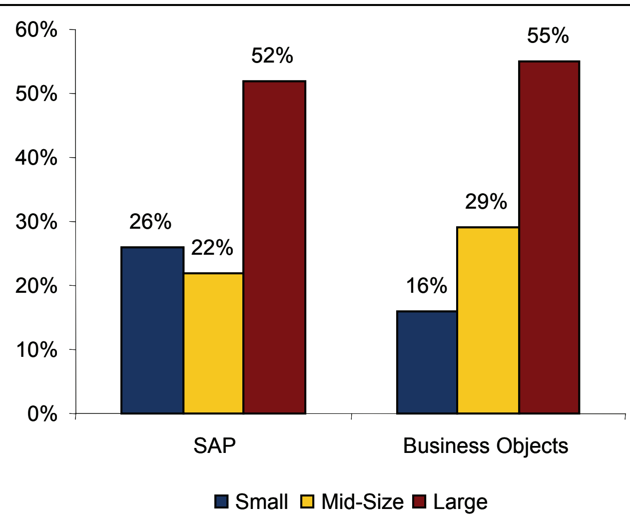
An important aspect of managing risk is being able to quantify it. By transforming risk from an amorphous cloud looming on the horizon to something quantifiable, appetites for risk will increase. Where high rewards are associated with high risk, a bigger appetite for well managed risk produces higher growth and increased profits. Yet today we still see performance management applications utilized predominantly in large companies. Figure 1, derived from customers participating in Aberdeen's *Intelligent Performance Management* study, demonstrates the breakdown of SAP and Business Objects performance management applications by company size. These ratios are very similar in looking at the adoption of competitive performance management companies as well (see Aberdeen's June 2007 *Are Performance Management Applications Only for Large Companies?* report). As a result mid-size companies are 70% less likely than small companies and 42% less likely than large companies to achieve Best-in-Class status in daily decision making to manage performance and meet corporate goals. Unlike small companies (that may be able to run a business by the seat of their pants) and large companies (that have deeper pockets), mid-size companies are caught in the middle – they are too big to manage without the right tools, yet not well-equipped with performance management solutions.

Best-in-Class Criteria

Key performance metrics used in Aberdeen's Intelligent Performance Management benchmark included:

- √ % increase in gross margin over the past year
- √ % increase in revenue over the past year
- √ The ability to take action on exceptions quickly (within hours or minutes)
- √ level of confidence in the data used for daily decision-making

Figure 1: Performance Management Adoption by Company Size



Source: Aberdeen Group, June 2007

Company Size Definition

Aberdeen defines company size by annual revenues:

- √ Small companies have revenues under $50 million
- √ Mid-Size companies have revenues between $50 million and $1 billion
- √ Large companies have revenues over $1billion

Yet an EPM application is simply one aspect of managing risk. A second critical factor is a framework for applying discipline to the identification, assessment, and monitoring of risks. The first step to achieving this level of discipline is the identification of risk factors and the second step is to "write them down." In this digitized world, this means finding an electronic repository that can be securely shared for collaborative monitoring and management. Unfortunately this often translates into spreadsheets, which are, at worst, stored on individual desktops and at best stored on a shared server.

This is where SAP GRC Process Control weighs in. Introduced as a means to help companies ensure compliance by centrally monitoring controls across multiple business processes, within SAP and non-SAP environments, the new release combines manual control testing with automated continuous control monitoring in a single application. With more than 200 controls predefined, this allows companies to sell it internally as a tool to manage the processes associated with compliance with financial reporting and other regulations. Yet the ability to detect control exceptions and prioritize corrective action with a "heat map," which identifies level of risk, is an important first step in monitoring and managing risks.

"We need real time visibility to trusted data. We can't hire enough people to do it without tools. The tools from Business Objects are key to making good decisions from data across multiple applications."

~ CFO, SAP end-user

Key Takeaways

Performance management and risk management go hand in hand. While technology plays a significant role, low adoption rates help us identify significant room for improvement in both. In order to move beyond minimum levels of compliance, gain better levels of control, and achieve competitive differentiation:

- Establish a solid foundation of transactional data in an auditable and integrated system of record.
- Arm managers with analytical tools that allow them to look beyond the surface in order to establish the necessary level of confidence in data presented.
- Implement triggers that sense changes in performance and alert appropriate decision makers.
- Provide decision makers with dashboards of summary data that allow them to drill down to successive levels of detail, and put everyone on the same page.

By establishing effective controls, efficiently managing performance, and instituting a framework to quantify risk, compliance can pave the way for better risk management and competitive advantage.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Software Giants Vie for CFO Dollars; May 2007 *Intelligent Performance Management: Aligning Day-to-Day Decision-making with Corporate Goals*; May 2007	*Are Performance Management Applications Only for Large Companies?*; June 2007

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