

Why businesses need to take a long, clear look at Sarbanes-Oxley requirements

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When it comes to [Sarbanes-Oxley \(SOX\)](#), the U.S. public company accounting reform/investor protection act, businesses are not entirely certain about the implications to themselves. Regulators are not doing enough to clarify the requirements, fuelling misguided notions about the impact of outsourcing on compliance efforts, according to a recent report.

The [META Group](#) study, "Organizational Trends in Sarbanes-Oxley and Regulatory Compliance Issues," not only revealed that C-level executives are more likely than line-of-business managers -- defined as vice-presidents, directors, managers, and business staff -- to increase outsourced functions owing to SOX compliance efforts, but it also showed that IT workers are more likely to believe that compliance will not influence outsourcing decisions.

Outsourcing high on the impact list

Among the study's findings: 55 percent of respondents believe that compliance measures will impact their use of outsourcing services, and 9 percent of those respondents said the changes would be significant.

Furthermore, 21 percent of respondents said they are more likely to outsource functions because of SOX compliance efforts, 19 percent said they expect to outsource less, 17 percent said they don't expect compliance to impact their outsourcing use, and 25 percent said they have no way of determining the impact.

Stan Lepeak, META Group vice-president and co-author of the study, said there are reasons for the differing opinions among top executives and line-of-business managers.

"You can argue that the line-of-business and the IT people are perhaps more realistic in saying, 'this isn't a good idea,'" said Lepeak, adding that regulators are dragging their feet in terms of clarifying reporting requirements related to SOX compliance. "But also, since it's likely that they're the ones that are going to be outsourced, it's natural that they're going to be less likely to say that there should be more outsourcing."

Even though executives are more interested in outsourcing than others in their organizations, he continued, sometimes these professionals don't fully understand what outsourcing really entails, which is why outsourcing deals often fail.

Bart G. Guerreri, chairman and president of [DSD Laboratories](#) in Sudbury, Mass., said that he's certainly well aware of the need for SOX compliance, but he stressed that outsourcing doesn't really figure into his company's plans.

Claiming that DSD prefers to do as much as it can in house, Guerreri said that his repeat customers keep coming back because they're accustomed to working the people he employs. For instance, staff members who were assigned to create a program for a client in, say, 1999, can be called upon again if the same client wants the program revised in 2004.

Outsourcing is a 'double-edged sword'

"Outsourcing is a double-edged sword," said Guerreri. "With outsourcing, sometimes you're talking to the wrong end of the horse. Sometimes the job gets screwed up and your reputation is relying on somebody who has not done a very good job. If you're in it for the long haul, you've got to take that into consideration when you outsource."

Acknowledging the importance of SOX compliance, Lena L. West, CEO of [xynoMedia Technology](#), based in Yonkers, N.Y., said that there are two driving forces at work behind META Group's findings. First, she explained, some C-level executives want to outsource the entire compliance process as a way of shifting blame over to a third party in the event that things go wrong. This strategy, she added, won't get C-level executives off the hook. Second, CxOs haven't spent enough time asking themselves the hard questions, such as whether compliance should even be outsourced at all.

"To remedy these scenarios, C-level executives need to race back to the drawing board and make sure compliance is a part of IT alignment and strategy," said West. "Our clients are coming to us complaining about compliance and we're telling them, 'This is not going to go away. You need to deal with compliance fundamentally, holistically, and at the planning and strategic levels.'"

Meanwhile, Lepeak of META Group said companies that do their homework and ultimately find a workable outsourcing arrangement could be on the receiving end of significant savings.

"If an outsourcer can show that they can guarantee a certain level of compliance and do it cheaper, that's going to be appealing in general," he said. "And it's also going to be appealing specifically to lower the overhead for the ongoing cost of maintaining compliance."

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