

The cost of compliance

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A landmark study by AMR Research in 2005, *Spending in an Age of Compliance*, made one of the first attempts to quantify global compliance spending by surveying over 225 IT leaders on compliance spending priorities. The data was staggering, with compliance spending expected to exceed US\$80bn before 2010.

The cost of compliance with regulatory laws for UK companies reached £10.3bn in 2006, up from £8.7bn in 2005, according to a recent report from the British Chambers of Commerce (BCC). "The UK's growing burden of red tape is unsustainable and economic success cannot be taken for granted," said Sally Low, director of policy and external affairs at the BCC. "Unless this increase is curbed we risk significant damage to the competitiveness of UK companies."

Clearly, businesses of all sizes are incurring compliance-related costs on a daily basis. Such costs, both real and hidden, are encountered at every level of the enterprise, but are generally not segregated or analysed on an enterprise-wide basis. Not knowing the true tally is no different than buying goods or services at an indeterminate price.

However, there are solutions available that can help companies get their arms around the various compliance tasks and quantify associated costs. Implementing an enterprise-wide compliance management oversight function together with tools and methodology for clearly defined information gathering is the first step.

People, processes and technology must combine to create an environment in which the enterprise consistently measures, manages, and monitors all the key components of compliance – policies, procedures, transparency, cost and efficiency.

Sounds simple, but the reality is somewhat different. There is a compliance component in most of everything a business does. Size is no differentiator either.

Compliance impacts the start-ups through to the largest publicly-traded companies.

Driven largely by regulation, the range and scope of compliance is ever changing. With so much legislation enacted, is it truly realistic to expect business to embrace its strictures? Unfortunately, the option to settle for a lackadaisical approach to compliance has been proven to be too dangerous and expensive a proposition.

Typical compliance costs

Unfortunately, it's much more than cash outflow. And that is always a problem unless a business is adept at understanding cash equivalent costs and benefits as they relate to compliance. The hard and soft elements are diverse enough, but without enabling risk/reward opportunity cost and efficiency cost benefits to be measured in the same context, no business can be expected to embrace compliance willingly.

Some of the components:

Cost: Time spent by employees within the organization in either tracking compliance or actively responding to compliance processes on a regular basis .

Cost: The potential cost to the organization of increased risk due to any weaknesses in compliance tracking or management.

Benefit: Business process efficiencies driven by processes defined for compliance processes

Cost: Management Information Systems (MIS) used within the enterprise to track and monitor compliance functions.

Benefit: MIS system ability to provide information internally and externally, identify compliance weaknesses, drive mediation, and efficiencies.

Cost: Failure of business operating MIS technology to retain or properly process information in a compliant framework.

Cost: Filing fees associated with regulatory filings, such as SEC documents.

Benefit: Reduction in Enterprise wide Risk through identification and remediation of compliance processes throughout the business.

This all makes budgeting for compliance extremely complex but the pattern is clear. Negatives have meaning only in the abstract unless there are counterbalancing positives. It is no different, conceptually, from a balance sheet. Typically in a balance sheet, the only line items normally considered are those hard costs directly associated with the compliance function. But the Compliance balance sheet can be created with a basic understanding of risk/reward, disciplines and skills that already exist in businesses.

Knowledge, information and expertise are the critical components. People can provide knowledge and expertise, but MIS systems are the key to information. It seems often that most companies skimp on what is arguably the most important aspect – the information systems that hold the entire compliance system together and enables measurement, management, and monitoring. This is the glue that holds the entire compliance function together and should be the foundation of any good compliance initiative.

In other words, the traditional ad hoc means of managing the compliance function with a decentralised approach to information is not the most effective solution for the enterprise in today's compliance-intensive world.

Conclusions

Clearly, a strategy that aggregates all aspects of compliance measures across the enterprise not only mitigates the associated risks, but can also pay immediate dividends for companies through customer retention and business continuity. A comprehensive compliance strategy integrates all aspects – particularly the proper approach, bringing Human Capital, clearly defined processes and MIS systems into the equation.

With the cost of compliance skyrocketing – and only expected to increase in the coming years – forward-thinking companies need to consider the total cost of compliance and begin to take steps now to build compliance into their corporate infrastructure.