

Netwatch

By Jim Carroll

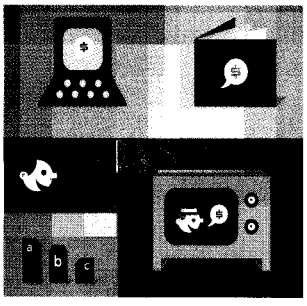
Your guide to business & accounting on the Internet

Could SOX kill innovation?

Last month, I wrote that we are in an era of hyper-innovation. As accountants, the ability to innovate is important in everything we do. In particular, I believe there is a huge opportunity for innovation in the day-to-day business processes that we implement and manage.

And yet, I am worried the intense focus on governance rules could be an impediment to such innovation.

The hangover from high-profile corporate scandals has had the biggest impact on US-listed companies, which are subject to the many requirements of the Sarbanes-Oxley Act. But SOX is far reaching — even though they are not subject to the act, everyone from not-for-profits to small and medium-sized organizations are seeing a culture of compliance come to the forefront.



I wonder if this new focus on compliance is destroying any initiative to take risks and causing some organizations to throw the innovation baby out with the bathwater.

Famed economist Milton Friedman warned in *Investor's Business Daily*: "Everything you hear, from Sarbanes-Oxley to CEOs, is 'for God's sake, don't take any risks ... don't take a chance.' If that view really prevails, it would put a sure stop to growth and development."

As accountants, we must keep in mind there is a massive opportunity for transactional and process innovation — that is, changing the way financial information is processed through the use of new technologies, new ways of thinking and business partner and supply chain collaboration. The objective is to provide decision-makers with information to help them improve the business and transform the very nature of our operations.

Problem is, there are signs accountants are spending too much time on compliance and little time on business process innovation. Section 404 of SOX, for example, requires management to assess the effectiveness of internal controls and financial reporting procedures, and to report on these within the annual financial statements. It's a huge undertaking — *Financial Executive* magazine noted that in 2003 US public companies had spent more than US$1 billion on SOX-related compliance, and that number is set to grow.

But it's becoming evident that much of this spending is being done with a ticking-and-bopping mentality. Accountants are approaching SOX as a checklist to complete, rather than thinking about how they might transform their business processes and operations in order to make ongoing 404 requirements a core part of the financial system. (Indeed, in their rush to meet the SOX deadline, many organizations are doing little more than documenting their internal controls and procedures in Word and Excel files.)

Sure, they'll comply this year, but what is missing is an effort to change internal processes to avoid repeating the same checklists in years to come. They'll waste money doing the same ticking and bopping year after year.

That's why enterprise software companies are offering software that provides for transformation as part of the compliance process, and accounting firms are suggesting business process innovation must be part of our compliance culture. The concern is that a compliance mentality, if not properly managed, will lead to a culture in which the accuracy of the paperwork is the most important goal of the accounting profession. In such an environment, creativity and innovation could take a back seat.

Jim Carroll, FCA, is a well-known speaker, author and columnist. Reach him at jcarroll@jimcarroll.com or log on to his website at www.jimcarroll.com

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Compliance Week
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***CFO* magazine, "Sticker Shock," (costs of Sarbanes-Oxley compliance)**
www.cfo.com/Article?article=10546

EDS positioning paper, "Building a compliance platform" www.eds.com/thought/fc_news_sarbanes_oxley.pdf