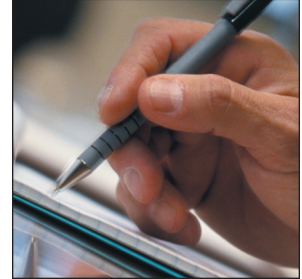


The Real Challenge of Sarbanes-Oxley

Going Beyond Compliance



This is the first in a series of executive briefs designed to provide a step-by-step approach to fully complying with Sarbanes-Oxley while dramatically improving business processes and achieving a significant return on your compliance investment.



The Real Challenge of Sarbanes-Oxley: Going Beyond Compliance

An Executive Briefing from Six Sigma Qualtec

Well after last year's first filing deadline under the **Sarbanes-Oxley Act** and three years after the bill's initial passage, many companies continue to struggle under the burdens of Section 404, Management Assessment of Internal Controls. These companies have been unable to reduce their overall finance costs; monthly closing cycles have lengthened, and labor-intensive efforts to comply have driven up costs even further. According to AMR Research, U.S. companies will spend \$6.1 billion this year alone on compliance. The Securities and Exchange Commission estimates that companies collectively will spend almost 5.4 million staff hours on implementation of Section 404.

Ironically, these increased compliance costs are eating up the savings that have been achieved in other parts of the enterprise through continuous improvement and quality programs. The effectiveness of such improvement programs, however, points the way toward successfully addressing Sarbanes-Oxley. Instead of regarding compliance with Section 404 as a burdensome administrative task, forward looking companies will seize the opportunity it offers to identify and implement business process improvements to drive greater profitability and, ultimately, competitive advantage. They will take advantage of the parallels between the goals and methods employed in both Sarbanes-Oxley compliance and in continuous improvement programs. Most importantly, they will recognize that the real challenge of Sarbanes-Oxley lies not in mere compliance but in going beyond compliance to the process excellence that delivers a real return on their compliance investment.

To help companies go beyond mere compliance to significant improvement, Six Sigma Qualtec, through the proven Hoshin Kanri approach and its robust Business Process Management tool sets, provides leaders with all the controls and evidence required not only to comply with Sarbanes-Oxley but also to achieve a handsome ROI. What follows here is the first in a series that will outline and then detail these methods and tools uniquely suited to addressing Sarbanes-Oxley and discuss how to leverage their execution to deliver returns on your compliance investments.

A Top-Down and Bottom-Up Approach

Sarbanes Oxley's mandate to focus on the operational controls and internal structures and procedures for financial reporting naturally extends to all drivers of the financial data and the reporting vehicles and documents that follow. These data streams and subsequent reporting requirements are all essential to effective risk management for the operation. Every business enterprise manages risk, addresses compliance issues in its respective industry, and pursues improvements in these and other areas of the operation. Typically, such improvements are driven from two distinct directions: (1) from the top down through strategies and (2) from the bottom up through processes. Hoshin Kanri addresses both. Also known as Policy Deployment, Hoshin Kanri originated in Japan in the 1960s and is now employed by industry-leading companies around the globe. It provides a proven planning, implementation, and review process for connecting process improvements and daily operations to the strategies of the enterprise. ("Hoshin" means "compass" or "a way of setting direction". "Kanri" means "control" or "management".)

The top-down component, emanating from strategic planning activities and the deployment of those strategies to operations, is provided by Hoshin planning. In this endeavor, the Voice of the Customer, the Voice of the Shareholder (or Business), and the Voice of the Employee are weighed and balanced to identify the driving needs of the enterprise – commonly referred to as critical success factors (CSFs). With increasing frequency, CSF agendas include compliance, risk management, and non-Sarbanes-Oxley compliance efforts. Further, customers, shareholders, and employees alike want to know how a company is handling these CSFs. Customers want to feel that they are doing business with a well-managed provider of products or services. Shareholders want to be confident that their investment is properly attended to and that their risk is being managed. Employees want to have confidence in their employer.

Hoshin planning can provide all stakeholders with the reassurance and certainty they need. When connected to the business planning process, Hoshin planning provides a structure and discipline to identify the measures, processes, initiatives, and activities necessary for achieving the required performance levels. By identifying those key factors, Hoshin planning establishes the success equation for the CSF, thus reducing the risk of failure, non-compliance, or lack of suitable operations controls.

Following the development of the Hoshin plans, Kanri management activities can be deployed to complete the internal inspection activities in a systematic and documented fashion. This increases both the conformance to Sarbanes-Oxley and the certainty of realizing the required improvements. With these improvements come operational effectiveness and efficiencies, which by their nature increase revenues, reduce costs, or do both. Thus the activity of conformance produces improvements whose value exceeds the cost of the compliance activities and produces a reasonable ROI. While this ROI – typically 2 or 3 to 1 – is not as great as the 9 or 10 to 1 ratio achieved by Six Sigma efforts, it is real and verifiable. And when an ROI can be generated from compliance activities, smaller is not a problem.

The Six Sigma Context

Coupled with the Hoshin Kanri efforts, Six Sigma-based organizations deploy Business Process Management (BPM) initiatives to drive process or operational improvement from the front line or bottom up. This process management approach digs deep into the way activities are performed on a daily basis. When it is managed through consistent review and monitoring activities it produces a very high degree of certainty of operating success. These high degrees of certainty translate into reduced risk and increased conformance to regulations and procedural directives.

Thus, a Hoshin Kanri approach, in the context of a fully developed Six Sigma deployment, can produce an operating environment that is:

- ❑ Consistent with Sarbanes-Oxley
- ❑ Regulatory-compliant
- ❑ Risk eliminating or mitigating
- ❑ ROI-positive, offsetting the costs of the conformance and compliance initiatives

This comprehensive approach to Sarbanes-Oxley creates an operation that customers, shareholders, and employees alike are pleased to be associated with – a win on all fronts.

Looking Ahead

That, in bare outline, is the promise of Hoshin Kanri. Upcoming briefs in this series will provide the particulars, including:

- *The structures, activities and methods for the application of this top-of-house imperative.*
- *How the recommended Business Process Management system is designed, deployed, and executed to yield operational effectiveness, organizational efficiencies, and risk management through its full-cycle approach to the business.*
- *How the disciplines of Hoshin Kanri and Business Process Management can be integrated and supported by specific tool sets to facilitate Sarbanes-Oxley Act conformance and risk management and to fulfill fundamental business performance management principles.*

Find out how you can go beyond compliance to positive ROI.

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Your Strategic Partner

Six Sigma Qualtec is a premier provider of process management and performance improvement consulting, training, and technology solutions that drive breakthrough growth, productivity and value for our clients.

We are unique in our ability to customize the integration of management disciplines to meet the industry-specific requirements of global leaders in financial services, natural resources, manufacturing, process and service industries.

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