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Spending in an Age of Compliance, 2005

by John Hagerty and Fenella Scott

From the comprehensive results of our 2005 compliance spending study, we find companies will spend nearly \$15.5B on compliance-related activities this year.

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Spending in an Age of Compliance, 2005

by John Hagerty and Fenella Scott

The Bottom Line: From the comprehensive results of our 2005 compliance spending study, we find companies will spend nearly \$15.5B on compliance-related activities this year.

Introduction

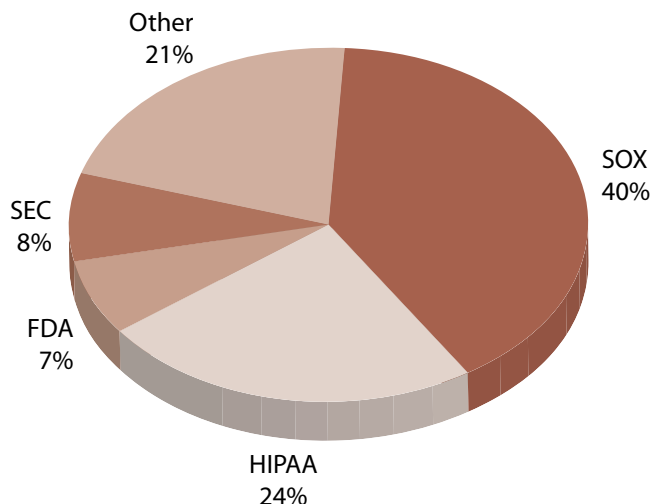
Over the last two years, we've written a lot about Sarbanes-Oxley Act (SOX) compliance and its effect on financial governance practices of a broad swath of U.S. and multinational companies. But SOX is only one of myriad compliance requirements that companies face across the globe. A recent survey of over 225 companies conducted by AMR Research in the fourth quarter of 2004 indicates that SOX is just the tip of the iceberg. Consider that in 2005 alone, firms expect to spend nearly \$15.5B (see Table A and Figure A) on a wide range of compliance programs.

Table A: Compliance spending, by major initiative and category

Category	SOX (\$M)	HIPAA (\$M)	FDA (\$M)	SEC (\$M)	Other (\$M)	Total (\$M)
Technology	1712	1546	375	452	1118	5202
Services	1773	523	288	335	866	3785
Head Count	2568	1571	394	449	1215	6196
Other	61	38	42	71	86	299
Total	6114	3678	1099	1307	3285	15483

Source: AMR Research, 2005

Figure A: Planned compliance spending—2005



Source: AMR Research, 2005

Between 2005 and 2009, compliance will cumulatively amount to an \$80B problem

But is it really only a tax on corporate resources? It can be, if firms don't use these mandates to their advantage. Companies that see the big compliance picture will put these mandates to work for them—compliance as the catalyst to improve, even rethink parts of their business.

IT spending is only part of the overall picture

Compliance is an all-encompassing set of activities that cross business and IT groups. So spending on compliance is not strictly a hit to IT budgets, but rather shared across many areas of the firm. Although technology is a hefty part of each mandate—ranging from 28% of SOX spending to 42% of Health Insurance Portability and Accountability Act (HIPAA) compliance, and 34% on average—there are IT-related expenses in external services and head count categories as well (see Table B).

Table B: Compliance spending allocation, percentage by category of spend

Category	SOX	HIPAA	FDA	SEC	Other	Total
Technology	28%	42%	34%	35%	34%	34%
Services	29%	14%	26%	26%	26%	24%
Head Count	42%	43%	36%	34%	37%	40%
Other	1%	1%	4%	5%	3%	2%

Source: AMR Research, 2005

Most companies plan to add to and improve on existing compliance regimens, not remain status quo

Compliance is definitely a process, not something that gets “fixed” and then forgotten. Nearly 80% of SOX projects and 67% of all compliance projects are expected to get more work in 2005. In many ways, this reflects ongoing maturity in each compliance initiative. Some Securities and Exchange Commission (SEC) regulations have been in place for longer periods of time and have proven structured methodologies in place; the need for constant tweaking isn't as great. SOX, on the other hand, is still evolving as it moves from a project to an ongoing process within many firms. Emerging regulations, such as The Waste Electrical and Electronic Equipment (WEEE) and Restriction of Hazardous Substances (RoHS) directives in the European Union, are only now beginning to show up on spending plans for 2005.

A Snapshot of HIPAA Compliance

For some companies, SOX is not its largest compliance spending category. More than 30 companies indicated that HIPAA was their largest investment area—just over 13% of our overall survey respondents. Budget is being spent on HIPAA compliance to satisfy privacy and integration issues associated with patient and employee information. For 2005, we estimate the following:

- Total spending will be nearly \$3.7B across all firms.
- The average company in this sub-sample will spend \$2.2M on HIPAA this year.
- 45% of firms' budgets will stay the same, 42% will increase spending, and 13% will decrease spending in this area.
- Average budget growth will be 5.9%.
- Security, document management and records management, and reporting and risk technologies are the big three spend areas at 29%, 26%, and 26%, respectively.
- One-third of companies will fund HIPAA compliance through general IT budgets, another third through specific compliance budget, and 23% through a general operations budget.

Compliance perspectives differ between business and IT users

It will come as no surprise that each constituent in a thorny business issue may have a different perspective. Regarding spending, business managers expect spending to accelerate at faster rates (nearly double on average) than IT staff projections. At a macro level, business users also estimate that their firms have spent and will spend more than their IT counterparts. Many compliance initiatives start in business groups and broaden, even transition, to IT. The data indicates business users are more willing to spend when it comes to compliance.

CLOSING COMMENTS

Compliance spending is an increasing part of overall company and IT spending. We see this only increasing as new mandates arise and more pressure is placed on firms to better manage and control their operations in light of higher scrutiny from governments, regulators, and stakeholders.

The details that follow will show many shades of compliance spending by industry sector, size of firm, business and IT users, and financial status (public, private, and non-profit). We will continue to research this important area of spending throughout the year.

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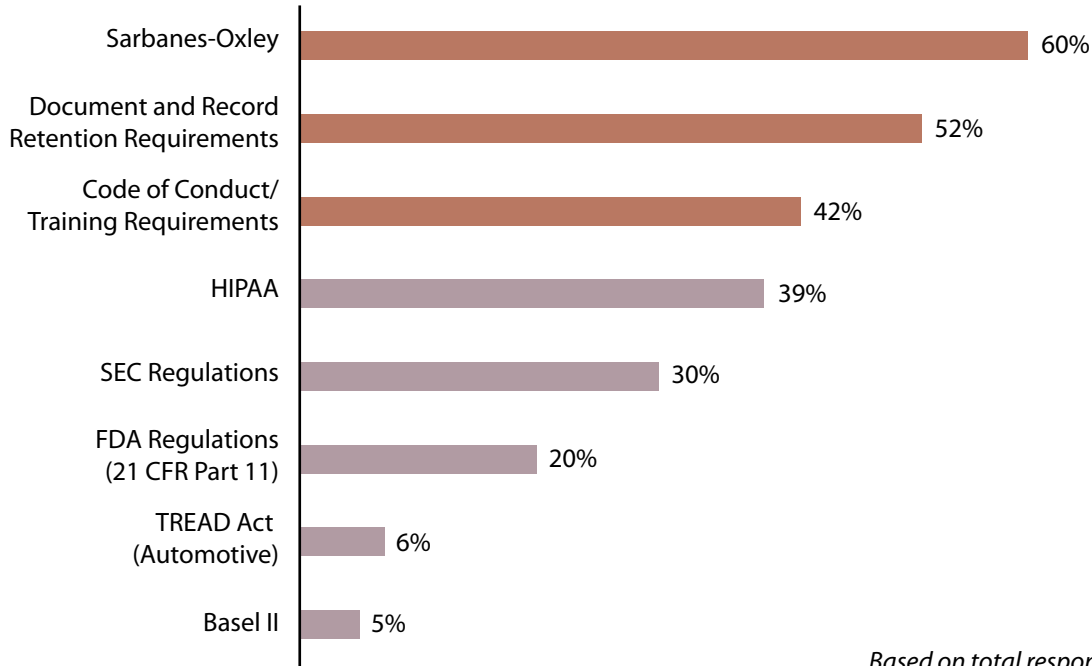
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2005 Compliance Study

Section 1: Overall Compliance Efforts

Figure 1: Compliance mandates companies are currently addressing



Based on total respondents, n=223

Source: AMR Research, 2005

Table 1: Which of the following compliance mandates is your company addressing at this time?

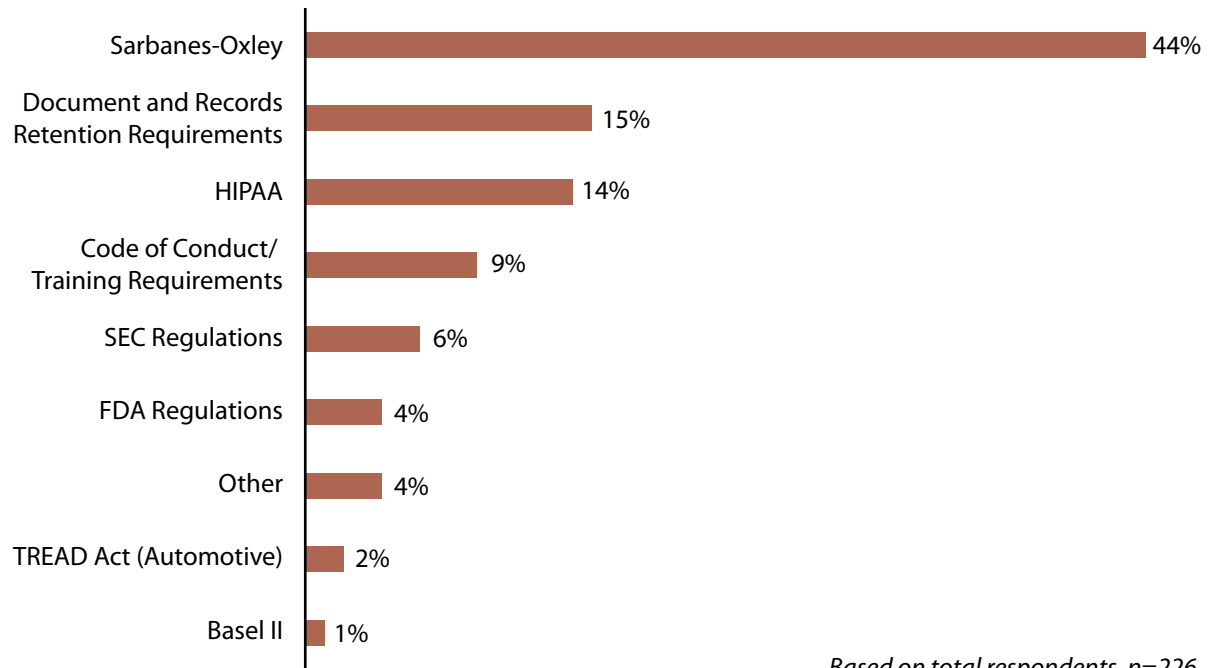
Compliance mandate	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Sarbanes-Oxley	61%	68%	56%	56%	66%
Document/record retention requirements	52%	43%	58%	52%	51%
Code of conduct / training requirements	42%	37%	45%	39%	42%
HIPAA	39%	26%	47%	38%	38%
SEC regulations	30%	33%	28%	28%	30%
FDA regulations (21 CFR Part 11)	20%	33%	11%	22%	18%
TREAD Act (Automotive)	7%	13%	2%	8%	5%
Basel II	5%	8%	3%	6%	4%
n=	223	92	131	99	128

Compliance mandate	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Sarbanes-Oxley	61%	49%	68%	30%	53%	76%
Document/record retention requirements	52%	55%	50%	68%	55%	44%
Code of conduct / training requirements	42%	40%	41%	35%	42%	43%
HIPAA	39%	31%	41%	60%	27%	37%
SEC regulations	30%	37%	26%	13%	27%	36%
FDA regulations (21 CFR Part 11)	20%	31%	16%	13%	23%	21%
TREAD Act (Automotive)	7%	14%	4%	0%	11%	6%
Basel II	5%	11%	3%	0%	6%	6%
n=	223	65	160	40	62	126

Source: AMR Research, 2005

Takeaway: Companies are addressing at least two compliance mandates simultaneously, and by far SOX is top of mind. While SOX is more likely to be top of mind in IT, HIPAA and document/record retention requirements are being addressed equally by business and IT departments.

Figure 2: Compliance mandate with the largest dollar investment



Based on total respondents, n=226

Source: AMR Research, 2005

Table 2: Among the compliance mandates your company is currently addressing, which one so far represents the largest dollar investment?

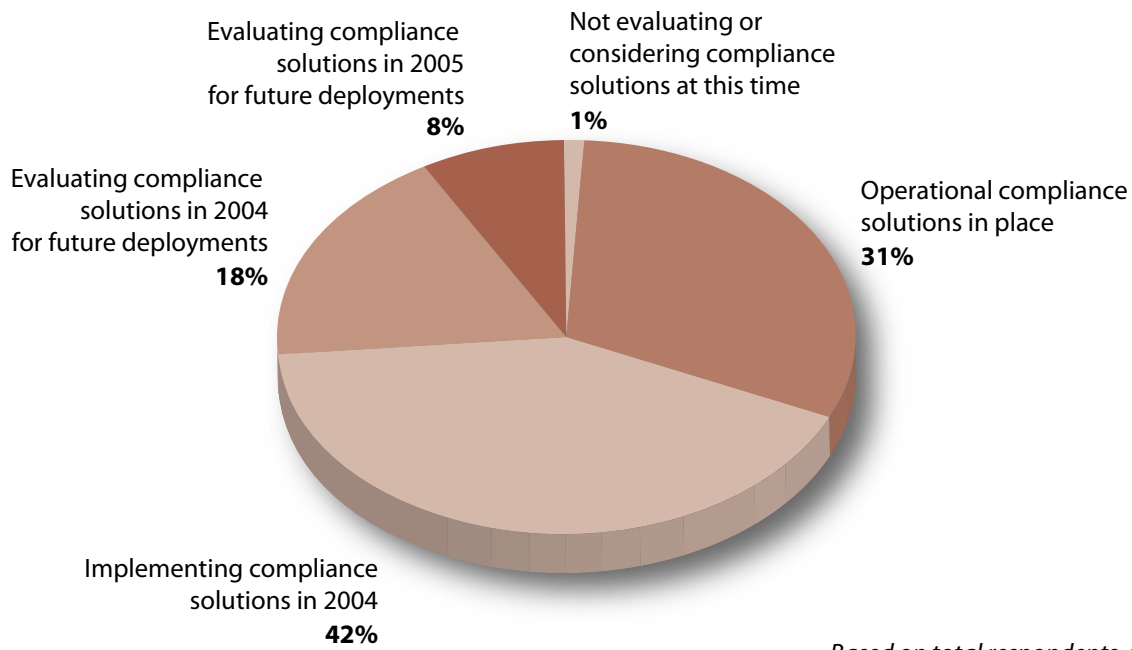
Compliance mandate	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Sarbanes-Oxley	44%	55%	35%	37%	50%
Document/record retention requirements	15%	13%	17%	19%	12%
HIPAA	14%	4%	22%	17%	12%
Code of conduct / training requirements	9%	5%	11%	9%	9%
SEC regulations	6%	5%	7%	7%	6%
FDA regulations	4%	10%	1%	5%	4%
Other	4%	2%	5%	2%	6%
TREAD Act (Automotive)	2%	3%	2%	2%	2%
Basel II	1%	1%	1%	1%	1%
n=	226	91	130	98	127

Compliance mandate	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Sarbanes-Oxley	44%	38%	47%	8%	29%	64%
Document/record retention requirements	15%	20%	13%	28%	27%	5%
HIPAA	14%	5%	18%	50%	6%	6%
Code of conduct / training requirements	9%	11%	7%	5%	13%	8%
SEC regulations	6%	5%	7%	5%	11%	4%
FDA regulations	4%	12%	1%	0%	5%	6%
Other	4%	2%	5%	5%	6%	2%
TREAD Act (Automotive)	2%	5%	1%	0%	2%	3%
Basel II	1%	3%	0%	0%	0%	2%
n=	226	65	158	40	62	124

Source: AMR Research, 2005

Takeaway: Not only is SOX the mandate 61% of companies are addressing, it also garners the largest dollar investment to date. IT executives claim to be spending more on SOX and HIPAA, while business executives are more focused on document/record retention requirements and FDA regulations.

Figure 3: Current status of compliance efforts



Based on total respondents, n=227

Source: AMR Research, 2005

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Table 3: What statement best describes the current status of your compliance efforts?

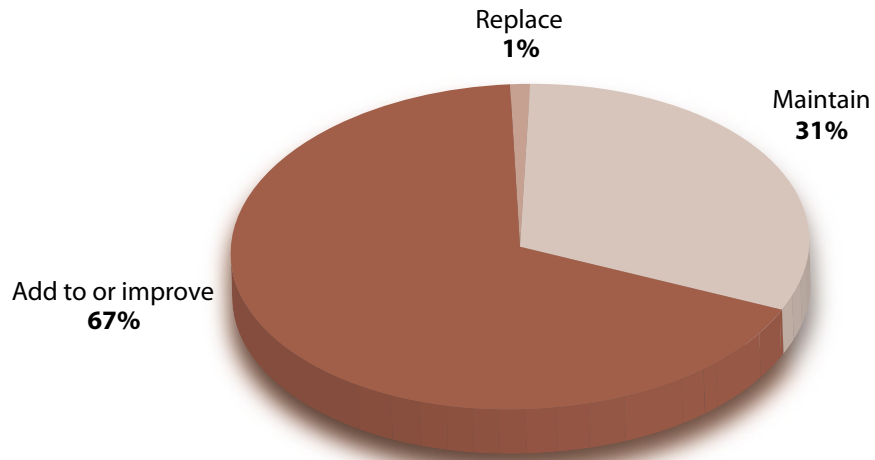
Stage of development	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Operational compliance solutions in place	31%	29%	31%	28%	33%
Implementing compliance solutions in 2004	42%	45%	40%	45%	39%
Evaluating compliance solutions in 2004 for future deployment	18%	19%	18%	17%	18%
Evaluating compliance solutions in 2005 for future deployment	8%	7%	10%	8%	9%
Not evaluating or considering compliance solutions at this time	1%	1%	2%	1%	1%
n=	227	91	131	99	127

Stage of development	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Operational compliance solutions in place	31%	25%	33%	40%	29%	29%
Implementing compliance solutions in 2004	42%	33%	45%	38%	29%	50%
Evaluating compliance solutions in 2004 for future deployment	18%	25%	15%	10%	24%	17%
Evaluating compliance solutions in 2005 for future deployment	8%	16%	6%	13%	16%	3%
Not evaluating or considering compliance solutions at this time	1%	2%	1%	0%	2%	2%
n=	227	64	160	40	62	125

Source: AMR Research, 2005

Takeaway: Compliance solutions are either up and running or underway in at least 73% of companies today. This rings true regardless of industry and size of company, but there is a disconnect between business and IT departments. More than three quarters of IT executives report having compliance solutions either up and running or underway, while a significant percentage of business executives, 41%, report they are still evaluating future development.

Figure 4: Plans for current compliance solutions in 2005?



Based on respondents with operational solutions, n=70

Source: AMR Research, 2005

Table 4: What are your plans for your current compliance solutions in 2005?

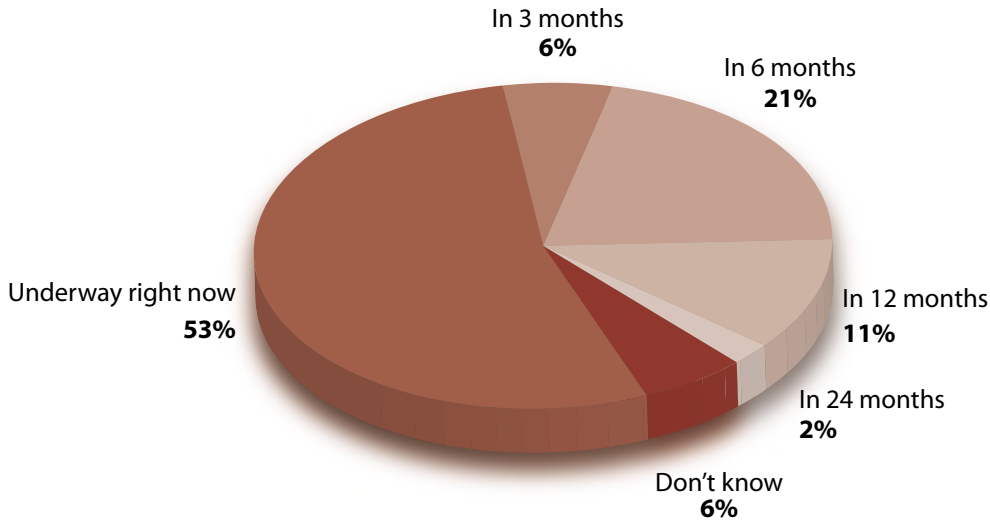
Plans for current solutions	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Add to or improve	67%	46%	80%	54%	76%
Maintain	31%	54%	17%	43%	24%
Replace	1%	0%	2%	4%	0%
n=	70	26	41	28	42

Plans for current solutions	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Add to or improve	67%	69%	66%	81%	39%	75%
Maintain	31%	31%	32%	19%	56%	25%
Replace	1%	0%	2%	0%	6%	0%
n=	70	16	53	16	18	36

Source: AMR Research, 2005

Takeaway: The majority of companies are now at the point where they plan to add to or improve the compliance functionality they already have; only a minimal number are at the stage of actually replacing solutions. Service companies are further along on the maturity curve. An overwhelming number, 80%, plan on adding to or improving what they already have, while only 46% of their manufacturing counterparts are at the same juncture.

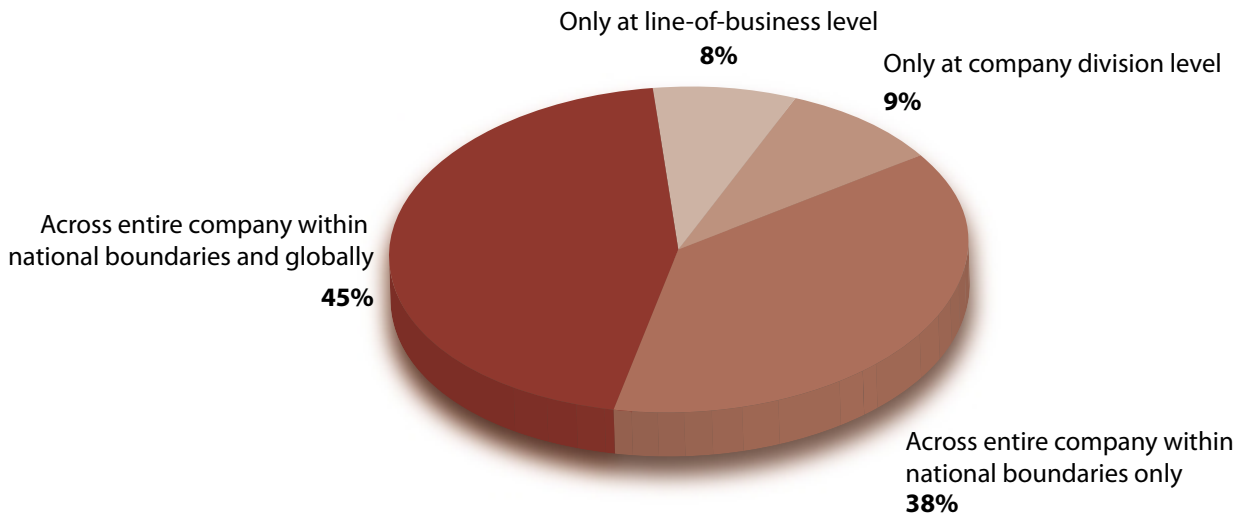
Figure 5: Timeframe to add to or improve the compliance solutions currently using



Based on respondents adding to or improving, n=47

Source: AMR Research, 2005

Figure 6: Level at which companies are addressing compliance issues



Based on total respondents, n=227

Source: AMR Research, 2005

Table 6: At what level is your company addressing compliance issues?

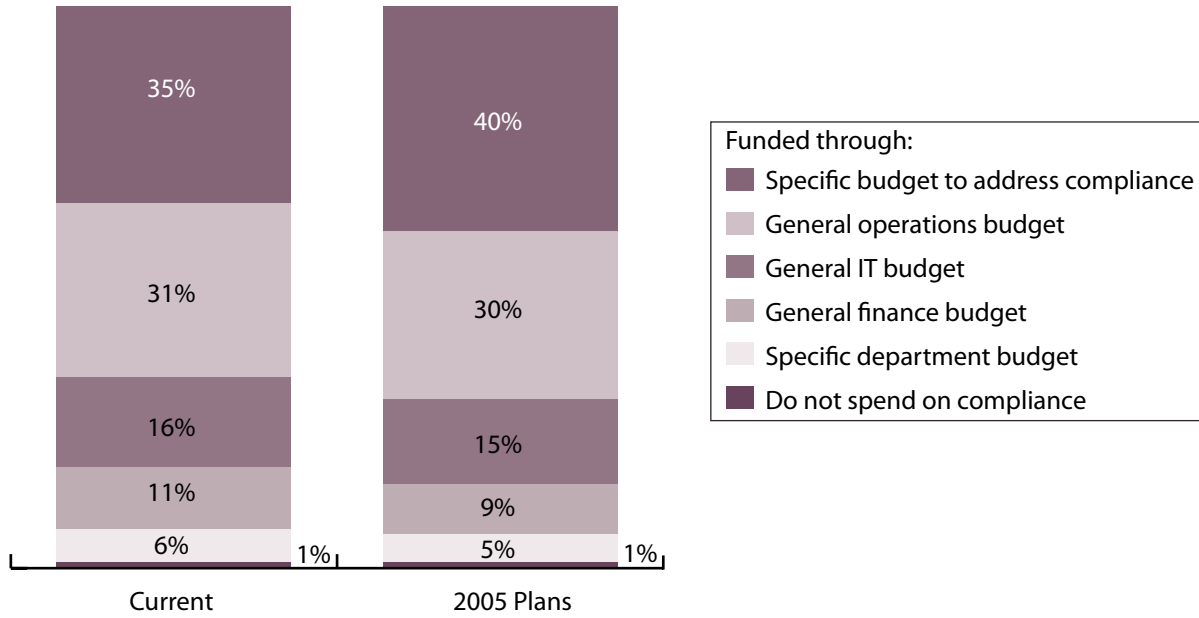
Level	Total	Industry		Size of company	
		Mfg.	Services	Midsized	Enterprise
Across the entire company within national boundaries and globally	45%	49%	41%	34%	53%
Across the entire company within national boundaries only	38%	29%	44%	38%	38%
Only at the company division level	9%	10%	8%	13%	6%
Only at the line of business level	8%	12%	6%	14%	4%
n=	227	91	131	99	127

Level	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Across the entire company within national boundaries and globally	45%	43%	46%	38%	28%	56%
Across the entire company within national boundaries only	38%	42%	36%	43%	41%	35%
Only at the company division level	9%	6%	10%	15%	11%	6%
Only at the line of business level	8%	9%	8%	5%	20%	4%
n=	227	65	159	40	61	126

Source: AMR Research, 2005

Takeaway: Compliance issues are addressed across the entire company either nationally or globally (83% report doing so), and more than half are at the global level. Private companies, over any other type of business, are more likely to deal with compliance mandates at just the line of business level, 20% versus a mere 5% among others.

Figure 7: Source of funding for compliance initiatives



Based on total respondents, n=222

Source: AMR Research, 2005

Table 7a: How does your company currently fund your compliance initiatives?

Source	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Through a specific budget to address compliance	35%	34%	34%	32%	37%
Funded through the general operations budget	31%	37%	27%	32%	30%
Funded through the general IT budget	16%	12%	19%	13%	18%
Funded through the general finance budget	11%	11%	12%	13%	10%
Funded through a specific department budget	6%	5%	6%	7%	6%
Do not spend at all on compliance	1%	1%	1%	2%	0%
n=	222	92	125	99	123

Source	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Through a specific budget to address compliance	35%	35%	34%	21%	39%	37%
Funded through the general operations budget	31%	30%	32%	32%	31%	31%
Funded through the general IT budget	16%	6%	20%	34%	10%	13%
Funded through the general finance budget	11%	14%	10%	5%	16%	11%
Funded through a specific department budget	6%	13%	4%	8%	2%	8%
Do not spend at all on compliance	1%	2%	1%	0%	2%	1%
n=	222	63	156	38	61	123

Source: AMR Research, 2005

Table 7b: How does your company plan to fund your compliance initiatives in 2005?

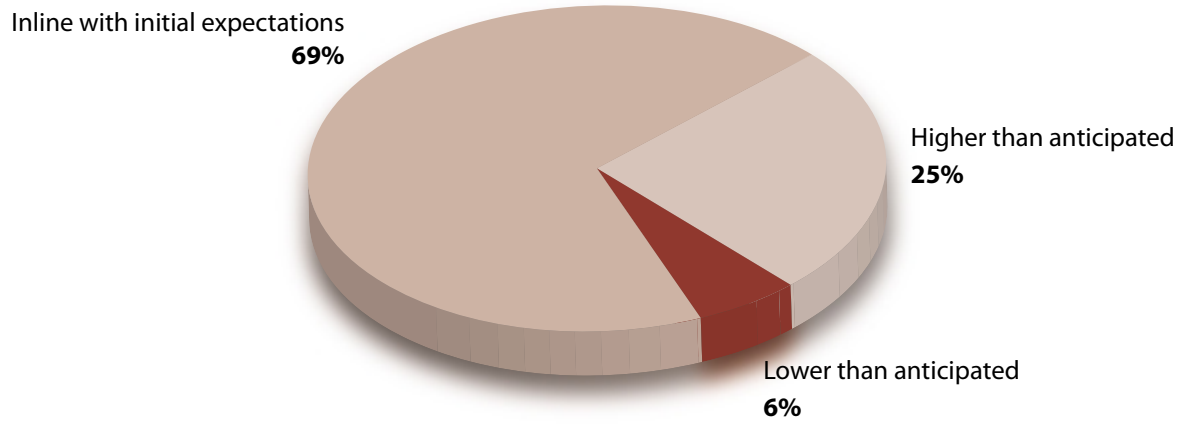
Source	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Through a specific budget to address compliance	40%	41%	39%	37%	41%
Funded through the general operations budget	30%	32%	28%	32%	28%
Funded through the general IT budget	15%	11%	19%	11%	19%
Funded through the general finance budget	9%	10%	9%	9%	9%
Funded through a specific department budget	5%	5%	5%	8%	3%
Do not spend at all on compliance	1%	1%	1%	2%	0%
n=	224	91	128	99	124

Source	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Through a specific budget to address compliance	40%	39%	40%	33%	43%	40%
Funded through the general operations budget	30%	28%	30%	33%	30%	29%
Funded through the general IT budget	15%	9%	18%	25%	7%	16%
Funded through the general finance budget	9%	9%	9%	3%	17%	7%
Funded through a specific department budget	5%	13%	3%	8%	2%	6%
Do not spend at all on compliance	1%	2%	1%	0%	2%	1%
n=	224	64	157	40	60	124

Source: AMR Research, 2005

Takeaway: Although 35% of companies have a specific budget for compliance initiatives, the fact remains that more than two-thirds have to pull from other areas to fund these projects. In 2005, more companies (40%) are trending toward having an earmarked budget for compliance, therefore becoming more centralized in how they fund these mandates.

Figure 8: 2004 compliance spending compared to initial expectations



Based on total respondents, n=226

Source: AMR Research, 2005

Table 8: How does your 2004 compliance spending compare to your initial expectations?

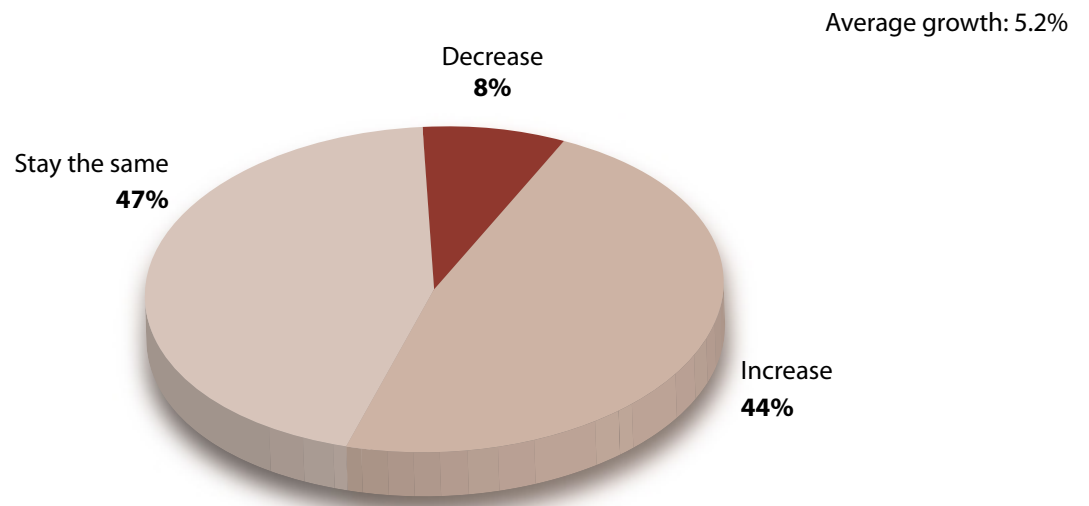
Actual spend	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Higher than anticipated	25%	32%	21%	25%	25%
In line with initial expectations	69%	62%	73%	65%	71%
Lower than anticipated	6%	7%	6%	10%	3%
n=	226	92	129	99	126

Actual spend	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Higher than anticipated	25%	22%	27%	13%	16%	34%
In line with initial expectations	69%	68%	69%	85%	69%	63%
Lower than anticipated	6%	11%	4%	3%	15%	3%
n=	226	65	158	40	62	124

Source: AMR Research, 2005

Takeaway: A majority of companies say their compliance spending was on budget, particularly not-for-profit organizations: 69% and 85%, respectively. With that said, it still remains that 25% spent more than expected on compliance, and at least 32% of manufacturing or publicly traded companies investments were higher than expected. Compliance continues to be a moving target for a quarter of companies surveyed.

Figure 9: Expected change in 2005 compliance budget



Based on total respondents, n=227

Source: AMR Research, 2005

Table 9: How do you expect your compliance budget in 2005 to change—will it increase decrease, or stay the same compared to 2004?

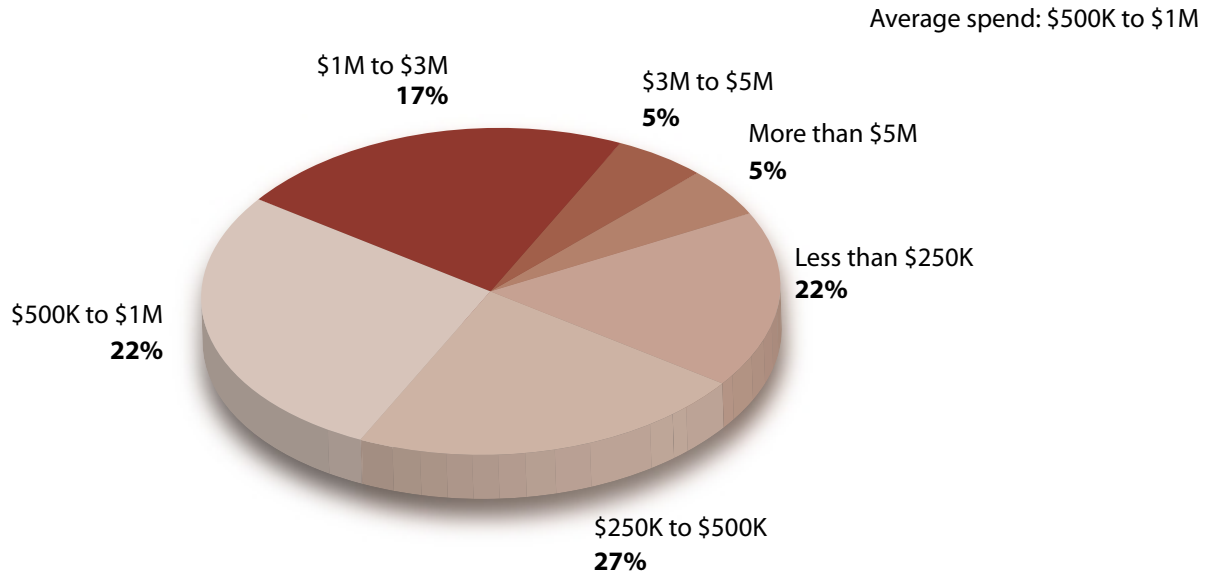
Change	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Increase	44.5%	48.9%	40.8%	45.5%	43.3%
Stay the same	47.1%	41.3%	51.5%	43.4%	50.4%
Decrease	8.4%	9.8%	7.7%	11.1%	6.3%
Average growth	5.2%	7.2%	3.8%	5.4%	4.9%
n=	227	92	130	99	127

Change	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Increase	44.5%	56.9%	39.6%	52.5%	41.9%	43.2%
Stay the same	47.1%	41.5%	49.1%	45.0%	45.2%	48.8%
Decrease	8.4%	1.5%	11.3%	2.5%	12.9%	8.0%
Average growth	5.2%	8.6%	3.8%	7.4%	4.4%	4.9%
n=	227	65	159	40	62	125

Source: AMR Research, 2005

Takeaway: In 2005, compliance budgets are either going to stay the same or increase among 92% of companies. There are more aggressive growth intentions in organizations that continue to address mandates imposed by their customers, such as in manufacturing or not-for-profit segments. Suffice it to say, almost half of the firms will increase spending over 2004. Interestingly, business executives have more aggressive designs to increase spending on compliance at a much higher rate than their IT equivalents, 8.6% versus 3.8% positive growth.

Figure 10: Amount companies plan to spend on compliance-related activities in 2005



Based on total respondents, n=223

Source: AMR Research, 2005

Table 10: Approximately how much do you plan to spend on compliance-related activities in 2005?

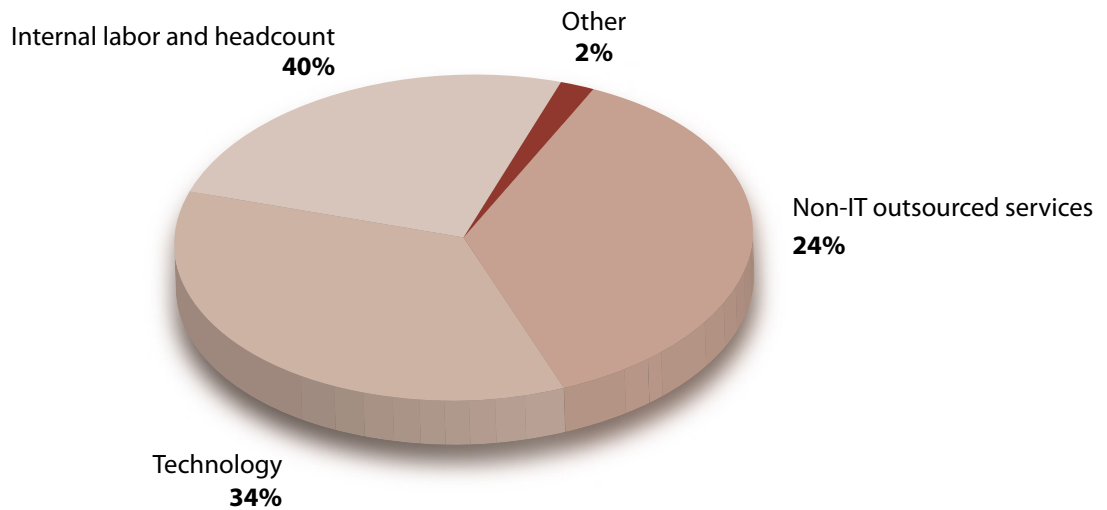
Amount	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Less than \$250K	22%	22%	22%	34%	14%
\$250K to \$500K	27%	19%	34%	26%	27%
\$500K to \$1M	22%	26%	20%	24%	21%
\$1M to 3M	17%	21%	15%	10%	23%
\$3M to \$5M	5%	5%	5%	5%	6%
More than \$5M	5%	7%	5%	1%	9%
n=	223	91	127	98	124

Amount	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Less than \$250K	22%	27%	21%	36%	34%	12%
\$250K to \$500K	27%	23%	28%	33%	21%	28%
\$500K to \$1M	22%	28%	20%	18%	21%	25%
\$1M to 3M	17%	11%	21%	8%	11%	24%
\$3M to \$5M	5%	3%	6%	3%	10%	4%
More than \$5M	5%	8%	4%	3%	3%	7%
n=	223	64	156	39	62	122

Source: AMR Research, 2005

Takeaway: On average, spending on compliance in 2005 will be about \$500K to \$1M at any given company. As mentioned before, manufacturing companies plan to increase their budgets more aggressively in 2005, and this is reflected in how much they also plan to spend. Average spend will be closer to \$1M compared to service companies that plan to spend an average of \$500K.

Figure 11: 2005 compliance budget allocation

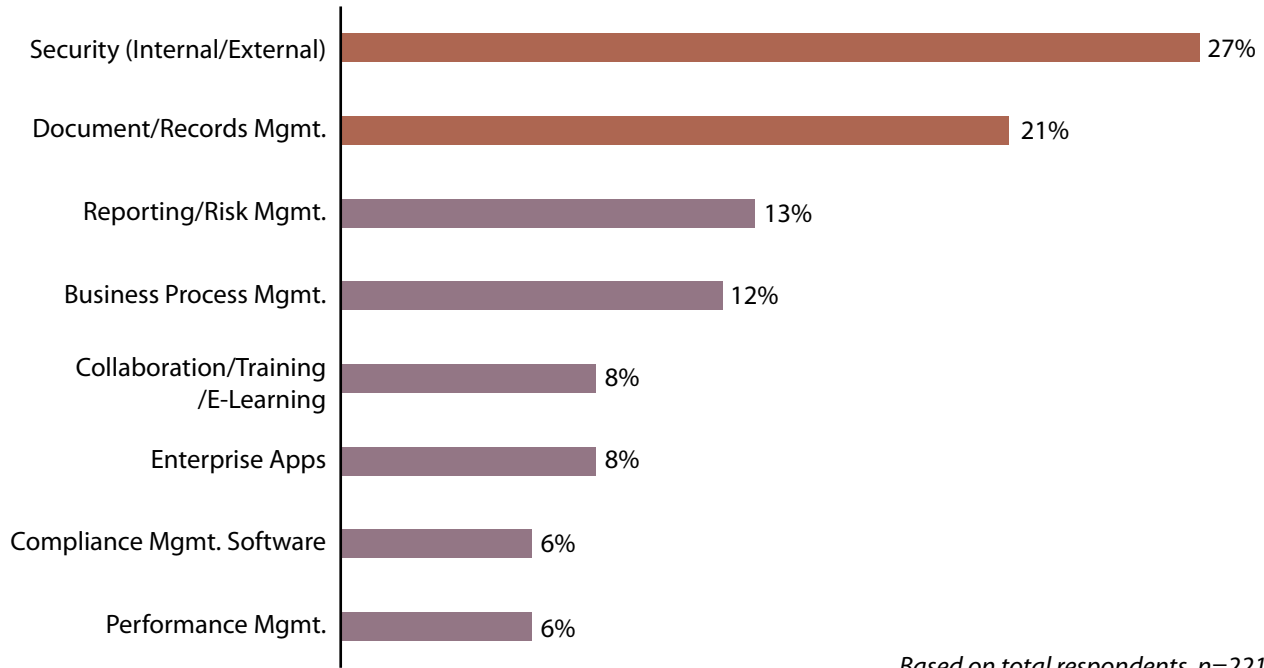


Takeaway: Nearly two-thirds of the compliance budget is being spent on people's time—either internal resources or external consultants—and this is reflective across the board, with no significant differences within segments. Clearly, technology is a necessary component for addressing compliance. In fact, it grew by 50% between 2004 and 2005 estimates. But it's the people and processes that are put into place to utilize the technology that will truly determine the success of compliance initiatives.

Based on total respondents, n=228

Source: AMR Research, 2005

Figure 12: Most strategic technology evaluation in 2005 to support compliance issues



Based on total respondents, n=221

Source: AMR Research, 2005

Table 12: What is the most strategic technology you plan to evaluate in 2005 to support compliance issues?

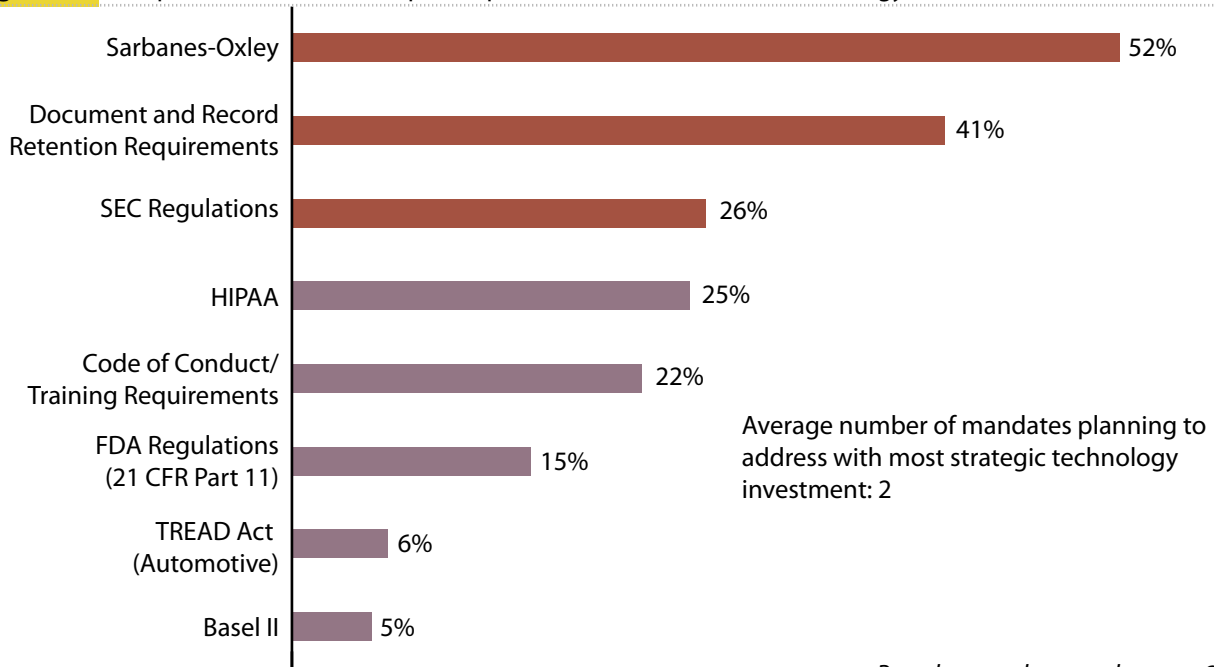
Technology	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Security (internal/external)	27%	18%	33%	26%	27%
Document and records management	21%	20%	22%	21%	21%
Reporting/Risk management	13%	16%	11%	16%	11%
Business process management	12%	13%	12%	9%	14%
Collaboration/training/e-learning	8%	3%	10%	7%	8%
Enterprise apps	8%	12%	5%	7%	8%
Compliance management software	6%	8%	5%	7%	5%
Performance management	6%	10%	3%	5%	6%
n=	221	90	126	95	125

Technology	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Security (internal/external)	27%	14%	32%	46%	18%	25%
Document and records management	21%	27%	19%	21%	23%	20%
Reporting/Risk management	13%	8%	14%	5%	20%	12%
Business process management	12%	14%	12%	8%	7%	17%
Collaboration/training/e-learning	8%	11%	6%	10%	8%	7%
Enterprise apps	8%	6%	8%	5%	10%	7%
Compliance management software	6%	10%	4%	5%	7%	6%
Performance management	6%	10%	5%	0%	8%	7%
n=	221	63	155	39	61	121

Source: AMR Research, 2005

Takeaway: Technology to address both internal and external security is the most strategic investment to support compliance issues in 2005. This is significantly more important in service or not-for-profit companies and top of mind for IT executives. Business people think document and records management is the most strategic technology component for compliance.

Figure 13: Compliance mandates companies plan to address with 2005 technology investment



Based on total respondents, n=228

Source: AMR Research, 2005

Table 13: What compliance mandate(s) does your company plan to address with this 2005 technology investment?

Technology	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Sarbanes-Oxley	52%	58%	47%	43%	59%
Document/record retention requirements	41%	41%	40%	42%	40%
HIPAA	26%	13%	36%	25%	27%
Code of conduct / training requirements	25%	22%	27%	21%	27%
SEC regulations	21%	23%	21%	20%	23%
FDA regulations	15%	27%	8%	18%	13%
TREAD Act (Automotive)	6%	12%	2%	7%	5%
Basel II	5%	9%	2%	7%	3%
n=	228	92	131	99	128

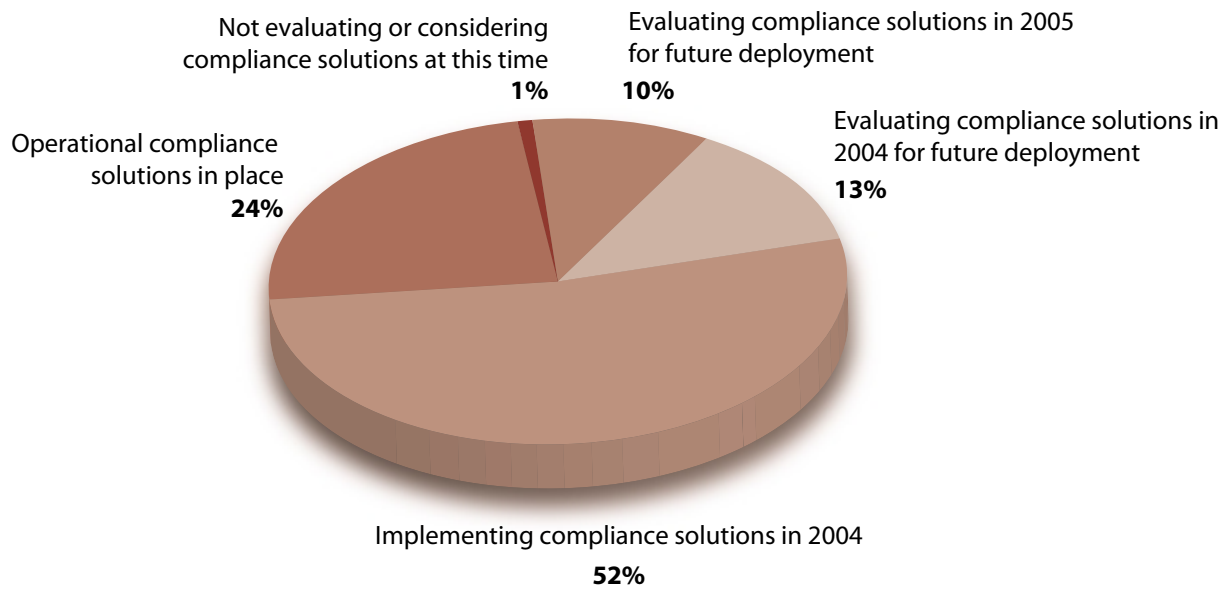
Technology	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Sarbanes-Oxley	52%	42%	57%	23%	40%	67%
Document/record retention requirements	41%	43%	40%	50%	45%	36%
HIPAA	26%	15%	30%	53%	21%	21%
Code of conduct / training Requirements	25%	26%	24%	20%	31%	23%
SEC regulations	21%	26%	19%	8%	15%	29%
FDA regulations	15%	23%	12%	10%	19%	15%
TREAD Act (Automotive)	6%	11%	4%	0%	11%	6%
Basel II	5%	12%	2%	3%	10%	3%
n=	228	65	160	40	62	126

Source: AMR Research, 2005

Takeaway: Companies are addressing more than one compliance mandate with the technology investments they make in 2005, with SOX and document/record retention requirements on top of the list of mandates to tackle.

Section 2: SOX Compliance Efforts

Figure 14: Current status of SOX compliance efforts



Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Table 14: What statement best describes the current status of your SOX compliance efforts?

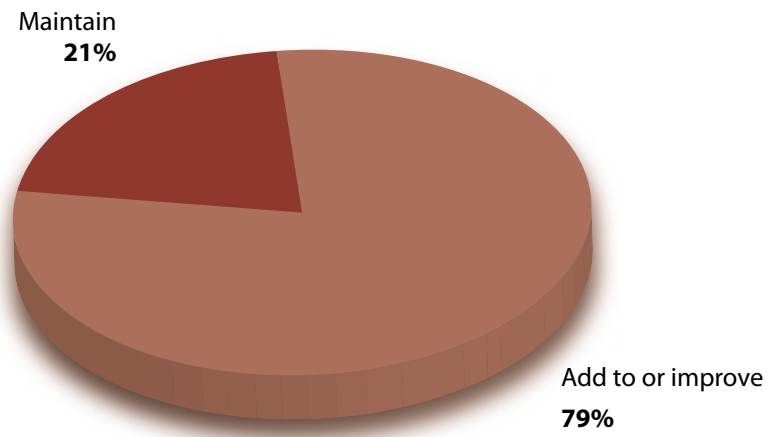
Stage of development	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Operational compliance solutions in place	24%	18%	28%	73%	67%
Implementing compliance solutions in 2004	52%	59%	46%	16%	16%
Evaluating compliance solutions in 2004 for future deployment	13%	14%	13%	2%	5%
Evaluating compliance solutions in 2005 for future deployment	10%	10%	11%	6%	1%
Not evaluating or considering compliance solutions at this time	1%	0%	2%	3%	10%
n=	101	51	46	136	191

Stage of development	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Operational compliance solutions in place	24%	20%	24%	0%	17%	26%
Implementing compliance solutions in 2004	52%	40%	57%	67%	39%	55%
Evaluating compliance solutions in 2004 for future deployment	13%	16%	12%	0%	11%	14%
Evaluating compliance solutions in 2005 for future deployment	10%	20%	7%	33%	33%	4%
Not evaluating or considering compliance solutions at this time	1%	4%	0%	0%	0%	1%
n=	101	25	75	3	18	80

Source: AMR Research, 2005

Takeaway: Of the companies addressing SOX issues, 52% implemented solutions in 2004 and 23% are still evaluating their options. In particular, a significant number of business executives are evaluating, representing 36% of untapped market potential among those buyers.

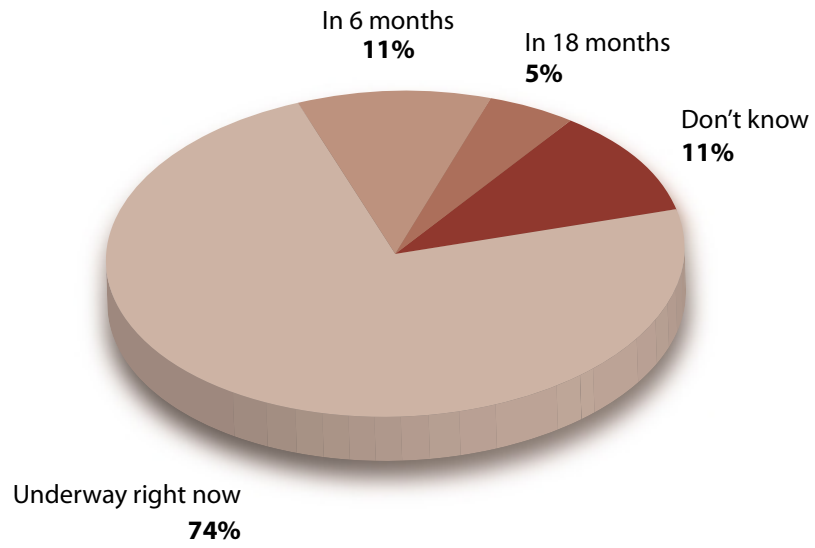
Figure 15: Plans for current SOX compliance solutions in 2005



Based on SOX respondents with operational solutions, n=24

Source: AMR Research, 2005

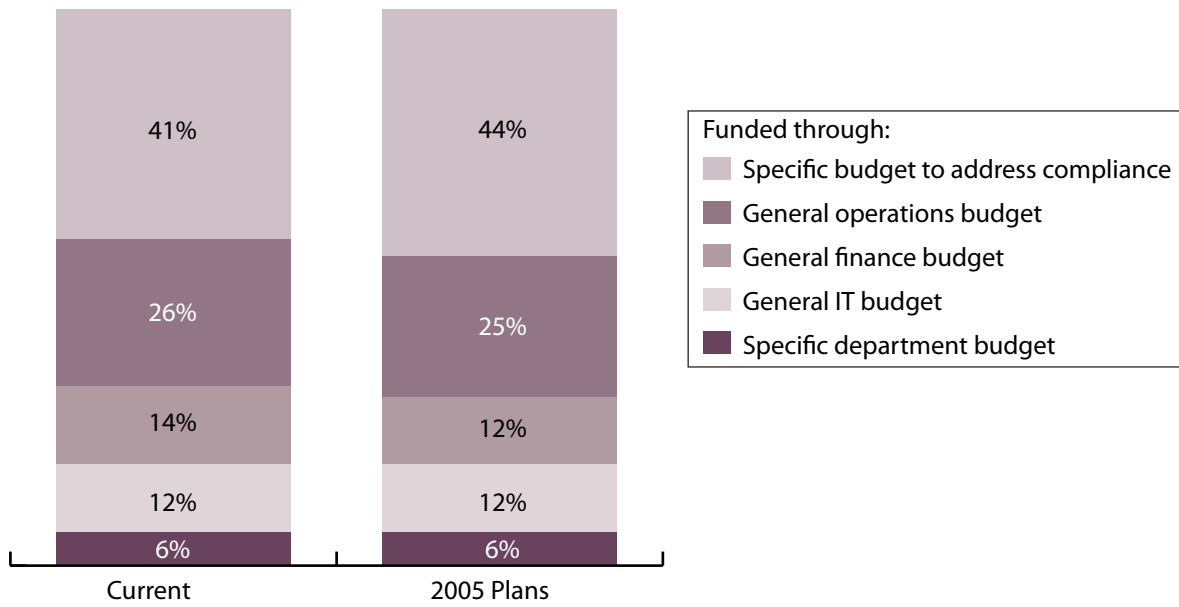
Figure 16: Timeframe to add to or improve SOX compliance solutions currently using



Based on SOX respondents adding to or improving, n=19

Source: AMR Research, 2005

Figure 17: Source of funding for SOX compliance initiatives



Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Table 17a: How does your company currently fund your SOX compliance initiatives?

Source of funding	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Through a specific budget to address compliance	41%	39%	43%	43%	40%
Funded through the general operations budget	26%	33%	18%	24%	27%
Funded through the general finance budget	14%	14%	16%	14%	15%
Funded through the general IT budget	12%	6%	20%	11%	13%
Funded through a specific department budget	6%	8%	2%	8%	5%
n=	100	51	45	37	62

Source of funding	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Through a specific budget to address compliance	41%	42%	41%	67%	33%	42%
Funded through the general operations budget	26%	17%	30%	0%	28%	27%
Funded through the general finance budget	14%	21%	12%	0%	28%	12%
Funded through the general IT budget	12%	4%	15%	0%	11%	13%
Funded through a specific department budget	6%	17%	3%	33%	0%	6%
n=	100	25	74	3	18	79

Source: AMR Research, 2005

Table 17b: How does your company plan to fund your SOX compliance initiatives?

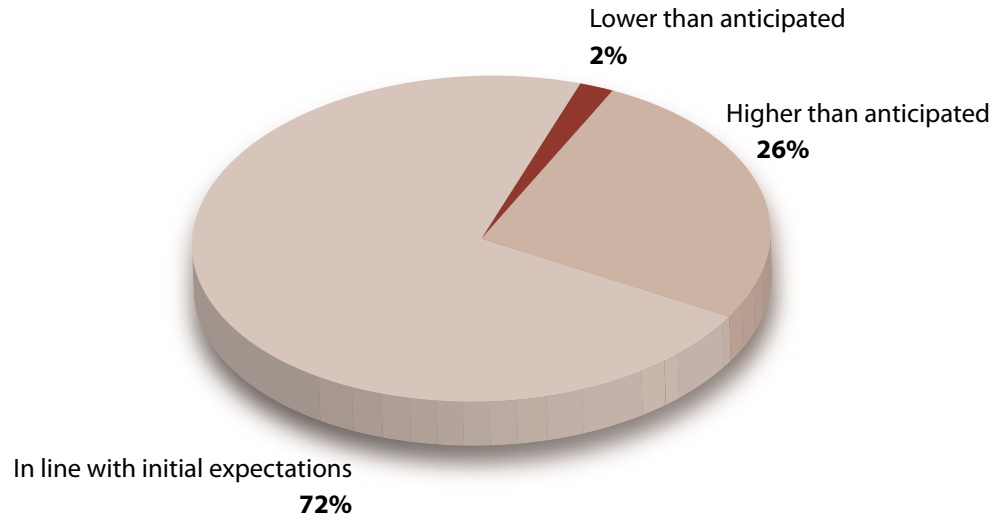
Source of funding	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Through a specific budget to address compliance	44%	43%	48%	47%	42%
Funded through the general operations budget	25%	29%	18%	22%	27%
Funded through the general IT budget	12%	10%	16%	8%	15%
Funded through the general finance budget	12%	10%	16%	11%	13%
Funded through a specific department budget	6%	8%	2%	11%	3%
n=	100	51	45	37	62

Source of funding	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Through a specific budget to address compliance	44%	46%	45%	67%	39%	45%
Funded through the general operations budget	25%	21%	26%	0%	22%	27%
Funded through the general IT budget	12%	4%	15%	0%	11%	13%
Funded through the general finance budget	12%	13%	12%	0%	22%	10%
Funded through a specific department budget	6%	17%	3%	33%	6%	5%
n=	100	25	74	3	18	79

Source: AMR Research, 2005

Takeaway: Currently, funding for SOX comes either from an earmarked budget or from the general operations budget; however, business executives also look for dollars from the finance or a line of business department budget. Compared to how companies fund compliance initiatives overall, SOX is more likely to have its own specific budget, and in 2005, the prevalence of specific budgets for SOX will only increase (41% to 44%).

Figure 18: 2004 SOX compliance spending compared to initial expectations



Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Table 18: How does your 2004 SOX compliance spending compare to your initial expectations?

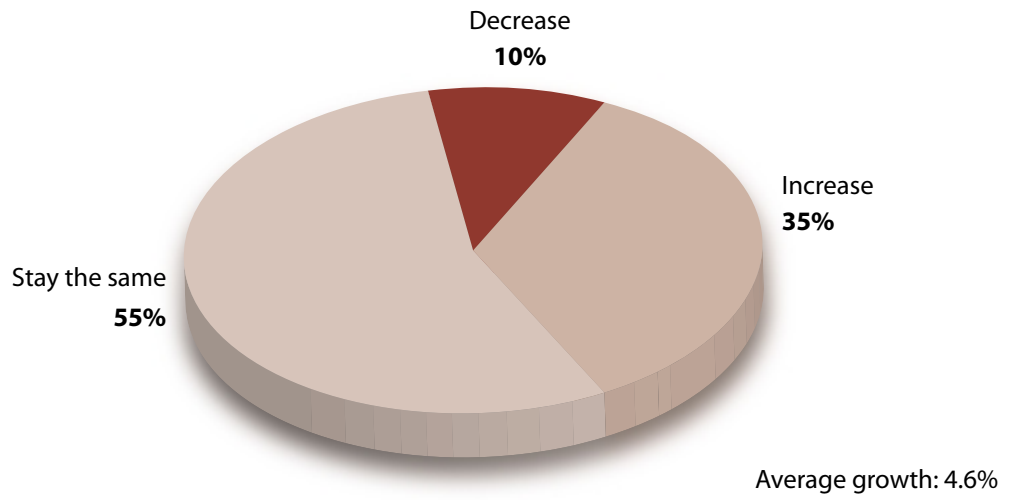
Actual spend	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Higher than anticipated	26%	29%	24%	30%	24%
In line with initial expectations	72%	67%	76%	70%	73%
Lower than anticipated	2%	4%	0%	0%	3%
n=	100	51	45	37	62

Actual spend	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Higher than anticipated	26%	32%	24%	33%	11%	29%
In line with initial expectations	72%	64%	74%	67%	83%	70%
Lower than anticipated	2%	4%	1%	0%	6%	1%
n=	100	25	74	3	18	79

Source: AMR Research, 2005

Takeaway: If IT executives and service companies planned accordingly, they were more likely to stay within their SOX budgets. Business executives, conversely, spent more than anticipated, significantly higher than peer buyers' spending on other compliance initiatives, 22% versus 32%, respectively.

Figure 19: Change in SOX compliance budget in 2005



Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Table 19: How do you expect your SOX compliance budget in 2005 to change—will it increase, decrease, or stay the same compared to 2004?

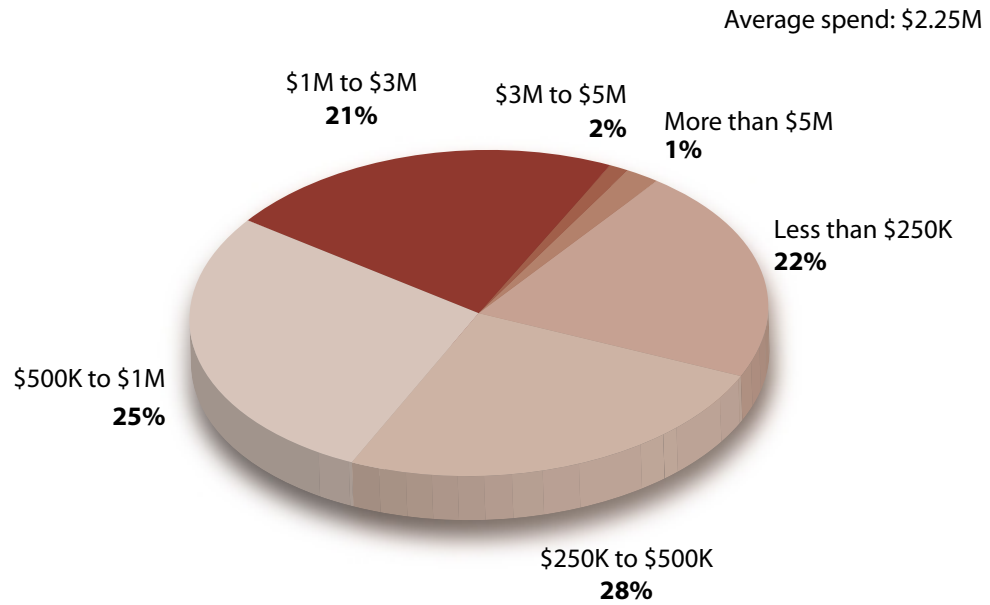
Change	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Increase	35.0%	37.3%	35.6%	35.1%	33.9%
Stay the same	55.0%	49.0%	57.8%	56.8%	54.8%
Decrease	10.0%	13.7%	6.7%	8.1%	11.3%
Average growth	4.6%	5.0%	4.4%	4.1%	4.7%
n=	100	51	45	37	62

Change	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Increase	35.0%	44.0%	32.4%	33.3%	33.3%	35.4%
Stay the same	55.0%	52.0%	55.4%	66.7%	66.7%	51.9%
Decrease	10.0%	4.0%	12.2%	0.0%	0.0%	12.7%
Average growth	4.6%	8.2%	3.4%	7.3%	5.2%	4.3%
n=	100	25	74	3	18	79

Source: AMR Research, 2005

Takeaway: SOX compliance budgets will see low single-digit growth overall in 2005, specifically among IT executives. The aggressive growth will be with business executives. They plan to increase spending more than twice as much as their counterparts to support their planned implementations in 2005.

Figure 20: Amount plan to spend on SOX compliance-related activities in 2005



Based on respondents that say SOX compliance is their largest dollar investment, n=95

Source: AMR Research, 2005

Table 20: Approximately how much do you plan to spend on SOX compliance-related activities in 2005?

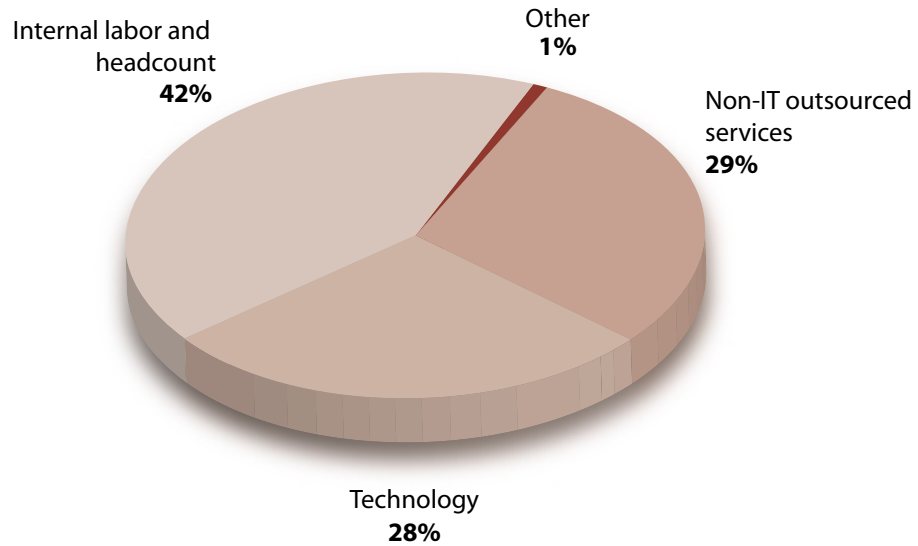
Amount	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Less than \$250K	22%	27%	14%	40%	12%
\$250K to \$500K	28%	27%	33%	29%	27%
\$500K to \$1M	25%	17%	35%	20%	29%
\$1M to 3M	21%	27%	14%	11%	27%
\$3M to \$5M	2%	2%	2%	0%	3%
More than \$5M	1%	0%	2%	0%	2%
n=	95	48	43	35	59

Amount	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Less than \$250K	22%	29%	20%	67%	33%	18%
\$250K to \$500K	28%	21%	31%	33%	22%	30%
\$500K to \$1M	25%	33%	21%	0%	22%	27%
\$1M to 3M	21%	17%	23%	0%	17%	23%
\$3M to \$5M	2%	0%	3%	0%	6%	1%
More than \$5M	1%	0%	1%	0%	0%	1%
n=	95	24	70	3	18	74

Source: AMR Research, 2005

Takeaway: Depending on the stage of development, companies are spending as little as \$250K to as much as \$3M on SOX initiatives. This is across the board, regardless of what segment the company is in.

Figure 21: 2005 SOX compliance budget allocation

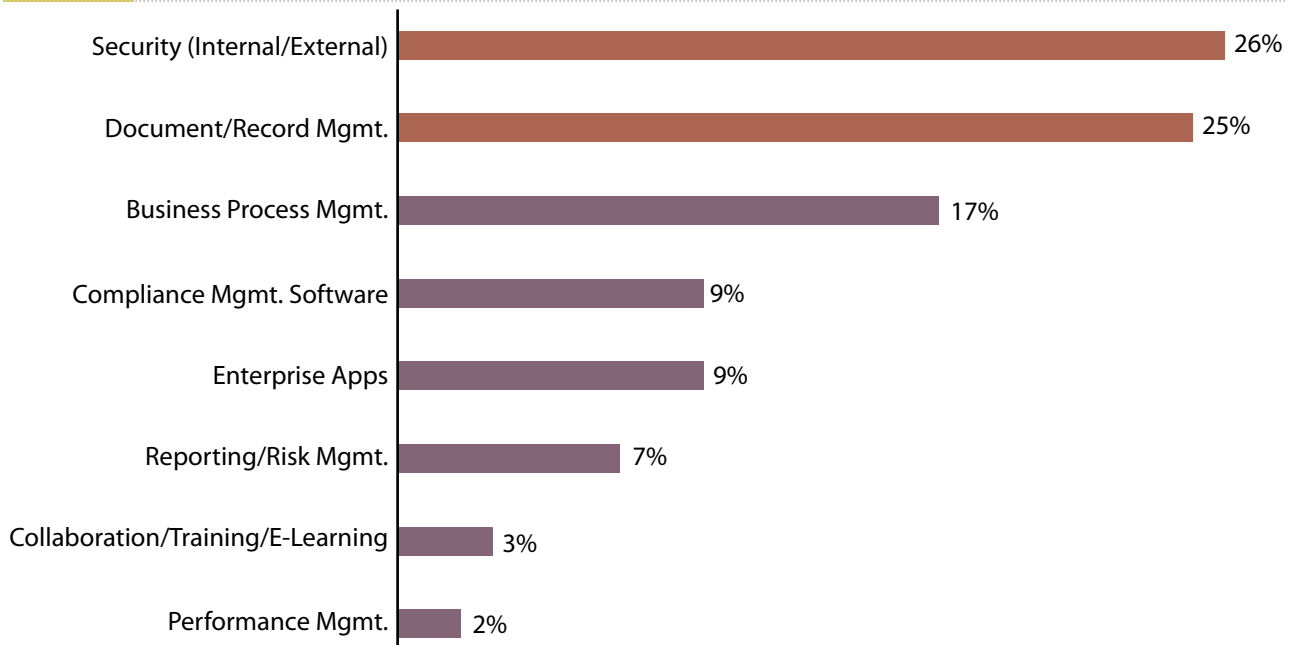


Takeaway: As with other compliance initiatives, the SOX budget is made up of mostly internal and external services, with even fewer dollars allocated to technology. Midsize organizations tend to keep more of the work internal, but allocate as much to technology as enterprise companies.

Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Figure 22: Most strategic technology evaluation in 2005 to support SOX compliance issues



Based on respondents that say SOX compliance is their largest dollar investment, n=100

Source: AMR Research, 2005

Table 22: What is the most strategic technology you plan to evaluate in 2005 to support SOX compliance issues?

Technology	Total	Industry		Size of company	
		Mfg.	Services	Midsize	Enterprise
Security (internal/external)	26%	15%	41%	34%	22%
Document/records management	25%	30%	20%	31%	22%
Business process management	17%	21%	14%	9%	20%
Compliance management software	9%	9%	7%	14%	7%
Enterprise apps (ERP, CRM, Supply Chain, etc.)	9%	15%	5%	9%	10%
Reporting/risk management	7%	4%	9%	0%	12%
Collaboration/training/e-learning	3%	2%	5%	3%	3%
Performance management	2%	4%	0%	0%	3%
n=	95	47	44	35	59

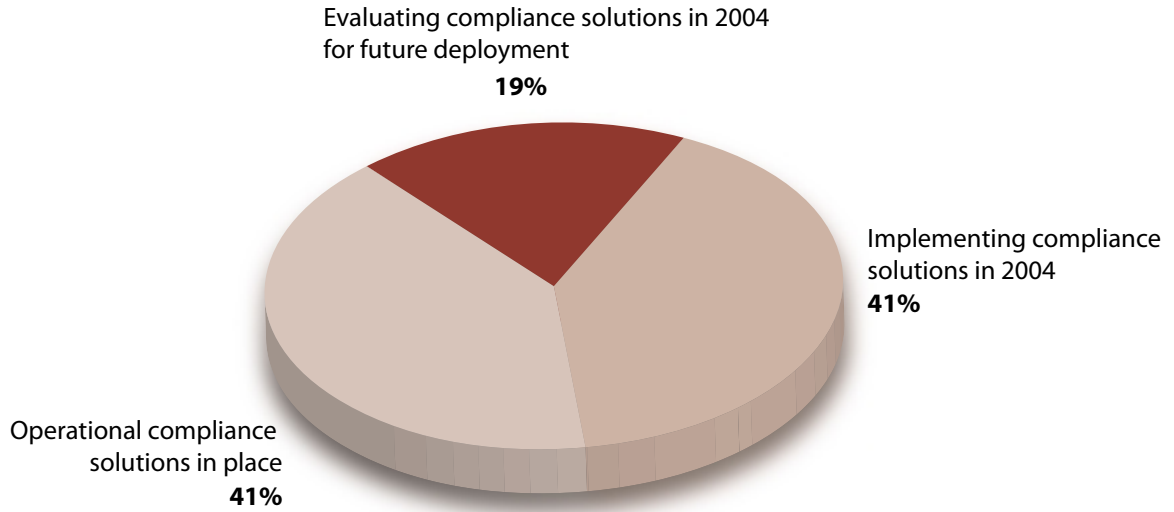
Technology	Total	Job function		Type of company		
		Business	IT	Not-for-Profit	Private	Publicly Traded
Security (internal/external)	26%	4%	35%	33%	17%	28%
Document/records management	25%	32%	23%	0%	56%	19%
Business process management	17%	24%	14%	0%	6%	20%
Compliance management software	9%	16%	7%	67%	6%	8%
Enterprise apps (ERP, CRM, Supply Chain, etc.)	9%	8%	10%	0%	6%	11%
Reporting/risk management	7%	4%	7%	0%	11%	7%
Collaboration/training/e-learning	3%	8%	1%	0%	0%	4%
Performance management	2%	4%	1%	0%	0%	3%
n=	95	25	69	3	18	74

Source: AMR Research, 2005

Takeaway: Security was the most strategic technology investment companies plan to make to support SOX initiatives, but this focus is clearly driven by service companies or IT executives. Manufacturing companies or business executives are more focused on investing in document management or BPM technology.

Section 3: HIPAA Compliance Efforts

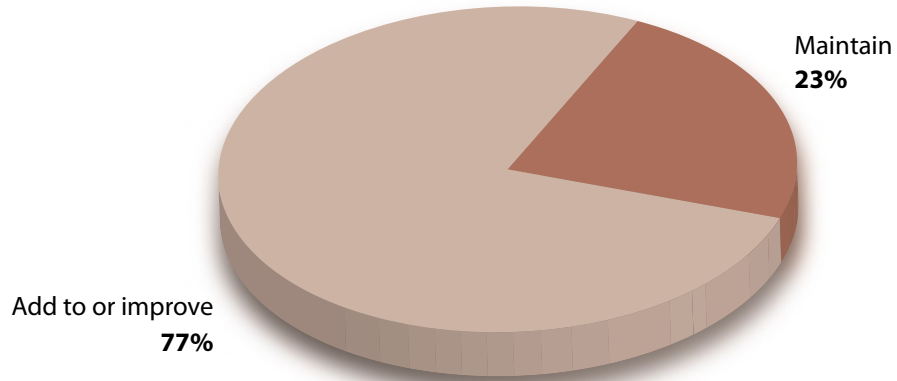
Figure 23: Current status of HIPAA compliance efforts



Based on respondents that say HIPAA compliance is their largest dollar investment, n=32

Source: AMR Research, 2005

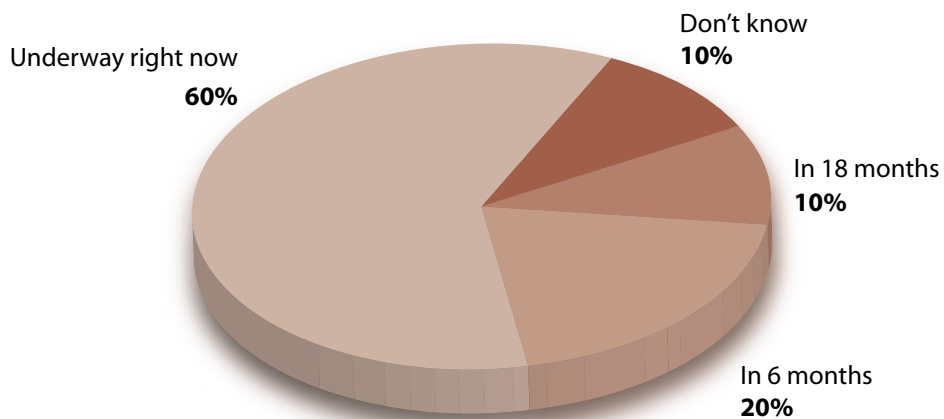
Figure 24: Plans for current HIPAA compliance solutions in 2005



Based on HIPAA respondents with operational solutions, n=13

Source: AMR Research, 2005

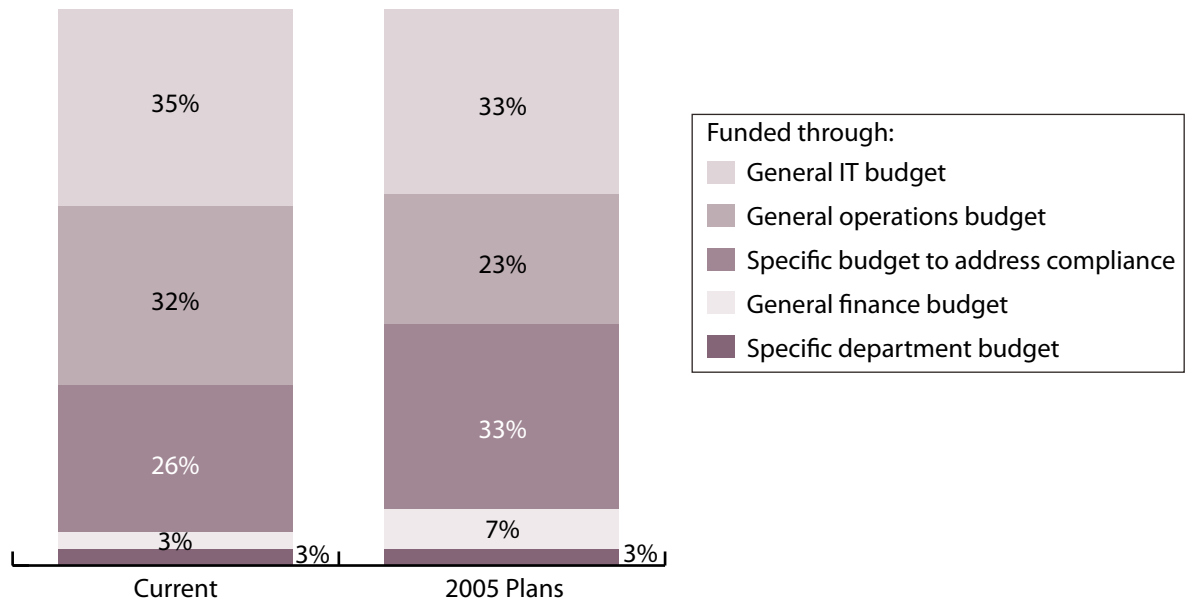
Figure 25: Timeframe to add to or improve HIPAA compliance solutions currently using



Based on HIPAA respondents adding to or improving, n=10

Source: AMR Research, 2005

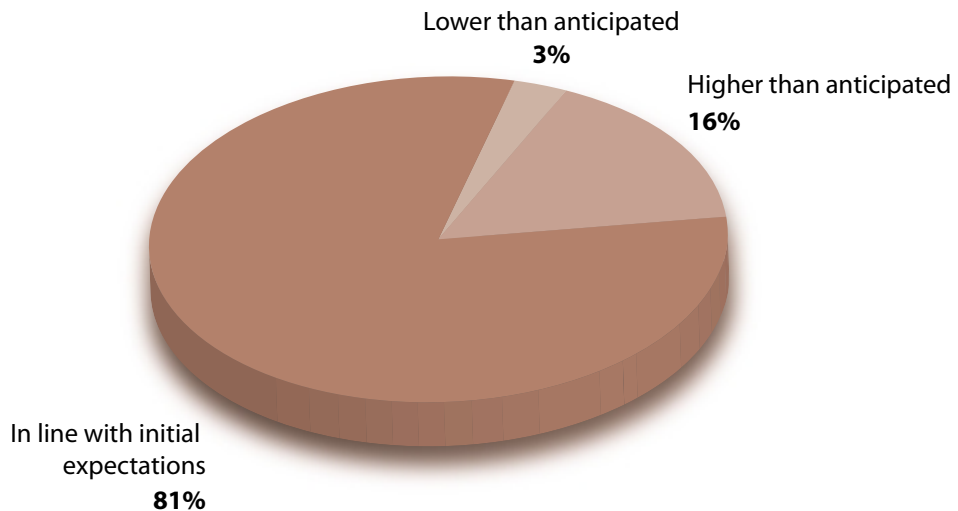
Figure 26: Source of funding for HIPAA compliance initiatives



Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

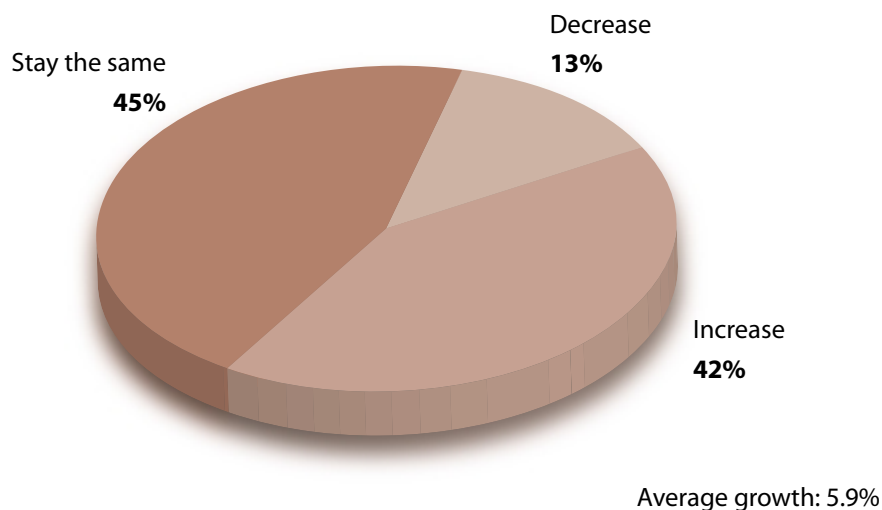
Figure 27: HIPAA compliance spending compared to initial expectations



Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

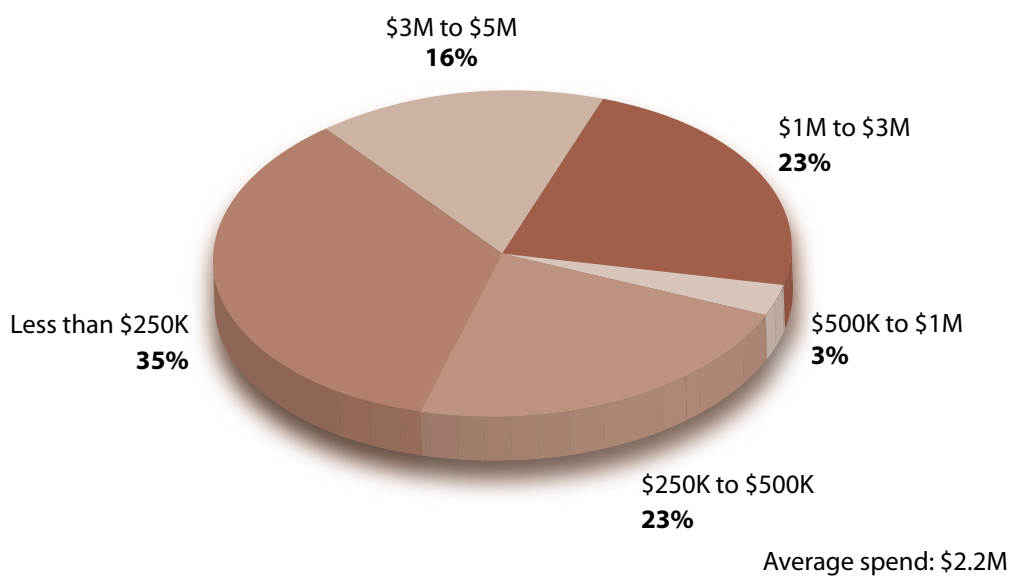
Figure 28: Change in HIPAA compliance budget in 2005



Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

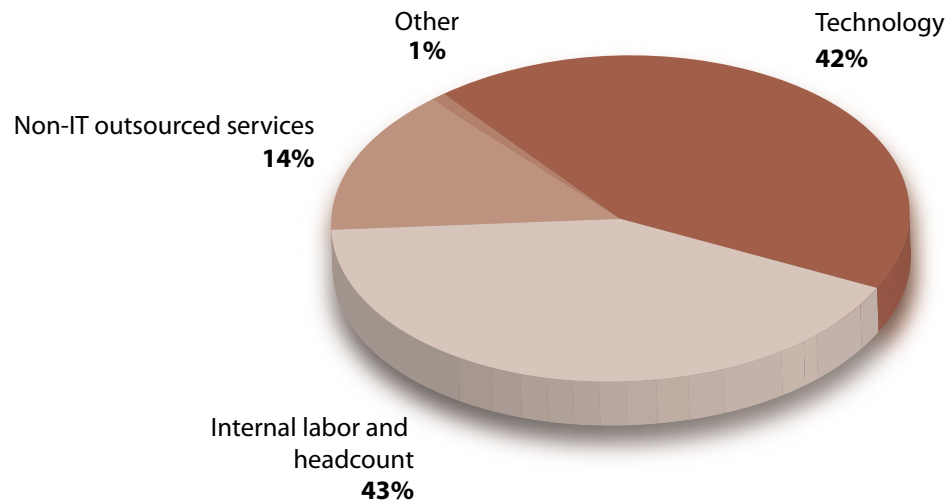
Figure 29: Amount plan to spend on HIPAA compliance-related activities in 2005



Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

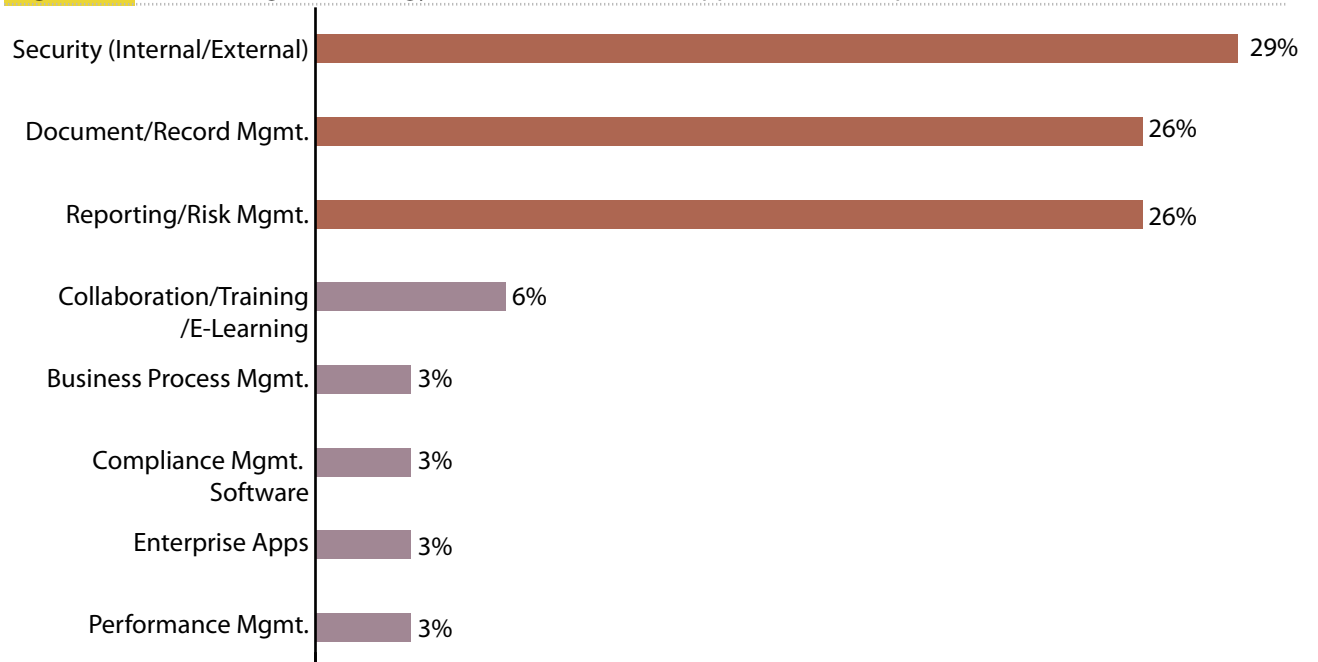
Figure 30: 2005 HIPAA compliance budget allocation



Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

Figure 31: Most strategic technology evaluation in 2005 to support HIPAA compliance issues

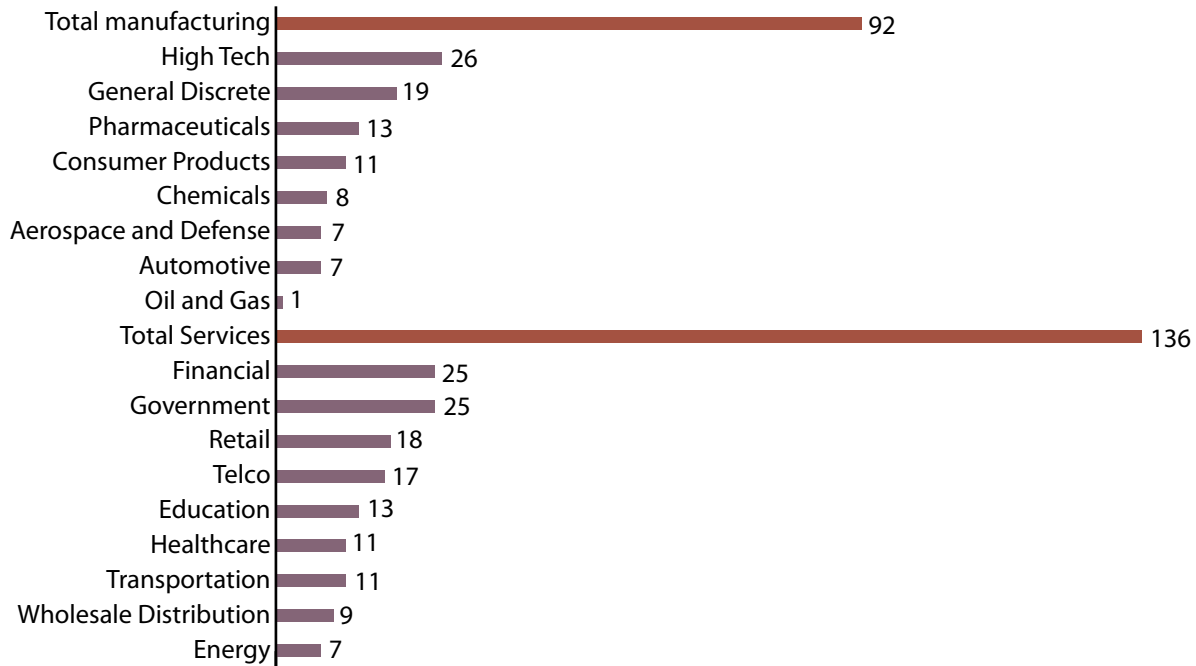


Based on respondents that say HIPAA compliance is their largest dollar investment, n=31

Source: AMR Research, 2005

Section 4: Companies Surveyed

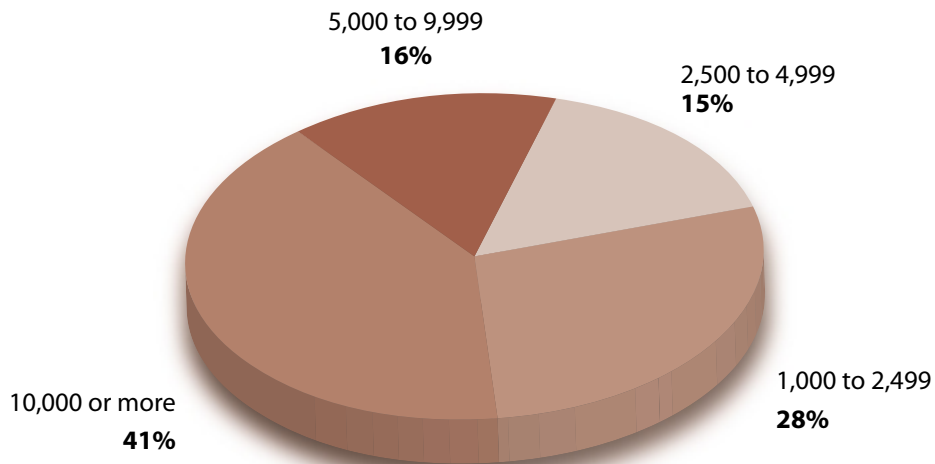
Figure 32: Industries surveyed



n=228

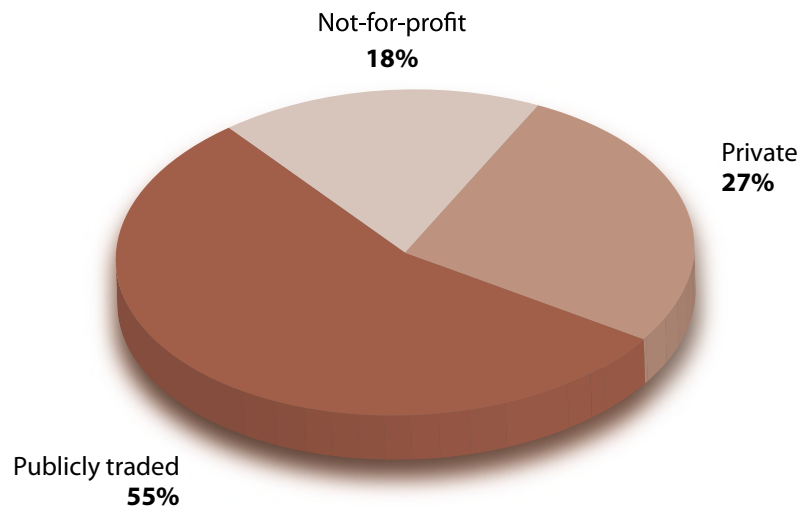
Source: AMR Research, 2005

Figure 33: Number of employees in entire company



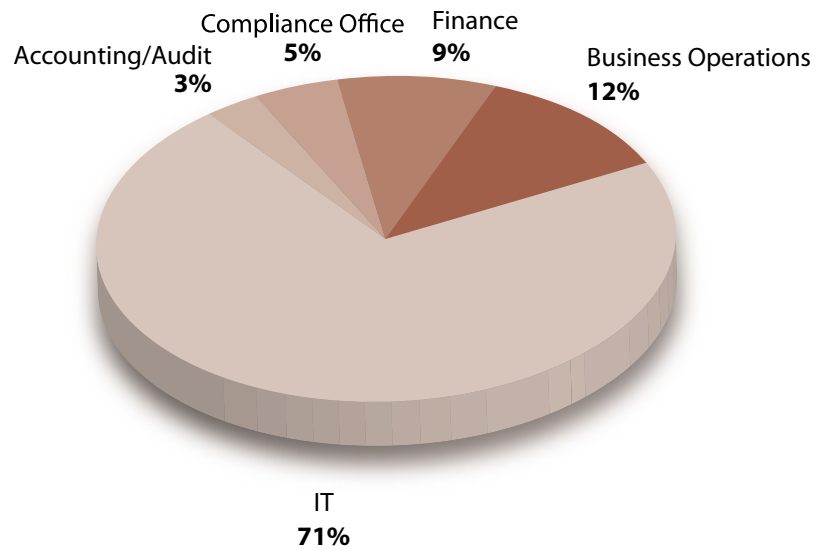
Source: AMR Research, 2005

Figure 34: Type of company surveyed



Source: AMR Research, 2005

Figure 35: Respondent's job function



Source: AMR Research, 2005

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ACRONYM LIST

Acronym	Definition
HIPAA	Health Insurance Portability and Accountability Act
RoHS	Restriction of Hazardous Substances
SEC	Securities and Exchange Commission
SOX	Sarbanes-Oxley Act
WEEE	Waste Electrical and Electronic Equipment