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The Forrester Wave™: Sarbanes-Oxley Compliance Software, Q1 2005

by Robert Markham and Paul Hamerman

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TECH CHOICES

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Evaluation Of Top SOX Software Vendors Across 58 Criteria

by Robert Markham and Paul Hamerman
with Connie Moore, Colin Teubner, and Jessica Harrington

EXECUTIVE SUMMARY

Sarbanes-Oxley (SOX) compliance is a rapidly maturing software category that combines enterprise content management, analytics, and enterprise applications. Three criteria provide significant differentiation among the SOX offerings evaluated: integration, collaboration, and reporting and monitoring. The user interfaces also vary widely in capability and ease of use. OpenPages emerged as the leading vendor, with IBM, Paisley Consulting, HandySoft, and Oracle close behind. Enterprises seeking a single platform for enterprise risk management should give preference to IBM, OpenPages, and Paisley Consulting because they provide a broader focus beyond SOX that encompasses additional compliance categories, including integrated enterprise risk management.

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NOTES & RESOURCES

Forrester interviewed and surveyed software vendors Certus, HandySoft, IBM, OpenPages, Oracle, Paisley Consulting, PeopleSoft, SAP, and Stellent. Forrester also invited Microsoft, Movaris, and SAS to participate, but these vendors chose not to.

Related Research Documents

"Sarbanes-Oxley Software Solutions Gaining Momentum"
August 27, 2004, Trends

"Sarbanes-Oxley Solutions — Invest Now Or Pay Later"
March 11, 2004, Market Overview

"Sarbanes-Oxley Compliance: Look Internally For IT Building Blocks"
September 25, 2003, Planning Assumption

EARLY SARBANES-OXLEY COMPLIANCE EFFORTS HAVE BEEN PAINFUL

As of January 2005, most companies required to comply with Sarbanes-Oxley Section 404 have struggled through their first compliance cycle. The legislation requires these companies to report on management's assessment of the effectiveness of internal controls over financial reporting in their annual report to the Securities and Exchange Commission. This requirement has proven to be very expensive and resource-intensive, causing companies to rely heavily on service providers for advice and legwork to complete the process.[1]

2005 Is A Critical Time To Invest In Technology For SOX Compliance

With compliance deadlines looming, many companies elected not to implement software to support the SOX compliance process. Solution immaturity was an issue, with purpose-built SOX compliance applications available only since early 2003. Based on Forrester's research, fewer than 800 companies invested in the leading SOX compliance solutions prior to this initial compliance cycle.[2]

Instead of implementing SOX solutions, most companies have relied on service providers and readily available tools like spreadsheets, collaboration tools, and audit software to get through the process. Going forward, many companies recognize the need to make Section 404 compliance repeatable and sustainable to reduce compliance costs and their reliance on external service providers. Forrester's Business Technographics® research found that Sarbanes-Oxley ranks as one of the top three IT spending priorities for 2005.[3]

Going forward, we expect the majority of SEC filers with market capitalizations of more than $75 million (roughly 5,000 companies) to invest in these solutions, with much of the activity occurring in 2005. Additionally, the recent issuance of OMB circular A-123 places similar internal control requirements on US federal agencies effective in 2006, expanding the potential market for SOX software solutions.[4]

Vendors Provide Different Application Focuses

To assist organizations in the selection of a SOX application, Forrester applied the Forrester Wave™ methodology to nine SOX vendors' products (see Figure 1). We ranked each vendor according to the three key indicators: current offering, strategy, and market presence. We also included additional evaluation criteria that we applied to the main criteria (see Figure 2).

Organizations looking to procure an enterprise SOX application need to understand that vendors come to the SOX market landscape from a variety of different backgrounds. It's useful to classify the vendors in the SOX compliance software space into three main market segments: enterprise application, enterprise content management, and specialist vendors. The vendor focus has both an upside and downside depending on the priorities of the organization purchasing the SOX application (see Figure 3).

Figure 1 Nine Vendors Evaluated For This Forrester Wave™

Vendor	Product	Version	Release date
Certus	Governance Suite	2.1	August 2004
HandySoft	SOXA Accelerator	3.0	February 2005
IBM	Workplace for Business Controls and Reporting	2.5	February 2005
OpenPages	SOX Express	3.03	December 2004
Oracle	Internal Controls Manager	2.0	March 2004
Paisley Consulting	Risk Navigator	3.0	June 2004
PeopleSoft	Internal Controls Enforcer	2.0	March 2005
SAP	Management of Internal Controls	1.0	September 2004
Stellent	Sarbanes-Oxley Solution	7.5	February 2005

Source: Forrester Research, Inc.

- **Enterprise application vendors.** Oracle initially released OICM in August 2003 and had a significant lead in maturity and installed base versus its two major application rivals in the enterprise application segment prior to the PeopleSoft acquisition. PeopleSoft released Internal Controls Enforcer in May 2004; SAP was the last to release a product with the introduction of Management of Internal Controls in September 2004. In general, the ERP systems integrate well with vendors' own financial applications, which provide a significant advantage by leveraging chart of accounts structures, organizational structures, security profiles, and access privileges.

- **Enterprise content management (ECM) and Infrastructure vendors.** These vendors provide both general compliance frameworks and SOX applications. The strengths of products in this market segment are document management, workflow, and records management. However, these solutions have a somewhat more limited support for the COSO framework, except for IBM, which offers deeper functional SOX compliance capabilities than the others in this category.

- **Specialist vendors.** These best-of-breed vendors were the first to emerge for the SOX compliance market, and in most cases they provide more mature functionality. However, they struggle to integrate with ERP systems, and currently, their partnerships with ERP vendors are weak.

Figure 2 Evaluation Criteria

CURRENT OFFERING

Business functionality	How robust is the product's business-facing functionality?
Content and document management	What functionality does the product provide for content and document management?
Workflow	How well does the product route work among people and systems?
Report and monitoring	How does the product enable the analysis of captured information?
Collaboration	How does the product facilitate collaboration?
Integration	How well does the product integrate with other systems?
Technology	How robust is the product's technology foundation?
Product maturity	What is the product's customer adoption? How many releases have there been?

STRATEGY

Product strategy and vision	What is the vendor's strategy for its product?
Technology strategy and vision	Does the vendor articulate a strategy for evolving technology toward: open/industry standards, flexibility, integration and scalability (e.g., a service oriented architecture)?
Product development	How much of the vendor's resources are devoted to continual improvement of products and technology?
Strategic alliances	What partnerships has the vendor formed with other companies?
Customer support	What is the vendor's customer support strategy?

MARKET PRESENCE

Financial viability	Is the vendor financially strong?
Installed base	How large is the vendor's customer base?
Delivery footprint	How large is the vendor's staff?

Source: Forrester Research, Inc.

Figure 3 SOX Compliance Vendors By Business Focus

Enterprise applications		
Vendors	**Upside**	**Downside**
• Oracle • PeopleSoft • SAP	These are very strong offerings for initial software releases, with tight integration with ERP systems for documenting controls and risks and very good reporting and monitoring tools.	As a whole, this group of vendors was late to market, so the products have had less time to mature. This group also has poorer integration with existing document and records management systems.

Enterprise content management and Infrastructure		
Vendors	**Upside**	**Downside**
• IBM • Stellent	Vendors provide both SOX and compliance frameworks for building additional compliance applications. Integration of ECM functionality includes collaboration, document management, and records management.	These have a tendency to have lighter support for the COSO framework — a major component of SOX applications.

Specialists		
Vendors	**Upside**	**Downside**
• Certus • HandySoft • OpenPages • Paisley Consulting	Vendors have an extensive track record of implementations and deep subject matter expertise. These tend to be more mature products that have been through several release cycles.	Integration with existing IT systems such as collaboration, document management, ERP, and records management varies widely. Organizations that are looking to integrate with existing IT systems should thoroughly explore this area.

Source: Forrester Research, Inc.

SOX Application Footprints Are Expanding

Although we focused our evaluation primarily on internal controls compliance capabilities, broader coverage of SOX requirements is evolving in this solution set. The following capabilities, which few vendors offer currently, will be part of the evolving SOX compliance solution set:

- **Financial statement certification.** This capability provides an orderly process to sign off not only on the completeness of the internal controls evaluation, but also on the accuracy of the financial statements for Section 302.

- **Continuous controls testing and monitoring.** This software can detect potential fraud and anomalies in financial process execution, which can provide additional assurance that controls are in place and can substantiate assertions for the Section 404 controls evaluation. Currently, several specialized vendors provide this complementary capability using various approaches, including ACL Services, Approva, Oversight Systems, and Virsa Systems.

- **Regulatory filings.** The ability to file regulatory documents, such as SEC Form 10K and 10Q reports, is not currently supported by the vendors analyzed in this report, except by Oracle's PeopleSoft Enterprise Investor Portal. Automated process support for regulatory filings may evolve in these solutions.

- **Audit procedure support.** Software for audit planning, execution, and controls reviews for the internal audit department has been a staple of the major auditing firms, as well as Paisley Consulting and a few other vendors. Audit support capabilities will evolve in some of these solutions, although they address a much broader set of users than internal auditors.

In addition, several of the vendors (such as IBM, OpenPages, and Paisley) are expanding to support broader enterprise risk management (ERM) strategies. Conveniently, the COSO framework that is the de facto standard for internal controls has been expanded to encompass ERM.[5] This expanded functionality will be important going forward, not only to support the broader compliance and risk management needs of enterprises, but also to ensure the ongoing viability of the specialized vendors providing these capabilities.

THE FORRESTER WAVE RESULTS — DIFFERENTIATION MOVES BEYOND THE CORE

Forrester graded the nine participants against the 58 criteria based on questionnaire responses, supplemental information, and our knowledge derived from product demonstrations, briefings, and ongoing research (see Figure 4).

Based on our evaluation, OpenPages emerged as the leading provider, with IBM, Paisley Consulting, HandySoft, and Oracle close behind. SAP's and Oracle's PeopleSoft offerings lagged mainly due to a lack of product maturity, while Certus and Stellent showed good core capabilities but limited breadth and market presence. Axentis, a compliance management solution provider with more than 50 enterprise agreements, representing hundreds of distinct auditable entities, is not included in this report. The next version of this Forrester Wave will include an assessment of the broadly adopted Axentis Enterprise platform.

SOX Compliance Must Be Collaborative And Transparent

Historically, the internal audit function has been responsible for assessing internal controls and promoting process improvement for consistency and reliability. Sarbanes-Oxley not only places much higher importance on internal controls, but it also promotes a culture of accountability and fiscal responsibility across the enterprise. Although not specifically required by the Act, SOX software facilitates distributed accountability, control, and collaboration in the 404 compliance process.

Figure 4 Forrester Wave™: Sarbanes-Oxley Compliance Software, Q1 '05
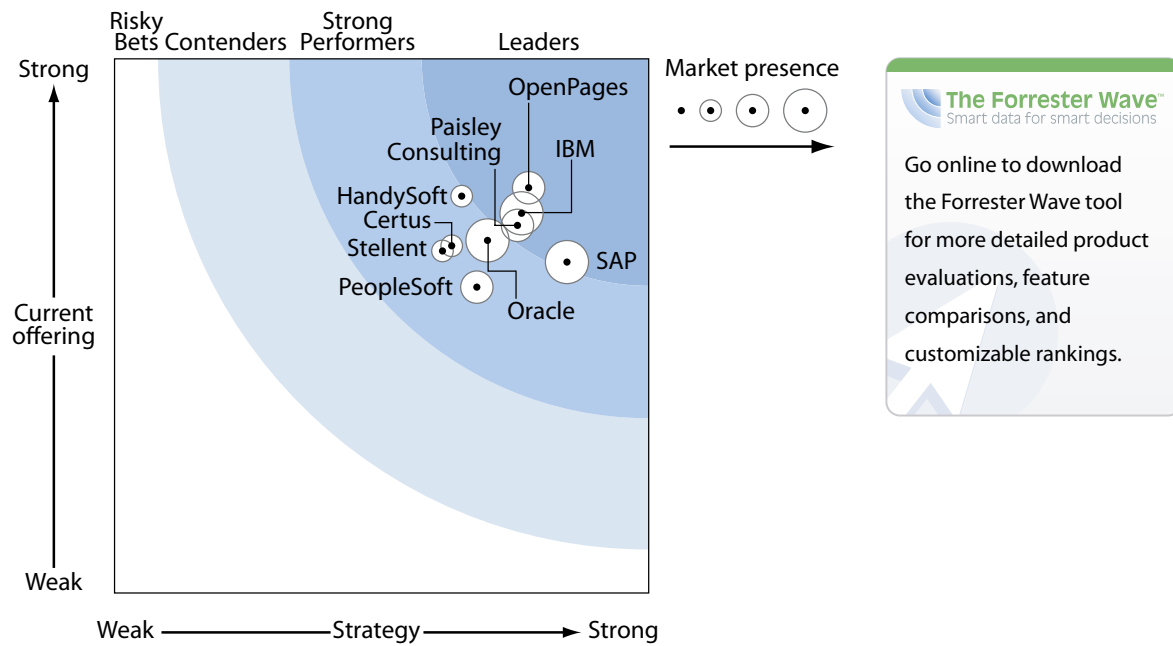
Source: Forrester Research, Inc.

Figure 4 Forrester Wave™: Sarbanes-Oxley Compliance Software, Q1 '05 (Cont.)

	Certus	HandySoft	IBM	OpenPages	Oracle	Paisley Consulting	PeopleSoft	SAP	Stellent
CURRENT OFFERING	3.22	3.70	3.53	3.73	3.28	3.44	2.84	3.07	3.17
Business functionality	3.33	3.65	3.20	3.80	3.75	3.50	3.23	3.25	2.35
Content and document management	2.75	3.63	3.75	3.00	3.75	3.50	2.25	2.75	4.50
Workflow	2.90	4.20	3.30	4.00	3.10	2.90	2.90	3.50	3.20
Report and monitoring	3.85	3.85	3.75	4.35	2.53	3.65	2.80	3.00	3.75
Collaboration	2.50	3.50	5.00	3.00	3.50	3.00	2.50	2.00	3.00
Integration	2.50	3.00	4.00	1.50	3.50	3.00	3.00	3.50	2.50
Technology	3.50	4.10	3.65	4.10	3.30	3.35	3.40	3.60	3.70
Product maturity	3.00	3.00	3.00	4.00	2.50	4.00	1.50	2.00	3.00
STRATEGY	3.16	3.26	3.82	3.85	3.49	3.76	3.39	4.24	3.09
Product strategy and vision	2.90	3.38	3.55	3.95	3.88	4.00	3.25	4.13	3.25
Technology strategy and vision	3.50	3.00	4.50	4.00	3.00	3.00	3.00	5.00	3.00
Product development	5.00	3.50	3.00	5.00	2.00	4.00	3.00	3.00	3.00
Strategic alliances	2.80	3.40	4.50	2.95	3.10	3.70	3.40	4.10	2.40
Customer support	2.50	3.00	3.50	3.50	4.50	4.00	4.50	4.50	3.50
MARKET PRESENCE	2.46	2.56	4.04	3.43	4.09	3.95	3.45	4.00	2.54
Financial viability	2.38	3.25	5.00	3.25	4.38	3.63	4.50	4.75	3.00
Installed base	2.50	2.05	3.30	3.75	3.90	4.40	2.60	3.20	2.20
Delivery footprint	2.50	2.50	4.00	3.00	4.00	3.50	3.50	4.50	2.50

All scores are based on scale of 0 (weak) to 5 (strong).

Source: Forrester Research, Inc.

Vendors Achieve Good Capabilities Quickly

The results indicate that these solutions have achieved good levels of functionality in a relatively short time. Differentiating these products based on customer needs requires a closer look as:

- **Solution maturity is evolving.** Two vendors — OpenPages and Paisley — have achieved solid product maturity as a result of multiple product releases and significant customer adoption. Two others — SAP and PeopleSoft — lag in this category with first-release products.

- **Strong usability promotes a distributed audience.** Internal control software traditionally has been designed for internal auditors, but a good SOX compliance program should reach a wide variety of end users to promote transparency and collaboration. Although admittedly subjective, we favor user interfaces with consistent uses of various fonts, colors, graphical elements, and navigation aids over those with small fonts, ambiguous icons, and confusing layouts. OpenPages

and Stellent do a good job with usability, while the ERP vendors (SAP and Oracle/PeopleSoft) and Paisley offer UIs that favor well-trained core users, including those most familiar with the respective ERP applications or internal auditing.

- **Online reporting and monitoring capabilities are key differentiators.** For SOX compliance, it is essential to have visibility over the controls evaluation process. While most vendors can provide detailed and summarized spreadsheet-like reports on the status of controls, graphical dashboards and analytics to enhance the monitoring process are less common. Some vendors like IBM and Paisley provide useful color-coded "heat maps" showing areas of concern from a controls perspective.

- **Embedded content reduces configuration time.** Value-added content is included by three of the vendors assessed in this study — Certus, OpenPages, and Paisley. This content includes libraries of predefined risks and controls that can be assigned to processes as well as preconfigured internal controls surveys. Vendors that don't provide this content often allow users to upload it from compliance expert partners, but they may require additional fees.

- **Process diagramming capabilities are missing.** As part of the Section 404 compliance process, business processes that affect financial results need to be documented. All of the solutions reviewed supported text-based process descriptions and attachments (such as Visio diagrams), but only HandySoft, OpenPages, and Oracle currently provide integrated business process mapping capabilities. Graphical process documentation that can be easily updated within the application is an important capability that the vendors tend to overlook or de-emphasize.

- **Enterprise content management capabilities range from rudimentary to robust.** The ability to store and manage relevant content and documents and support full records management is an advantage for SOX solutions, but support is limited in most products. Only Stellent, a pure-play enterprise content management vendor, provides a robust capability for content and records management for its SOX application. Vendors including Certus, HandySoft, and IBM include add-in components that can provide integration with existing enterprise repositories.

RECOMMENDATIONS

SOX COMPLIANCE AUTOMATION IS THE KEY WHEN EVALUATING PRODUCTS

When evaluating solutions, companies should:

- **Give preference to vendors that support existing IT infrastructures.** Reduce SOX solution implementation and support costs dramatically by integrating the SOX technology solution with your existing IT infrastructure, including ERP systems and ECM. The more integrated the SOX solution is with your existing IT infrastructure, the more automated the SOX compliance process can become.

- **Make usability a high priority to drive extended adoption.** Multinational companies with complex organizational structures should leverage SOX solutions with strong usability, collaboration features, and scalability to large numbers of users. The ability to provide roles-based views that support both individual accountability and management oversight is essential to drive corporatewide use of the SOX application.

- **Be sure to know what is included and what is optional.** Many vendors offer functionality through add-on software packages either via direct sales or software partnerships. The most common examples are best practice content, external repository integration, project management, and reporting and visualization tools. Look for solutions that bundle the necessary capabilities and that have vendor accountability for add-in integration.

WHAT IT MEANS

THE SOX COMPLIANCE SOFTWARE MARKET IS STILL MATURING

Consolidation will continue as the window of opportunity for SOX compliance shrinks by late 2006. Acquisitions among competing vendors will focus on combining customer bases to reach critical mass. Only a few specialized SOX applications vendors will remain within two years, and they must expand their focus beyond SOX to thrive. Growing demand for broader compliance and enterprise risk management capabilities will encourage SOX vendors to expand the scope of their offerings. These expanded offerings will include expanded control frameworks like COSO II and COBIT, as well as compliance process support in areas like product safety, financial risk, human resources, and environmental compliance. This expanding solution set will re-energize the market in 2006, opening opportunities for new entrants into an expanded compliance market and for existing vendors to acquire compliance domain expertise.

SUPPLEMENTAL MATERIAL

Online Resource

The online version of Figure 4 is an Excel-based vendor comparison tool that provides detailed product evaluations and customizable rankings.

Forrester Wave Methodology

We conduct primary research to develop a list of vendors that meet our criteria to be evaluated in this market. From that initial pool of vendors, we narrow our final list to those presented here. We choose these vendors based on: 1) product fit; 2) customer success; and 3) Forrester client demand. We eliminate vendors that have limited customer references and products that don't fit the scope of our evaluation.

After examining past research, user need assessments, and vendor and expert interviews, we develop the initial evaluation criteria. To evaluate the vendors and their products against our set of criteria, we gather details of product qualifications through a combination of lab evaluations, questionnaires, demos, and/or discussions with client references. We send evaluations to the vendors for their review, and we adjust the evaluations to provide the most accurate view of vendor offerings and strategies.

We set default weightings to reflect our analysis of the needs of large user companies — and/or other scenarios as outlined in this document — and then score the vendors based on a clearly defined scale. These default weightings are intended only as a starting point, and readers are encouraged to adapt the weighting to fit their individual needs through the Excel-based tool. The final scores generate the graphical depiction of the market based on current offering, strategy, and market presence. Forrester intends to update vendor evaluations regularly as product capabilities and vendor strategies evolve.

ENDNOTES

[1] A survey by Financial Executives International (FEI) published in March 2005 shows that first-year SOX 404 compliance costs averaged $4.36 million per company, with large companies (more than $5 billion in revenues) spending more than $10 million per company.

[2] Forrester surveyed several leading vendors in August 2004 to gauge the uptake of purpose-built solutions for SOX compliance. The results indicate that this software category is rapidly emerging from a ramp-up stage to full-fledged adoption in 2005. See the August 27, 2004, Trends "Sarbanes-Oxley Software Solutions Gaining Momentum."

[3] In Forrester's Business Technographics® November 2004 North American And European Benchmark Study of 1,383 IT decision-makers, Forrester found that 27% of respondents rated corporate governance (i.e., Sarbanes-Oxley) as a critical IT spending priority for 2005, and another 27% rated it as a priority. This result ranked third among the spending priorities listed. See the December 15, 2004, Data Overview "2005 Enterprise IT Outlook: Business Technographics North America And Europe."

[4] In December 2004, the US Office of Management and Budget (OMB) issued Circular A-123, Management's Responsibility for Internal Control. A-123 strengthens US federal agency internal control requirements in a manner similar to the SOX 404 requirements for SEC-registrant companies.

[5] COSO refers to the Committee of Sponsoring Organizations of the Treadway Commission, which developed the Internal Controls — Integrated Framework in the early 1990s and the more recent and expanded Enterprise Risk Management — Integrated Framework. See the October 5, 2004, Quick Take "COSO Enterprise Risk Management Framework."

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