White Paper

Corporate Governance: The Growing Importance of Data and Network Security

A SurfControl White Paper
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The World's #1 Web & E-mail Filtering Company

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Few people with the business acumen to become CxOs would be foolish enough to sign their names to a blank check, making it possible for someone to clean out their checking accounts.

Yet that is almost precisely what many C-level executives will be doing in the post-Enron, post-WorldCom world of the Sarbanes-Oxley Act and accompanying SEC regulations. Executives will be required to sign off on the validity of financials, processes and reporting of which they may have no hands-on knowledge, trusting to their employees and technology to back up those certifications.

Current networks, however, are designed to leave subpoena-vulnerable content scattered throughout a company, beyond the certifiable control of network administrators, much less CIOs or CEOs. Future networks must, for compliance and good business practices, manage the flow and retention of content, as well as access to them. Properly considered, Sarbanes-Oxley's penalties are just one stick which is paired with a very big carrot: the creation of management structures and processes which give CxOs, the SEC and shareholders confidence in the value of a company, its producgts, services and management.

Corporate governance is at once a policy, a set of practices, a guide to corporate structure and a technological backbone to support the lot.

The tidal wave of new regulations, in fact, is only the latest development in the history of an increasingly important concept: corporate governance . Neither the term or the concept is new; one author recently published a book titled, "A History of Corporate Governance (1602-2002)."[1] But it has taken on increasing significance in recent years, as public corporations have become more common, shareholders have become more business-savvy and the consequences of undocumented, inefficient, and malfeasance-ridden management have become more dire. At the same time, capital markets have become less forgiving, document-retention needs are more acute and boards of directors more aware that more formal, and transparent, codes of corporate governance are not just defenses against regulation, but plain good business.

After the collapse of Enron, WorldCom, Adelphia Communications and major accounting firm Arthur Andersen, companies are discovering that, in the words of futurist Patrick Dixon, "Trust takes years to win and hours to lose."[2]

There are probably as many definitions of corporate governance as there are corporations. They range from the simple ("Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.")[3] to the comprehensive definition of the Organization for Economic Co-operation and Development:

"Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance."[4]

That's good as far as it goes, but, in the networked world, "rights and responsibilities" "rules and procedures" and "monitoring performance" are network terms, as well as organizational ones.
An executive's position is defined by his or her access to information, rules and procedures are determined

[1] "A History of Corporate Governance (1602-2002)," Paul Frentrop, Deminor Ratings Press, 2003.

[2] Web: http://www.globalchange.com/corporategovernance.htm

[3] The Journal of Finance, Shleifer and Vishny [1997, page 737], quoted in Encycogov.com.

[4] OECD April 1999, quoted in Encycogov.com.

by the flow of information and performance is monitored digitally. Management of content is the key to a properly governed, successful and compliant firm, and SurfControl, with its content filtering and control products, can help.

Definitions - by definition - codify meanings from the past. Dixon, who advises multinational company boards and senior teams on strategic implications of a wide range of global trends, looks to the future for the meaning of corporate governance and finds a more positive aspect than we might fear in the current, scandal-plagued climate.

"Corporations will be expected in future to "build a better future," Dixon writes, "- not only for their shareholders but also for their customers, workers, business partners, community, nation and the wider world. Those with effective corporate governance based on this core value will have an added competitive advantage: attracting and retaining talent and generating positive reactions in the marketplace."[5]

Corporations are finding their own paths to the corporate-governance future. Foremost, they are creating networks with managed content - information defined by its content, who has access to it and how it is stored and can be produced. Some are rethinking or curtailing CEO paychecks, which have skyrocketed as a multiple of average worker pay.[6] Some have rethought the short-term, cost-cutting, quarter-at-a-time planning that rewarded CEOs for layoffs, pension shortfalls and plant closures and prompted studies with titles such as "CEOs Win, Workers Lose."[7] That attitude made, in quick succession, a media hero and villain of former Scott Paper and Sunbeam Corp. head "Chainsaw Al" Dunlap.[8]

Additional Resources

"Information Security Governance: Toward a Framework for Action," Business Software Alliance, 2003
http://www.bsa.org/

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"CIOs: There is a Sarbanes-Oxley Project in Your Future-Do You Know What It Is?," AMR Research, May 6, 2003
http://www.amrresearch.com/PDE/

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The Future of Corporate Governance,
www.globalchange.com/corporategovernance.htm

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TechNet
http://www.technet.org/

Other corporations are recognizing the need for codified corporate-governance rules. General Electric, for example, in Nov. 2002 published and publicized rules that made corporate government a declared centerpiece of its business strategy.[9]

Far-looking companies , however, are turning to technology as an integral part of their corporate-governance structure. Recognizing that most auditing and record-keeping has become digital, companies are rushing to create systems that will classify, organize and maintain critical corporate communications and data, ready to back up the government-mandated signatures of CEOs, CFOs and other executives and managers.

Technology, in corporate governance, cuts both ways. The same technologies - e-mail, instant messaging, auditing software - that prompted the Business Roundtable in 2002 to herald technology as integral to transparency[10] create enormous risk if badly implemented or mismanaged. The weight generally falls on CIOs to implement systems that will satisfy government reporting requirements - and give other CxOs the ammunition they need to comfortably sign on the dotted line.

That means capital. Lots.

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[5] The Future of Corporate Governance, http://www.globalchange.com/corporategovernance.htm

[6] Business Week, reprinted by United for a Fair Economy: http://www.stw.org/research/CEO_Pay_charts.html

[7] CorpWatch: http://www.corpwatch.org/bulletins/PBD.jsp?articleid=8110

[8] See "Chainsaw: The Notorious Career of Al Dunlap in the Era of Profit-At-Any-Price:" http://www.amazon.com/exec/obidos/tg/detail/-/0066619807/104-9666624-5657544?v=glance

[9] GE Governance Principles: http://www.ge.com/en/spotlight/commitment/governance/governance_principles.htm - see also press release: http://www.ge.com/en/commitment/governance/press_release/governance_press_release.htm

[10] "Technology makes communicating with employees quicker, easier and less expensive. Corporations should take advantage of technological advances to enhance dissemination of information to employees." Business Roundtable: "Principles of Corporate Governance," May 2002.

In fact, according to a study by AMR Research, companies will spend up to $2.5 billion for Sarbanes-Oxley compliance in 2003.[11] "The challenges and lack of clarity surrounding SOA compliance has instilled a sense of urgency for companies to identify the best practices early on to help scope their SOA efforts," the report finds.

In a traditional IT model, the CIO, after fighting for cash to buy software for accounting, auditing and security, including newly needed content control, would be left alone with the responsibility of implementing it. It's becoming clear, however, that the traditional model is no longer sufficient in the new world of corporate governance.

Corporate governance is at once a policy, a set of practices, a guide to corporate structure and a technological backbone to support the lot. No CIO has responsibility, or authority, over the policy areas that will be integral to post Sarbanes-Oxley networks. Access to e-mail, for example, should be based on policies set at the top - policies that SurfControl can implement based on employee level, project involvement and other company-specific criteria.

The Business Software Alliance has been one of the first organizations to spot that discrepancy, and to push for integrated involvement in network planning, from corporate boards, through CxOs, then CIOs, then down to network planners and administrators.

"Ultimately, information security is not solely a technical issue, but a corporate governance challenge," a recent BSA report found. "While there is broad consensus on the actions needed to create strong security, too often responsibility is left to the chief information officer or the chief information security officer. In fact, strong security requires the active engagement of executive management. By treating these challenges as a governance issue and defining specific tasks that employees at all levels of an organization can discharge, enterprises can begin to create a management framework that will lead to positive results." [12]

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Positive results, increasingly, mean a combination of profits and compliance with government regulation. The technology to provide them must be planned with full cooperation of boards and all executives, resulting in clear guidance for CIOs and IT departments.

CIOs, the BSA report found, may "suffer conflicting demands with regard to IT functionality and costs and … may not be in a position to leverage the resources and authority necessary to address the problem across multiple business lines or divisions."[13] Some new requirements, including records control and retention, cross those lines and divisions - creating an entirely new class of security and auditing technology: content management.

Worse, responsibility often devolves to network planners, engineers and administrators, who are often given insufficient guidance even for normal IT projects - much less for one that will help define a company's corporate governance for years to come. "There is no recognized, standard approach at an organization-wide level to help determine what should be done and who should do it," BSA found.[14]

We invite you to download SurfControl-suggested guidelines that will help to make up for that deficiency, especially in the new field of content management. They can be modified at the executive and managerial levels, and distributed to network planners and engineers to guide them in their labors. Visit http://www.surfcontrol.com/go/corpgov today.

[11] "CIOs: There is a Sarbanes-Oxley Project in Your Future-Do You Know What It Is?," AMR Research, May 6, 2003.

[12] "Information Security Governance: Toward a Framework for Action," Business Software Alliance, 2003, introduction.

[13] Ibid, p. 2

[14] Ibid.