Economic downturn drives increased spending in IT security worldwide

GMG Insights

AUTHORS:
Gib Trub, Managing Partner
Laurie Olski, Managing Director

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James McLeod-Warrick, President
Beacon Technology Partners

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GMG Insights
95 Nason Hill Rd.
Sherborn, Mass. 01770
Phone: 508-545-1095
Fax: 866-725-7059
Internet: info@gmginsights.com

Methodology

This study focused on IT security officers in mid-size to enterprise-level organizations with responsibility for security software initiatives. It included a worldwide quantitative survey with a confidence level of +/- 5 percent margin of error at the 95 percent confidence level and in-depth interviews and focus groups in the U.S., the U.K. and Germany. The study was conducted in March 2009.

The quantitative analysis was conducted by Beacon Technology Partners, Maynard, MA. James McLeod-Warrick, president of Beacon Technology Partners, collaborated on the analysis and reporting of the findings.

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Synopsis

This study examines worldwide IT security efforts and implementations in mid-sized and large organizations at a time when the economic meltdown and growing regulatory compliance mandates are focusing more attention to IT security practices. This report provides an IT perspective on the state of IT security, current attitudes, plans for the future and market maturity.

In the vast majority of companies, overall IT spending is in a forced decline. However, budgets allocated for IT security initiatives remain constant or growing. Several factors have contributed to this counterintuitive trend:

- First, the fear of internal threats directly resulting from spending cuts and layoffs has overtaken the fear of external threats.

- Second, compliance with ever-increasing industry and government regulations and satisfying auditors continue to fuel IT security investments.

It would be reasonable to expect that large organizations would have automated internal security processes and adopted technology solutions such as Identity and Access Management to handle internal threats. Surprisingly, that is not the case, but there is increasing interest in new solutions. Data loss prevention, provisioning, log management, single sign-on and other solutions to handle currently manual tasks are top-of-mind and top-of-wallet.

Despite the mandate to reduce overall spending, necessity dictates that for the foreseeable future new IT security software solutions will be broadly adopted throughout the world.

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The burden associated with information security is on the rise

Organizations around the world report that internal and external pressures and requirements are forcing more attention to IT security policies, procedures and solutions. In addition, M&A activities are driving a greater need for IT security as companies both fold new employees and systems into their existing infrastructure and shed others to reduce costs.

> *"We are looking …to make sure that we don't have vulnerabilities across these multiple subsidiaries. So we're going to try to put into place a common directory structure…from the inside and from the outside looking in."* VP IT- Atlanta

> *"You protect yourself externally. That's sort of a given, everyone does that. You do the utmost to do that. But then you look at yourself internally…. because once you're inside, you know, with a little bit of knowledge you can do a lot of harm."* Director IT Security - London

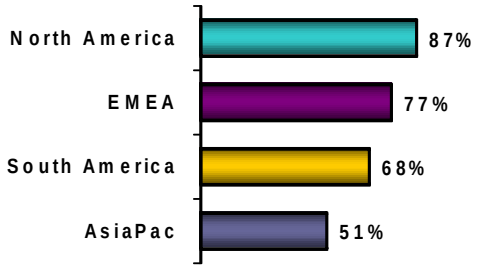

Figure 1, ***Percentage of companies reporting an increase over previous years in mandates affecting IT information security policies and procedures, by region.***

Internal and external pressures and regulatory mandates are forcing organizations worldwide to increasingly focus on IT security policies, procedures and solutions.

Universal recognition that IT information security spending is critical

IT has for years reported that its annual directive is to "do more with less," and the current recession has taken that to new levels. But in the face of forced budget reductions companies are finding other places to economize on their IT spend as both executive and IT management place a higher priority on security and compliance. These days, hardware is often the place IT looks to economize.

> *"Our business revenue is down, therefore, my budget has to go down. But I am going to cut back in desktop PC depreciation and hold the line on security."* VP IT Security - Chicago
> *"Although our budget is small, security is regarded as crucial."* Head of IT - Germany

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"Senior management is less willing to accept risk just because of the current economic times." Director, IT Security - Philadelphia

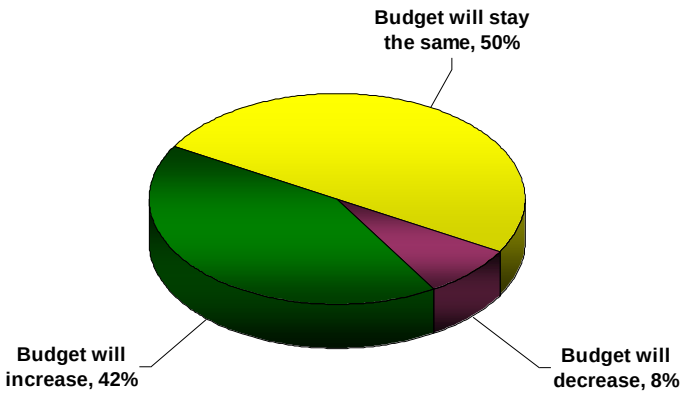

Figure 2, *Anticipated budget growth for IT security.*

IT reports less resistance from senior management to budget requests and allocations for security and compliance initiatives. Widely publicized failures and reprisals have captured senior management attention.

"…our overall security budget is up, and it is up because our processes are changing." Director, IT Security - Dallas

"…security spending is probably one of the few things that, you know, a finance review or CFO or whatever would probably not want to say 'no' to." VP IT - UK

Only a fraction of the companies surveyed worldwide are decreasing their IT security spend as a result of the economy.

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Economic woes breed fear of internal threats as a result of compensation cutbacks and layoffs

In organizations of all sizes, the economic downturn has increased IT security concerns. External threats have long received primary attention, but while the risk is every bit as real, most companies have mature systems and processes to address these problems. However, internal threat management is far less mature but constitutes a greater concern for many companies given the current conditions. IT reports a need to overcome the "but our employees wouldn't do that" mentality to varying degrees.

> *"We have a labor force that's less happy. You have terminations. And because of the economic downturn IT budgets decrease. ..we'll probably address it with investment."* Chief Security Officer - Philadelphia

> *"Internal is by far the greater risk, in my opinion."* Director, Business Technology - Chicago

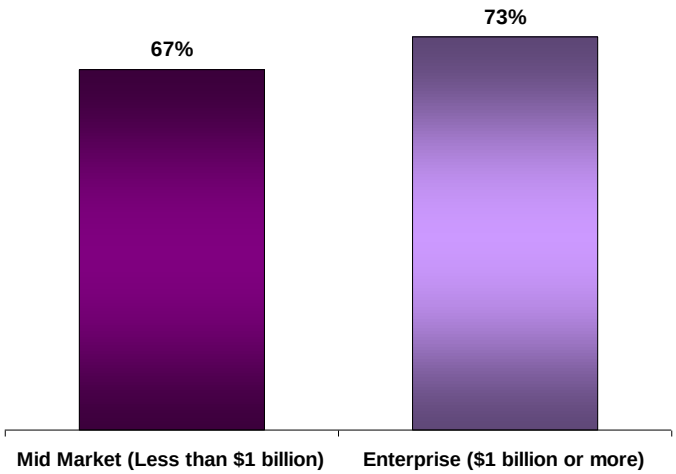

Figure 3, ***Percentage who agree that current layoffs expose IT systems to more internal threats than ever before.***

For most, internal threats are a very real and growing concern across the board. This is true for both mid-market and enterprise organizations. Of mid-market companies, 67 percent believe layoffs have increased the exposure of IT systems and 73 percent of enterprise organizations agree. *(See Figure 3)* The evidence supports greater caution and a commitment to spend as necessary. It is important to note that many still think that the

The economic downturn has increased IT security concerns, particularly around internal threat.

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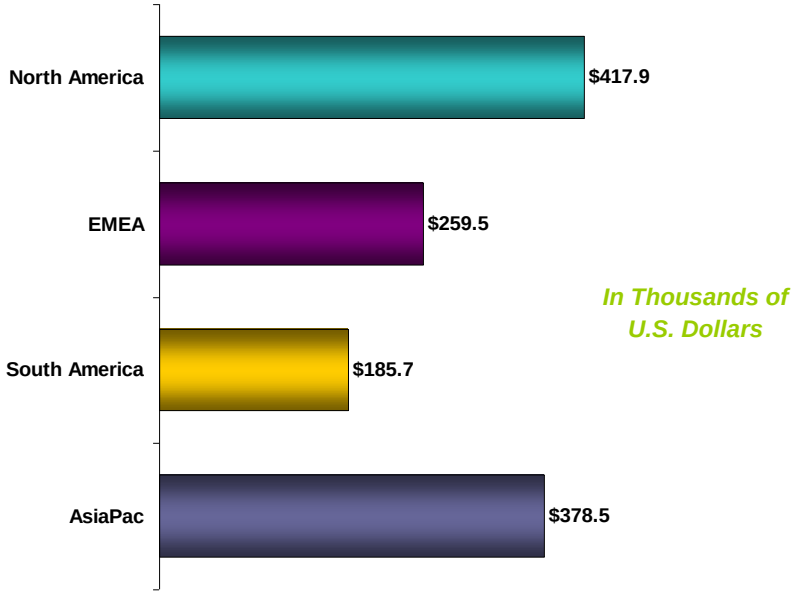
majority of internal threats are caused by carelessness and not malicious intent.

> *"There's real and maybe valid paranoia."* Chief Information Officer - Los Angeles

> *"Protecting ourselves against disgruntled guys getting laid off taking our trade secrets with them is a huge deal."* Chief Information Officer - New York

The impact of information security incidents can be measured in dollars and cents

A majority of the companies in North America report losses of half a million dollars or more stemming directly from security incidents. When factoring in lost time identifying and remediating the damage the real number is likely far greater.



A majority of North American companies report losses of $500,000 or more from security incidents.

Figure 4, ***Mean estimated annual cost from security incidents per company***

Budgets increase with the rate of incidents

Increases in security breaches force greater spending to combat these incidents. All companies privately acknowledge that there are constant internal and external threats.

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Respondents who reported an IT security budget increase also reported a higher number of internal and external incidents than respondents whose budgets stayed the same. *(See Figure 5)*

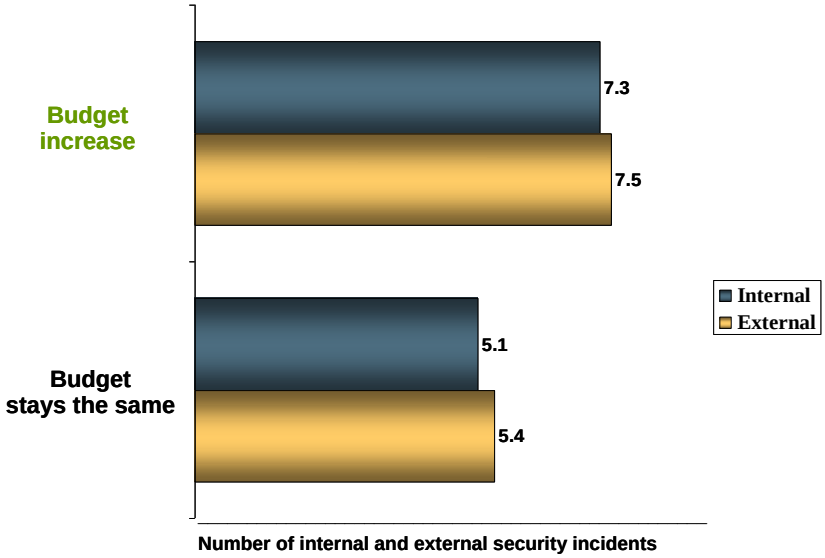

Figure 5, ***Mean number of incidents correlates to IT security budget spending plans.***

As security breaches increase, so does IT security spending.

Regulatory compliance proves to be on par with threats as a driver for IT information security spending

As more stringent industry and governmental IT security regulations are imposed for both personal and corporate data, the cost of adherence is increasing. North American companies report spending an average of 26 percent of their IT security budget on regulatory compliance. In EMEA it's 25 percent, South America reports 15 percent, and in AsiaPac it's 27 percent. *(See Figure 6)* Even companies not directly affected by regulations are often forced to meet the same regulatory standards as a requirement for maintaining client or partner relationships with regulated companies.

> *"…for us (compliance) is huge, because the fees that you can incur from not being compliant… completely outweigh the budget that we would spend to actually do it and then once we are fined, we still have to become compliant…"* Director IT Security - Philadelphia

> *"It usually starts with our customers, flows back to our management who say 'You've got to comply with everything.'"* IT Security Director - Chicago

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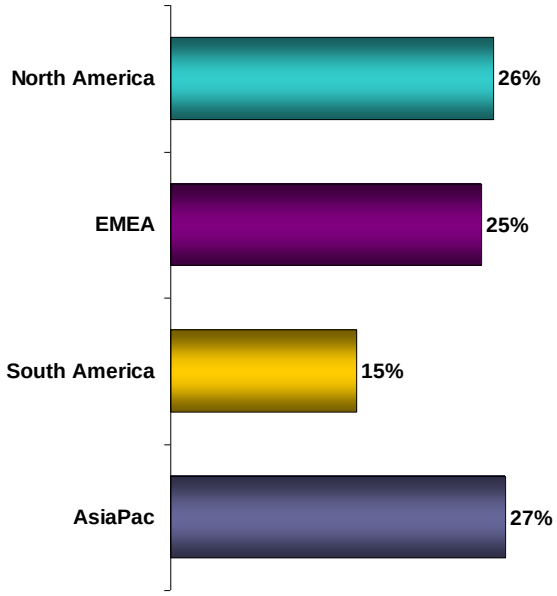

Figure 6, ***Proportion of Enterprise IT security budget dedicated to regulatory compliance, by region.***

Companies worldwide are spending a significant portion of their IT security budgets on regulatory compliance.

Companies anticipate that regulations will just keep coming

From highly regulated North America to comparatively lightly regulated South America, organizations foresee an increase in government and industry mandates. An added concern is the recognition that existing regulations are always open to new interpretation by auditors, resulting in additional remediation.

> *"Security is inextricably linked to compliance. So the money is flowing to the area because you're being driven to it. You have to meet the requirements."* Chief Information Officer - New York

> *"You know, you think, "Oh, this is great. I finally got it down." And this year, just like three more things just come out of the woodwork. You think you are handling it, but there are things that are just out of our control."* VP IT - Dallas

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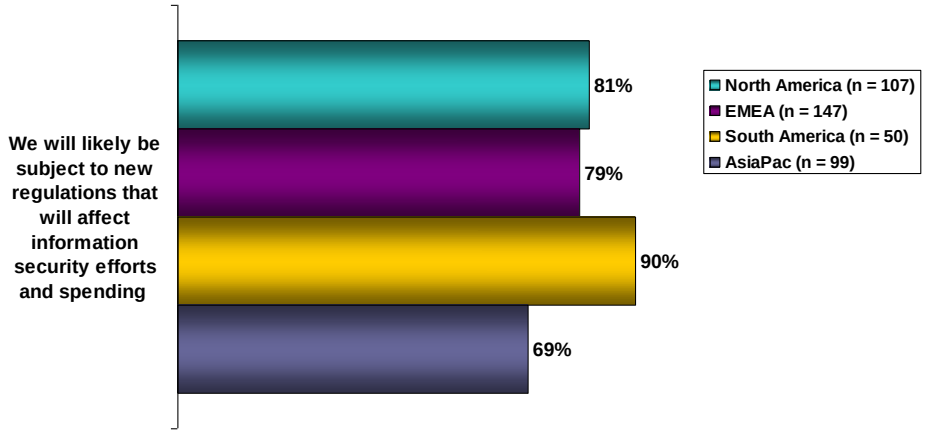

Figure 7. ***Percentage of companies who believe that new regulations will increase IT security spending and efforts, by region.***

The list of global regulations grows longer and more costly every year

As was seen in last year's compliance study (GMG Insight Report, *Global Report on IT Compliance,* October, 2008), every region of the world faces a higher degree of regulation. And global businesses bear the brunt of all the world's mandates.

> *"I went to Istanbul four years ago and spent my whole time writing policy and procedures. It's a nightmare, obviously, a nightmare."* Director IT Security - London

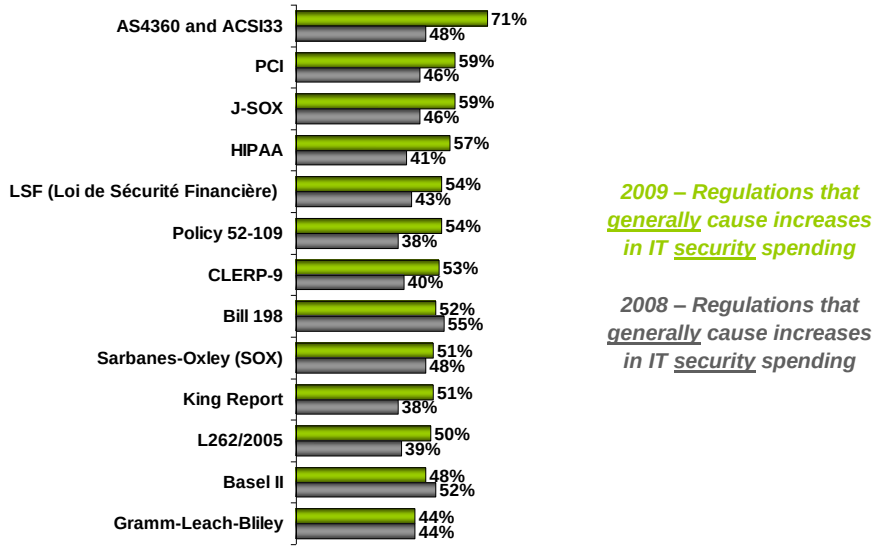

Figure 8. ***Comparison of IT security spending by specific regulation change from 2008 to 2009***

Global regulation is increasing and the majority expect further regulatory burden.

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Security budgets are directly affected by compliance obligations

Highly regulated companies spent 3.5 times more on compliance issues than lightly regulated companies, showing a direct correlation between security and level of compliance mandates. *(See Figure 9)*

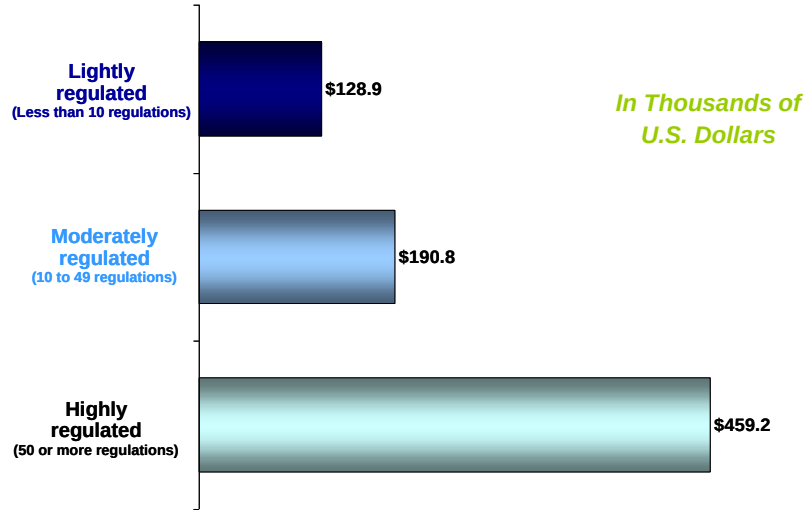

Figure 9 ***IT security budget correlated to the mean number of regulations per company.***

Highly regulated companies spend more than 3.5 times as much on IT security compliance issues as lightly regulated companies.

Security and compliance audits are the bane of IT's existence

IT executives express a great deal of frustration with the time and work associated with audits and the increasing prospect that despite those investments, remediation will surely follow. Between internal and external audits, failure has occurred for more than 50 percent of the companies surveyed. (*See Figure 10*) The external failures are striking because internal auditors are charged with preventing the possibility of external issues. Those failures (shown in Figure 11) have a direct impact on increased IT security budgets.

> *"We try and stay compliant on a quarterly basis so we don't get whacked with a stick at the end of the year when we're doing our Christmas shopping and get that bad report back."* VP IT Security - London

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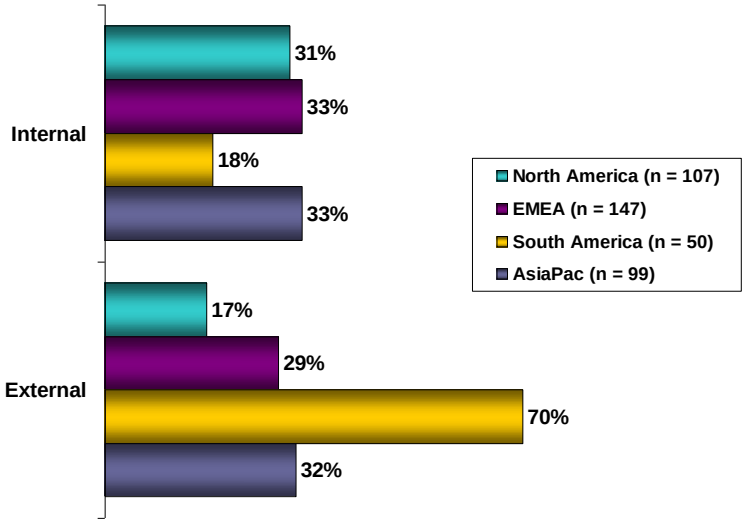

Figure 10, ***Percentage of companies that have failed internal and external audits in the last three years, by region.***

Internal and external audit failures are common and drive IT security budget increases.

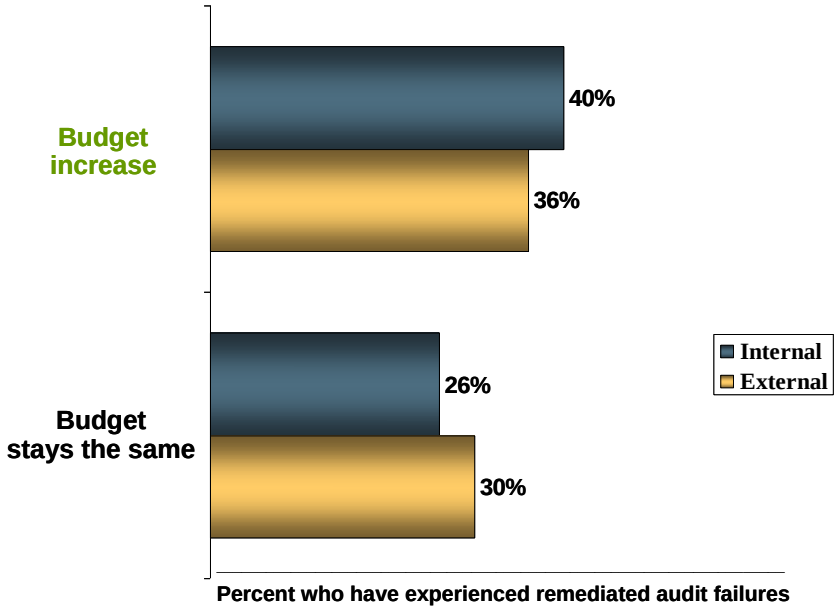

Figure 11, ***Budgets correlated to failure of internal and external audits.***

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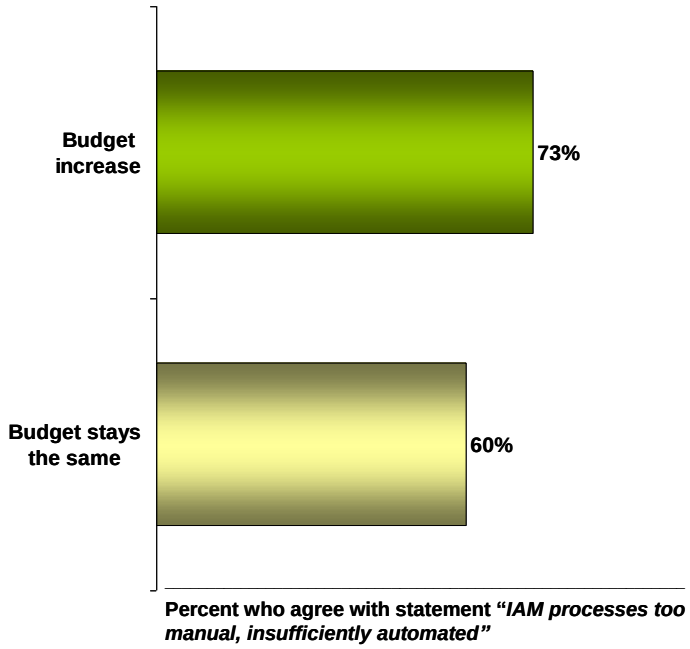
Need for automation drives budget for adoption of new IT solutions

A common sentiment among IT security executives is the need to automate manual identity and access management processes – in particular the provisioning and de-provisioning of access rights as part of Identity Management. Figure 12 shows that those who self diagnose their own processes as too manual are more apt to have increased budgets for IT information security management.

> *"(We don't have) a turnkey solution that at 5 o'clock on Friday we turn a key and then the 20 systems that a person (has access to) they're removed from them. It's not like that. It's a very…what I would consider a very manual process to get (it) done."* VP IT Security - Sacramento



There is strong desire for more automated IT security processes.

Figure 12, ***Desire to increase automation of IT information security correlates with increased budgets.***

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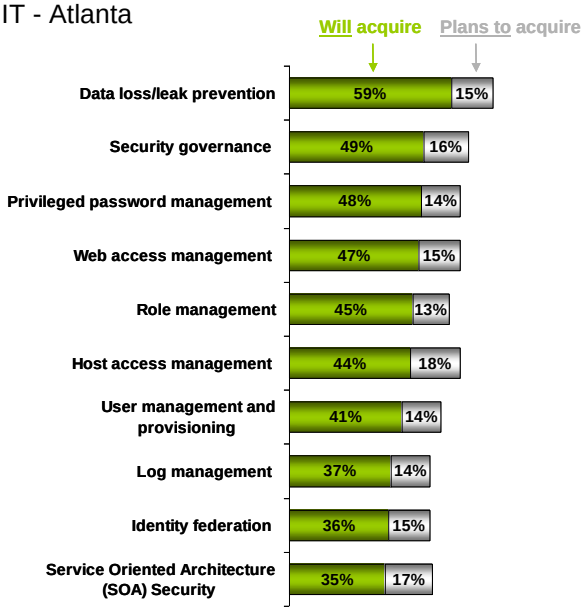
Strong demand for information security systems in the next 12 months

The drivers for purchase interest in automated solutions are many and explain the wide array of options being considered for immediate or near term implementation. With both layoffs and morale issues with retained staff, data loss prevention is top-of-mind. “Thumb” or flash drives are a particular concern for security in all organizations. Some report a desire to disable USB drives as a way to combat their use, although it is unclear how that would practically be accomplished.

Automated log management is on the list because IT can find no other way to do the systematic reviews necessary to spot aberrant behavior before it becomes an irrevocable issue. IT (in particular IT audit) looks for security information management solutions that can produce compliance reporting from logs throughout the infrastructure.

Areas of strong interest include single sign-on, role-based provisioning and Web security. Single sign-on and role-managed access are goals for companies of all sizes and categories, while interest in Web security is particularly strong among companies that use the Web as a critical means of transacting business with customers and partners.

> *“When (management) makes the access request for that person, and says, ‘Give them the access that Joe Blow had.’ And they give him too much access. I mean how do we know that they shouldn’t have (access)?”*
> VP IT - Atlanta



Demand for all IT security solutions is strong.

Figure 13, ***Demand for information security solutions is strong***

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Information security has become everyone's concern

As Figure 14 shows, legal, compliance, business management and HR all have a seat at the table with IT, influencing the determination of active compliance and security roles as well as security purchase plans. In most organizations, these constituencies typically sit on an IT governance committee. While IT is charged with evaluating and recommending solutions, the committee sets requirements and priorities and makes final decisions.

Compliance and legal executives have a hands-on role, but it is HR that is often cited as a particular area of frustration and concern for IT. Provisioning and de-provisioning employees in a timely manner is both a security issue and one that is measured in compliance audits. Compliance here depends on timely input. IT often faults HR for being the weak link in the chain.

> *"It's one of the most frustrating parts of the job. No matter how much you try to train HR, …they don't seem to get the urgency."* Director IT - Philadelphia

> *"The one we got dinged with this year (in audit) was timely termination. And we go back in and look, you know, we are pulling the forms and we are looking at them and we are saying, 'Well, gee, we are doing it within a day. What's the problem?" And then we look back and it is like the person terminated three weeks before and we are finally finding out from HR three weeks later."* VP IT - Chicago

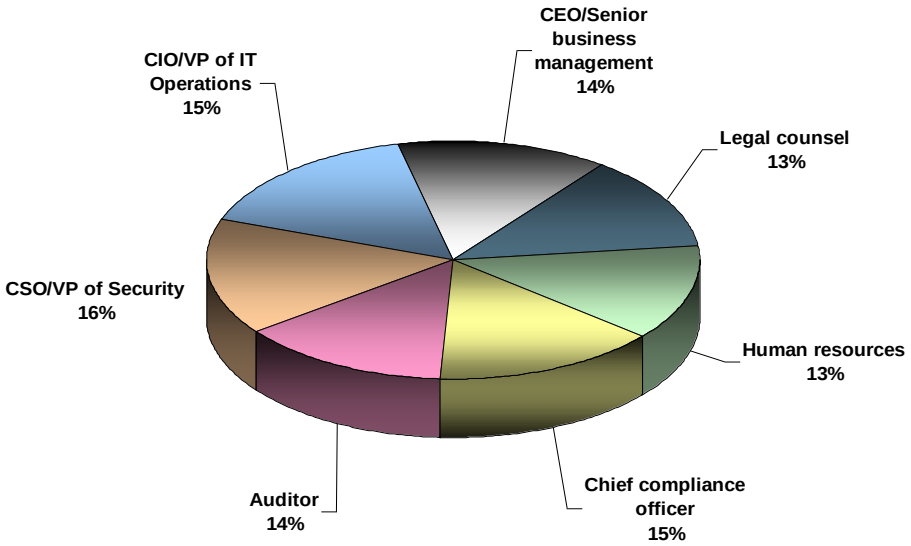

Figure 14, ***Overall share of influence in IT information security purchasing.***

IT, HR, business, legal, compliance and audit all influence IT security policies and solution purchase.

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Current economic conditions, coupled with increased regulatory burdens, will continue to drive adoption of new IT information security solutions

In this current economic cycle, it takes imperative need or a definitive return on investment to gain budget support for IT initiatives. Information security passes the need test for the vast majority of organizations worldwide. And the need can be categorized generally as improved automation of processes to handle the increased level of internal threat (exacerbated by personnel issues in a very down economy) and/or to improve regulatory compliance.

The differences by geographic region mirror the history of imposition of greater regulatory scrutiny, with North America leading the way followed closely by Europe and AsiaPac, and trailed by South America. It is clear that the issues attendant with security and compliance tie businesses around the world together and the solutions they seek are the same.

A broad range of security management tools will receive increased scrutiny as the push to remove manual processes and the need to do more sophisticated security management prevail. Data loss/leak prevention, user management and provisioning, single sign-on, role management, log management, Web access management, and more will all see greater adoption despite the ever-present IT mandate to “do more with less.”

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