CREDIT CONTROL

Incorporating ASSET & RISK REVIEW

SIMPLIFYING
BUSINESS
PROCESSES

Planning for Disaster and the Role of Document Management

Catherine Murphy

***Catherine Murphy** is the Marketing Manager for document management and imaging company, V1. Catherine has many years' experience working within the IT sector and is heavily involved in V1's disaster planning programme.*

Abstract

UK businesses are still not sufficiently prepared for a disaster. Research indicates that companies' claims of having a comprehensive Business Continuity Management (BCM) plan in place may be more 'smoke and mirrors' than anything else!

With consideration for the safeguarding and governance of business documents being considered little in BCM, it is clear that there is still an important role for document management to play in organisations' continuity plans. Not only does document management ensure key business documents are safe in the event of a fire or flood, it also supports document retention requirements and helps to prevent an Enron-like false accounting crisis.

Introduction

'Business continuity' is one of the latest business buzz words, which encapsulates the preparedness for a disaster to ensure minimal disruption and continued operations. Organisations are expected to be adequately prepared for all eventualities, from loss of IT and key staff through to fire and terrorist activity.

Since 9/11 and the London bombings, business continuity planning has been discussed endlessly, but have businesses been listening? And are continuity plans comprehensive enough or are there holes in organisations' plans, such as the role of electronic document management in safeguarding company's documents?

Business continuity plans – smoke and mirrors?

Despite the huge media coverage of a number of recent disasters, such as the London bombings, the Buncefield oil disaster and the latest spate of flooding, many UK businesses are still without decent business continuity plans. The Chartered Management Institute produced a Business Continuity Management (BCM) report in March 2007, following research with 1,257 UK managers. This research highlighted that despite 73% of managers stating that BCM is important in their organisation, only 50% work in organisations with a specific BCM plan in place.

Earlier this year, V1 carried-out its own, smaller-scale research with senior staff from 75 UK organisations (primarily CEOs, Finance Directors and IT Directors) to find out whether their businesses would survive a severe disaster, such as a bomb or a fire. An impressive 80% of those questioned claimed to have a full or reasonable business continuity plan in place. These findings would be reassuring if they were substantiated by fact. However, after further analysis, these claims appear to be more smoke and mirrors than anything else.

Of the 80% of respondents with at least a reasonable continuity plan in place, 32% of respondents couldn't explain what their organisations' business continuity plans involved. A number stated that their businesses were working towards compliance with British Standard 25999 – the British standard for business continuity management – but had no idea what this standard actually meant.

Only nine (15%) could confirm that their organisations have plans which cover the key areas of on-site security, staff/office re-location, communications, IT-back-ups and secure document storage. Ensuring documents are securely stored is an area which the least number of organisations had considered – only 17% of companies with a plan have worked this into their business continuity strategy.

So, what do these findings show? Perhaps some companies think they are prepared for a disaster when in reality; there are big holes in their continuity plans. Others may realise that their company *should* have plans in place and so when asked, are too embarrassed to admit being ill-prepared for disaster until probed further. Some businesses may well have a 'tick box' mentality to business continuity (BS 25999 means it's been dealt with) whilst others *still* don't realise the true economic impact of a disaster.

What is the economic impact of a disaster?

Although no-one can accurately forecast the economic impact of a disaster, research findings suggest that organisations' failure to prepare for a disaster can prove devastating. According to the London Chamber of Commerce and Industry, 80% of businesses without a well-structured recovery plan fail within 13 months and 43% of businesses never recover from a disaster. The Cabinet Office's UK Resilience website puts the percentage of businesses failing within 12 months at a lower but still disturbing rate of 50%. Alarmingly, the Strategic Research Institute has identified that companies that aren't able to resume operations within ten days of a disaster hitting are unlikely to survive.

Disasters impact businesses on a larger scale than is often realised, frequently having knock-on effects across the economy. A report on Business Continuity Management by the Chartered Management Institute (May 2006), highlighted that out of 1,150 managers questioned, 36% were disrupted by the London bombings in July 2005 and 14% were disrupted by the Buncefield disaster. This was despite a number of the companies affected being based away from the disaster zones. In the case of Buncefield, some respondents explained that outsourced suppliers such as payroll had been affected by the blast and this subsequently affected their business operations.

Why complying with BS 25999 isn't enough

To tackle the potentially devastating impact of a disaster, in the aftermath of a series of high profile incidents, the Government has introduced the BS 25999 industry standard to support businesses in their continuity planning. As highlighted by V1's research, a number of managers quoted this standard when asked about their business continuity plans, however, were unable to explain what this standard actually encompasses and its implications for the business.

There is no doubt that a standard to help businesses with their planning is positive. However, there is the danger that once all the BS 25999 boxes have been ticked, business continuity will be deemed 'dealt with', when in fact, the standard should be the start of a continuous programme of continuity planning. The bottomline is that a standards driven approach to business continuity planning is all very well, but will have little impact on business resilience unless it becomes embedded in a company's practices and culture.

Filling the largest hole in continuity plans – the role of document management in disaster planning

Whether businesses choose to comply with BS 25999 or not, there is an area of business continuity planning that is rarely considered and yet, is fundamental to the survival of a business – document protection. In fact, as highlighted earlier by V1's research, the area of secure document protection has been included in just 17% of organisations' business continuity plans.

In 2006, V1 carried-out research with senior managers from 100 UK organisations to discover whether their businesses could survive the total destruction of all hard-copy business documents (invoices, purchase orders, statements, payroll, despatch notes etc.). An amazing 30% said that their businesses would never recover! This isn't surprising considering that, in the event of all documents being destroyed, it would be extremely difficult to chase debt, raise new invoices and dispute contracts. Destruction of financial documents would also mean the destruction of an audit trail for tax purposes.

The only real solution to the safe storage of documents is electronic document management. This technology, which can be tightly integrated into organisations' accounting and Enterprise Resource Planning (ERP) systems, enables the electronic storage of all business documents. Paper documents arriving into the organisation are scanned-in and bar-coded. The imaged documents are then automatically stored in the archive and linked to the appropriate records in the accounting system. Inbound electronic documents can also be automatically stored in the archive, as can outbound documents, such as sales invoices, statements and credit agreements. Once in the electronic archive, all documents are securely stored and can be retrieved by drilling down through the accounting/ERP system or via a web browser.

Document management as an enabler to corporate governance

As well as ensuring the safe retrieval of documents in the event of a fire, bomb or flood, document management also helps to achieve a high level of regulatory compliance, preventing crises such as the false accounting scandals at Enron and Worldcom. In 2002, Arthur Andersen LLP was found guilty in the US of obstructing justice, the prosecution alleging it had destroyed relevant documents after it had become aware of an investigation by the SEC into the affairs of its client, Enron. Executives at telecommunications giant WorldCom perpetrated accounting fraud that led to the largest bankruptcy in history. Evidence shows that the accounting fraud was discovered as early as June 2001, when several former employees gave statements alleging instances of hiding bad debt, understating costs, and backdating contracts. These scandals, which proved devastating to both companies' reputations, were directly responsible for their downfalls. The lessons learnt from these scandals include the importance of managing risk by having effective document retention policies and document management systems in place.

Failing to retain financial documents can prove both a tax and legal nightmare. In the UK, HM Revenue & Customs require the retention of numerous documents, with six years' worth of documents plus the current year being required for VAT purposes. Retaining these documents electronically ensures they can be quickly and easily retrieved, and is perfectly acceptable as long as the business advises the VAT office of their intention to store scanned images of paper records. HM Revenue & Customs also accepts electronic documents as laid down in the British Standard BSI DISC PD0008 (relating to 'Legal Admissibility and Evidential Weight of Information Stored Electronically'*).*

Document management systems are also vital to prevent an Enron-type crisis. What if a member of your finance team decides to shred invoices, credit agreements and correspondence in an attempt to cover their poor handling of a situation? Would they be able to cover their tracks and get away with it? And could a member of staff fraudulently doctor documents to suit their own agenda, creating a false audit trail?

A secure electronic document management system which tightly integrates into organisations' accounting/ERP systems, makes it impossible to shred, 'lose' and alter documents, eliminating the risk of damage to an organisation's reputation and ultimately, its bottom line. Ensuring the document management system is based on strict levels of authorisation and is integrated into systems that maintain audit trails, also makes it an essential tool for enabling corporate governance.

Conclusion

Planning for a disaster is far from straight-forward. All elements of the business need considering and the resulting continuity plan needs to be embedded in the company's culture and practices to ensure continued business operation should the worst happen.

Research suggests that there is still a long way to go if UK organisations are to be fully prepared for a disaster, with the safeguarding and governance of documents proving an area that remains unaddressed by many continuity plans. Document management is key to preventing lost documents and an Enron-type crisis and yet many organisations are still finding reasons not to invest in this technology. The bottom line is that companies who fail to implement document management are leaving themselves wide open to destroyed documents and fraudulent activity, potentially devastating the business. Perhaps the investment is worth it after all?

Reference

[1] Woodman, P, (March 2007), *Business Continuity Management*, Chartered Management Institute.
Woodman, P, (May 2006), *Business Continuity Management,* Chartered Management Institute.
[2] London Chamber of Commerce and Industry website www.londonchamber.co.uk
[3] UK Resilience website www.ukresilience.info
[4] Continuity Central website www.continuitycentral.com
[5]

The above article first appeared in **CREDIT CONTROL JOURNAL**, Volume 28 Number 4 & 5 2007

Published by:

House of Words Limited
7 Greding Walk, Hutton, Brentwood, Essex, CM13 2UF UK
Website: www.creditcontrol.co.uk
E-mail: carol.baker@creditcontrol.co.uk
Tel: + 44 (0) 1277 225402