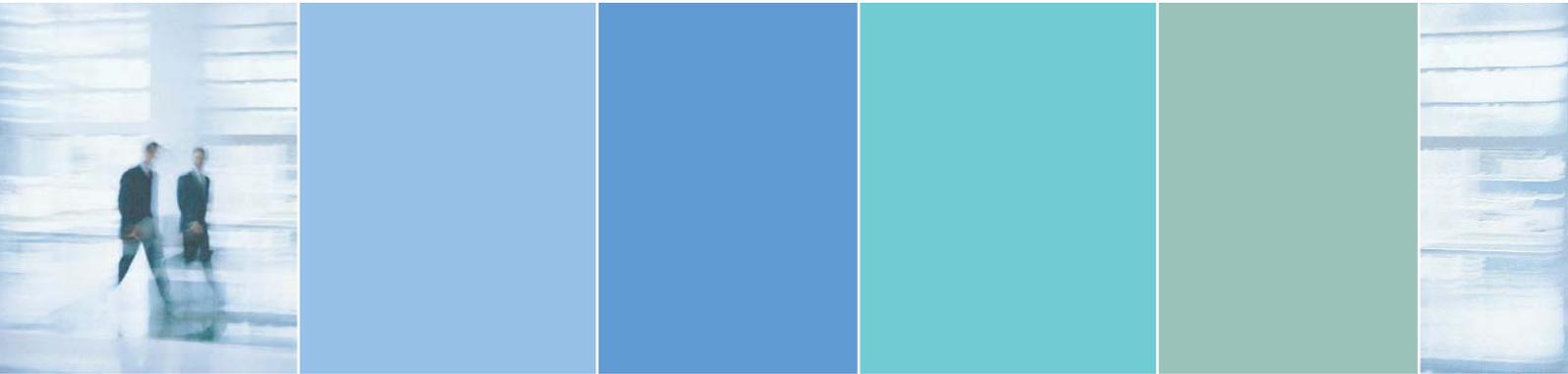# Cutting Paper: The SME FD's Guide to Document Management

A White Paper by Pegasus Software Ltd

pegasus

Understanding the challenge

Recent research[1] commissioned by Pegasus Software highlights that economic slowdown is the biggest pressure facing SMEs [2]. This is closely followed by the need to perform too many job roles, ensure compliance and drive innovation in the business.

With so many pressures to juggle, how can SME Financial Directors (FDs) mitigate economic slowdown and ensure profitability against the odds? How should FDs address the current squeeze and navigate the red-tape maze, whilst fighting upward pressures on costs?

This is the second in a series of white papers which examine the pressures facing SME FDs and explore the opportunities, specific skills and resources FDs need in order to drive growth, cut costs, increase profitability and boost their contribution to the economy.

One area in particular which is negatively impacting SMEs and resulting in leaked profits is poor management of business documentation. This paper will focus on how much poor document management is costing the average SME; how SME FDs can stem this loss; how to select the right solution and how to avoid common pitfalls.

Throwing Away Profits

According to research consultancy YouGov, SMEs are wasting £42.2 million of revenue every day through searching for documents. The research highlights that company directors and managers spend up to an hour every day searching for documents which have been mis-filed, moved to a new location or lost. The research calculates that an hour's productivity is worth £88 on average, therefore the cost could amount to £4400 per week for a company which has say, 10 directors.

This lost time would otherwise be spent on business development according to 31% of those surveyed, indicating the scope of lost revenue as a result of poor document management.

Yet despite this loss of productivity and impact to the bottom line, very few SMEs (7%) claim to store more than 91% of their documents electronically. And less than a quarter (23%) of SMEs claim to have implemented a digital document management system, highlighting that the gap between productivity losses and action to address these losses is still too large.

Research and advisory network Gartner claims that, while the principles of efficient records management haven't changed, the availability of better document management solutions has. Storing, filing and timely retrieval of documents has always been the holy grail of maximising productivity. But what has changed in recent years is the fact that technology has transformed the media in which records are kept and enabled faster retrieval of documents, thus representing an opportunity to exploit growth which didn't exist five years ago.

But lost productivity is only one consequence of poor document management.

Staying in Control

Research by UnLtdWorld.com recently found that about 40% of SMEs have experienced cashflow problems in the last few months as a result of the worsening economic situation. Experts advise SMEs to keep a very careful eye on cashflow, slow payments and potential bad debts so there are as few surprises as possible.

Traditionally companies tend to review income and outgoings on a monthly basis. Having all documents attached to a single file means that, as part of a workflow system, reviews of income and outgoings can take place on an ongoing basis, enabling SMEs to be on the front foot and mitigating some cashflow problems.

---

[1]   *Research was commissioned by Pegasus Software and polled 450 SMEs in May 2008.*

[2]   *An SME is an enterprise which employs fewer than 250 people, has an annual turnover of less than €50m and has no more than 25% of its capital or voting rights owned by a larger form or public body (European Commission).*

Reducing overheads

In certain industries high volumes of paper documents can account for unnecessarily high overheads. Following implementation of a document management solution, one housing association was recently able to streamline its premises from three buildings to two, making huge savings in rent and energy bills. Transport costs were also reduced as staff no longer had to travel to a separate site to retrieve archived documents, and morale was boosted considerably as retrieving documents relating to a customer service query now takes a few seconds, as opposed to a few hours. This in turn clearly has a positive impact on customer service as queries are resolved in a single conversation.

The Green Office

Research from Fujitsu Siemens Computers reveals that British offices are responsible for printing up to 120 billion pieces of paper every year, the equivalent of a paper mountain over 8,000 miles high, indicating that paperless offices remain as rare as hen's teeth.

The average British office worker prints off 22 pages every working day. However, the findings show that much of the printing done in offices is unnecessary, with over half of workers (53%) admitting to having printed the same document several times by mistake. Two in five (43%) have picked up someone else's print-out by mistake and, perhaps more concerning, 8% admit to printing e-mails before they've read them.

As pressure to boost green credentials and meet environmental targets increase, clearly such volumes of paper are not sustainable. Storing key documents centrally can have an immense impact on paper usage and wastage.

The Paper-Less Paper Trail

In light of the US Supreme Court overturning the conviction of accounting firm Arthur Andersen for the destruction of Enron-related documents in 2005, Gartner set out clear advice for all organisations to adopt a clear document management policy.

Pivotal to the case was Arthur Andersen's document management policy. They argued that their employees were following company document retention policies in shredding tons of unwanted documents, and that there was no intent to thwart a US Securities and Exchange Commission probe into their client, Enron.

Following the case, Gartner recommended four principles for companies to achieve best-practice document management:

1) Establish a document retention schedule that includes document lifecycle management and legal destruction.

2) Train employees and third parties (such as key business partners, vendors or contractors) on the policy.

3) Follow the policy and implement any technology necessary to make it easy as possible for employees to comply with the policy.

4) Implement compliance review and audit policies to ensure compliance.

But watertight document management is only one aspect of the legislation maze.

Regulating Processes

From January 2006, all companies with a turnover of £5.6 million or more are subject to a new statutory audit, IFRS 6, which focuses on the business processes around a company's financial management. This puts SMEs under immense pressure to keep increasingly detailed records, and those using traditional paper-based methods will simply struggle to keep pace.

One of the UK's top accounting firms estimated that verifying just one business process as part of the new standards can take up to four hours; for many companies, these processes run into thousands.

More recently, new rules around employment of migrant workers have placed further pressure on HR and payroll processes. As part of a government crackdown on illegal working, from 29th February 2008 all companies have a responsibility to monitor migrants' immigration status and prevent illegal employment. This involves keeping records and storing documents which include passport, immigration status document and ID card (once introduced). Employers also have a responsibility to establish a method of monitoring the dates of any permission to enter, remain in or leave the UK, and to ensure that they do not continue to employ a migrant who is not eligible for employment.

It is imperative that documents are stored in an easily accessible format. Also, through linking to a workflow system which can alert HR professionals to review records at key points, it need not create excessive administration.

Research from Pegasus Software highlights that the regulatory burden on SMEs has worsened in the last year, and is set to deteriorate further in the next 12 months. It also concludes that Government targets for cutting the amount of regulation facing SMEs doesn't go far enough and while 40% believe the targets are simply not enough, 30% say the commitment represents little more than "lip service".

And as one in four admit to spending more than two months of the year focused on researching and complying with legislation, it's little wonder that innovation is suffering. The majority of those surveyed (92%) believe that excessive red tape hinders entrepreneurialism in the UK.

Imploding the Paper Mountain

There's no question that information is vital to the success of any business. But the extent to which it adds value to the profitability of that business resides in how it is managed. The explosion in incoming paperwork means that it is imperative to manage this effectively.

FDs can no longer afford the luxury of time to make important decisions. And for important decisions to be made quickly, accurate, real-time information is critical. SMEs need the right people to have access to the right data, at the right time, in the right format in order to make informed decisions about the business.

Physical handling of documents is time-consuming, onerous and expensive and, as the pressures on SMEs increase, rarely a viable option.

As technology continues to mature, there is a shift in demand for different types of document management. A few years ago, SMEs demanded automation of outbound documents such as sales invoices, statements and payments. Now that much of this is contained as standard in accounting systems, inbound documents present the greatest opportunity for improvement. A Document Management application represents a complete image capture and file management system that captures all essential documents and stores them electronically, for instant access.

Most organisations receive high volumes of supplier invoices which all vary in format. By using an effective document management solution, these can simply be scanned as they are received, matched to the appropriate purchase order, filed accordingly and retrieved at the touch of a button upon any query or reconciliation.

Document management solutions can be incorporated into workflow systems to expedite productivity even further so that, for instance, the arrival of an invoice will notify appropriate personnel to code and route for authorisation.

And while the functionality of document management systems has increased significantly, the cost has actually fallen and against the potential productivity gains, such systems are extremely cost-effective.

How to select the right solution

The right document management solution, used in the right way, can result in a myriad of benefits but it is important to get it right. The following questions should form the basis of a checklist when reviewing providers of document management solutions.

1)   Do you provide an end-to-end document management solution?

2)   Does your document management solution integrate with accounting and ERP systems?

3)   What is your after-sales support like?

4)   What return on investment can I expect to achieve?

5)   Are you UK-based?

6)   Do you have an established customer base?

7)   Do you have customer reference sites we can visit?

8)   What is the product roadmap for your document management solution?

9)   How long will it take to implement the solution?

10)   Is it designed specifically for the needs of SMEs?

Selecting the Right Tools for the Task

Spending hours sifting through paperwork to source the relevant information is simply unfeasible in today's SME, particularly when there are tools available to source the relevant piece of information in the appropriate format, at the click of a mouse. Ultimately, by adopting a document management solution designed to address the specific requirements of SMEs, organisations can stem the flow of lost profitability, ensure compliance and support the drive towards being green.

Running a business without easy access to the information which forms its lifeblood is simply not an option as markets get tougher. Document management tools which facilitate faster information to make quicker business decisions and drive growth are imperative in weathering the economic storms which lie ahead.