Upside Research

Beyond Sarbanes-Oxley

The Benefits of BPM for Compliance

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INTRODUCTION

Sometimes an investment in one area can pay off big in another. Take the example of compliance and the money that organizations are spending meeting regulations such as Sarbanes-Oxley (SOX). While companies might view SOX investments as addressing specific regulatory requirements, such investments can actually be a gateway to enterprise-wide risk management and better business process management. By using business process management (BPM)-based SOX solutions, organizations can not only meet these immediate regulatory requirements, but can put in place an internal control framework that supports future change, helps eliminate any deficiencies in controls, improves inefficient business processes, and helps to manage and reduce risk across the enterprise.

This is particularly important since compliance requirements are growing at a rapid pace at most enterprises. Between external regulatory compliance requirements like Sarbanes-Oxley, HIPPA, and The Patriot Act, and internal compliance standards, business and IT managers must find ways to address immediate regulatory and compliance requirements while ensuring that such solutions will be compatible with future compliance requirements. That's why forward-looking organizations are looking to solutions such as business process management (BPM) that can not only meet their initial regulatory needs, but provide the framework for strategic risk management and process control.

HandySoft is a BPM provider that offers both SOX-specific BPM solutions as well as a strategic BPM platform that provides compliance enforcement both from a framework perspective as well as within the business processes that govern the organization. HandySoft's Business Process Management-based solution for SOX compliance and risk management enable organizations to take a phased approach, moving smoothly from regulatory compliance to optimum process performance and ongoing risk and compliance management. This paper explores the evolution of SOX and compliance requirements and identifies how BPM can successfully address those requirements. It also introduces HandySoft BizFlow BPM as one solution for managing both tactical and strategic compliance issues. Business managers can use this report to begin a conversation about how best to manage compliance within their organizations, especially managing compliance with BPM.

WHAT'S NEXT – WHAT COMES AFTER SOX?

Over the past few years, the rapid rise in regulatory compliance mandates has thrust organizations into a reactive mode. Many organizations, faced with the daunting task of creating ways to meet the new compliance requirements, have focused only on meeting the baseline requirements for regulatory compliance initiatives such as Sarbanes-Oxley. Often, this means establishing point systems that address the specific needs of a regulation like SOX, and ensuring that the company can meet them. However, for most organizations, this will merely be the first step in an

ongoing process of meeting new regulatory requirements and ensuring compliance over time. Consider the following important issues:

- *THE BUDGET CONUNDRUM -* If money were no problem, adding a point solution here and there to solve the most urgent compliance issue would be feasible. In reality, however, with tighter IT budgets and the demands for finding ways to meet compliance requirements with limited resources, organizations simply cannot afford to attack compliance in a one-off, fire drill fashion. Instead, they must find ways to leverage the efforts they have put into creating processes for managing initial compliance requirements, such as SOX, and turn those methods into a widespread compliance solution that can grow and change as the requirements themselves evolve.

- *THE HUMAN FACTOR -* Another component to the compliance challenge, beyond resource constraints, is the difficulty of managing compliance-related processes that involve human intervention. For most organizations, ensuring compliance for fully automated processes, such as straight-through processing, is moderately easy because of the ability to maintain complete control over the process. This is not the case for processes that can't be fully automated. For example, any process that requires human interaction (such as authorizations or access rights) raises the level of complexity for managing compliance issues related to that process. The cost and resources necessary to manage compliance increase respectively, as well as the opportunity for errors.

As the number of regulatory requirements increases and as organizations continue to add their own internal compliance standards, the task of managing compliance will grow beyond point solutions and towards one that supports strategic operational risk management and a phased approach to compliance.

For example, once organizations have complied with the basic SOX requirements, such as documenting and evaluating internal controls, there are a host of other compliance issues that typically need to be addressed—including additional SOX requirements and ongoing compliance considerations. Organizations must also establish effective ways to remediate and improve the compliance-based processes they have created, as well as be able to create additional compliance-based processes as they become necessary.

USING BPM TO MOVE FROM SOX COMPLIANCE
TO STRATEGIC RISK MANAGEMENT

One of the key challenges that most organizations face today is how to manage all of these various compliance issues and efforts in the most efficient and effective manner.

Upside Research believes that organizations are best served by creating a framework for compliance that involves transitioning existing compliance activities from manual, Excel-based processes to automated processes that can be adapted easily over time as business needs and compliance requirements change. By establishing a framework for creating and implementing new compliance controls, organizations can begin to move out of reactive gear into a more proactive, strategic way of handling compliance. One of the best ways to achieve this is by utilizing Business Process Management for compliance efforts and taking a phases approach to compliance management.

For example, most organizations will want to take a phased approach, which might start with a basic risk assessment, documenting and testing of internal controls relating to financial reporting. Frequently this is what company's try to address with their first SOX or regulatory-oriented projects. The next phase is typically the automation of manual process controls, for broader control and more responsive control of business or IT processes. Once companies have successfully automated some of their controls, the next logical step is to a move to strategic risk management and process automation. This stage also typically includes a broader move toward automated monitoring of the business processes and key performance indicators in conjunction with real-time business alerts.

> ### WHAT DO YOU NEED FOR GOOD COMPLIANCE?
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> To ensure that you are creating a compliance strategy that will deliver the best results, consider the following features when evaluating compliance solutions:
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> - **Defined processes** – Does the solution include a number of pre-defined processes to easily begin creating a process that meets your needs?
> - **Ways to enforce rules and regulations** – Are there built-in rules definitions capabilities to ensure that regulations are being met across the board?
> - **Accountability** – Can specific parts of the process be assigned to specific people or groups?
> - **Audit Trail** – Are there reporting capabilities that create an audit trail that can be easily accessed and provided to regulators when necessary?

That's where BPM comes in again. BPM solutions provide a way for organizations to not only meet short term SOX requirements, by helping companies standardize and manage the volume of documents and data required to monitor internal controls, but also create an efficient structure for addressing future compliance challenges in a strategic way. In addition, beyond meeting SOX compliance requirements, BPM solutions can deliver numerous benefits for organizations. BPM solutions help organizations to define and automate business processes that can integrate across multiple applications or business departments, and enable organizations to modify business processes – even processes that integrate and cross applications – quickly in response to changing business needs. BPM solutions also help business managers

identify opportunities for process improvements and enable them to more easily focus on those areas for improvement.

For organizations that have already deployed or made an investment in BPM for a specific project or initiative such as meeting SOX requirements, there may be an opportunity to leverage that investment for more efficient management of broader compliance requirements. Frequently, the initial projects for which an organization has deployed BPM are short-term and solve immediate issues. For example, meeting pressing SOX requirements is a typical reason for turning to a BPM solution. While BPM often does a great job of meeting the pressing deadlines related to initial SOX requirements, BPM solutions are able to deliver much higher, longer-term value when applied to the broader context of increasing the effectiveness of ongoing compliance and business process requirements. Understanding this value and leveraging it is the key for organizations that are looking for compliance management solutions.

STRATEGIC BPM EXAMPLE

Take the following example of a BPM solution's higher-level functionality. Consider a three-way match in accounts payable. While automated payment resolution is wonderful when it works, there are times when a payment request cannot be resolved automatically. In these instances, the payment has to enter a resolution "bucket" where employees intervene. Not only does this human intervention increase the cost of processing the payments, it also raises the possibility of compliance issues a loss of process management and enforcement of controls.

BPM solutions can help organizations to address this particular example by establishing automated processes to handle the exceptions that are common, and ensuring that the compliance requirements are being met. In this example, if the transaction does not resemble common exceptions, the BPM solution could ensure that the resolution item is assigned to a specific person, and eventually matched with the appropriate invoice and quantity delivered. Thus, BPM streamlines the three-way match, eliminating unnecessary human intervention and routing and tracking it through any exception handling.

This type of higher-level functionality present in many BPM solutions today can be applied to compliance management. For organizations that have multiple compliance efforts underway, using BPM to centralize and manage compliance provides the ability to eliminate costly and time-wasting manual processes. It also provides a centralized framework for compliance that supports re-use, eliminates unnecessary errors, and makes compliance more strategic for an organization.

Frequently, the same underlying logic that's being used to solve basic SOX compliance requirements such as 302 and 404 can be leveraged for an organization's other business process problems. BPM-based SOX solutions tackle compliance

problems the same way that they tackle complex process problems such as mitigating operational risk—by breaking it down into steps such as test, alert, enforce, and report that can be applied across a wide range of business problems.

The next section takes a closer look at some of the business benefits related to using BPM for compliance efforts.

THE BENEFITS OF USING BPM FOR COMPLIANCE

Consider the three main factors of a successful compliance solution. First, the solution must ensure compliance to laws and regulations. After all, this is the primary business challenge that compliance solutions provide. Therefore, the solution provides ways of tracking and ensuring that a company is in compliance with the stated regulation. Next, a successful compliance solution will ensure the reliability of financial reporting. Again, this ties into what compliance is all about, providing proof that a company is complying with the law. By ensuring that financial reports are accurate and reliable, an organization can be confident that they are meeting the requirements of the various laws that govern them.

Finally, if a compliance solution is worth its weight, it will improve operational efficiency. There are ways of meeting compliance requirements that achieve the stated first two goals, but are not at all effective in improving efficiency. This final component of compliance is what sets truly successful solutions apart from those that merely satisfy laws and regulations. And, while it addresses all three areas of successful compliance, BPM is perhaps best at this third component, improving operational efficiency.

Let's take a closer look at the business benefits of utilizing BPM for compliance and how it satisfies all three factors of successful compliance:

- *ENSURING COMPLIANCE -* Without a doubt, ensuring compliance is the golden standard of any compliance solution. Business Process Management solutions enable this in a number of ways. Through the enforcement of policies and rules, organizations can ensure they are meeting important compliance requirements. BPM solutions are designed to enable business leaders and IT to work together to easily define the policies and rules that will govern the processes that need to be in compliance. Once these rules have been established, BPM solutions then ensure that they are applied to all relevant processes, bringing them in compliance automatically.

- *IMPROVED VISIBILITY -* Because BPM solutions enable processes to be tracked and audited, they provide a way for organizations to gain better visibility into how well their processes are meeting compliance requirements. This visibility is valuable because it eliminates the guessing games of whether or not a company is complying with a particular law or regulation, and it

brings a level of assurance to managers that they are successfully complying. Through reporting and analysis capabilities, as well as management dashboards, BPM solutions put visibility at the fingertips of those who need to ensure that compliance is succeeding.

- *EFFICIENCY AND PRODUCTIVITY GAINS -* The sweet spot of BPM is its ability to streamline processes as well as streamline the act of building those processes. With reusable components, business rules incorporation, graphical modeling capabilities, and minimal code requirements, organizations can easily create business processes, including those that address compliance, and roll them out to the enterprise. In a time when IT budget constraints are notorious, BPM enables organizations to do more with less while gaining important productivity advantages through creating processes that eliminate unnecessary steps and time.

- *LOWER COMPLIANCE MAINTENANCE COSTS -* As mentioned earlier, one of the challenges in compliance issues is not only creating ways of bringing corporate practices into compliance but also ensuring that they remain in compliance and creating a way of proving that to authorities. The maintenance of compliance efforts, including providing the audit trails necessary as well as making necessary changes to reflect changes in laws and regulations, can be a significant burden to organizations. BPM's ability to streamline and automate much of the compliance efforts, including reporting and modifications, helps to lower the costs, both financial and human, of compliance for the enterprise.

- *EMPOWERS BUSINESS LEADERS -* One of the advantages that a BPM solution provides over other more traditional methods of building compliance solutions is its ability to enable business managers to create and manage the compliance-related processes. By providing business managers with graphical tools and easy-to-understand views into performance, BPM solutions reduce the reliance on IT for compliance, which is a significant benefit in today's reality of strapped IT resources. Business managers are able to create and maintain compliance-related aspects of business processes, including the ability to make most of the changes that occur as laws and regulations change. This adds to the business benefits, because it enables the business to be more responsive to changes while at the same time freeing up IT resources to focus on other business-critical projects.

- *ERROR REDUCTION -* An important part of the necessities of effective compliance is the assurance that an organization is meeting the laws and regulations as they are defined. With manual compliance solutions, many that include human intervention, the chances of meeting all compliance

requirements are reduced by the prevalence of the potential for errors in reporting and tracking. BPM eliminates many of these needless errors by automating the processes and ensuring that reporting and tracking are accurate. The reduction in errors benefits organizations in several ways, including cost savings from not having to fix errors and avoidance of costly penalties from regulators for discovered errors.

The benefits listed above highlight some of the areas where BPM solutions are particularly suited to enabling better compliance management. BPM solutions meet the first two requirements for compliance -- ensuring that laws and regulations are met and providing accurate financial reports – as well as delivering on the third aspect of compliance, improving operational efficiencies. With a BPM solution in place to address compliance, business managers can remain confident that they are effectively meeting compliance requirements while managing financial and personnel costs related to compliance. This enables them to focus on other areas that enhance the business and their market position, which is the ultimate benefit of BPM for compliance.

HANDYSOFT PROVIDES COMPREHENSIVE BPM AND COMPLIANCE SOLUTION

For organizations that are ready to embark on a compliance solution that leverages the benefits of a Business Process Management foundation, HandySoft provides the framework and tools necessary to meet compliance requirements while enabling savvy organizations to apply BPM to a host of process areas within the enterprise.

HandySoft's BizFlow Platform for Business Process Management and Collaborative Workflow has been used by companies across industries to achieve process improvements and gain efficiencies in a variety of areas. Recently, the company has created a SOX compliance-specific solution that provides the tools and features to address the most pressing issues of SOX compliance, documenting, testing and evaluating internal controls.

THE SOXA ACCELERATOR

The SOXA Accelerator from HandySoft is a web-based application for automating the data gathering and document collection process (workflow) that is at the core of the Sarbanes-Oxley Act of 2002. Built on the underlying BizFlow BPM platform from Handysoft and the Plumtree Enterprise Web Suite for collaboration and content management, the SOXA Accelerator streamlines the steps of documenting, evaluating, testing and tracking remediating actions for controls within an organization's key business processes. By using a number of tools including automatic routing, alerts and notifications, web-based forms, document version control, and real-time reporting the SOXA Accelerator helps organizations standardize their approach and more efficiently evaluate controls period over period.

SOXA Accelerator has a number of features that provide organizations with a robust compliance solution that includes:

- **Collaborative Work Spaces**. The web-based user interface that is part of the SOXA Accelerator improves communication such as standards and guidelines across participants helping to aid in standardization and training
- **Leverage Existing Content**. With Import utility tools and support for attached documentation, companies can leverage content they have already created such as Excel based Risk and Control Matrices, process narratives and workflow diagrams.
- **Reliable Reporting**. The SOXA Accelerator provides managers and executives with reports that address status for project management, summaries for confident certification and analysis for long term improvement. Reports can be filtered to track specific data, and period over period changes
- **Business-based Tools**. The SOXA Accelerator provides a series of electronic forms, questionnaires, smart help and a range of visual aids designed to guide business users through the steps of the assessment process. This improves adoption and reduces the time required for end-user training.

BEYOND SOX TO COMPLIANCE "INSIDE" BUSINESS PROCESSES

The SOXA Accelerator is designed to enable organizations to quickly and effectively establish processes (workflows) for meeting 404 and 302 Sarbanes-Oxley regulations. Once they have created the processes to manage the flow of work related to SOX compliance, organizations can leverage their investment to extend compliance enforcement throughout their business processes.

HandySoft BizFlow BPM is designed to provide a foundation for building and managing critical business processes across enterprise functional areas, including financial, human resources, legal, operational, and IT departments. Therefore, once an organization has successfully established the processes necessary to achieve Sarbanes-Oxley compliance, it can then leverage the underlying BizFlow BPM to apply that same level of workflow automation and control to internal business processes. Creating compliance "Inside" business process controls enables an organization to go beyond documenting and evaluating those controls to actually remediating deficient controls and enforcing controls within their business processes

While external compliance efforts are focused on meeting laws and regulations established by external bodies, forward-looking organizations are using "compliance inside" approaches to raise the performance bar and gain competitive advantage. Using the same tools and framework that HandySoft's BizFlow BPM provides for SOX compliance, business managers can establish rules and controls based on business goals, and ensure that they are being met across all processes and throughout business operations. The results are a more effective enterprise that delivers on consistent, reliable execution of business strategy.

LEVERAGING BPM FOR STRATEGIC ADVANTAGE

SOX requirements are occupying the time and efforts of managers in large enterprises today, in many cases more than they would like. For most organizations, using a Business Process Management solution to manage SOX compliance efforts has proven to be a more effective way of handling compliance than traditional methods. With BPM, organizations are able to meet compliance requirements while controlling costs, improving productivity, and creating an ongoing framework for maintenance. BPM solutions also provide organizations with the tools to move beyond basic SOX requirements and automate the compliance processes for efficiency gains as well as providing a framework for easily modifying and managing the ever-changing compliance landscape.

HandySoft's SOXA Accelerator is built on the Handysoft BizFlow BPM platform to enable organizations to maximize the benefits of BPM in their SOX compliance efforts. Using the SOXA Accelerator, organizations are able to more quickly build and deploy compliance solutions that meet regulations, while at the same time streamlining the processes and creating a framework for compliance that can be adapted as business needs change.

Beyond SOX, organizations that have successfully implemented a SOX assessment tool for compliance such as HandySoft's SOXA Accelerator, the can apply their best practices to all critical internal business processes to add a level of "Inside" compliance utilizing BPM capabilities like HandySoft's BizFlow BPM platform. This Inside Business Process compliance can be used as competitive advantage to ensure that all business processes are aligned with business goals and achieve consistent business performance. Organizations that are currently evaluating a BPM-based solution for their SOX compliance projects should consider the added benefits of HandySoft's BizFlow BPM to maximize the return on their investment and move beyond SOX to leveraging a business process management framework for business gains.