

The Business Case for Enterprise Records Management

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CASE STUDY

OVERVIEW

From a business perspective, why should business corporations develop and implement a new, enterprise-wide program in records management? This article presents the justification for this type of initiative, in the form of a business case. The business case for systematic records management is based on three areas of actual or potential benefits:

- ▣ Reduced cost in traditional recordkeeping operations;
- ▣ Enhanced value chain activities;
- ▣ Strategic contribution to corporate business objectives.

Benefits for Traditional Recordkeeping

Recordkeeping—broadly defined to encompass the creation, storage, retrieval, duplication, and distribution of recorded information—is an ordinary and necessary component of virtually every corporate business operation. It is also a time-consuming and expensive business activity. By improving recordkeeping practices, a systematic records management program can deliver savings that have a direct, beneficial impact on the corporation's bottom line.

When justifying costs, money saved is the same as money earned. Efficient management of recorded information contributes to corporate profitability by lowering the cost of doing business in the following ways:

- ▣ By improving productivity, and reducing labor requirements, for the creation, organization, retrieval, and distribution of documents;
- ▣ By reducing storage requirements and resources (space, equipment, and supplies) for a given quantity of documents;
- ▣ By ensuring compliance with legal, regulatory, and tax-related recordkeeping requirements, thereby avoiding costly fines, adjusted tax calculations, or other penalties;
- ▣ By minimizing the risk and burden of discovery in civil litigation and government investigations;
- ▣ By reducing the time and effort required to protect vital information and to reconstruct it in the event of disaster, theft, or other loss.

Of these, improvements in labor productivity and reductions in storage requirements are the most readily quantifiable. They are well documented in journal articles, case studies, and other published reports. The other benefits, while widely recognized as significant, can only be quantified in the context of specific events, such as lawsuits or tax audits, that are affected by the availability or absence of documents. Memoranda, reports, and other documents obtained by plaintiffs' attorneys can be misconstrued to obtain huge settlements or verdicts in product liability litigation. *Anderson v. General Motors Corp.* (No. BC-116926, California Superior Court, Los Angeles County) is an obvious example.

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A systematic records management program can also specify appropriate retention periods and retrieval mechanisms for technical specifications, test reports, engineering drawings, standard operating procedures, and other records that support product safety claims or other matters likely to be the subject of litigation. Further, a systematic records management program can ensure the availability of recorded information required to support deductions and avoid unfavorable adjustment of corporate tax returns.

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Improved Labor Productivity

A 1998 study of document management methods and requirements in General Motors' engineering organization convincingly demonstrated the potential of systematic records management for labor productivity improvement. That study found that GM engineers spend up to 35 percent of their time searching for required information. Based on conservative assumptions, the study estimated that a systematic approach to document management would yield a 1.35-percent improvement in labor productivity for information retrieval tasks associated with regular engineering operations. It estimated an additional 1.8-percent improvement in labor productivity for engineers who require documents to facilitate job transitions. The total estimated improvement in labor productivity equaled 3.15 percent.

While the study concentrated on engineers, its methodology and conclusions are applicable to other white-collar employees, who have similar information retrieval requirements. Like their engineering counterparts, GM executives and office workers in finance, sales and marketing, the legal department, human resources, and other business units depend on the timely availability of documents to satisfy job-related information needs and to facilitate job transitions. According to Xplor International, the leading trade association involved in automated document management, corporate executives spend an average of three hours per week looking for documents. That equals 8,100 hours per week or 421,200 hours per year for GM North America, which has 2,700 executives (defined as bonus-eligible employees). The Xplor study also found that clerical support staff spend up to five hours per week searching for the same information.

Other authorities cite even higher estimates. A 1997 study by Eastman Kodak found that office workers spend up to 30 percent of their work time searching for records and information. According to *Surviving the Information Glut* (Harper Books, 1997), 60 percent of office workers' time is spent on information-related tasks, including organization, storage, retrieval, and distribution of recorded information.

GM North America has approximately 54,000 salaried employees, including 22,000 engineers. Extending the findings of the engineering study to GM North America's 32,000 non-engineering salaried employees, a 1.35-percent improvement in labor productivity through improved records management methods would save approximately 430 person-years or \$34.4 million per year, based on an average annual salary of \$80,000 including fringe benefits.

This estimate does not consider additional productivity improvements attributable to better availability of information related to job transitions for GM North America's 32,000 non-engineering employees. Applying the 1.8-percent improvement calculated by the engineering study, the resulting savings would approximate 575 person-years or \$46 million per year.

Based on these calculations, the potential for labor productivity enhancement associated with improved records management methods for GM North America's non-engineering employees exceeds \$80 million per year. As noted above, these estimates are based on conservative assumptions.

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Reduction in Records Storage Requirements

In the absence of a systematic records management program with explicit retention directives, most organizations keep more records than is necessary for business objectives and operations. In particular, they retain many older records that are no longer required for business purposes. Further, inactive records that must be retained for legal reasons or occasional reference are often stored in expensive office areas.

Elimination of unneeded records and economical storage of inactive records are among the most important, readily attainable benefits of systematic records management. These savings were not considered in the 1998 study of engineering records management.

Based on the reported experience of record retention specialists in industry and government, a 30-percent reduction in record volume is a reasonable, even conservative expectation following the implementation of a systematic records management program. This reduction may be achieved through destruction of obsolete records, which is highly likely when retention schedules are revised, or through removal of inactive records from office space to offsite storage until their retention periods elapse. General Motors is currently using offsite storage for selected business records, but, in the absence of comprehensive retention directives, offsite storage is characteristically underutilized. Further, some documents transferred to offsite storage may be more appropriately discarded.

Destruction or offsite storage of documents can significantly reduce office space costs. Various industry sources, including vendor studies, report that a topical organization has three to five filing cabinets per office worker. These estimates include cabinets in centralized filing areas as well as those in individual employee offices. Assuming an average of four filing cabinets per salaried employee, GM North America's office locations contain about 216,000 filing cabinets. Each cabinet occupies eight square feet of floor space, including space for the extended drawer, for a total space requirement of 1.7 million square feet. As reported in the August 1998 issue of the Detroit Free Press, the latest published source that could be located, the average rent for Class A office space in southeastern Michigan is \$21 per square foot. At that rate, the annual value of GM office space occupied by filing cabinets is \$35.7 million.

A 30% reduction in record volume would, in theory, free approximately 510,000 square feet of GM office space for other uses, but some of that space may be unsuitable for other purposes. This is the case, for example, with space occupied by filing cabinets in enclosed offices. Space occupied by filing cabinets in open plan office areas, however, can be consolidated and reconfigured as employee work areas or for other purposes. This is particularly true for centralized filing areas with multiple cabinets. Assuming that 75% (380,000 square feet) of the saved space can be put to effective use, its value is \$7.9 million per year.

Based on the experience of other organizations, this estimate is probably conservative. For example, a consultant's study determined that a systematic records management program reduced recordkeeping costs in Texas state government agencies by \$70 million, or \$23.3 million per year, over the three year period from 1989 through 1991. (E.K. Brumm, "A cost / benefit analysis of the records management program in the state of Texas," ARMA Records Management Quarterly, April 1993). At that time, the state of Texas had about 200,000 employees, which is roughly comparable to GM North America today; but, lacking a manufacturing component, Texas state government agencies have a higher percentage of white-collar workers. Nonetheless, the calculated savings, which were largely attributed to destruction of records and better use of offsite storage, are three times the anticipated savings of \$7.9 million estimated above.

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Summary of Potential Recordkeeping Savings

Based on assumptions outlined above, the combined savings potential from improved labor productivity (\$80 million +) and reduced storage requirements (\$7.9 million) is approximately \$88 million per year. This estimate excludes savings attributable to improved labor productivity in the engineering organization, which were covered by the 1998 study.

The estimate further excludes possible additional savings from avoidance of future filing cabinet purchases, recovery of reusable filing cabinets and supplies, or elimination of clerical labor due to reductions in record volume. Those savings, which often prove substantial, can only be reliably quantified in the context of specific situations.

Value-Chain Benefits

Value chain concepts view the creation of a product or service as a series of interdependent activities that add value and costs to the final offering. A company's value chain includes primary and support activities. Primary value chain activities are directly involved in the creation, marketing, and delivery of products and services to customers. Examples include manufacturing operations, sales and marketing, and post-sale service. Support activities provide the necessary infrastructure for successful completion of primary activities.

Support activities include administrative functions, such as procurement, accounting, and human resource management. Technology development, an important support activity, encompasses manual and automated records management systems and procedures.

The efficiency and effectiveness of an organization's value chain determines any competitive advantage, in low cost or product differentiation, that it enjoys over rivals. Management research increasingly emphasizes the role of intangible assets, such as an organization's knowledge resources and core competencies, as sources of competitive advantage. As a tangible embodiment of knowledge resources and core competencies, the recorded information contained in documents is both a strategic and an operational asset. It is an important resource in the value chain, and a significant contributor to competitive advantage.

The value chain model treats records management as a critical supporting element in business operations. From a value chain perspective, an organization with effective records management practices, whether manual or automated, must enjoy a competitive advantage over an organization with less effective or ineffective ones. By organizing and expediting the retrieval and processing of valuable information and by eliminating irrelevant information through formally developed retention policies and procedures, a systematic records management program supports value chain activities in various ways:

- ▣ A systematic records management program can add value to product development and manufacturing activities, which require accurate, complete information about specific products and technical processes. Technical specification sheets, computer-aided design files, parts lists, and other information sources define the characteristics of products to be manufactured.
- ▣ Standard operating procedures for manufacturing processes ensure product quality and uniformity, which are critical to a company's reputation and customer satisfaction. Vendor information contained in product catalogs, purchasing documents, and other records facilitates the identification of alternate sources for specific components as well as price negotiations with prospective suppliers. Thorough documentation of completed work can prevent wasteful duplication of effort, while the ability to quickly retrieve needed documents can speed product development.

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- A systematic records management program can make significant value contributions to marketing activities. Timely availability of accurate information is essential for rapid exploitation of marketing opportunities.
- Knowledgeable product positioning and price determinations require up-to-date competitor intelligence documentation, such as product catalogs and price lists, sales statistics and distribution data, company financial statements, and reports prepared by brokerage firms or independent industry analysts.
- Advertising campaigns and other marketing initiatives depend on market research reports, demographic databases, customer surveys, and other sources of information about customer requirements, buying habits, preferences, and incomes.
- Systematic records management systems are likewise essential for post-sale service operations. Maintenance and other service-related activities require accurate information about product characteristics and repair procedures.
- Maintenance personnel need convenient access to problem resolution reports, repair manuals, parts lists, engineering schematics, and other documentation. Historical documents are often required for older or discontinued products that remain in use.
- Efficient records management systems permit fast, effective execution of essential business transactions. Timely processing of accounts receivable, for example, expedites receipt of payments, thereby improving cash flow, increasing cash on hand, and minimizing borrowing requirements.
- Reliable records management systems are essential for effective supervision and control of value chain activities. Marketing managers, for example, depend on sales reports, inventory databases, and other records to monitor product promotions. Engineers depend on technical reports, test results, and other documentation to evaluate the progress of product development and testing. Project administrators rely on financial documents, progress reports, and other recorded information to determine whether specific activities are on schedule and under budget.

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While records management's contribution to value chain activities can only be quantified by detailed examination of specific business operations, published research confirms its potential benefits. Most relevant for this discussion, a study by academic business researchers reported that an electronic data interchange program implemented by Chrysler Corporation yielded savings of \$100 per vehicle, of which \$40 was attributable to electronic preparation, storage, and distribution of documents. (T. Mukhopadhyay et al., "Business value of information technology: A study of electronic data interchange," MIS Quarterly, June 1995.) Based on annual production of five million vehicles by GM North America, the anticipated savings from improved records management would total \$200 million per year.

An earlier published report had estimated Chrysler's savings from electronic data interchange at \$5 per document. Based on 17 million procurement transactions and 2.2 million vehicles, the savings averaged about \$39 per vehicle. (R. Falvey and R. Wujcikowski, "Chrysler Announces its Aggressive EDI Implementation Plans," Actionline, January 1989.) Similarly, a study conducted during the late 1980s found that improved methods reduced document preparation, filing, storage, and handling costs by \$5 per document at Douglas Aircraft and by \$50 per purchase order at RCA. (M. Emmelhainz, Electronic Data Interchange: A Total Management Guide, Von Nostrand, 1990.)

Strategic Benefits

A systematic records management program can make a strategic contribution to corporate objectives. In particular, timely availability and completeness of recorded information can promote innovation, speed product development, reduce time to market, facilitate global collaboration, and improve customer service. These benefits have been reported in published case studies. The following examples are typical:

At Bayer Corporation, improved records management methods and technology have reduced the time required for review and approval of standard operating procedures, batch production records, and other documents that support non-stop manufacturing.

At Brown & Root, systematic control of technical and business documents has reduced the time to design, build, and reliably maintain offshore oil and gas production platforms.

At International Rectifier, systematic records management methods have improved collaboration, expedited design reviews, and reduced delays in the development and delivery of new power conversion components.

At Johnson & Johnson Professional, a systematic records management program has provided tighter control of manufacturing specifications for orthopedic products, thereby minimizing product recalls and improving customer satisfaction. It has also facilitated the reuse of information to expedite product launches.

At Rhone-Poulenc Rorer, a systematic records management program has facilitated global collaboration among the company's research laboratories and expedited the submission of information about new pharmaceutical products to regulatory agencies in multiple countries.

At Sanofi, improved records management methods and technology have expedited regulatory submissions for new pharmaceutical products, simplified submissions for multiple countries, and reduced drug approval time.

At Kvaerner Process, a systematic records management program has reduced bid cycle time and project cycle time for engineering and construction projects, while facilitating collaboration and more flexible deployment of the company's global workforce.

For the most part, such descriptions of records management practices in specific companies are anecdotal in nature. Companies are understandably reluctant to reveal details about corporate activities or replicable business practices that confer a competitive advantage. As a result, publications about records management implementations tend to be sketchy and avoid financial matters.

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Two reports prepared by business research firms are notable exceptions.

A 1996 study by IDC/Avante Technology, a research firm that specializes in financial impacts of computer software, reported that return on investment in records management implementations ranged from 82 percent to 1,200 percent for a three-year period with payback periods under 12 months in most cases. The study involved implementations in eight corporations and government agencies: the U.S. Drug Enforcement Administration, DepTech, DuPont, the U.S. Federal Trade Commission, Morrison & Forrester, Royal Bank of Scotland, Thomas Cook, and the Canadian Coast Guard. The high returns were attributed to various factors, including improved productivity enhancements, personnel reductions, and reduced document distribution costs.

A 1996 study by International Data Corporation reported return on investment ranging from 96 to 410 percent in records management installations at four companies: Boeing, J.D. Edwards, Taylor Machine, and Storage Technology Corporation.

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