TAB Guide:

Demonstrating Return-On-Investment for Records Management Initiatives

A 2008 survey by the Association for Information and Image Management (AIIM) concluded that when it comes to records management programs, "short-term ROI trumps everything," with 42% of respondents identifying "hard dollar ROI as 'more' or 'much more' important than 12 months ago." [1]

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1. Demonstrating ROI in RM

Developing and implementing a records management program is a significant investment, and organizational decision makers who identify corporate spending priorities expect a return on that investment. And in today's financial climate, the pressure to show a fast return on investment (ROI) is especially acute.

In this TAB Guide, we'll show you how to do just that. A recent survey of On Record readers identified three main sources of hard and soft dollar return on investment for records management initiatives: savings on physical storage space, staff productivity gains, and reduced risk exposure.

We'll examine these three objectives in light of basic ROI principles, focussing on those records management approaches which can help optimize that investment over time. The overall goal is a strategy for demonstrating records management's ROI based on hard and soft dollar revenue flows, reduced risk and improved long-term returns.

1.1 Defining ROI

How exactly you calculate ROI for your records management initiative will depend on your organization's spending priorities, accounting methods and reporting structure. But the basic objective of ROI calculation remains the same in any setting. You must be able to demonstrate that the investment will yield revenue in excess of the original cash outlay with as short a payback period as possible. For an administrative support resource such as records management, revenue may be defined as both increased cash inflow (profit) and reduced cash outflow (savings)[2].

And while the current focus emphasizes the short term, prudent records managers cannot ignore the longer term picture entirely. Remember, the longer a solution is in use, the greater return it will yield. In identifying solutions and securing funds, it is important to show a positive financial impact that is both immediate and enduring.

[1] Association for Information and Image Management, "Spot Survey of AIIM End Users Points to Challenges in 2009," downloaded Dec. 2, 2008 from www.aiim.typepad.com/aiim_blog/11/spot-survey-of.html

[2] William Saffady, Cost Analysis Concepts and Methods for Records Management Projects (Prairie Village, Kansas: ARMA International, 1998), p. 58

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2. Reducing Cash Outflow: Storage Savings

2.1 Storage Saving Techniques

Storage cost reduction is one of the most enduring arguments in favour of records management. During the recent financial boom, rising real estate helped drive implementation of records retention scheduling, secure document disposal, offsite or near-site storage, digitization, and space-efficient filing designs. Space costs remain a major concern in a lagging economy: Even where falling real estate values impact monthly lease costs, that impact may well be exceeded by revenue reductions. It is more important than ever that records managers pay direct attention to reducing costs through space management. Some other areas to consider include:

- *Purging non-record material:* Any attempt to streamline records management practices and improve cost efficiency begins with reducing material that is not subject to actual recordkeeping requirements. Many organizations find that anywhere from 30% to 70% of their onsite file storage (both paper and electronic) is occupied by duplicate copies, superseded drafts/versions, and outdated reference documents. Such non-record or "transitory" material can usually be disposed of with minimal authorization once its immediate usefulness has passed.
- *Records scheduling & disposition:* Many organizations have a records retention schedule which assigns standard retention periods to categories of records. But is your organization's schedule based on carefully researched legal and operational needs? Do all retention periods in the schedule reflect the minimum time periods necessary to meet all those requirements? Does your organization have efficient, effective processes for ensuring that records are securely disposed of once they have satisfied these minimum requirements?
- *Inactive or near-site storage:* Does your organization use cost-effective offsite or near-site storage facilities for records which must be retained but are no longer needed for immediate use at more expensive office facilities? Are life cycle controls and storage service arrangements in place to ensure that offsite or near-site storage savings are not negated by retrieval and re-file costs?
- *In-office filing design:* Are those records needed at the office stored using equipment and supplies designed to maximize record volume and minimize necessary floor space? By combining such innovations as end tab file folders, color-coded labelling, lateral filing, and mobile shelving, a professionally designed filing solution can improve space utilization by more than 300%. Simply put, this can mean either storing three times as many records using the same floor space, or the same volume of records in only one-third the space.

These space management techniques serve a twofold objective. First, they use your business needs as a starting point to dramatically reduce the volume of records stored at the office. They then highlight more cost-effective methods for storing those records which are indeed needed onsite.

By streamlining administrative processes, making information more reliable and speeding up decision making, effective RM also frees up time and resources that could more directly serve an organization's core operations.

2.2 Calculating ROI

So how do those efficiencies translate into hard dollar ROI? The exact dollar amount of savings realized will depend on real estate prices, volume of records and other variables specific to your organization, but certain basic questions can help you make the determination. Accounting for lease costs, taxes, and maintenance fees, how much does the average square foot of office space cost your organization each year? And how many of those square feet can you free up by implementing the space management techniques discussed above? To calculate the annual onsite storage cost savings, multiply the annual costs per square foot by the number of square feet saved.

And the physical storage savings aren't limited to onsite floor space. How much does it cost to store each 1.1 cubic foot box of inactive records at an offsite storage facility each year? This number should take into account the monthly or annual storage fee, ongoing retrieval and re-file charges, and one-time charges for accessioning, de-accessioning, and secure destruction. How many boxes of records were disposed of in accordance with the records retention and disposition controls described above? To calculate the annual offsite storage cost savings, multiply the annual costs per box by the number of boxes disposed of.

With all of these figures at hand, do a before-and-after analysis of all upfront and year-to-year costs. By applying a total space management solution to your organization's records, you should find significant reductions in overall service fees and capital costs.

3. *Increasing Cash In-flow: Business Efficiency*

Space savings are just one way in which records management can help to reduce cash outflow. Other savings opportunities include staffing costs, information processing time, and media supplies. But to limit a discussion of records management's impact to savings would miss its full ROI potential. By streamlining administrative processes, making information more reliable and speeding up decision making, effective records management also frees up time and resources that could more directly serve an organization's core operations. Improved operational efficiency can mean improved cash inflow for any organization, regardless of whether its revenue sources are commercial markets, philanthropy or government funding.

Your records management program could directly help your organization serve more customers, complete more transactions and significantly improve overall performance.

Before you set out to secure investment in a new RM program or enhancements to an existing program, compare the desired outcome with the status quo. Be concrete and realistic in your analysis. Broadly speaking, by what percentage can we decrease the time needed to complete certain workflows? What impact will those reductions mean for the productivity of tasks which generate income or meet organizational mandates? Are there hard dollar values or other quantifiable measures that can describe that impact?

Using industry case studies or data from service providers, apply these broad questions to the real world of records management in your organization. Some specific questions to consider are as follows:

- By what percentage will the proposed solution decrease the amount of time necessary for staff to create files, classify documents, and re-file content? What do these reductions mean in terms of reduced staffing costs or resources that can be deployed elsewhere within the corporation?
- By what percentage will the proposed solution speed up retrieval of information necessary to execute a transaction or make a decision? In an information driven business environment, faster information access directly translates into faster operations. What does this improvement mean for your organization's ability to capitalize on available revenue streams?
- By what percentage will the proposed solution decrease errors during the entry, interpretation and use of data? What quantifiable impact will this reduction have in terms of resource utilization and actual operational efficiencies?
- What concrete impact will improved information accessibility and reliability have on the communication and transmission of information, especially where geography is a factor? For example, are there opportunities to replace expensive mail and courier costs with more automated transmission, or to simply limit distribution on a clear as-needed basis?

By finding these and other efficiencies for your organization, your records management program can directly help serve more customers, complete more transactions and significantly improve overall performance.

Your organization might have taken all necessary steps to comply with legal requirements, but without recorded evidence of tasks completed, there is still a high risk of multi-million dollar fines.

4.

Soft Dollar Savings: Risk Avoidance

The emphasis on legal compliance as an argument in favour of records management has grown with major legislative developments such as the Sarbanes-Oxley Act of the United States and privacy legislation in Canada. As organizations work to make sense of the current financial instability, direct attention has shifted toward immediate hard dollar savings - but that same instability is widely expected to result in increased regulation of business.[3]

Admittedly, the ROI associated with legal and regulatory compliance is often classified as a soft dollar return, partly because the likelihood and impact of threat occurrence can vary across different business contexts. But when threats to legal compliance and operational continuity do in fact occur, their dollar costs can be all too real and immediate. Here are just some of the possible questions to ask in quantifying the ROI associated with risk avoidance:

- What fines or penalties could your organization incur as a result of failing to maintain records in a secure environment? Canadian privacy legislation includes fines as high as $100,000 per offense. The Sarbanes-Oxley Act includes fines of up to $5,000,000, to say nothing of the operational and reputational fall-out of seeing the company's executives sent to prison. Even statutes and regulations which do not directly reference records can offer severe penalties for insufficient record-keeping, especially in areas such as taxation, environment, and personal safety. An organization might have taken all necessary steps to comply with legal requirements, but without recorded evidence of tasks completed, there is still a high risk of multi-million dollar fines.
- What would the loss of records mean in the event of litigation or legal disputes? As direct by-products of the business activities that they support, records are a critical source of evidence of work performed, obligations assumed and requirements met. An organization unable to produce necessary evidence to defend its position can expect to lose the case and pay a hefty financial price.
- Missing records can sway a legal case, but what about too much documentation with too little organization? Without retrieval systems to make sense of boxes and boxes of records, as well as a retention program to legally dispose of records which are no longer necessary, a court case can drag on and on. That means increased legal costs, not to mention increased liability exposure.
- What can legal sanctions and allegations of non-compliance mean for your organization's operations? In many sectors, inability to demonstrate compliance, defend against charges or meet audit requirements is enough for regulators to suspend operations or transactions. For a commercial entity, this means lost revenue, decreased consumer confidence and plummeting stock prices, all of which could potentially devastate a company. For a non-profit agency, it can mean an inability to serve their target communities, defeating the very purpose for which the organization was formed in the first place.

[3] Brendan Moynihan, "Remodelling Wall Street", Bloomsberg Markets, 17.11 (November 2008), p. 63.

When tools or processes remain effective over many years, the annualized costs of developing and implementing those tools greatly diminish relative to the ongoing return-on-investment.

5. *Don't Forget the Long-term*

During times of financial instability, it is both natural and necessary for an organization to fixate on short term ROI. With a short-term crisis at the door, any proposed spending initiative is judged by its ability to help the organization ride out that crisis. But short-term ROI is still not the only factor used in deciding which programs receive funding. More forward thinking decision-makers demand short-term ROI while looking at longer-term returns as a means of paving the way for better financial times.

The long-term ROI for a records management program is more than just the compounded total of short-term returns over time. It is also a factor of the durability of records management program tools from one year to the next. Records management savings in one fiscal year can be quickly negated if the tools and processes responsible for those savings need to be overhauled or replaced in the subsequent year. Conversely, when tools or processes remain effective over many years, the annualized costs of developing and implementing those tools greatly diminish relative to the ongoing ROI.

Calculating the ROI of a proposed records management initiative, then, is largely a matter of estimating its life span. How long can we expect the proposed system to remain useful to the organization? Here are some possible questions to explore:

- How does your proposed solution classify records? ISO 15489, the international standard for designing and implementing records management systems, recommends that an organization develop a records classification based on "an analysis of business activities". The records categories which provide the basis for retention schedules and retrieval systems should reflect the actual business functions which lead to records being created or received in the first place. This functional approach increases the usable lifespan of the classification scheme, with less need to revise and update over time. Consider, for example, the difference between a functional records classification and a classification scheme built around the departmental structure of an organization. Most mid to large-sized organizations will go through a succession of departmental merges, divisions, renames and other restructuring from one year to the next, but the actual business functions and activities performed by those departments will remain relatively stable. A records classification system built around those more stable functions and activities will remain relevant and accurate in the face of organizational change over many years, during which time the return on the original investment will continue to grow.

TAB

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- New or improved electronic records management systems can save money. But those savings can be outweighed by legal and operational risks unless your organization can ensure that electronic records can still be accessed and used years from now, despite inevitable changes in computing hardware and software. Anyone who has recently tried to open a 15 year old word processing document on a 5¼ inch floppy disk will understand this point firsthand. Migration and conversion strategies are a relatively cost effective way to manage the risks posed by obsolete hardware and software over the longer term. This is especially critical for records with longer retention requirements. By building these proactive steps into the system implementation and maintenance plan, you can protect your organization's original investment and guarantee a longer period of return.
- How will physical filing solutions accommodate growth? You've demonstrated how savings in space utilization will bring ROI over the next 12 to 24 months, but how can your program sponsors be sure that you won't ask for money to build yet another file room or retrofit the existing design in a couple of years? One key is to select space-efficient designs that combine lateral filing configurations, end tab enclosures, and other solutions discussed above. But equipment and supplies are just one part of the picture. A total solution combines physical design with retention and disposition processes, resulting in an overall program that removes unnecessary material from the office and stores the remainder more efficiently.

6. *A Penny Saved*

Records management can have a profound impact on the operational, financial, and legal wellbeing of any organization. Given records management's role as an administrative support resource, that impact is sometimes less readily apparent than it is for more central operational functions. In securing corporate investment to develop or enhance a records management program, extra work may be needed to quantify and showcase RM's return on investment.

This guide has provided practical tips for quantifying RM's value as a corporate financial investment, even during times of financial hardship and uncertainty. In ROI terms, a penny saved truly is a penny earned, and improved efficiencies will help an organization survive or even thrive in the face of shrinking resources.

By freeing up revenue and effort otherwise expended on manual tasks and redundant workflow, an organization can redeploy those resources into tasks which more directly support its operational mandate. Effective records management also directly decreases organizational risk: a slightly softer return that is nonetheless necessary for operational continuity. The sum total of increased operational output, cost savings and better managed risk over both short and long terms, translates into direct ROI for any organization, whether it is a commercial enterprise seeking to add fiscal value for shareholders or a government agency or non-profit organization trying to better serve its target population.