Strategic Records and Risk Management for the Sustainability of Organisations

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Summary

This paper explores the essence of records management in supporting good governance and accountability processes in organisations. An integrated records management system is essential in critical governance and accountability processes such as internal and external audit, compliance, risk management and decision making. The study establishes the elements in implementing an integrated and strategic information management system, which records management forms the backbone of the system. The availability of accurate, authentic and up-to-date records ensures the effectiveness and efficiency of business operations, which in turn ensures good governance and accountability.

Key words

Records management, risk management, sustainability, accountability, governance

Introduction

Records management is the systematic and efficient control of all records from their creation to their ultimate disposition. Managing records is not about keeping all records per se, but also about destroying records. Records management ensures the availability of accurate, authentic and up-to-date records whenever required for various reasons. The accountability of an organisation or a government can arguably only be achieved when it demonstrates considerable transparency. This, however, can only happen with the availability of authentic and reliable records in order to provide evidence of its governance and accountability.

Problem Statement

When an organisation is having good performance, records management is hardly recognised as an important element in their success. Ironically, its significant role is only acknowledged when an accountability process, such as mismanagement, corruption or worse collapse of an organisation occurred. Such situation is mainly due to lack of awareness on the importance of records management, which would expose organisations to unnecessary risk due to uncertainty of the availability, accuracy and authenticity of information in form of records. Thus, organisations would be under constant threat from within and external risks. Risk is continuous and will not stop until the records are destroyed. Some records will remain 'active' forever as archives and it can be in endless risk.

Research Objectives and Questions

The research objectives of the study were:

- To identify the importance of records management for good governance.
- To identify the role of records in the accountability of governance.
- To identify the relationship between risk management and records management.

The specific research questions were:

- Why records management is essential for good governance?
- What role do records play in the accountability of governance?
- What is the relationship between risk management and records management?

Literature Review

Accountability of governance and records management

The definition and nature of accountability has changed over time. Roberts and Scapens(1985) defined it as traditionally, accountability entails a relationship whereby some people are required by others to explain and take responsibility for their actions or ‘giving and demanding records for conduct’. It focuses on ‘who’ is to be accountable to ‘whom’ and ‘for what’. Accountability is also is essential if better value for money is to be achieved. In other words, accountability is the process of being called ‘to account’ to some authority for one’s action, and to be ‘accountable’ is to be ‘answerable’ (Jones, 1992). In the context of a democratic state, the key accountability relationships is ‘to account’ to some authority for one’s actions, that is between the citizens and the holders of public office and, within the ranks of office holders, between elected politicians and bureaucrats (Mulgan, 2000). However, answerability requires records that present evidence of the accountability process.

Records are created for purpose and as evidence of transaction; they have on-going use as means of management, accountability, operational continuity, legal evidence and disaster recovery. Records management is about achieving economy and efficiency in the creation, maintenance, use and disposal of the records throughout its life cycle and in making the information they contain available in support of the business of the organisation (IRMT, 1999). Thus, records management should be costly, instead contributes to economic efficiency they are managed and destroyed according to their retention schedule.

A greater concern on accountability and transparency has resulted in the implementation of legislation such Sarbanes Oxley Act in the United States and Freedom of Information Act (FOI) in many parts of the world. The emergence of information governance, a relatively new concept, reflects the significant role of records management is getting more attention now. It is the specification of decision rights and an accountability framework to encourage desirable behaviour in the valuation, creation, storage, use, archival and deletion of information. It includes the processes, roles, standards and metrics that ensure the effective and efficient use of information in enabling an organization to achieve its goals (Gartner, 2010). This concept is comprehensive and would instigate considerable awareness on the importance role of records management in underpinning an organisations’ performance. Arguably, this is the way forward for organisations to ensure their sustainability.

Risk management

Risk is the chance of things going wrong, either bad things happening or good things not happening. Perception of risk influences a person’s decisions and behaviour. Organisations, both in the public and private sectors, need to perceive risks in order to reduce uncertainty and to achieve economic operation and the sustainability of the organisation. Risk refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organisation's objectives (Treasury Board of Canada Secretariat, 2010). The success of risk management is partly dependent on the accuracy of records in organisations, as every judgment made must be based on reliable information. In an age where transparency, accountability and compliance are of increasing concern, it is essential for organisations to comply with regulations and, if they do not, to be able to explain why.

Risk does not end when a particular business process or transaction has been completed, but remains as a threat to the organisation until all the records are destroyed. Furthermore, some records will remain as they were ‘active’ forever as archives, thus presenting endless risk, particularly to public organisations. The implementation of the FOI legislation in any jurisdiction where users have rights to access relevant records is a wake-up call to the public sector to ensure that they are prepared for any consequences. It would be useful for an organisation to prioritise its business functions and identify risk associated in ensuring the sustainability of an organisation. A comprehensive and strategic risk management strategy is required if risk management is to achieve its full potential.

The application of the strategy should be embedded into the organisation's business systems, including strategy and policy setting processes, to ensure that risk management is an intrinsic part of the way business is conducted (HM Treasury, 2004). Sampson (2002) suggests that in order to function effectively, future records managers need a wider range of business management skills and a high level of technical expertise in a number of areas, including information technologies, changing regulatory and legal issues and requirements, and the evolving information needs of the organisation. Although it will be a long and time consuming process, providing up-to-date academic and training programs is certainly a useful way to train multi-skills records managers.

Case Study

A case study was conducted in organisation CS1, one of the earliest financial institutions in the United Kingdom. CS1 was established in early 19th century and was reincorporated as a mutual assurance company in early 20th century. CS1 originally operated only through branches or agencies in the UK and certain other countries. In the 1990s, CS1 also sought to diversify its operations into areas which complemented its core life assurance and pensions business, with the intention of positioning itself as a broad range financial services provider.

Governance of CS1

CS1 owns all of the businesses and companies in CS1. It is a holding company which is owned by its shareholders. CS1 is seriously affected by the volume of regulation. It is increasingly squeezed between the need to perform, and avoid negative impacts, as well as reduce costs (Raschen, 2005). Good corporate governance is increasingly essential if CS1 is to remain competitive and demonstrate transparency which is a key requirement, particularly for its shareholders and stakeholders.

The organisational structure of CS1 is clearly defined by reference to business units, including subsidiary companies and branch operations. Authority for managing CS1 is delegated to the executive directors and senior managers. For each subsidiary, the appropriate senior managers have been appointed as executive directors. The boards of key operating subsidiary companies also include an appropriate number of independent non-executive directors. The management of each individual business unit is the responsibility of the relevant directors and senior management. The roles and responsibilities of the Board of Directors includes approval of the objectives and strategies of CS1 and its subsidiaries and branches, approval of significant changes in CS1's capital or corporate structure or in its structures of management or internal control and the approval of specific transactions, communications and appointments.

CS1 has two senior management risk committees, namely CS1 Asset and Liability Committee (ALCO) and CS1 Operational Risk Committee (GORC). CS1 ALCO functions to ensure the financial risks (credit, market, liquidity and insurance) inherent in CS1's activities are identified and managed in accordance with the appetite and limits approved by the Board. CS1 strives to operate with integrity and fairness. Corporate social responsibility is a fundamental part of their business philosophy and culture. CS1 believes that a company run in the long term interests of its shareholders should manage its relationships with its employees, suppliers and customers and behave responsibly towards the environment and society as a whole.

Risk management in CS1

CS1 adopts an organisational-wide risk management strategy in achieving its corporate, financial and regulatory objectives. CS1's Risk Management Policy ensures that the risks taken in meeting CS1's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework. The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form CS1 risk profile. The risk profile of the individual business units within CS1 is similarly set by reference to its objectives.

Risks are managed through CS1 risk management framework, which allows the identification, assessment, control and monitoring of risks across the organisation. CS1 and each individual business unit establish effective risk management systems and controls within the framework for the following high-level categories of risk: insurance, credit, liquidity, market and operational. There are separate CS1 Risk Policies for each category of risk specifying the procedures to be taken across CS1 to identify, assess, control and monitor the risk. The governing body of each individual business unit also approves, as applicable, its own risk policies in line with the applicable CS1 Risk Policy. Each CS1 Risk Policy sets out minimum standards to which each individual business unit should adhere in constructing its own policies and procedures.

The Board delegates responsibility for the implementation of the day-to-day process for the management of risk across CS1, to CS1 Chief Executive. CS1 Chief Executive is supported in this role by CS1 Executive Committee and assisted by CS1 Technical Risk Committee and CS1 Operational Risk Committee. These committees are constituted with formal terms of reference. CS1 has an established risk management function whose role is to support the Board, CS1 Chief Executive and the risk committees in meeting their risk management responsibilities.

Existing and newly implemented controls are identified, including key controls, documented and their performance subject to self-assessment by business managers at least quarterly. A conclusion as to the adequacy of these controls is documented and subject to ongoing self-assessment by business managers. The assessment of operational risk exposures is performed on a quantitative and qualitative basis using a combination of likelihood and customer, financial and reputational impact. The accuracy of the assessment relies on the availability of adequate and up-to-date records. This in turn, produces records which subsequently will be managed by CS1 Records Management Division.

The remedies for these risks involve having better information, reporting, documentation and collateral management, and above all transparency process. In future, custodians will be required to take on a more consultative role and work in partnership with their clients so as to ensure that they meet compliance, regulation, and governance demands. Compliance, indeed, is a fact of life in financial services and much of what has now become regulation previously existed as best practice (Limbachia, 2005).

Records Management in CS1

Managing capital is a highly risky business, particularly after the catastrophic terrorist attacks. Financial institutions must be able to provide evidence for investigations whenever required by legal process. The Financial Services Authority (FSA) admits good record keeping makes a positive contribution to the fight against crime and terror by providing an audit trail of financial records of those involved (Robinson, 2005). Know Your Customer (KYC) forms provide vital evidence of customer relations. Effective management of on-going KYCs needs more robust and timely information management. It is not uncommon for a financial firm to hold KYCs for up to 40 or 50 years as life insurance business is a long-term commitment. CS1 needs to be certain that the necessary records of identity verification and transactions are retained and readily retrievable.

Money laundering has increasingly concerned financial institutions and regulatory bodies. The directive of the European Parliament and the Council on the prevention of money laundering and terrorist financial system for the purpose of money laundering and terrorist financing spell out a series of money laundering regulations to curb and monitor such activities. In conjunction, the FSA urges all financial institutions to ensure that they have robust and effective controls from a Know Your Customer (KYC) perspective if they are to meet operational standards. KYC is the collection and use of information about a customer over and above the collection of basic evidence of identity such as passports, driving licences and utility bills (FSA, 2002). Indeed, KYC is a vital record that must be properly managed for subsequent use. The absence of adequate and reliable records management systems may expose CS1 to risk from various quarters. CS1 now has a well established business as usual records management framework. It all started with a pilot project. A comprehensive records management project was launched in 2001.

Managing capital is an on-going process of determining and maintaining the quantity and quality of capital appropriate for CS1 and ensuring capital is deployed in a manner consistent with the expectations of CS1's stakeholders. It is important to note that CS1 considers their key stakeholders are the FSA and the providers of capital (their members and holders of their subordinated liabilities). Managing capital should be seen from a wider risk management perspective to instigate and cultivate an organisational-wide risk management culture. If this can be achieved, CS1 should be able to attain its strategic objectives whilst striking the balance between effective operational cost and minimising risk.

Discussion

Records management and the governance of CS1

CS1 operates under a volume of regulations such as the Combined Code on Corporate Governance and Basel II. These regulations demand accountability and transparency of business operations. In addition, the demutualization of CS1's shares also means better performance is expected to meet the expectation of shareholders and stakeholders. Performance is measured in term of profit which can only be retained when negative impacts can be avoided and costs can be reduced. CS1 believes that companies that can demonstrate good governance and commitment to environment and social responsibility are likely to enjoy comparative advantage in the long term. It is evident that the strength of CS1 is its ability to transform this belief into practice by having a clear governance structure that facilitates the delegation of responsibility, which in turn leads to its sustainability for over nearly two centuries.

Arguably, the demand of regulations and the expectation of shareholders and stakeholders were the driving force behind good governance in CS1. CS1 believes in delivering performance and acting with integrity by ensuring each and every employee does the right thing in order to achieve operational excellence. The efficiency of CS1 is mainly contributed by the effectiveness of the Board of Directors, which meets on a monthly basis. Furthermore, with only 13 members the Board can often reach an agreement without lengthy discussion. Strategic decision-making is more efficient. This enables CS1 to remain competitive in the financial and insurance industry. The Board of Directors is well aware of the importance of compliance and the ability to grasp business opportunities.

The sustainability of CS1 relies not only on its compliance with regulations but equally importantly is its ability to grasp and expand business opportunities. This stance is consistent with the principles of corporate governance advocated by the OECD (2004) which states that to remain competitive in the changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities. In other words, good governance is not only about ensuring compliance with regulations, but also about grasping new opportunities. Being in such a competitive industry, CS1 has to ensure the availability of records as well as its operational efficiency in order to gain an edge over competitors. Thus, monthly board meeting is important to ensure CS1 does not miss business opportunities.

CS1's senior management is aware of the importance of having sound information management and keeping of accurate and complete records is one of the cornerstones of effective governance. This is proven by the contribution of its two senior level risk management committees namely, CS1 Asset and Liability Committee (ALCO) and CS1 Operational Risk Committee. Their involvement and support facilitated the incorporation of risk management into business processes. The efficiency of business processes and decision making is further enhanced by the establishment of an integrated records management system. This was instigated by two members of Senior Executive, the then General Manager, Compliance, and the General Manager, Facilities. It was their relentless support that fostered the cultivation of the importance of good record keeping across CS1. It evident that the awareness and commitment among senior management of the importance of good record keeping in underpinning good governance is central to transparency and accountability of CS1.

The emergence of information governance concept would enable CS1 to enhance its governance as CS1 already possessed the infrastructure for information governance. Effective records management and risk management would facilitate the implementation of knowledge management. This is understood as records management complements knowledge management (Debowski, 2006).

The Role of Records in the Accountability Processes in CS1

Accountability is an evidence based process that occurs after activities have been taken executed or decisions have been made. Records and the evidence that they contain are the instruments by which organisations can promote a climate of trust and overall commitment to good governance. Accountability of governance can only be demonstrated when the availability of adequate and reliable evidence is ensured through effective and efficient record keeping systems.

In the context of financial institutions, including CS1, demonstrating accountability is paramount for shareholders and stakeholders, but also to the public as part evidence of social responsibility the same reasons. However, this is easier said than done as there is a pre-requisite to demonstrate accountability that is by ensuring transparency in business processes, which in turn requires reliable information and records management. Compliance with regulations cannot be proven in the absence of reliable records. This means business processes must be properly documented to provide reliable evidence of those processes. Willis (2005), a lawyer, advocates sound information and records management enables accountability. His view has credence as all organisations need to keep their records of business decisions and transactions to meet the demands of corporate accountability. Good record keeping practice has been nurtured in CS1 particularly since the development of an integrated records and risk management in 2001 as explained by Respondent 1, a senior manager. The effort and commitment from senior management was pertinent as only the availability of reliable records can ensure the accountability of CS1.

The Relationship between Risk Management and Managing Records in CS1

Theoretically, risk management and records management complement each other. The former uses records that are made available by records managers and produces records that will be systematically managed by them. Both risk management and records management are tools that enable an organisation to achieve organisational goals such as meeting shareholders value, stakeholders' expectation, and good quality of service, efficiency, transparency and accountability. There must be a clear understanding that risk management is not about minimising risk but about understanding and managing risk.

Risk management is a cyclical process, whereby records produced must be kept for future assessment to determine whether recommended risk mitigation has been followed by relevant business process owners. The latter, meanwhile, prioritises the types of records according to the level of impact and the likelihood of risk to occur based on information made available in risk scorecards by the former. It is evident that CS1 has expanded the notion of risk management. In their context, risk management is no longer confined to compliance with pertinent regulations *per se*, instead it embraces almost every aspect of the organisation from day-to-day activity and operation to strategic decision making and even risk of managing records and information. It is vital to remind records management professionals that managing records is not about keeping everything because organisations cannot afford that as the cost would be excessive.

Arguably, the cost of compliance will remain high despite the slight declination disclosed by the surveys. Advocating the need to practice and the benefit of good record keeping is meaningless if records managers themselves do not understand the applicability of records management in an organisation. In such situation, McDonald's suggestion that records managers must understand business processes in order to understand how records should be managed is perfectly relevant. Otherwise, records managers will marginalise themselves. Although senior managers are clearly concerned about adhering to the requirements of the law and established compliance standards, they are also charged with growing the organisations and generating profits for their shareholders (Sharon, 2006). Hence, records managers must be in the same thinking territory to be relevant to the organisation.

To this end, CS1 has developed a pragmatic approach by integrating risk and records management that enables its sustainability. Prioritising risk eventually followed by actions in managing records. Respondent 1 asserts that the records management system in CS1 was developed using DIRKS methodology. This is to say that risk assessment was involved in identifying record keeping requirements. It was assumed that a combination of the outcome of risk management and a system developed with associated risk taken into account, the management of records would be more economic.

CS1's records retention schedules illustrate not only the length of retention period but more importantly the reason for keeping records which indicates specific citation of legal and regulatory requirements as well as the repercussion if they failed to keep or destroy records. This is essential as business managers are busy enough managing operational tasks, and they need to be informed about the risk of failure to keep or destroy records. Hence, it is not a surprise that Respondent 1 is benefiting from effective collaboration with most of business managers. The benefit certainly is not limited to CS1 Records Management division and Risk Management Committees only, but CS1 as a whole. Integrated risk and records management improves not only the performance but also ascertains risk expose to the organisation.

Respondent 1 admits although the process of producing an authoritative records retention schedule is time consuming and challenging, rigorous research and collaboration with Risk Management Committees and consultation with business managers facilitated the task. She further admits that it was the comprehensiveness of the retention schedules that attracts business managers to be more concerned about managing their business records. Any adversity resulted from their failure to manage records would be solely their responsibility as the requirements are made available to them. Fortunately, to date their respond and cooperation is encouraging, thus delighting Respondent 1 and her staff as their task in managing records becomes more efficient and effective and appreciated.

Arguably, the efficiency of records management in CS1 is partly contributed by the adoption of DIRKS methodology in developing its records management system. DIRKS employs risk assessment approach in developing a record keeping system. Risk was comprehensively considered even in the conceptual stage of the development of the system. This proves that the notion of risk management in CS1 is not limited to compliance, but embraces every aspect of its operations as the sustainability of CS1 relies not only on compliance but ability to satisfy shareholders' and stakeholders' expectation by continuously making profit and delivering corporate social responsibility.

It is essential to note that in line with the commitment of CS1 to increase the level of transparency and compliance, the role of audit is no longer limited to all directorates and departments only, but has been extended to the functioning of CS1's Governing Bodies, which was initiated by the President of CS1 in 2002. This is certainly welcome by many as high profile corporate failures, such as Enron and WorldCom have shown that the collapse was caused by irresponsible and unethical gatekeepers, particularly the external auditor and the board of directors. It is unimaginable for CS1 to collapse as a result of similar irregularities, as the consequences would be catastrophic for the continent and its financial institutions. Hence, to prevent is better than to cure.

Conclusion

There are two underlying reasons why records management are not being regarded as essential for good governance namely, lack of awareness and commitment among senior management on the importance of good record keeping, and secondly because records management is not embedded in business processes. The case study also reveals that records have significant role and good record keeping is central to the accountability of governance. It is far more important in organisations that operate under tight regulations and compliance regimes than to public organisations that operate under less demanding environments (Azman, 2009). The integration of risk and records management has a bright future as its synergy enables the identification of not only risk but also business opportunities, maintains competitive advantage as well as facilitating the achievement of strategic objectives of the organisation (Sharon, 2005). It would be more beneficial to organisations should they implement information governance as it ensures records and knowledge are systemically managed for the sustainability of the organisations.

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