

THE CASE FOR ERM

Jan Scites, JD, CLU, ChFC
President
Scites Associates
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www.scitesassociates.com

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Good Morning;

Thank you to Bob Williams, from Cohasset Associates, for inviting me to speak. It is great to speak with the leaders in record management who are critical to the survival and effective running of our corporations and protection of corporate assets.

My remarks are based on having run a large broker/dealer, being a top executive in a mutual life insurance company, an ATT officer with thousands reporting to me, and now as the leader of a consulting firm which advises on operations and IT to improve the bottom-line.

I have implemented many large scale projects meeting time and cost using electronic records principles ,developed & presented innumerable business plans, been the operations head that had to decide if and whether to spend the money, and been held accountable for the results. I sit on two public company boards, I am on the Audit Committee for one, on the Compensation Committee and Governance Committee for the other. I am chair of the Governance Committee.

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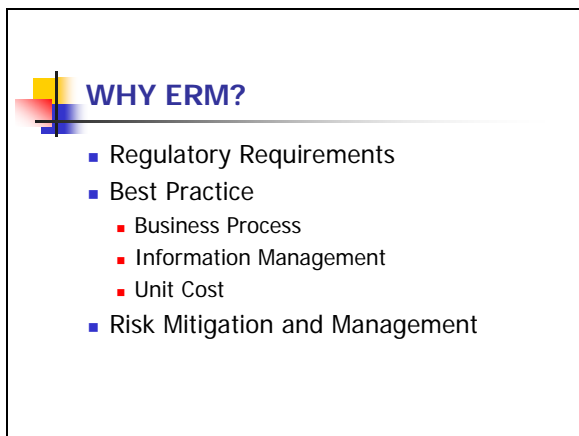
Why ERM?

Lets start with why ERM?

REGULATORY REQUIREMENTS

On a simple level the law says you must keep certain records.

Today we have Sarbanes Oxley and all the related rules and tangential effects. You have to deal with the infinite types of



WHY ERM?

- Regulatory Requirements
- Best Practice
 - Business Process
 - Information Management
 - Unit Cost
- Risk Mitigation and Management

records, and iterations of documents. If the regulators, investors and litigants continue to argue for complete recordkeeping, there may be a requirement to archive for the life of a corporation- almost in perpetuity. As a note being a private company may not be a safe haven. To go public you will have to have two years of audited financials and clearly private companies are coming under scrutiny and subject to increasing structure and rules.

My take is that regulatory bodies are for now and some time to come going to provide compelling reasons why to have electronic records management.

BEST PRACTICE

The most sustainable reason, which has stood the test of time, is making your ERM part of the best practice approach in your company for all business processes.

If you intend to be a flexible, easy-to-do business with, low-cost, and high quality then your process must include electronic records management. This also says that the leadership is committed to understanding how their company actually works and makes money. In other words, they know the end-to-end (ETE) process of how the company operates.

You use the ETE process review to continually improve your cycle times which includes implementing ERM. You will be able to do more with fewer people and gain capacity to take on new markets – improving your per employee revenue.

INFORMATION MANAGEMENT

Under Information Management, ERM provides the capture vehicle and leads to multiple use of information.

Databases will be created that can be used to spot trends. You will be able to look at sales, product, and market statistics to find better ways to run your business.

Certainly, best practice is a compelling reason for ERM and in my view the most important.

RISK MITIGATION AND MANAGEMENT

With ERM, information can be analyzed to discover changes that have occurred to products/ services/processes. This transaction information helps leaders make changes in response to changing business conditions, to improve or correct .i.e.defects- that may have serious ramifications. Having the information and flexibility to respond - often on a dime. It is not just risk avoidance. It is giving leaders exact information that allows them to make better decisions.

The other critical point here is management of liabilities. Every company has them. You have to know the who, what, where, when, how and why.

You want to be able to contain/manage an issue when it arises. No company escapes that. You can have:


- claims
- recalls/manufacturers defects
- litigation (especially true if you are a big guy)
- financial reporting.

Sarbanes-Oxley requires greater financial transparency and that information be produced much quicker.

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Definition

An Electronic Record is a process or information used to conduct business that is stored as electronic media or mixed media.



DEFINITION

- Electronic Record - Process or information used to conduct business that is stored as electronic media
 - Trouble Spots
 - Email
 - Data Repositories
- Electronic Record Distribution - ability to create, distribute, and view documents without ever touching a piece of paper

We really have some trouble spots. It was easy when we had static records that were largely forms, letters, and structured content, we imaged it and used workflow. It was well controlled and manageable, countable defined and indexed with a schema for retrieval with an archival schedule.

Now imagine today where we have e-mails/instant messaging and related genre, which are like the spoken word - often very unstructured, done at will, randomly and loosely tied to day-to-day conducting of business. These new electronic/instant and potentially--- forever retrievable pieces of information—have become like the spoken word. But unlike the spoken word - which is seldom recorded – and in most cases it is not- emails may become part of history- part of the record of an entire business transaction no matter how extraneous they are. From my view, this is part of why you must have ERM and relate it to a defined business process. The question becomes do we have to store all of these e-mails, IMs and if we do what are the rules around them. This is not clear!! If you have to store everything - you will need parallel computers- maybe even a Cray computer to handle this. If you don't have an ERM process assume that you will have to store, and be able to retrieve all information which will include e-mail and its related genre'. Here are some rules that still work and may go a long way to solving this dilemma.
*Any communication that is created on corporate equipment through whatever device is owned by the company. This would include e-mail accounts. Just like your phone and desk- you have no expectation of privacy and cannot use your business devices to conduct personal activity.
This is a nasty little thing about email accounts, because a lot of people use their corporate email as their personal and

business address. You can solve a lot of that by saying no such doing. What if you let them go out on the web and they get on to AOL and it is transmitted across the network of the company. Does that count? I honestly don't know the answer to that. I know the basic rule still applies, it's a corporate asset, you are doing things on corporate time that are business based.

*Whatever information is created, the corporation has a duty to maintain under set policies. The test of the policies is measured by how you conduct your business, whether the information was created as part of a business process, and whether you are required to keep the information.

You must document the policies and processes.

*You have to have a system for deleting or saving info with a way to retrieve it. For example on e-mail –the e-mail account name will act as an index value along with date for retrieval.

- Part of what will be key in your approach - if you or your lawyers are asked to defend your storage and retrieval process is how does it tie to a business process activity.
- For electronic search of archives- search will be required by date, by name, global word search. This means that how you structure your data and capture is even more important - and you will have to be able to search random electronic docs/records. Software that does fast, global search and retrieval will be critical. Regulators and/or lawyers will ask for a global search of all records, whatever type, as part of regulatory actions or lawsuits. This is scary. You'll have to produce the records. This is the kind of thing you can say to your corporate leadership; do you want to be faced with failure to comply?

What this should signal to every leader is that having a well-defined business process will be critical along with a clearly stated set of policies around what you retain for essential business records and a clear rationale for their destruction.

If you do not - you could be forced to save everything. This is unwieldy and probably a ticket to bankruptcy. If you wait until a crisis or regulatory body demands info and records were destroyed without rationale, it may be interpreted or appear that the corporation was trying to hide something.

Electronic Record Distribution is the ability to create, distribute, and view documents without ever touching a piece of paper.

As customers, corporations, and governmental bodies, have come to rely on the digital world it will be expected that electronic records will be available and able to be distributed – in many cases – within seconds. Think of how we use to accept the slow painting of our screens - minutes going by before transactions completed. Now we expect sub second response. Look at many of the new rules around reporting financial results. Weeks often went by before the books could be closed- now they will have to report out in a few days with clarity and file to regulatory groups electronically. Frankly, this means to run a corporation and to operate effectively you will have to have ERM. *It will be crazy not to!*

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Who Leads the Effort

*I feel very fortunate to have had the support of the top executives when leading an ERM project. They were enterprise projects where I had control of the dollars



WHO LEADS THE EFFORT

- President/CEO
- Board of Directors
 - Audit Committee
 - Governance Committee
- CIO
- Compliance Officer
- Risk Management Officer

and the commitment and understanding about the multi-year nature of the projects.

At the highest levels in corporate America today there is discussion about Records. Certainly the new laws/regulations like Sarbanes Oxley have created new urgency and requirements that must be responded to. They will have the effect of being a burning platform, and you should use that to sell the ERM project.

With this has come certification by the top executives around their businesses and the numbers that are the representation of the company. How the CEO/President acts is critical “the tone at the top”. Arguably any records effort is driven by the CEO. In addition to the CEO there are new roles for the board.


President/CEO
Board of Directors
 Audit Committee
 Governance Committee

The Board can be a driver of records management given the new focus around the financials and the need to demonstrate that information is being properly reported and tracked – trail the money. This also covers the business process activity of the company.

The CIO as the top IT professional will of necessity be involved in any records project and will be integral to providing the technology solutions right for the company and its business model.

Other individuals who could lead it are Compliance Officer or Risk Management Officer. Either of these individuals may be good choices to lead a records project and be part of an on-going records /ERM process for the corporation.

For the business heads – it will be required as always has been the case that they comply



HOW TO JUSTIFY FUNDING

- Regulatory Requirement
- ROI Model
 - Solid business case
 - Defined deliverables
 - Measurable result
- Expense Reduction
- Risk Mitigation
- Revenue Enhancement

with the laws. What is striking now- is- that- that alone will not be enough. And if they try to ad hoc respond either in a manual way or by a policy of keeping nothing – the willful approach- that won't work either. The business heads working with IT will have to develop an approach that meets their operating revenue/expense goals and meets the records needs for the company.

What is fascinating to me is that there is a lot of consternation over meeting this challenge. Yes this is tough, but I believe that a well-defined business process management /reengineering project that is broken into phases, with deliverables at time increments, with measurable business value, can meet records needs and be sold for funding.

The net is – whoever - is designated for the records project needs to have the support of the top of the company and a mandate from the Board to act.

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How to Justify Funding

Of course, on a practical level, for many of you the question is how do you get the funding or justify the funding for ERM.

In some cases the top of the company will just say do it. There are a number of major companies that have gone this route. If you peel back what they have done they have a process project and have included significant cost reduction. ex. Wellpoint- proper positioning, and the CEO gets the business value.

For the how to get funding there are a number of approaches.

Right now the regulatory angle has power, the threat comment

Can you always use that, no, but you can start there because it's real.

The old corporate strategy of saying don't comply until the regulatory group catches us because it will be easier to pay the fine is unacceptable. Leaders better think again. The fines being dished out are huge and executives who don't comply are going to jail.

- ROI Model-

- This is the best way to get a project approved and to get buy-in from all the constituencies/stakeholders involved.

- create a solid business case
- A project plan with defined deliverables and timetables
- Measure the results and implement change in phases so that benefit comes to the corporation in short cycles.
- In the US we're earnings wild! If you just breathe wrong the share price plummets. Clearly getting value right away is critical.

- Another approach is expense reduction. Here the thinking is that by going ERM you cut a certain number of people, increase capacity and improve EPS. This sounds really good. The way it gets justified is by extrapolating from industry stats or other companies' reported results. The assumption is that you can get the same results in your organization.

- This actually works really well for selling projects, many leaders want to say to the investment community that

they are cutting expenses and they like to use the buzzwords of the day. It works to give investors and analysts comfort. You can get a yes - my caution is that if you go this route – and many do - that underneath your request you have a project plan with specific goals that you can deliver on that make sense with corporate goals and that have sustainability going forward.

- Under Risk Mitigation, this argument is really quite effective, if you have many claims from customers/litigation/ and now increased premiums from the insurance carrier if you don't have a demonstrated ERM. Carriers will require ERM going forward and they will insist on auditing to prove that you have the process in place. In fact if you don't, you may not get coverage in the future. Even if your company is willing to pay a premium surcharge. No company is going to go without insurance coverage – so this is a powerful argument.

Finally there is Revenue Enhancement which is an often used approach with ERM. I don't like this one. You say that you will get more revenue because you will have additional data, you can cross-sell products, create better products, spot trends, target market, and provide better Quality of Service(QOS). This often works! Increased sales numbers get baked in to the financials and give additional room for expenses and the ERM project. If you get the sales results then it can work. If you go this route, make sure you have a project plan that implements quickly with early savings in Q1 and Q2 and puts in enterprise functionality. If the sales don't materialize project funding could be

WHAT BENCHMARK TO MEASURE THE EFFORT

- Electronic Records
 - Access
 - Storage
 - Availability
 - Cost
- Reliable and Accurate Documentation for Litigation
- Audit and Compliance Success

cut in later quarters to meet earnings estimates.

My net on this is that the best way is not new news – do a business case and Business process/ROI justification- they last and have the best buy-in. Granted they take more work to prepare.

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What Benchmark to Measure the Effort

What seems obvious is to tie to ERM to BPM/Reengineering/industrial engineering projects and use the metrics and timetables they provide. They have improvement to cycle time and improvement to the financials at set intervals all of which can be part of the ERM. As a sidebar, for leaders, being able to say they are running their businesses with today’s technologies is important for customer confidence, even using the management watchwords of the day.

Specific to electronic records, I think there are some basic tests,

Electronic Records

- Access to the records – in seconds, users can see this and it is quite easily measured.
- Storage is cost-effective and structured for retention and retrieval and meets the allowable expense guidelines for the corporation

The information is available on-demand if not immediately certainly

- accessible with minimal effort
- Cost is not prohibitive.

KEYS TO SUCCESSFUL ERM IMPLEMENTATION

- Dedicated, Empowered Business/IT Leader
- Board and Senior Management Commitment
- Project Plan
 - Business Case
 - Deliverables
 - Resources
 - Capital
 - Human

Finally, Reliable and Accurate Documentation for Litigation

- The key is being able to find the records fast, they are accurate and they represent the business process activity. Your ability to do this certainly can be used as an argument that you are not trying to hide or obscure information. You want to be clear about what you save and connect it to business process.
- On Audit and Compliance, Success means lack of problems - no fines, and audits are non-events.

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Recap

Keys to Successful ERM Implementation

- Dedicated, empowered business/IT Leader
- Board and Senior Management Commitment
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 - Human

Good luck and thank you.