Information, Society and Justice, Volume 3 No. 1, January 2010: pp 51-57
ISSN 1756-1078

The role of information professionals in global economic crisis

Mohammed Nasser Al-Suqri[1]
Salim Saeed Al-Kindi[2] &
Abdullah Humood Al-Sarmi[3]

Abstract

It is now generally agreed that better information use in the financial services sector might have helped to avert the economic crisis which originated in the U.S. in 2007. Similarly, it is clear that improved availability and communication of good information could have helped prevent the types of consumer and investor reactions which spread the crisis around the globe today. Drawing on a range of existing sources, this paper considers the impact of information failure and the role of information professionals in the economic crisis. It then examines how information professionals can make an important contribution to economic recovery and sets out recommendations for the profession. The paper concludes that unless information professionals play a more proactive role in making good economic and financial information readily accessible, the risk of recurrent economic crises will be increased.

Keywords

Global economic crisis, globalization, information professionals, information failure.

[1] Assistant Professor, Department of Library and Information Science, Sultan Qaboos University, Oman. Email: sakri81@hotmail.com or saqrim@squ.edu.om

[2] Lecturer, Department of Library and Information Science, Sultan Qaboos University, Oman. Email: salimsk@squ.edu.om

[3] Training Supervisor, Department of Library and Information Science, Sultan Qaboos University, Oman. Email: asarmi@squ.edu.om

Department of Applied Social Sciences, London Metropolitan University
Ladbroke House, 62-66 Highbury Grove, London N5 2AD, United Kingdom
Website: www.londonmet.ac.uk/isj

Introduction: the causes and evolution of the global economic crisis

It is now generally agreed that the economic crisis, which originated in the United States in 2007 and soon spread throughout the world, was primarily the result of several inter-connected factors. First, recent years had seen an increasing use of high-risk consumer lending strategies in the financial sector, leading to high levels of "bad" consumer debt, which borrowers were unable to pay when interest rates increased (Moosa, 2008). Second, the process of "securitization" had become widespread. This refers to the selling on of mortgage debt to investors by banks in order to free up credit for further lending. When interest rates rose in the mid-2000s, investors became wary of buying these high-risk securities and banks were left with them on their books, causing other banks and lenders to withdraw their credit facilities or otherwise reduce their exposure to the affected banks. As financial institutions became wary of borrowing from or lending to one another, a lack of liquidity in the financial system resulted from this situation, and the credit normally available to consumers and businesses that fuels economic activity quickly dried up (Moosa, 2008).

The situation was exacerbated when several major financial institutions prevented their investors from withdrawing their funds, which they claimed could no longer be accurately valued. This sparked a worldwide panic to withdraw money or raise cash by selling less liquid investments such as stocks and bonds, and many major financial institutions went bankrupt as a result (BBC News, 2009). Another factor contributing to the escalation of the crisis was the nature of the present-day global financial system, which has complex interdependencies and links between lenders and borrowers throughout the world, including individual consumers, investors, businesses, and financial institutions. This has been the first truly transnational crisis in which personal credit played a major role (Porter, 2009).

Gradually, the world economy seems to be emerging from recession, helped in part by major injections of money into national economies by their governments, notably in the U.S. and the U.K.; lowering of interest rates by national banks; and direct government assistance for some struggling financial institutions. It is questionable, however, whether these measures will help to prevent another financial collapse, unless the root causes of the crisis are properly addressed. It can be argued that information failure was one of the main root causes underlying virtually all the other factors that precipitated the crisis. In this case, the information professional may also be partly responsible for the occurrence of the crisis and can thus play a role in facilitating sustainable recovery.

The role of "information failure" in the crisis

In an international survey of Chief Financial Officers (Towers Perrin, 2008), 62% respondents attributed the financial crisis to poor risk management by financial institutions; this is what is likely to have led to the use of high–risk lending strategies and the growing use of securitization in the financial sector. Fundamental to risk management is information: argued that "if corporate leaders, portfolio managers and regulators want to make good risk-based decisions, they need to have the right data, and they need to have the right framework to be able to analyze the data" (Lo, 2009, p. 57). An analysis of the international economic environment in the time leading up to crisis makes it clear that both of these factors – the right data and the right analysis framework – were clearly lacking. As a result, risk management was poor.

It has been argued that traditional financial risk management models do not reflect the reality of the present day situation in which international financial markets are closely interconnected (Sen, n.d.). This suggests a need to consider a much wider range of information when developing financial strategies, including not only the quantitative data traditionally used in economic and financial forecasting, but qualitative information about worldwide economic and social trends and other factors likely to influence markets, borrowing behavior, and other variables. This might include, for example, qualitative risk assessments based on the views of financial experts (Bankersonline.com, 2008), social and demographic data on types of borrowers and their lifestyles that will help banks to predict the likelihood of default on loans (Rajan, Seru & Vig, 2008), or the type of "global risk map" recommended by an expert commission working for the German government (Braasch, 2009).

There is also evidence that organizations had inadequate *systems* for assessing risk in the years leading up to the onset of economic crisis. For example, in a 2002 survey, 43% of corporate directors reported that their company had no risk management process, or one that was felt to be ineffective. More than a third (36%) indicated that they did not fully understand the risks faced by their organization (cited in Bainbridge, 2009).

Not only was adequate information or information systems not readily available to actors in the financial markets at the time of the crisis, but there was also a severe lack of information transparency, as banks are reluctant to share data about their lending portfolios. The OECD program on Public Management and Governance (PUMA) includes "transparency and open information systems" as one of the six main factors which define good governance. According to the OECD, governments have a key responsibility to disseminate important information to companies and individuals in order to enable them to make sound decisions (Jia, 2008). The sharing of information between banks and the improved transparency of information relating to national economies and financial systems more generally would have enabled lenders, investors, and consumers alike to decide on acceptable levels of risk (ComputerWeekly, 2009). However, a lack of information and information transparency produced an environment of distrust and wariness, in which credit was no longer being made available or being used effectively to help drive economic activity.

The role of information professionals in the crisis

Information professionals work in many different organizational environments, including financial institutions, corporations, public libraries, and the media. Their work informs the activities of governments, inter-governmental organizations, business executives, analysts, investors and the general public, to name but a few groups. As an integrated profession they are well placed to share information across the different environments in which they work, ensuring that is made available to those who need it. The role of information failure in the economic crisis raises important questions about whether the information profession is effectively fulfilling this role, and whether it was at least partly to blame for the information failure which resulted in economic crisis.

Winston and Quinn (2005) reviewed literature in the area of library and information science to examine how major economic, political, technological, and social changes had been addressed in library and information science journals over a six-year period. They found evidence of an increased focus in the LIS literature on major social and economic changes and their relationship to information services. However, little attention had been paid to the issue of information access as it pertains to economic and other types of change. There was also a reported lack of focus in the LIS literature on the potential leadership role of information professionals in addressing aspects of crisis and change. The authors noted that the literature does not represent efforts to influence policy-making and legislation, afford access to information, and provide information resources and services as roles of leadership.

The Winston and Quinn (2005) study indicates that the information profession as a profession may not have played an active role in ensuring that adequate information is available for use in economic and financial decision making, and this may indeed have contributed to the economic crisis which has swept the world. The remainder of this paper examines various ways in which the information profession might make a more positive contribution to future economic and financial stability and growth.

The role of information professionals in a "New Global Economy"

First, information professionals have an important role to play in ensuring that the diverse types of data and information now needed to support business and financial decision-making are collected, documented, and made readily available to users. Whereas traditional financial risk-management and decision-making might have relied on a fairly narrow range of quantitative data held by specialist analysts, this is no longer adequate. Users are much more likely to look to information professionals to help them locate and use many sources of national and international information. Increasingly, corporate executives are demanding pertinent, timely, and high-quality data (McKnight, 2009).

The continual dissemination of information to key individuals within organizations is a necessary condition of increased organizational performance (Hatala & Lutta, 2009). Research shows, however, that information sharing is still relatively unusual within organizations (e.g. Davenport & Prusack, 1998; Li & Lin, 2006). Information professionals are often among the first to be aware of new information and have a responsibility to pro-actively disseminate this to individuals or organizations that they serve, in forms which are user friendly and easy to interpret.

In addition, information management professionals working in the financial services sector will also be required to play a central role in ensuring that adequate information is maintained by organizations or made available to them in order to meet the requirements of the Basel II Framework. This legislation is intended to strengthen banks' risk management strategies and includes requirements for more extensive assessments of all types of risks. It is expected that even more legislation will be imposed on the financial sector in future (Montana, 2008), with an associated requirement for more information generation and management.

One of the identified problems with traditional risk analysis is that it was conducted in a fragmented way in individual "risk buckets" (Beasley, Branson & Hancock, 2009). Nowadays, Enterprise Risk Management (ERM) is being promoted as a more effective way of identifying and managing organization-wide risks and sharing information about these so that they can be effectively mitigated. Information professionals who serve all parts of an organization are well placed to ensure that ERM is implemented effectively and that is underpinned by accurate, up-to-date information. Similarly, information management specialists are likely to play an important role in the increasing use of master data management (MDM), in which company data are held and on organization-wide integrated systems rather than fragmented hubs (Zornes, 2009).

On a national and international level, there is also a pressing need for more integrated information systems to help avoid recurrent economic crises. For example, in the case of the current crisis, the liberalization of the financial system and the split of regulatory responsibilities between central banks and other bodies made it difficult to spot the warning signs (Morgan, 2009). The information profession should play a leadership role in liaising between governments, financial institutions, and regulators to establish integrated, transparent financial information systems.

Finally, information professionals must adapt to emerging forms of communication such as online social networking sites, blogs, and other online media (Hawkins, 2009). Increasingly used for personal and business use alike, these forms of communication allow fast dissemination of information to a worldwide audience. These forms of communication offer opportunities to disseminate financial and economic information quickly and effectively, but the ease with which anyone can publish information online also means that inaccurate or misleading data can spread rapidly (Sungmin, 2009). The information profession has an important role to play not only in the appropriate use of new forms of media but also in terms of quality control. The low entry barriers to publishing information online facilitate the greater use of data in decision-making but bring about a requirement for tools and guidance to enable users to interpret the quality and accuracy of the information, a demand which information professionals must meet (Hawkins, 2009).

Conclusive remarks

This paper has discussed the role of information failure in the economic crisis and has shown how the information profession must be much responsive and proactive in meeting user information needs in the new global economy in order to avoid a recurrence of the crisis and to support future economic growth. The years of the early 21st century have often been called the "information age," and it has been predicted that many more powerful advances in information systems are on the way. Information professionals are at the center of these developments and have the potential to make a major contribution to growth and sustainability in the world economy. In order to do so, however, the profession must take responsibility for ensuring that information failure is never again a cause of economic crisis.

References

Bainbridge, S. M. (2009) Caremark and enterprise risk management, *Journal of Corporation Law, 34* (4), 967-990.

BBC News (2009) Timeline: Global credit crunch [Online]. Available at http://news.bbc.co.uk/2/hi/business/7521250.stm, Date Accessed: 02/01/2010

Beasley, M. S., Branson, B. C. and Hancock, B. V. (2009) ERM: Opportunities for improvement, *Journal of Accountancy, 208* (3), 28-33.

Braasch, B. (2009). Financial crisis and information gaps; Comments on a proposal by OtmarIssing and Jan Pieter Krahnen, *Intereconomics, 44* (4), 208-214.

ComputerWeekly.com (2009) Strategy Clinic: What post-crisis regulation for the financial services sector? [Online]. Available at http://www.computerweekly.com/Articles/2009/01/05/234061/strategy-clinic-what-post-crisis-regulation-for-the-financial-services.htm, Date Accessed: 09/01/2010

Davenport, T. H. and Prusak, L., 1998. *Working knowledge*. Boston: Harvard Business School Press.

Dearstyne, B. W. (2009) Facing the economic storm: Navigating RIM programs through hard times, *Information Management Journal 43*, (2), 24-30.

Halal, W. E. (2009) Emerging Technologies and the Global Crisis of Maturity, *The Futurist, 43* (2), 39-46.

Hatala, J. P. and Lutta, J. G. (2009) Managing Information Sharing Within an Organizational Setting: A Social Network Perspective, *Performance Improvement Quarterly, 21* (4), 5-32.

Hawkins, D. T. (2009) SSP's Annual Meeting: Advancing scholarly communities in the Brave 'Now' World, *Information Today, 26* (7), 24-25.

Jia, E. T. (2008) The failure of good governance: How it led to the financial crisis. *Triple bottom-line.com* [Online]. Available at http://www.tbl.com.pk/the-failure-of-good-governance/Date Accessed: 04/01/2010.

Lanter, A. (2009) Committing to good information governance, *Information Management Journal, 43* (3), 4-5.

Li, S., and Lin, B. (2006) Accessing information sharing and information quality in supply chain management, *Decision Support Systems*, *42* (3), 1641-1656.

Lo, A. (2009) The opportunities brought to you by distress, *MIT Sloan Management Review, 50* (3).

McKnight, W. (2009) A Catalyst for recovery: Information management will play a major role in recuperating from our economic crisis, *Information Management, 19* (1), 40-49.

Montaña, J. (2008) Records & information management in the post-bailout world, *Information Management Journal, 42* (6), 26-29.

Moosa, I. (2008) Anatomy of the Subprime Financial Crisis. Monash University [Online]. Available at http://www.buseco.monash.edu.au/research/mbr/2008//monash-university-mbr-shelter-from-subprime%5Bfulltext%5D.pdf. [Accessed: 04/01/2010].

Morgan, J. (2009) The limits of central bank policy: Economic crisis and the challenge of effective solutions, *Cambridge Journal of Economics, 33* (4), 581-627.

Perrin, T. (2008) Financial crisis intensifies interest in risk management among CFOs. Available at http://www.towersperrin.com/tp/showdctmdoc.jsp?country=global&url=Master_Brand_2/USA/News/Spotlights/2008/Sept/2008_09_30_spotlight_cfo_survey.ht, Date Accessed: 02/01/2010

Porter, T. (2009) Why international institutions matter in the global credit crisis, *Global Governance, 15*, 1-28.

Rajan, U., Seru, A. and Vig, V. (2008) *The failure of models that predict failure: Distance, incentives and defaults.* Chicago GSB Research Paper No. 08-19 [Online]. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1296982, Date Accessed: 02/01/2010

Sen, P. (n.d.) An overview of risk management in the banking industry [Online]. Available at http://www.streetdirectory.com/travel_guide/166555/banking/an_over_view_of_risk_management_in_the_banking.html

Shore, B. and Manwani, S. (2009) The financial crisis on Wall Street: Complexity, stability, and information technology, *Journal of Global Information Technology Management, 12* (1), 105.

Stueart, R. D. (1999) *The economic crisis and other challenges in accessing to science and technological information in Asia.* Paper presented at the 65th IFLA Council and General Conference, Bangkok, Thailand. [Online] Available from http://ifla.queenslibrary.org/IV/ifla65/papers/065-122e.htm. [Accessed 14/01/2010].

Sungmin, K. (2009) Protecting the domestic financial system from crisis contagion, *SERI Quarterly, 2* (3), 52-65.

Winston, M. and Quinn, S. (2005) Library leadership in times of crisis and change, *New Library World, 106* (9/10), 395-415.

Zornes, A. (2009) MDM for tough times: 5 Trends to strengthen organizations during recession, *Information Management, 19* (6), 20.