

Effective Business Continuity Planning

Catastrophic events can inspire clear-cut business continuity and achieve the greatest business benefit, says Marsh's *Gary S. Lynch*

What just happened? Suddenly an unimaginable (and unplanned) event, with catastrophic consequences has been thrust upon your organization and your stakeholder community. Suddenly everybody in the value chain finds themselves in an unfamiliar, volatile, and unpredictable operating environment.

This was the case at 2:28pm, Monday 12 May when a magnitude 7.9 earthquake struck Sichuan province. Beyond the heart-wrenching human tragedy and massive social disruption, the processes, people, technology, physical assets, and network of relationships that represent the economic infrastructure of that area has changed - forever. The carefully connected links in thousands of value chains have been broken or, worse yet, disappeared, along with the ability of the organization or business community to create value.

As disasters become more frequent and, given the way companies now structure their value chains, more relevant; and in an age where global interdependency and interconnected markets thrive, we find that change does not affect only the disaster's epicenter and surrounding areas.

Rather the aftershock is broadly dispersed over thousands of organizations and communities: a SARS outbreak in Hong Kong disrupts trade finance flows and inventory in transit destined for Australia, a hurricane in the US impacts poultry farmers in South America because transportation bottlenecks prevent the export of corn and soybeans and imports of their product, an earthquake in Japan halts the export of automobiles because of the inability to source a critical part, a heat wave in Europe reduces the fruit harvest by 25 per cent thus affecting the production of wine, and now a mega-earthquake in China — the full long-term impact of which is still unknown.

With so many potential threats and an infinite number of vulnerabilities along mutually dependent value chains, should we be thinking about the process of economic resiliency and preparedness in a more complex way? Do organizations need to prepare for every possible scenario and incorporate a greater and more diverse set of potential outcomes?

The consequences brought about by sudden, unplanned, catastrophic change have no boundaries. In many instances, extensive and expensive continuity planning doesn't reflect the reality of the potential impact of the disaster. Previous assumptions flawed, the scope of continuity too narrow, it follows then that the continuity planning process needs to be more robust and complex, and reflect the global interdependent nature in which we operate.

On the contrary, complex planning increases risk and reduces the likelihood that the continuity plans will be of value. Complex planning must consider an infinite

number of variables (“what ifs”) and assume that everyone involved has the same degree of comprehension and interpretation of these variables. Of course, all this is happening at a time of chaotic uncertainty. So if complexity is not the answer, how does one improve the continuity planning process and achieve the maximum benefit? To address this question, we look at three “simple” lessons learned from dozens of catastrophic events:

1. Organizations do not have unlimited resources, time, management attention, and/or capital to devote to continuity risk. Therefore it’s all about rapid prioritization – identifying the products or services of greatest value. If for example your company produces 400-plus beverages and one or two of those beverages generate the greatest revenues, improve your company’s cash flow or represent an integral part of your company’s brand value, then it’s important to identify the processes and resources (people, technology and processing, physical assets and relationships) that comprise this extended value chain. All other processes and resources should not be given the same priority and may only serve as a distraction when trying to determine how to allocate critical recovery resources.

2. Since one cannot plan for all types of threats (and the consequences), continuity planning should be based on the assumption that one needs to measure the impact of a loss of a particular resource. This is referred to as the “thumb test”, whereby you map the resources in the extended supply chain then take your thumb and cover-up each resource — one-by-one — to determine its quantitative and qualitative impact on the value chain.

The higher impact resources, such as a critical skill set, specialized tool set or uniquely designed manufacturing facility then become the starting point for planning. On the surface, one might conclude that one particular facility is *the* most critical facility, but this should be followed up with a question about exactly what makes that facility unique. Remember the basic rule — if the impact of the catastrophe and related volatility that occurs is on the supply side of the value chain, then the repercussions are amplified down the value chain to the customers. If your organization is serving the customer, the demand side, and the disruption occurs on this side of the value chain, then the repercussions are amplified up the supply chain (so beware of the cost of carrying excess inventory).

3. When planning for the full resumption of normal operations — as compared to the recovery period, which is the interim stage where one is trying to return to normal operations — plan for “what could be” not for “what was”. This should begin with a clean piece of paper with key managers presenting ideas of how the business can be run better if unencumbered by legacy processes or resources, such as outdated equipment or facilities. The results of this analysis should be carefully tucked away until needed. With this pre-planning, one can immediately turn a negative and emotionally charged event into a positive opportunity. I’ve seen this serve as an inspirational force for the employees and

families directly affected by a catastrophic event. For example, a mid-size business that lost one of its key facilities during Hurricane Katrina concluded within the first 24 hours of the disaster that it was better not to try and rebuild, but instead to acquire a competitor and immediately divert the displaced resources to the newly acquired business. Those that had lost their houses were suddenly shed of another immediate worry — the loss of their job.

It is impossible not to be affected by the personal emotional trauma and endless number of social consequences that result from a tragedy like the Sichuan earthquake. The first priority should always be people's welfare, health and safety. But history has demonstrated that providing economic resilience and continuity runs a close second, if only because it at least provides the financial wherewithal to address the first need. In almost every major disaster that I have been indirectly or directly exposed to over the past thirty years, I have observed that the workplace is where people will return to if their house and social support system no longer exist. I constantly hear about and have personally witnessed Herculean efforts by the rank and file workforce that ensure the economic survival of their employer or community in a time of crisis. As such, the value of having appropriate business resilience and continuity plans in place should not be overlooked or underestimated.

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