

Better Safe than Sorry

A lesson concerning Business Continuity Planning

Leslie Gray, CEO Growthport Partners, Inc.

Earthquakes, terrorist attacks, fires or workplace violence occur without warning. California is as close to a natural disaster as the Gulf Coast was to Hurricanes Katrina and Rita. Experts say Californians are ill-prepared and some businesses may never recover, except those businesses who have created and implemented a viable Business Continuity Plan (“BCP”).

Business continuity planning is the process whereby businesses of all sizes and types ensure the maintenance or recovery of operations, including services to clients, when faced with unpredictable adverse events such as terror attacks, natural disasters, technological failures or interruptions, human error or even a flu pandemic. The BCP’s primary objective is to minimize financial loss to the business, continue client service and to ultimately mitigate the negative impact disruptions could have on the business strategic plan, reputation or stature in the global marketplace, operations, business value and liquidity or credit worthiness as well as the business keeping compliant with State and Federal regulations.

We all remember Y2K and the proactivity in which businesses engaged by planning for disaster recovery relating to preservation of computerized data in anticipation of the new millennium. Throughout this process, businesses were educated in the activities associated with not only technological concerns but company-wide process-oriented consideration for business processes and communication strategies, both of which are key in creating an effective BCP.

This process is only slightly different from Y2K planning, in that Boards and Senior Management teams must be responsible for creating a more comprehensive, enterprise-wide action plan following a Business Impact Analysis (“BIA”).

The BIA phase identifies the potential impact of uncontrolled, non-specific events on the business processes. The BIA phase also should determine how much is at risk by identifying critical business functions and prioritizing them. This facilitates focus on the maximum allowable downtime for critical business processes, recovery objectives and the related costs.

After conducting the BIA and risk assessment, management should prepare the written BCP. The plan should document strategies to maintain, resume and recover critical business functions and should include procedures to execute the plan’s priorities for critical vs. non-critical functions, services and processes. A well-written BCP should describe, in detail the types of events that would prompt a formal declaration of a disruption thereby invoking the BCP. The BCP must describe in detail the procedures to be followed to recover each business function impacted by the disruption and should be written in a way that all levels of personnel can implement the plan in a timely and effective manner.

The BCP is more than recovery of technology as it addresses recovery of all critical business operations. The plan should be flexible to respond to internal and external changes in conditions and new threats or risks. The plan should outline immediate steps to be taken during a disaster in order for the business to minimize the damage from a disruption, as well as necessary actions to recover. Hence, the BCP should be focused on maintaining, resuming and recovering business operations following a disruption and response tactics if:

Critical personnel are not available;
Critical buildings or locations are inaccessible;
Equipment malfunctions;
Software and data are not accessible or have been corrupted;
Utilities are not available (power, telecommunications); and
Critical documentation or records are inaccessible.

Insurance is Key

Insurance can provide the lion's share of protection in a business interruption, provided that it has been carefully planned and annually reviewed. Generally, insurance is obtained for unpredictable risks that could pose a high-degree of financial loss or other disastrous consequences. Management should know the limits and coverage afforded the business under these policies and make sure that adequate coverage has been secured recognizing the level of risk associated with the specific business type. This insurance should be reviewed annually as businesses change, grow and locations multiply thereby making the assessment of adequate insurance coverage a constant concern. Keep in mind as well the location of the business insurance provider. If the carrier is headquartered in California, perhaps near the vicinity where the threat or perhaps a large-scale natural disaster occurs, inquire as to the carrier's contingency plan in order to service its clientele with financial resources required to set up temporary facilities and recovery efforts of your California-based business. Perhaps insuring through an out-of-state carrier is more attractive considering this scenario.

While insurance is a safety-net, it is by no means the total answer. Insurance can reimburse the business for some or all of the financial losses incurred as a result of an unpredictable event or natural disaster, however, it is not a substitute for an effective BCP, since the primary objective of insurance is *not* business recovery. Insurance coverage can never replace or repair a damaged reputation of a business that failed to plan for interruption, thereby losing its client base and stature in the market.

Accuracy of Information

Documented data listed in the BCP must be verified periodically for accuracy, including furniture, equipment, telecommunications, connections, applications, and operating systems at both the primary and alternate sites.

Plan Orientation

An orientation, walk-through is the most basic type of test to determine the plan's efficacy. The orientation's primary objective is to acquaint critical personnel with all areas of the BCP. This orientation should include:

Discussions about the BCP in a conference or meeting room;
Individual and recovery team training; and
Clarification and highlights of critical plan elements.

Test the Plan Annually

Testing requires centralized coordination by the appointed Recovery Team. A team coordinator is usually appointed and responsible for overseeing the accomplishment of targeted objectives and follow up with the appropriate areas on the results of the test. It is beneficial to have the

entire team participate in the annual test, thereby increasing buy-in and ownership in achieving the goals and objectives established by the BCP. As with Safety Committees, rotation of personnel through this process is imperative, as it prepares the business for the loss of key individuals.

It is generally advisable to have the maximum number of team participants involved to increase awareness and buy-in in achieving successful BCP implementation.

Management should report test results and the resolution of detected problems to the Board. Test analysis should include:

- Objective assessments;
- Assessment of the validity of test data processed;
- Corrective action plans to address plan flaws encountered during the test;
- Proposed modifications to the BCP; and
- Recommendations for future tests.

Updating the Business Continuity Plan

Since the BCP is a *living* document, changes within the business should dictate immediate modifications to the plan to better support those activities. The plan should be reviewed by management and the Board at least annually. As part of the review process the BCP team coordinator should contact business unit managers to assess the nature of changes in business systems, hardware, software, personnel or facilities. Specifically, organizational changes should be analyzed to determine how they affect the existing plan and what revisions may be necessary to accommodate these changes. Finally, the modified BCP should then be disseminated throughout the organization.

Audit and Independent Review

An independent third part should review the adequacy of the BCP to ensure that Board expectations are met. The review should include assessing the adequacy of the business process identification, threat scenario development, business impact analysis and risk assessments, the written plan, testing scenarios and schedules and communication of test results and recommendations to the Board.

In summary, the following six factors are critical aspects of effective business continuity planning

- Business continuity planning should be conducted on a company-wide basis;
- A thorough business-impact analysis and risk assessment are the foundation of an effective BCP;
- Business continuity planning is more than the recovery of technology; it is the recovery of the business;
- The efficacy of a BCP can only be validated through thorough and regular testing;
- The BCP and test results should be regularly subjected to independent audits; and finally
- The BCP should be periodically updated to reflect and respond to changes in the business.

For more information about business recovery and continuity planning, you may contact Ms. Gray at lgray@growthportpartners.com.