

An Ounce of Prevention...
Insurance Paid but the Company Failed
By David Shimberg, CBCP

The explosion and fire were devastating! Production was halted. Business records were lost. Employees didn't work, and customers didn't get orders. But the company's business interruption insurance provided cash to cover business income losses; property insurance provided for new equipment and buildings.

However...less than one year later the company was out of business, employees were again out of work, tax revenue stopped, and customers felt the impact!

What happened? Cash flow is not the only concern when planning for business continuity! The business simply failed to develop, test, and maintain a business continuity plan. The managers did not have a strategy for dealing with and surviving a disaster of any magnitude. There was no communication plan, no incident teams, no alternate sites for production, business office functions, sales, or even a process for contacting their clients and vendors, let alone the media.

What is a Business Disaster?

It is not a tornado, fire, flood, etc. These are the causes. A business disaster is "that point in time after the 'cause' when a business is not able to provide customers and users with the minimum level of service they both need and expect."

Business continuity planning, BCP (also referred to as disaster recovery or contingency planning), is a process to identify and risk rate key business processes and functions, prioritize the importance of those processes, and develop plans to continue those processes in the event of a disaster. This includes not only protecting the company's employees, assets and reputation, but its customers and vendors as well. BCP is NOT just recovery of computer systems!

Business continuity planning must be addressed because:

- 43 percent of businesses suffering a disaster never recover sufficiently to resume business. Of those that do reopen, only 29 percent are still operating two years later.
- 93 percent that lost their IT (information technology) area for more than nine days had filed for bankruptcy within one year of the disaster, according to the National Archives & Records Administration.
- 50 percent that found themselves without their data for more than nine days filed for bankruptcy immediately.
- Of the 350 businesses operating in the World Trade Center before the Feb. 26, 1993, bombing, 150 were out of business a year later. For many, the reason was that they simply could not re-enter the building for several days after the bombing.

The BCP process does not need to be complex, or drawn out. It must be viewed as part of an ongoing, overall risk management program. The key is strong visible commitment from management. It requires a realistic appraisal of the company

operations, the development of appropriate strategies, creating and assembling teams with specific responsibilities and a providing a clear chain of command and authority.

Identifying essential recovery items for offsite storage, documenting the plan, exercising or testing the plan, and conducting regular reviews of the plan go a long way toward ensuring a plan's success (there are no guarantees), making the business safer.

Specific risks to company operations must be identified. These include employees, materials, equipment, special skills, communications, location and reputation.

- What are the vulnerabilities or "weak links" that could interrupt operations?
- What can be done to reduce those the risk, mitigate, those vulnerabilities?
- Are key activities centralized or distributed?
- Where and how are vital records and information stored and backed up?
- How will key people responsible for immediately responding to an event communicate, and where will they meet?
- How will employees, customers, vendors, and the media be informed of the problem and what the company is doing to address the situation?

There are a variety of resources, consultants, organizations, and tools available to help companies develop and maintain business continuity plans.

The problem is that few companies take advantage of these resources, to create, test, and maintain viable plans. A simple Internet search for "business continuity planning", "contingency planning, or "disaster recovery planning" will provide a large number of resources and articles. There include professional organizations like the Disaster Recovery Institute (www.drii.org), Global Continuity (www.globalcontinuity.com), Disaster Recovery Journal (www.drj.com), Continuity Insights (www.continuityinsights.com), and Contingency Planning & Management (www.contingencyplanning.com).

The bottom line: Ensuring your business survives a disaster requires a practical, documented, practiced, and current business continuity plan. Receiving insurance settlements alone will not ensure a business' survival after a disaster.

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David A. Shimberg, CBCP, is BC/DR manager at Premier, Inc. (Charlotte, NC, San Diego, CA, Washington DC). He has worked as a BC manager for Bank of America, a member of the Disaster Recovery Journal Editorial Advisory Board, and is a past chairman of the Contingency Planning Association of the Carolinas and chairman of the All Hazards Advisory Committee for Charlotte, NC. He may be contacted at webmaster@cpaccarolinas.org.