

## **BUSINESS CONTINUITY AND THE LINK TO INSURANCE: A PRAGMATIC APPROACH TO MITIGATE PRINCIPAL RISKS AND UNCERTAINTIES**

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Accidents happen. Business profits and company reputation are at risk. Shareholders, and those who depend on the company for their livelihood, require reassurance that the business will survive and prosper if a major incident or crisis occurs.

Furthermore, most UK listed companies must now make forward looking statements in their Annual Report & Accounts, including, among other things, a description of the principal risks and uncertainties facing the company. Such statements should include what has been done to mitigate the potential impact of these risks.

This paper argues that good design and management of facilities must be backed by a business continuity plan (BCP). Insurance should be seen as a supplementary mitigation of risk not the first line of defence. Combining an effective risk management strategy with a suitable BCP linked to the insurance programme, has several benefits: it is an effective mitigation against known risks and uncertainties, and it creates the potential to reduce the total cost of risk borne by a company. The key is to convert the concept of a BCP into reality.

The paper describes how an international chemical company has worked on business continuity and insurance holistically. Coordinated collaboration within the company, partnership with insurers and brokers, and selective use of consultants provided the necessary expertise to distil what is required into a pragmatic BCP. As a result there is now greater confidence that profits and reputation would be protected against major hazards and other corporate risks.

**KEYWORDS:** Business Continuity, BCP, Crisis, Insurance, Reputation, Risks and Uncertainties, Total Cost of Risk

### **INTRODUCTION**

A company is in business to trade. Having robust measures in place to prevent harm and damage is necessary but not sufficient. What happens when, despite best efforts, things go wrong? A well structured insurance programme will help mitigate some of the loss but cannot be expected to cover all eventualities, particularly loss of reputation (including brand). The business should be prepared to initiate effective business recovery rapidly to reassure shareholders, customers and other stakeholders that the company remains viable, and to protect the company's ability to recover insured losses. Reduction in risk accompanied by a business continuity plan provides a degree of confidence in the company's ability to handle a crisis<sup>1</sup> and minimise downtime.

<sup>1</sup>In this paper, the words crisis, major incident and catastrophe are used interchangeably.

This paper describes how Elementis plc<sup>2</sup> developed a cost effective business continuity plan (BCP) in conjunction with property and liability insurers, and with advice from insurance brokers, risk management consultants and a consultant with business continuity expertise.

Implementing a BCP does not, however, render insurance unnecessary. The paper also describes how business continuity planning integrates with insurance as part of a successful approach to optimising the company's total cost of risk. Success has been achieved through focussed risk reduction measures, attention to limits of cover, claims management, programme structure and insurance premiums.

## **RISK MANAGEMENT DUTIES AND RESPONSIBILITIES**

All companies have a moral and, in general, a statutory duty to protect people and the environment from the effects of their activities and external hazards. Chemical companies rightly spend much time identifying hazards and taking steps to reduce risks to an acceptable level<sup>3</sup>. Protection must be provided for routine and non-routine operations, and plant emergencies (from internal and external events). Nevertheless, accidents and natural disasters still occur, sometimes with devastating results.

At a financial level managers have a duty to protect the business and its profits. Companies must understand and deal effectively with operational and other risks they face, if they are to survive and prosper. Responsible companies also recognise their obligations to society, whether it is to the local economy or to global sustainable development. Success here comes from ethical prosperity.

## **CORPORATE GOVERNANCE**

Sometimes we are lucky, but we should do all we can to reduce our dependence on chance. Good engineers and prudent commercial managers have always understood this, but thinking is often intuitive rather than structured. While luck will always play some role in business, because businesses operate in conditions of uncertainty, formal risk management is essential for effective corporate governance.

Knowing and reporting risks must not be an end in itself. Hazard identification and risk assessment must lead to an ability to continue in business – no matter what. Businesses should adopt the philosophy that: “the ruling interest in knowledge is the practical interest of action” (Lewis 1929). Appropriate mitigation is required.

<sup>2</sup>A UK specialty chemical company with manufacturing sites in the UK, US, The Netherlands and China.

<sup>3</sup>Hazard is used here to refer to the potential to cause harm; risk is a function of the likelihood and consequence of exposure to the hazard. Elsewhere the words: “risk” and “hazard” are sometimes used synonymously where such distinction is not necessary.

## PRINCIPAL RISKS & UNCERTAINTIES

The Directors of most UK listed companies have a duty to promote the success of the company for the benefit of its members as a whole. As part of this duty they must make forward looking statements within a Business Review in their Annual Report & Accounts. This review must contain a description of the principal risks and uncertainties facing the company (The Companies Act 2006). The Company's auditors will, or should, be looking to verify that a suitably robust risk management process is in place to identify and manage these risks.

To provide balance and allow a fair assessment to be made, statements of risk should include what has been done to mitigate the potential impact of the event. For example, some mitigation efforts may include providing better detection and control, or seeking alternatives and redundancy in critical business processes and systems. Some risks may just have to be accepted. Evidence of an effective Business Continuity Plan (BCP) adds a strong measure of reassurance that, whatever the risks and uncertainties, the company is well prepared to respond positively.

## BEYOND MANUFACTURING

It's not just an issue for manufacturing recovery: the knock-on effects must also be considered. A major process incident, fire or flood could damage a Company's IT systems or office functions. Loss of data, or destruction of hard copy records need to be considered. Without viable back-up systems it may be hard or even impossible to recover the business in a timely way. Even if you are not worried about a few lost records (and you should be) your auditors need to see full audit trails on financial data. Accidental loss of financial records could lead directly to difficulties in providing unqualified audited company accounts<sup>4</sup>; not having planned adequately in advance could compound the negative impact on reputation. Increasingly therefore, auditors are looking for evidence of business continuity planning, in addition to IT security.

## BUSINESS CONTINUITY PLAN

### DO NOT RELY SOLELY ON EMERGENCY SERVICES AND INSURANCE

Fire fighting and insurance are important of course, but the arguments for a BCP are clear – it could make all the difference to the speed and effectiveness of recovery following a crisis. Research by Templeton College, Oxford (Knight & Pretty 1996) went further. The researchers considered how companies are valued by the stock market following a catastrophe. Their research suggested that direct financial loss was a small part of the effect on shareholder value. The skill with which a company's management responded has a much

<sup>4</sup>In the US the consequences of losing financial data could be even more serious under the Sarbanes-Oxley Act 2002

greater effect. The implication is that an effective BCP is far more important as a first line of defence than insurance cover.

**SO WHAT IS THE PROBLEM?**

Why do many companies not have a BCP, or more to the point, an effective one?

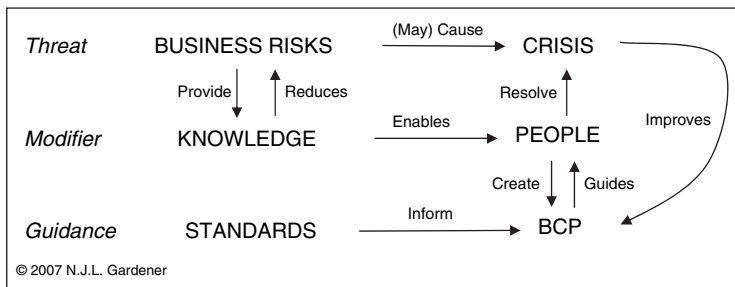
It may be a cultural problem. Efforts are, understandably, put into making things safe, demonstrating (statistically) that risks are acceptable and so on. Having a BCP could be construed as planning for failure – not acceptable. Years of safe operation without a crisis can reinforce complacency. Practical people may need persuasion to accept that low likelihood events may still occur. Preventive action may not always be appropriate, but you should still know what you would do if the worst happens.

Another reason could be that the need is accepted but companies get bogged down in a complexity of worthy standards and software solutions. While these may have theoretical rigour, actual implementation can be lengthy and perhaps even impossible. There is also a risk that the BCP will become so comprehensive as to be unwieldy and unusable in an emergency – gathering dust on a shelf in a forgotten office. It may also be out of date or unavailable because it is “Confidential”.

**A PRAGMATIC SOLUTION**

Elementis employs competent people who understand the business. They have empirical knowledge of potential crises from risk assessments. The BCP takes account of these factors and contains only those things required to prepare for and guide a comprehensive and timely business recovery in a crisis. Standards provide a framework for the BCP. The pragmatic concept is summarised in Figure 1.

The resulting utilitarian, tailored BCP reflects the fact that many of the required actions will be known, or be intuitive, to professional managers. In our experience, engineers as managers are good at handling internal recovery at a plant level. It is after all



**Figure 1.** Pragmatic concept for business continuity planning

a project to be planned and managed - albeit an unwelcome one. It seems reasonable to assume that what these engineers and managers would need under the abnormal stress of a crisis is a clear definition of their roles & responsibilities in a crisis, prompts on actions to take, and key reference data (contact details etc). The impact of stress should not be underestimated. It is not just that some key individuals may not be available to help - consider how performance may be affected if there has been a major accident where staff or colleagues have been seriously injured or killed.

As in military operations (see for example US General Accounting Office 1997), the first 48 hours is a critical, and realistic, period to plan. After that, details on the ground will be clearer: the situation will have evolved; and there will have been time for detailed planning on implementing the next actions. Not taking decisive action in the first 48 hours risks harm to the company reputation.

It should be noted that the Elementis BCP is a product of the particular business, structure and intentions of the company. It is not an absolute solution. Alternatives would be possible and might suit other companies better.

#### AN EVOLUTIONARY APPROACH

Consider first the type of content. A BCP can serve many purposes, and progress through many iterations. For example: in the early days there may be sceptics who need to be convinced of the need for a BCP. If so, it will be important to provide a section showing justification for having a BCP. Others may agree with the concept of a BCP but will be unclear what a BCP contains and how it works. These people will need an explanation.

In the early stages, it is suggested, the BCP should contain justification and explanation as much as procedure and data. In time the balance can shift towards what is actually needed for a crisis and administrative details on how to be prepared.

#### GENERIC VS. SPECIFIC

Each crisis is different: different causes, different effects. This can be another cause of inaction on the BCP. Why create a BCP when you do not know, in advance, what will be required? The answer is to do all you can to predict, and then keep the BCP flexible. Plan for specific events and generalise for uncertainty. Fortunately, some tasks are generic, required immediately regardless of what has happened.

As an example, communication is a universal requirement. Good contact lists and communication channels are required showing who is responsible for what, how to contact them – and who to contact if they are not available, or cannot be contacted. You also need a well planned media strategy. Consistent, accurate and balanced statements are required from trained and authorised company representatives. Senior managers must be involved at appropriate times: what may appear to be a local crisis to those tackling the particular incident may have much wider ramifications. For example, the crisis may affect the trading outlook and hence share price, or customer confidence in the Company's products.

Crises can develop quickly. There may be legal implications and the Company's reputation needs to be protected from the outset. Questions may be asked by journalists, major investors, analysts, banks and other City institutions. The Board must know details urgently if they are to prepare an accurate and appropriate response to meet stock exchange regulations, and prevent unsubstantiated rumours. Regulators, local authorities and neighbours may also need to be informed promptly under local emergency plans. BCP communication protocols must accommodate these diverse requirements, and ensure a consistent message as the crisis evolves.

### HOW MUCH CONTENT?

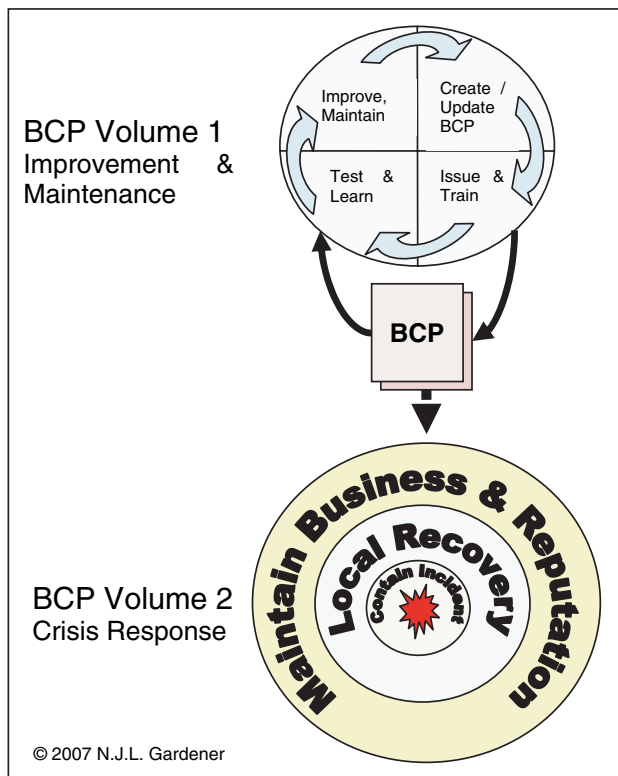
With time the BCP may grow in thickness as more and more useful content is added. For example content may include: hazards that might create a crisis, details of how to prepare for a crisis, critical equipment, roles and responsibilities, contact lists, maps, how to keep things up-to-date, and so on. Note however that the needs of users who would have to manage a crisis are different from those who have to prepare for one. Further, users' needs vary depending on whether they are considering strategic outward facing corporate issues or recovery operations at a tactical level.

### SEPARATION OF CONTENT LEADS TO AN EFFECTIVE, INTEGRATED RESPONSE

The core of the BCP must provide the appropriate level of detail for the anticipated users, or their deputies. It must be in a user friendly and familiar format. It must be adequate to help them maintain the business and company reputation. One practical way to cater for the various needs is to divide the BCP into several parts for ease of use at different times. This is shown diagrammatically in Figure 2.

The lower part of Figure 2 shows diagrammatically the layered structure of the BCP concept for incidents at a manufacturing site. A local incident team takes actions to contain the incident using a local Emergency Plan (not in the BCP). The incident team is separate from, but interfaces with, a local business continuity team planning clean up and recovery actions. Simultaneously, if the crisis meets certain criteria, a corporate team coordinates external communications, provides leadership for business recovery and works with loss adjusters on insurance claims. In this way the company has a coordinated and optimised response to a crisis; local actions mesh neatly with corporate involvement.

The layered structure dictates what must be available in a crisis. Each site needs a local BCP linked to the corporate BCP. Each BCP collates the details and checklists that its users will need in a crisis. It is a document that can be carried around easily. It can be used quickly and unambiguously in a crisis. Appendices contain directories, maps, equipment lists, key material safety data sheets, and so on as appropriate. Functional groups such as IT and accounting have their own Disaster Recovery plans that interface with the corporate BCP.



**Figure 2.** BCP improvement cycle maintaining effective layers of crisis response

A supporting volume of the BCP contains the policy on BCP, background information on perceived major risks, preparations for managing a crisis (training etc) and maintenance of the plan (updating, distribution etc) as a controlled document for improvement. The improvement cycle, shown at the top of Figure 2, is based on Deming's PDSA cycle<sup>5</sup> (Deming 1986). This administrative part of the BCP is to help prepare for a crisis. It can be used to provide explanation and guidance for education and training. It can also help demonstrate to interested parties<sup>6</sup> that the BCP is effective. However, the content is not required during a crisis so it can be held in a separate volume.

<sup>5</sup>Plan, Do, Study, Act – a flow diagram for learning, and for improvement of a product or of a process; credited by Dr Deming as the Shewhart cycle (Deming 1986)

<sup>6</sup>Such as auditors, insurers, customers who depend on your supply and investors

### INTERNAL DRIVER HARNESSING EXTERNAL KNOWLEDGE

Elementis has achieved what it believes to be a workable BCP in a pragmatic way. Creation followed an evolutionary approach, with a blend of internal ideas and commitment guided by external advice. The property and liability insurer's head of risk management, with experience of property risks and implementing BCP's, provided considerable practical insight into what is required to minimise business interruption. A consultant with first-hand operational experience of business continuity management helped structure the BCP around the British Standard for Business Continuity Management<sup>7</sup> (BS25999-1:2006) in a way that recognised the maturity of the company. The BCP content is outlined in Appendix 1.

A small steering group facilitated the BCP project. The team comprised a corporate Financial Director<sup>8</sup>, the VP Manufacturing and the HSE & Risk Manager. The HSE & Risk Manager, with wide knowledge of the company and its operations, led the development process in conjunction with insurers and the specialist BCP consultant. The corporate director acted as sponsor and provided a link to the Board of Directors. The senior manufacturing manager facilitated action at an operational level. As a result a BCP was produced and tested successfully in six months. The BCP was then refined over the following year. Some details of the phased introduction are shown in Appendix 2. Costs were limited to employees' time and travel, plus a few days of consulting. These costs were effectively financed by the reduction in insurance premiums obtained as a result of implementing a BCP.

### NEVER ENDING PROCESS AND BENEFITS

The BCP needs to be maintained and kept up-to-date. The effectiveness of the BCP must be verified periodically by exercises at corporate and local level. Learning from these tests should also allow continual improvement to provide even greater reassurance that the company would maintain continuity despite a crisis. Company reputation will be enhanced both by providing evidence that a viable BCP exists and by the business continuity results it brings in the unfortunate event of a crisis.

Adding further benefits, the BCP has been developed so that it integrates with the company's insurance programme (see Figure 3).

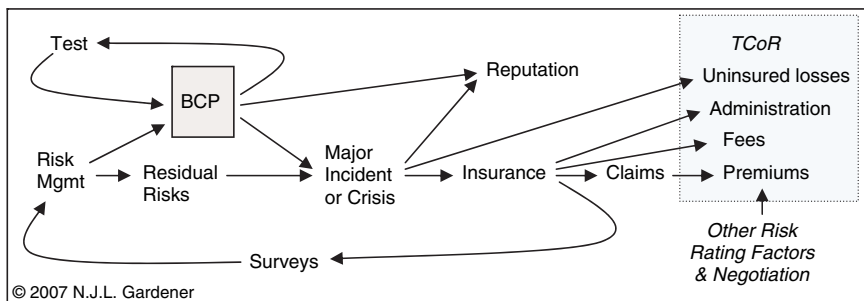
Logically, risk management with a tested BCP reduces the likelihood, and mitigates the effects, of a major incident or crisis. It should also ensure that there will be efficient and effective claims management with insurers and loss adjusters in the event of a major incident. The resulting reduced exposure to risk and hence claims should then be reflected in insurance premiums.

But having an effective BCP is only one part of the equation. The total cost of preparing for, and recovering from, a major incident or crisis must also be borne in mind. The next section describes the role of insurance and the relationship with a viable BCP.

<sup>7</sup>This standard is broadly comparable to the US standard NFPA 1600 Standard on Disaster/Emergency Management and Business Continuity Programs:2004 Edition

<sup>8</sup>Now employed as a consultant from Capital Finance Advisory Services, 15 Moyleen Rise, Marlow Bucks SL7 2DP





**Figure 3.** Linking business continuity planning to insurance and total cost of risk

## INSURANCE & TOTAL COST OF RISK

### INSURANCE MYTHS & LIMITS

There is sometimes a naïve belief that we will do our best and insurance is there to protect us when we fail. Others, more cynically, will say from bitter experience that insurance never pays! The truth often lies somewhere between the two.

Firstly, there may be an assumption that, whatever happens, you have insurance cover. Such complacency must be challenged. Most companies will have Property Damage insurance with additional cover for Business Interruption to recover loss of profit attributable to the property damage. The same may not hold for insurance for environmental incidents. Most policies are clear that cover is limited to “sudden and accidental” loss. Insurers, backed by the courts, are also defining “damage” more narrowly than had previously been assumed. Public Liability insurance may not provide cover for clean-up costs. You could be exposed to huge claims following an environmental incident and find yourself uninsured both in terms of your own and third party losses (unless you have taken out environmental liability insurance).

Second, even if you have insurance, there will be an upper limit (or cap) on the insurers’ liability (the maximum claim that will be considered). The question is how to establish the limit and gain agreement with your insurers. Higher limits cost more in premium. Lower limits risk a shortfall of cover. For property, is the total value of your assets (buildings, plant and equipment, stock) an appropriate limit, is it the maximum foreseeable loss, or some other number plucked out of the air? For public and product liability the amount to be covered may be even more speculative. Whatever the method, limits should be reviewed with operational/business management and approved by the Board (or a body with delegated authority to make that decision). Limits should be reviewed annually to reflect changes in the company. Any uninsured or self-insured levels of retained risk should be adjusted in accordance with the Board’s appetite for risk.

## SUB-LIMITS, DEDUCTIBLES & PREMIUMS

Even when an upper limit is agreed, insurers may set sub-limits that are not so widely communicated within an organisation. For example there may be significant local restrictions, or even exclusions, to property insurance in areas vulnerable to natural perils such as earthquake, wind storm or flood.

Limits of cover are a major factor in setting a premium. But having agreed a limit, companies still have an opportunity to reduce their premiums in the way deductibles (excesses) are accepted. Insurance should be regarded as something to cover true catastrophic loss. A serious effort should be made to assess the probable level of future claims. This is what the insurer will be trying to do. If future claims are reasonably predictable, insurers will be charging you a premium to cover those, plus a share of the few catastrophic losses they suffer each year. They will also charge a share of their own administrative, marketing, and loss adjustment costs, together with an element for profit. If experience tells you, statistically, to expect a certain level of damage each year: budget for it, and negotiate a deductible based on accepting these losses. Do not insure for it – you will pay much more going the insurance route.

But that's not the end of the story. Budgeting for future losses should ring alarm bells. What are you doing to reduce the likelihood of them occurring? Insurers prefer companies to have a high deductible since it should encourage a company to act as if uninsured; protecting everyone's interests. Just as with the Heinrich triangle for the frequency of severe injuries as a proportion of all incidents<sup>9</sup> (Heinrich 1931), property damage can be assumed to follow some form of predictable distribution based on common causality. Statistically, for every major loss there will have been many minor losses from the same cause (for example fire). Attention to reducing the causes leading to the more frequent (and hence knowable) minor damage should reduce the frequency of major damage. Set your deductible with your insurer to optimise the cost of premium against potential claims.

Setting a limit (cap) and a level of deductible is ultimately subject to acceptance by the insurer. A further consideration is the non-linear nature of premiums (generally). Insurers may have a premium they wish to achieve. They can sometimes provide extra cover at competitive rates but will not reduce premium much, if at all, for a reduction in cover. These represent some of the "other factors" in Figure 3.

## INSURED VALUES

While the required limits are, to a certain extent, at the discretion of the company, asset values, product characteristics, turnover, and so on are not. The duty of "utmost good faith" (*uberrimae fide*) applies to insurance contracts, requiring each party to be completely honest. So, for example, property values must be accurately declared. Declare too high and

<sup>9</sup>Heinrich proposed that major accidents have the same cause pathways as minor accidents. Analysis showed statistically that for every major injury occurring there were 29 minor injuries and 300 no-injury accidents. The implication is that working on the causes of lesser incidents reduces the likelihood of a major injury (or damage).

you will pay too much premium, too low and insurers may pro-rata a claim even if it is well below the limit – the insurance principle of “average” (or “co-insurance” in the US). If you are responsible for providing values to insurers – beware. Accountants may give you the written down book values. These are likely to be vastly different from replacement values, which is what you will want.

## TOTAL COST OF RISK

A useful concept when optimising the structure of an insurance programme is to consider the Total Cost of Risk (TCoR) – defined here as the sum of: premiums, retained losses, fees and administrative costs (see Figure 3). TCoR is expressed per £1000 (\$1000) of turnover to allow year on year comparison and a comparison against industry peers or other industries where data are available.

This is the approach taken by Risk International<sup>10</sup> – a professional risk management company who assisted Elementis to reduce substantially its TCoR in a sustainable way.

In particular, Elementis had a variety of separately placed policies to cover hazards such as construction, boiler & machinery and US flood<sup>11</sup>. Risk International was appointed by Elementis in 2003 to work with brokers to develop a more effective insurance programme. As a result exposures have been consolidated into various global policies with significant premium savings. In some cases, through effective risk assessment, it was determined that some cover was not required. This work not only eliminated the separate premium charge, but also reduced the administrative burden of maintaining separate programmes.

## BROKERS

As the company began to focus on reducing TCoR it became clear that having a pro-active insurance broker was imperative, particularly in a hard market<sup>12</sup>. Unlike “placing brokers” – where your risk will be only one of a number of risks they are placing – a pro-active broker will not wait until renewal time to find the best price available in the market. A broker review catalysed a chain of events that led to a real engagement with the insurance market, and more competitive broking fees.

Close and regular collaboration with the brokers now ensures that the broker’s Account Executive understands the company business, and finds insurers keen to work directly with us during the year before renewal – to give us an even better price than otherwise available. By developing this partnership type relationship with our brokers (Priest & Co<sup>13</sup>) and principal insurers (Allianz<sup>14</sup>) the mutual benefit of better understanding and, in

<sup>10</sup>Risk International Services Inc, 4199 Kinross Lakes Parkway, Suite 220, Richfield, OH 44286, USA

<sup>11</sup>Other examples included aviation products liability; US railroad liability, US-only marine cargo.

<sup>12</sup>In a hard market insurers coverage becomes more scarce (some insurers may even decline to quote), exclusions expand, and premiums grow

<sup>13</sup>Priest & Co, 8-9 Lovat Lane, London, EC3R 8DW, UK

<sup>14</sup>Allianz Global Corporate & Specialty AG, 27 Leadenhall Street, London EC3A1AA, UK

some areas, reducing the property and liability risk has led to greater insurer confidence in the company. This has been reflected in our premiums.

## INSURANCE SURVEYS

A positive result of the TCoR approach has been greater engagement and dialogue on insurance surveys. Once, these might have been considered a nuisance: something done *to* the plant by insurers for underwriters' benefit when assessing a premium. All you got was a list of things to do – whether they were recommendations or, worse, requirements.

However, these surveys, undertaken by experienced professionals, are a rich source of information. Tapping into that resource can provide valuable advice on major loss scenarios based on the surveyor's access to industry-wide data on losses. They have the expertise to make judgements on different scenarios and hence the experience to project the estimated maximum loss (EML)<sup>15</sup> and maximum foreseeable loss (MFL)<sup>16</sup> at a location. Recommendations now feed back into the company's risk management process (see Figure 3).

Since property damage insurance often has associated cover for business interruption, the insurer, once a deductible limit is breached, can lose a great deal financially from plant downtime as well as damage. Having a viable BCP is therefore clearly in the interests of the insurer as well as the insured. Our insurers worked collaboratively with us helping to develop a pragmatic BCP based on experience of what really matters.

## CONCLUSIONS

With the uncertainty and variability inherent in manufacturing - and business -companies needs to protect their ability to continue to trade whatever happens. Apart from that, others will need reassurance of this protection.

The first step is to know what risks the company faces. A formal process of identifying, analysing and managing major risks is essential. This process should allow some risks to be reduced or even eliminated.

If, despite best efforts, a crisis occurs, a well structured insurance programme will help, but cannot be expected to cover all eventualities, particularly loss of reputation and shareholder confidence. A company may have more to lose from the way it handles a crisis, through loss of reputation, than from pure financial loss.

<sup>15</sup>Estimated Maximum Loss is defined as the largest loss likely to occur as a result of a single incident under normal conditions. All existing physical protection measures and/or human factors are taken into account. The extraordinary circumstances likely to modify the nature of the risk are left out.

<sup>16</sup>Maximum Foreseeable Loss is the largest loss that may be expected from a single fire or explosion to any given property, when the most unfavorable circumstances are more or less exceptionally combined and when as a consequence, the fire is unsatisfactorily fought against and therefore is only stopped by impassable objects or lack of sustenance.

Insurance should not be relied on as a first line of defence. It is merely one method by which a company can transfer risk out of the organisation. An effective business continuity plan (BCP) should be the principal mitigation against the effects of the crisis.

Having an effective risk management process with a BCP not only gives the business the best chance of avoiding the adverse impacts of uncertainty: auditing the process and plans can provide confidence to others that, in the event of a crisis, measures are in place to maintain continuity from a range of events, with potentially positive impacts on reputation.

A company should also be working to reduce its Total Cost of Risk over the long term. An effective BCP is an integral part of this objective. The insurance programme should be designed with this in mind. Over a period of time Elementis has significantly reduced its Total Cost of Risk by attention to detail in the insurance programme and implementing a BCP.

However, implementing a BCP can be a major undertaking. The risk is that it is not available when needed. Alternative approaches exist but it is suggested here that an effective approach, certainly initially when starting to develop a BCP, is to take a pragmatic view of what is required. Actions taken in the first 48 hours are crucial, particularly where reputation is concerned. Develop and implement a plan that prompts people to do what they already know, but may miss under pressure, and provide the specific data that they will need to refer to. This approach should ensure that at least some guidance exists right from the start of the crisis.

Every BCP must recognise the specific risks faced by the company, and use the internal resources available. However, given the infrequent experience of such incidents, guidance from external experts in developing the BCP speeds up the implementation process – and provides a level of reassurance that the plan is sound. We may not be able to predict all shocks but we can provide resilience.

BCP is not difficult, but it takes wisdom and commitment to put a viable BCP in place. There should be no doubting the justification though. The end product has potentially huge intangible value – it can make the difference between a prosperous company and one that is facing financial ruin.

In the end there will always be some residual risk but, as The Combined Code on Corporate Governance states: “profits are, in part, the reward for successful risk-taking in business” (Financial Reporting Council 2003).

## **APPENDIX 1 BUSINESS CONTINUITY PLAN CONTENT**

The corporate Business Continuity Plan (BCP) focuses on the essential details required to establish the organisation and actions necessary to help the company recover from a major incident or crisis in an efficient and structured way. The aim is to bring the business back to previous levels with minimum disruption. It includes roles and responsibilities, with clear definition of crisis control leadership team structure and communication protocols. Tables show the required notifications and consequent responses, according to type and severity of the event or incident. The BCP includes company contact details (with alternatives) and key external contacts (such as insurers and City contacts).

For ease of use in a crisis, only those parts needed in the crisis are included in the main BCP; the administrative sections for preparation and control are split into a separate volume. Specific persons are assigned to maintain the plan and to review it annually. Learning from regular exercises allows the BCP to be improved continually.

Using the corporate BCP as a template, a local BCP is prepared for each manufacturing location, off-site laboratory, major warehouse and corporate office. Each local BCP contains the specific details and checklists required for local recovery actions to interface seamlessly with the corporate BCP.

Local BCP's include checklists of required actions such as:

- local contacts, and alternatives, with call out details
- how to contact contractors and vendors equipped to repair or replace buildings and critical equipment, and the means to recover or replace essential utilities
- outline procedures for salvage of buildings, equipment and stock
- details of products, critical business records, engineering drawings, with copies to be stored at a safe off-site location
- how to contact alternate suppliers for critical raw materials and supplies and options to outsource operations to make up lost production and inventory

## **APPENDIX 2 BCP IMPLEMENTATION**

Based on our experience, a phased approach, with clear milestones and reviews, is a successful model to follow.

### **PHASE 1: DEVELOP A CORPORATE BCP**

The first step was to obtain senior management understanding and support by drafting a Business Continuity Policy for approval, supported by a draft BCP.

This phase drew widely on experience and expertise, wherever it existed. The Elementis BCP leader ensured that the BCP integrated with company culture and requirements - otherwise the BCP, however good, might have been implemented but not truly accepted. Our insurers with their range of experience and the trusted BCP consultant advised on best practice and shortened the development process.

The BCP was rolled out to key locations for desktop exercises to prove the BCP. During this phase the BCP grew in size and complexity but, since it was very much under the control of the project team, this was considered acceptable.

There were two key lessons learnt in this phase. Firstly, there was a tendency at a local level to mix up emergency response actions with business continuity actions. Fighting fires is important but it is not the same as planning for continuity of business. Second, external communications: at what point do you communicate, to whom, what message? How do you keep all the various interested parties adequately updated with a consistent, factually correct message as the crisis evolves? To expand on this: in a crisis the site team needs to communicate with corporate management. Corporate management then, amongst other things, may need to issue legally approved statements to the Stock Exchange on the

trading impact of the incident. Meanwhile local press and television will be seeking interviews at the site, Regulators, and in some countries local politicians, will require detailed factual information – immediately. Major customers must be advised about the impact on supply – before they see the news and rush for alternative suppliers.

## PHASE 2: REFINE AND EXTEND THE BCP

The purpose of this phase was to incorporate learning from Phase 1: dealing with the ullaage, filling in the gaps, reorganising the content. The result transformed the BCP into a user friendly document that can, with training, be used without support. Phase 2 involved greater interaction with users at manufacturing sites, other locations<sup>17</sup> and functions such as IT and finance. This direct, and continuing, contact ensures that hazards are correctly identified and addressed in the BCP.

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If you have any comments or questions on this paper, or ideas for improving BCP, please contact the author: [nick.gardener@elementis-eu.com](mailto:nick.gardener@elementis-eu.com).

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