

Crash and burn?

What constitutes a business risk and do companies really cover all potentially hazardous bases? Alan Field offers a practical approach to identifying your company's indirect risk areas and how to apply this to business continuity.

Organizations, like people, have different views of risk. Some prepare for almost every eventuality; others feel they cannot afford the time. Then there are companies that think they're prepared but may not have fully considered scenarios outside their direct control, like the impact of natural disasters or terrorist incidents. Some commercial risks, such as risks to reputation due to a product recall, may not be fully appreciated until they happen or nearly happen.

The concept of risk – the likelihood of harm or an unwanted or unplanned outcome – is sometimes portrayed with an image of dice or other gambling devices, to emphasize the concepts of probability and chance.

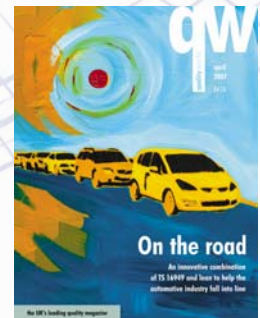
To extend this analogy, in business it is imperative that organizations are aware of the different games rather than how to play them. Of course, risk management is different to gambling. The former aims to remove, mitigate or control how much is left to chance rather than just surrendering to probability. At least, that's how it should be.

What's in a risk?

Before a company can assess and quantify risk it needs to be aware of what the potential threats are. To consider only those risks directly arising from the business and its premises does not always go far enough. For example, some risks, such as fire, may be obvious to an organization. However, consider the risk of fire at a nearby premises affecting your business. Equally, following any major incident there is the risk of your employees and customers being denied access to your premises for a period of time, as at Buncefield, for example.

The Buncefield oil terminal near Hemel Hempstead was the site of one of the biggest peacetime explosions in Europe. No refining activity took place there and an official investigation is ongoing as to what led to such a catastrophe in what was, essentially, a storage and distribution facility. The incident gave rise to safety issues as well as considerable environmental impacts. It is also uncertain whether all of the businesses that have temporarily relocated will return to the area.

The more indirect the risk the less control a company has over it. However, this does not have to mean that it has no control over it at all. An organization can prepare for a major incident by, for example, deciding how to communicate with staff unable to come to work because of a terrorist incident even though it cannot influence the likelihood of that incident occurring. This is most dramatically shown by events such as 9/11 where most organizations and individuals had to manage scenarios not fully considered or planned for in advance.



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Another example of this would be essential members of staff who travel widely on business, perhaps to unstable areas of the world. What happens if one or more of these individuals was not to return safely from such a trip? Key person insurances (if you have purchased such cover) may give you compensation but not necessarily the ability to retain key customers or product development in the short term. There are many control measures to minimize the impact of such an event occurring but these risks must be identified for the necessary planning and controls to be in place. They vary from high-level risks, such as sensitive world issues to more specific controls, such as vaccinations and pre-travel security advice.

Some organizations see risk that is displaced to others as little or no risk. Others rely on contractors and outsourced partners to 'do the right thing'. Often there are legal and reputational risks connected with this. For example, some organizations rely on contractual arrangements. However, even if they eventually (after a lot of management time and other expense) successfully sue a contractor this does not necessarily mean any judgment can or will be enforced. The company might not recover all or any of the damages and the law has few provisions to actually recover reputation or market share.

Civil Contingencies Act 2004

The Civil Contingencies Act, and accompanying non-legislative measures delivers a single framework for civil protection in the UK to meet the challenges of the 21st century. The act is separated into two substantive parts: local arrangements for civil protection and emergency powers.

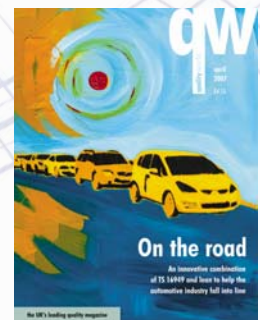
Part one of the act and supporting regulations and statutory guidance establish a set of roles and responsibilities for those involved in emergency preparation and response at the local level. The act divides local responders into two categories, imposing a different set of duties on each. Those in category one are organisations at the core of the response to most emergencies (e.g. emergency services, local authorities, NHS bodies). Category one responders are subject to the full set of civil protection duties.

Part two of the act updates the 1920 Emergency Powers Act to reflect the developments in the intervening years and the current and future risk profile. It allows for the making of temporary special legislation to help deal with the most serious of emergencies. Their use is subject to a robust set of safeguards and they can only be deployed in exceptional circumstances.

Source: www.ukresilience.info

The low-risk road less travelled

Having robust systems to ensure that contractual compliance and legal compliances are tested and monitored on an ongoing basis is the safer, more positive and cheaper option in the long run. For example, if it is a requirement that a contractor has public and employer's liability insurance then this should be checked annually by the organization and not just left



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as a contractual condition – this is not insurance. If a contractor has undertaken a special project or major works on your behalf, then ensure this is fully risk-assessed and controlled – be it an IT upgrade or a high risk building project.

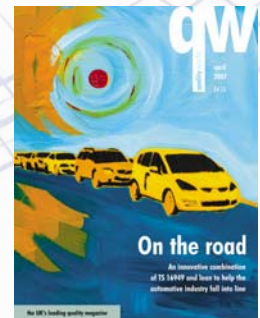
The mechanics of how this will be done do, of course, vary. However, integrating the importance of managing such risks remains the same. Another key question to ask is: 'If our outsource partner became insolvent tomorrow or couldn't meet its commitments to us, how would it affect our ability to deliver to customers?' If the answer is uncertain then contingencies need to be considered now and not after the event. If an organization follows a value chain approach, i.e. a close working partnership with a contractor, then a shared or integrated approach to risk management or business continuity may be appropriate.

In any event, the organization should consider having service level agreements which have agreed service standards and/or nominated managers from the contractors who will provide business continuity in the event of an emergency. These include sharing risk-assessment and other contingency planning with contractors' staff so that there is a common way of responding to incidents by which to measure and monitor the performance of outsource partners and contractors. Remember that a customer will frequently blame the organization, not its outsource partner or contractor.

The cost of taking risks

There are also indirect outcomes of risk, such as damage to a company's reputation. If there is contamination to a product and it needs to be recalled, for example, the further risk to reputation and brand is often greater than the original incident. In a small organization, the risk of a major customer going into administration with large sums owing to the business would have to be quantified. Often it is the oldest and most trusted customers that give rise to the greatest risk as lines of credit might be extended without question. In reality, the risk is not so much the unpaid debt itself, it is how the business will then respond to an unexpected lack of cash flow.

It is also imperative that organizations consider the full range of outcomes from one risk area. The health and safety risks of chemicals and other substances are often well identified by an organization. For example, it is possible to quantify the risk of an accidental release of toxic gases into the atmosphere. However, it is important to consider environmental damage as well as direct health risks. For example, accidents involving relatively harmless (in health and safety terms) bulk protein based foodstuffs, such as milk, can create environmental emergencies if they enter watercourses given that they absorb oxygen and compromise the life forms in the watercourse and beyond. Equally, hazardous substances, such as acetylene, can create a different type of environmental emergency to that of the immediate safety issues. Risk-assessments need to focus on both aspects. Risks can also arise from off-site issues. For example, the contamination of storm water drains will be compromised if the outflow is directly into a local river whereas if it goes through other processing first, the risk can be minimized.



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Who needs business continuity?

Business continuity and emergency planning were well known before the events of 9/11. However, it took the outcomes of that episode to focus attention on not just terrorism but other events that lead to major disruption of any organization. In Britain, the events of 7/7 have augmented this further. If there is a changing pattern of natural disasters emerging, then the developed world is sensing the impact of them more – Hurricane Katrina in New Orleans is one example. The attitude of: 'It will never happen to us or, if it does, we will just handle it somehow' is waning.

The way contingencies are planned for has a key impact on the final outcomes. Indirect risks can often be mitigated by ensuring scenarios are fully identified and then understood. But how to plan? First up, look at your organization and decide how vulnerable you are likely to be during and after a major incident.

Geographical location

You may need to consider, say, the possibility of flooding if the business is situated near a major river.

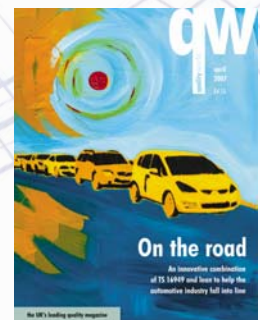
Reputation

Look critically at how others could view you. For example, if your organization has even tenuous links with an animal testing laboratory you may be at risk. In the aftermath of 9/11, large multi-sited organizations were forced to look at how quickly other sites could pick up the activities of those compromised by the terrorist activity. Some large financial institutions temporarily moved work to other European locations and had contingency plans in place to facilitate this.

Communication

Look critically at all your communication strategies. In the event of any major incident, would all your staff and key contractors know how to react? These strategies can be approached in a number of ways. The first is not to assume all staff, including senior managers, would know what to do in a major incident. Decide who are the best people to communicate messages to customers, staff, contractors, the media, emergency services and the next of kin. Different people will have varying approaches and skills appropriate to each stakeholder group. Make sure they understand their roles and brief them as necessary.

Consider running 'desk top' scenarios to test your training and briefing strategies and learn from anything that proved to be an assumption or inadequate. Keep these plans under constant review. For example, understand the latest methods for backing up electronic data. To maintain a resilient business ensure that your business processes are always changing to reflect the evolving environment. Perfect ways in which to communicate with your staff quickly and efficiently at times of emergency, such as mobilizing resources to other sites or group SMS messaging.



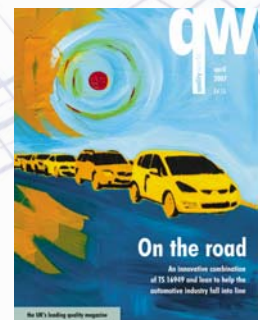
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There are other strategies available to identify indirect risks. For major hazards, there are sources of official information. The Civil Contingencies Act 2004 attempts to provide a framework to deal with a wide range of civil emergencies both with local and regional impact. It is not restricted to terrorist activity and includes all matter of civil emergencies.

There is no certainty when it comes to risk-assessment and staff training, along with a top-down management strategy, is vital. It is also integral for assessments to be regularly reviewed in light of up-to-date information or analysis and from as many sources as possible

Author bio - Alan Field is a client manager with BSI. An associate member of the Emergency Planning Society, he is one of BSI's technical specialists for assessing the occupational health and safety management scheme OHSAS 18001. The author's views do not necessarily concur with those of the BSI.

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