

This kind of resilience planning is usually carried out in isolation however and focused on protection of the dependent organisation rather than the collective resilience of the interdependent supply chain.

Plans put in place to ensure this alternative supply are unlikely to have been rehearsed.

Organisations focused on long term survival of the supply chain, that work collaboratively with key partners and suppliers to plan and exercise contingency arrangements before disaster strikes can be more confident that supply will be available when it is needed most.

Understanding your exposure to supply chain risk - both upstream and down helps to identify the weakest links and ensure your business can survive.

Indirect risk affects both supply and demand.

Nuclear authorities everywhere has immediately clamped down on safety arrangements and governments the world over are reconsidering their investment in nuclear power.

None of this is good news for energy suppliers heavily reliant on this technology, but may be positive news for those specializing in alternative energy.

Public concern over the safety of food and other components sourced from Japan may force some companies to seek alternative supply in an effort to maintain consumer confidence.

Scenario planning can help companies to foresee this kind of indirect risk and to prepare for it through diversity of supply and the ability to cope with sudden market shifts.

Key Questions

- Should we reconsider our “likely worst case scenario”?
- Is continuity planning integrated with other risk management disciplines?
- Do our crisis plans consider the practical needs of employees?
- How well can we manage fear and uncertainty?
- Does our continuity planning consider the communities in which we operate?
- Do we plan collaboratively for greater resilience?
- Do we rehearse crisis communications enough?
- How rigid are our plans? Can we remain agile in a rapidly changing environment?
- Are we clear about our supply chain dependencies?
- Do we know who is important to us in a crisis?
- Do we know where the weaker links are?
- Do we plan collaboratively with supply chain partners and do we rehearse our plans?
- Should we plan for long term supply chain disruption?

PwC Services

- **Crisis management:** We advise on the development of crisis management plans and response frameworks including emergency response, crisis management, crisis communications and business recovery. We help businesses to develop plans that are simple to use, easy to navigate and straightforward to maintain.
- **Supply chain resilience:** We help businesses to gain clarity and understanding of their exposure to supply chain risk and develop capabilities to mitigate the potential impacts.
- **BCM Programme management:** We help businesses manage complex BCM programmes, often across multiple geographies to maintain consistency, to ensure the priorities are correct, and to ensure that the management are kept properly informed about progress.
- **Exercising:** We work hard to understand your organisation in order to develop challenging exercise scenarios in order to rehearse crisis management and business recovery teams. This services a number of purposes – training the teams, testing the plans, and providing assurance. The most critically important exercises are the top team crisis management exercises
- **Governance:** We provide advice in setting up a governance and assurance framework for BCM within a wider risk management context.
- **Review & Assurance:** We review and audit BCM and IT recovery capability and provide assurance to management that plans are effective.

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Risk and Business Continuity

April 2011

After Japan 9.0

Are there gaps in your continuity plans?



Redefining the ‘likely worst case scenario’?

Many companies are re-examining their definition of ‘likely worst case scenario’ but what else can we learn from the events in Japan?

Worldwide, organisations are struggling to understand the true scale and impact of the recent disasters in Japan.

This unprecedented and highly devastating series of events presents a range of immediate operational problems and longer term challenges for businesses operating in Japan and also for those whose business rely upon manufactured goods or services from the country.

These events may well change the definition of “likely worst case scenario” for some businesses but what else can we learn?

Organisations may need to reconsider the scope of their risk and resilience planning.

Traditional risk assessment and risk planning methods may need to be re-examined as failures come to light.

For example, the Japanese nuclear authority had considered the risk of earthquake and designed the fabric of their reactors to cope with this. They had also considered the risk and impact of power failure at their plants in southern Japan to be severe enough to warrant significant investment in generators.

Often however, risks are considered in isolation and controls put in place without thinking through the likely scenarios which may lead to these risks becoming reality. Scenario planning is a useful way to help validate risk management strategy?

What was the worst case scenario for which the Japanese Nuclear Authority were planning?

How much consideration was given to the risks inherent in the generators they put in place? And why, in the country that created the word tsunami were these left exposed?

Many companies will reconsider the scope of risk and resilience planning, and redefine their “likely worst case scenario”, but what else can we learn from the events in Japan?

Safety and Security should always be the number one priority.

Business Continuity planning often focuses on recovery of assets and infrastructure and can sometimes fail to consider appropriately the needs of people during a crisis.

Evacuating and repatriating foreign nationals is never straightforward. The simple logistics of accounting for and extracting people from a country during widespread disruption presents a number of difficulties.

Many large organisations struggle to keep track of employee movements during normal operations. Accounting for staff in a disaster can take days or even weeks.

Arranging visas, transport and accommodation are also challenging. Some employees simply won't want to leave.

On a practical level, the ability of specialist third party providers to help you can be relatively limited during events of this scale. Consider your exposure if your chosen provider lets you down.

Working with your provider as you develop and practice your evacuation plans can help ensure you are better placed to benefit from their support when it is needed.

Your ability to provide for the basic needs to your employees may be hampered by logistical constraints and lack of availability of basic commodities.

Panic buying and volatile power supply across the country reduced availability of basic commodities.

Daily life became a challenge in many areas. Add to this increased sickness and disease as sanitation facilities and morgues in the disaster zones are overwhelmed. Companies without adequate preparations are struggling to cope.

Working collaboratively with other organisations during resilience planning helps build trust and respect in the workforce and increases the collective resilience of employees and the wider community.

Being there when people need you most and working with them to understand and provide for their needs during times of adversity builds lifetime loyalty.

Fear and uncertainty spreads quickly among the workforce as accurate information is hard to come by and ambiguity prevails.

Media speculation gave rise to panic, potentially leading to poor decision making by business leadership and employees unprepared for a crisis of this nature. Telecommunications infrastructures were directly impacted and quickly become overwhelmed making communication difficult for businesses and individuals.

Visible and decisive leadership and effective communication of clear and accurate information helps to create a sense of certainty and calm.

Knowing what to say and when to say it, avoiding ambiguity and becoming a trusted source of information for your employees puts you in better control.

This requires preparation.

Communications teams by and large think they are good at this. The reality is, few have practiced crisis communications.

By planning and practicing crisis communications during simulations, your leadership team can be better prepared to respond more effectively when required.

Business processes stop or become severely disrupted. Customer demands change quickly and your organisation will face a range of different pressures.

In many companies, routines halted or were severely disrupted for an extended period. Many businesses failed to meet their service obligations and while the market is sympathetic, cash flow was quickly affected.

Customer demands changed dramatically, as contingency procurement stretched already limited supplies and competitor businesses sought alternative ways to maintain their own viability.

Some organisations dropped or relaxed controls to make processes faster and recovery easier. This increased their risk exposure but allowed them to be more agile and better able to respond to fluctuations in demand.

Volatility in the stock markets persists as aftershocks continue and uncertainty spreads about impacts to the global supply chain.

Organisations with a clear understanding of their priorities, critical dependencies and supporting resources and with the courage and leadership to change direction quickly can turn crisis into opportunity. For some this is the difference between survival and failure.

Crisis and business continuity planning should extend beyond assets and infrastructure to take into account changing customer requirements, shifting markets and other external pressures that an organisation will face in a crisis.

Forward looking scenario planning while times are good and practice through simulation helps you to remain confident in a rapidly changing business landscape.

What was the worst case scenario for which the Japanese Nuclear Authority were planning?



Understanding the expectations of those around you and supporting your business community may help you emerge in a stronger position once the crisis has passed.

As demand for some resources quickly outstripped supply those without collaborative arrangements in place may quickly have faced higher prices and reduced availability prolonging their recovery, damaging their reputation and limiting growth.

Businesses taking a leading role in the local community and listening carefully to the expectations those around them during resilience planning can be better prepared and as a result build respect and trust among those with whom their organisation is interdependent.

Organisations seen to be handling a crisis well often recover more quickly and may even enhance share value.

Key stakeholders and customers quickly lose confidence in companies seen to be handling a crisis poorly.

Prolonged disruption to supply chains, lack of communication, failure to manage reputational issues will all harm chances of survival.

For most people, perception is reality.

Your operational response can be perfectly conceived and executed, however if you fail to recognise and to meet the communication expectations of your employees, customers and stakeholders your efforts can be for nothing.

Strong leaders will acknowledge they are in difficulty, express sympathy for those affected, maintain transparency during their response and provide clear communication to all stakeholders as they work their way through adversity.

In today's interconnected world, supply chain disruption ripples across the global marketplace.

Car manufacturers such as Honda and Ford are looking for alternative options in order to keep productivity on target. As a precautionary measure they have halted production at selected plants in the UK, Mainland Europe and in North America.

Technology companies are also affected. Sony, Panasonic and other manufacturers of high-tech products and components are struggling to maintain supply as factories in Japan remain closed and rolling blackouts continue to disrupt operations across the country.

Lack of visibility in complex supply chains leaves some businesses scrambling for limited resources.

For some organisations the immediate impact of shortages are clear and they will have arrangements in place for alternative supply.

For others however, the impact is less certain. In today's interconnected world, focused on driving down cost, lean supply chains and just-in time delivery, few businesses can claim visibility to significant depth in their supply chain.

Most businesses understand how key partners feature in their long term business strategy and their position in the supply chain.

Few however, have developed joint contingency arrangements to manage a prolonged loss of service from either side of the relationship.

Focus on lean supply chains means there is little spare capacity in the systems.

While most manufacturers maintain contingent supplies, these tend to provide cover for short term disruption only.

Some will have alternative suppliers identified as a contingency against failure.

Are there gaps in your continuity plans?

