



RISKONNET

- MASTER THE UNEXPECTED -

# BUSINESS CONTINUITY MANAGEMENT: A PLAN B FOR YOUR COMPANY

ARE YOU PREPARED FOR A COSTLY AND MAJOR BUSINESS INTERRUPTION?

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## CONTINUITY FOR YOUR BUSINESS

The volcanic eruption in Iceland and the earthquake and the subsequent tsunami in Japan made headlines some years ago. These natural phenomena were a disaster in their own right, but they also had a major impact on business. The disruption of the supply chain in these countries led to business interruptions at many companies. This costly consequential damage harmed the market position of many companies.

The importance of both a good supply chain management mechanism and business continuity management becomes clear when we look at the consequences of the earthquake and tsunami in Japan. These consequences were by no means limited to the supply chain of companies in the country itself. Companies in the region and in Europe trading with Japanese suppliers were also affected. Suppliers lost customers overnight and buyers saw their supply chain shut down. It even caused long-term business interruptions in factories of leading car manufacturers in America.

A few years ago, the volcanic eruption in Iceland had far-reaching consequences. All over Europe, flights were cancelled because of the dust clouds floating over the continent from Iceland. For days, passengers had to use alternative means of transport because it was uncertain when the airspace would be reopened, with all the associated economic loss!

And more recently, the cyber-attack on 64 countries in the summer of 2017 comes to mind. Hundreds of companies came to a standstill. From hospitals in the United States to Danish company Maersk, whose container terminals in Rotterdam could not receive supplies for a week. The total damage amounts to billions.

In this white paper, Riskonet will explain how continuity management allows you to manage the risks of incidents better and how you can limit consequential damage. The successive chapters will detail why you should take action, what it entails and what it can do for your organisation.

*Özlem Emgen*  
*Riskonet partner Turkey*



**In this white paper:**

- How much do you know about your supply chain?
- Can you manage it better?
- How can you limit damage due to a business interruption?

## HOW ERICSSON LOST ITS MARKET POSITION

REMEMBER ERICSSON? ONCE THE MARKET LEADER AND PRODUCER  
OF VERY POPULAR MOBILE PHONES? AND THE FIERCE COMPETITION  
BETWEEN ERICSSON AND NOKIA? AND DO YOU KNOW HOW ERICSSON, IN PART  
DUE TO A SUPPLY CHAIN PROBLEM, LOST ITS MARKET POSITION?

Ericsson was large, but proved to be vulnerable due to a high dependency on its supply chain. As a result of a voltage spike caused by lightning striking a high-voltage line in New Mexico (VS), a fire broke out at a chip production plant owned by (then) Philips on 17 March 2000. Because the facility and staff were well-prepared for a potential incident, the fire was extinguished within ten minutes. It soon became apparent that the fire had damaged materials on one particular production line; it later turned out these materials were used in the production of chips for mobile phones.

At first, this event did not appear to have any far-reaching consequences, the fire had been extinguished and the direct damage was relatively minor. Indirectly, however, the incident had catastrophic consequences. For Ericsson and Nokia, the event triggered a prolonged business interruption and loss of their market share! How could that have happened?

### MAJOR CONSEQUENCES

The chips stored in the warehouses waiting to be transported to Nokia and Ericsson had been rendered unusable due to water and smoke damage. However, it had more serious consequences for Ericsson than for Nokia. Why? The supply chain management mechanism and the preparation for potential business interruptions of these two companies differed. Nokia had monitored its supply chain and was prepared to work with alternative suppliers – and had actually made provisions to do so. Early intervention and switching to other suppliers were, therefore, an option. Ericsson was much less prepared to act, which later contributed to the loss of its leading position in the global mobile phone market.

### BUSINESS CONTINUITY MANAGEMENT

The moral of this story: business interruptions are often the result of big and small events. With Business Continuity Management, you can anticipate and respond to these issues, with positive consequences for the continuity of your organisation.

## EACH ENTREPRENEUR MUST HAVE A PLAN B IN PLACE

WHAT HAPPENED TO ERICSSON, NOKIA AND MAERSK COULD HAPPEN TO ANY ENTREPRENEUR. A DISASTROUS TSUNAMI, LIGHTNING STRIKE, CYBER ATTACK, OR A 'RELATIVELY' SMALL FIRE, YOUR SUPPLY CHAIN IS ALSO AS STRONG AS ITS WEAKEST LINK. ARE YOU PREPARED FOR THE UNTHINKABLE? HOW STRONG, FLEXIBLE AND PRACTICABLE IS YOUR PLAN B?

Speaking of a plan B: because Nokia realised the consequences of the event could have been much more serious than it initially seemed, they quickly managed to make arrangements with other suppliers and could have the necessary chips supplied from other factories.

Ericsson was less diligent in assessing the consequences. Once Ericsson had become fully aware of the scale of the consequences, there were not many options left to mitigate them. Where the events did not, or hardly, have an impact on Nokia's operating result, they were quite apparent in Ericsson's financial statement. The group was significantly affected by the fire.

There have been countless cases similar to Ericsson since 2000. Make sure not to be the next organisation taken by surprise by events that are a risk to your supply chain and thus your continuity!

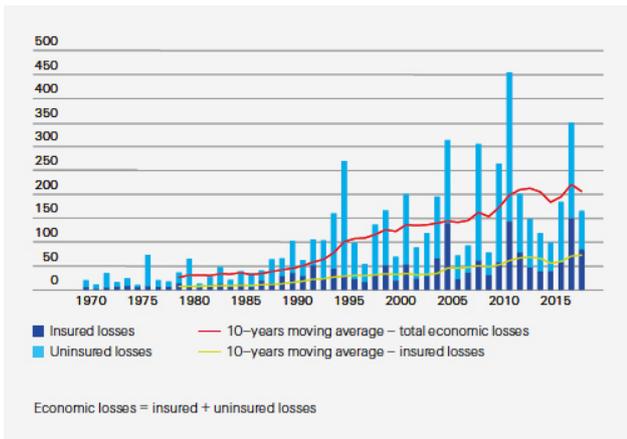
- What challenge does your company face?
- Is exposing your company to the risk of business interruption manageable?
- And if it does happen, how can you mitigate the consequences?

## MORE NATURAL DISASTERS, MORE BUSINESS INTERRUPTIONS

THE NUMBER OF NATURAL DISASTERS RESULTING IN BUSINESS INTERRUPTIONS IS INCREASING DAY BY DAY. THIS IS SUFFICIENT REASON TO TAKE A SERIOUS LOOK AT THE STATISTICS ON DISASTERS AND THEIR CONSEQUENCES AND DAMAGE.

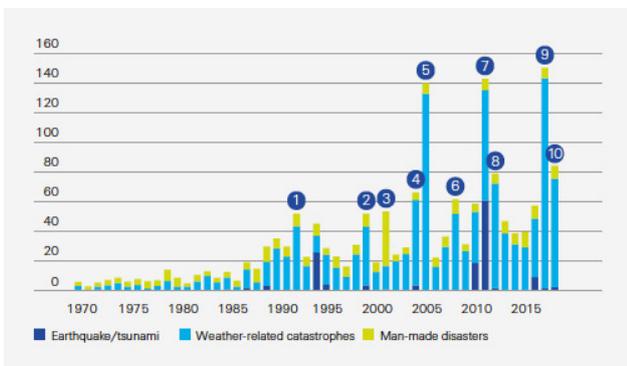
The figure below, drawn up by reinsurer Swiss Re, shows the insured damage and total damage between 1970 and 2018. You will see that most of the damage caused by natural disasters was not covered and constituted a serious financial burden for the companies involved. In 2011 – the year of the earthquake in Christchurch (New Zealand), the flood in Thailand and the earthquake in Japan – the financial loss (besides the human aspect) remains in the memories of countless entrepreneurs.

Claims worldwide 1980-2013: total and insured damage (in millions USD)



Source: Swiss Re Institute

Insured claims 1970-2018 (in millions USD)



Source: Swiss Re Institute

1. Hurricane Andrew
2. Winter Storm Lothar
3. WTC
4. Hurricanes Ivan, Charley, Frances
5. Hurricanes Katrina, Rita, Wilma
6. Hurricanes Ike, Gustav
7. Japan, NZ earthquakes, Thailand flood
8. Hurricane Sandy
9. Hurricanes Harvey, Irma, Maria
10. Camp Fire, Typhoon Jebi

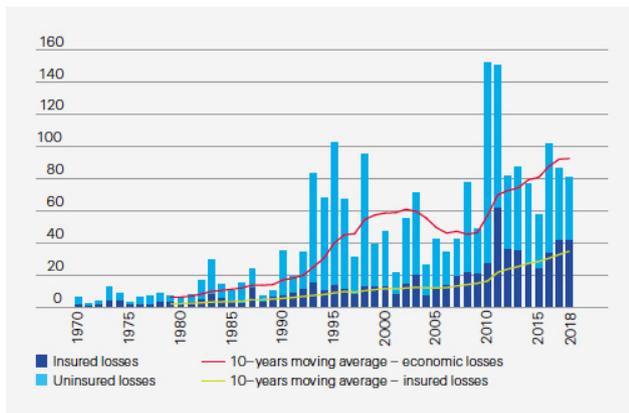
## MORE NATURAL DISASTERS, MORE BUSINESS INTERRUPTIONS

### SECONDARY PERIL

In recent decades, rivers in Europe have regularly overflowed their banks as a result of heavy rainfall; industry, agriculture and transport have been affected and business interruptions occurred. Epidemics, political uncertainties, civil unrest, civil wars, etc. will also cause business interruptions in the shorter or longer term.

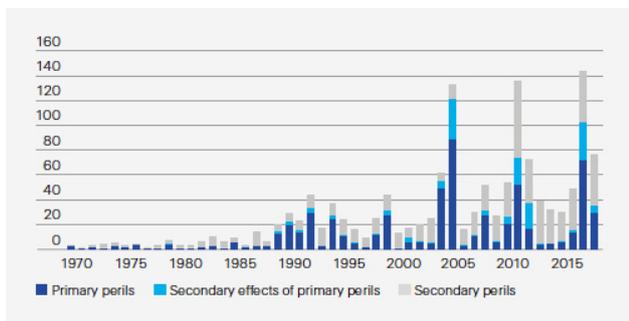
Reinsurers such as Swiss Re see a clear increase in damages due to so-called secondary peril. This damage is caused by an increase in local natural catastrophes, such as (river) floods, flash floods (floods after heavy rain), hail and landslides.

Insured and uninsured 'secondary peril' damage between 1970-2018, worldwide (in millions USD)



Source: Swiss Re Institute

Insured damage between 1970 and 2018, worldwide, broken down into primary and secondary perils (in millions USD)



Source: Swiss Re Institute

## WHAT IS BUSINESS CONTINUITY MANAGEMENT?

**BUSINESS CONTINUITY MANAGEMENT IS THE CAPABILITY OF AN ORGANISATION TO RESPOND TO THE CAUSES OF AN INCIDENT AND TO RECOVER FROM ITS CONSEQUENCES. NOT ONLY IS IT ABOUT HAVING A PLAN B IN PLACE, BUT IT IS ALSO ABOUT THE ABILITY TO EXECUTE IT.**

We can define an incident as an event that can cause loss and emergency situation(s), or as a change in circumstances and/or situation. In a country situated in an earthquake region – such as Turkey – an earthquake is undeniably the greatest risk in terms of natural disasters. For a country like the Netherlands, flooding – and in recent years potentially also drought – is the greatest risk.

We can draw up a long list of events and situations with major consequences, among others:

- Staff leaving
- Strike/lock-out
- Terror
- Natural disasters (earthquakes, but also flooding)
- Fire
- Faulty machinery
- Supply chain problems
- Legislation
- Data processing

These are all events that underline the need for a business continuity plan and good preparation for contingencies.

Business continuity is more than just a hefty document in the managing director's office cabinet detailing the steps to be taken in the event of an incident – because the actual incident tends to vary from what is described. Business Continuity Management deserves your attention, in production companies, in industry, but certainly also in the service sector.

In short: you need a clear understanding of your organisation and a plan tailored to your specific requirements.

## YOUR PLAN B

**DRAWING UP SUCH A PLAN OF ACTION IS HARD WORK. PREPARATION REQUIRES RESEARCH, ORGANISATION, PLANNING, ASSESSMENT, EVALUATION, TRAINING, TESTING AND PRACTICE. HOWEVER, IT DOES NOT REQUIRE A STACK OF PAPER.**

For your plan of action, it is important to define work processes, identify critical processes and estimate how long the company can endure the consequences of an interruption. In this process, determining the critical dependencies is another important aspect. Business continuity management comprises three basic plans:

### EMERGENCY PLAN

The emergency plan focuses on the protection of people, property and environmental factors and is activated immediately after the qualifying incident. Not only is it a requirement of occupational safety and health legislation to keep contingency plans up to date – but it is also essential in ensuring business continuity.

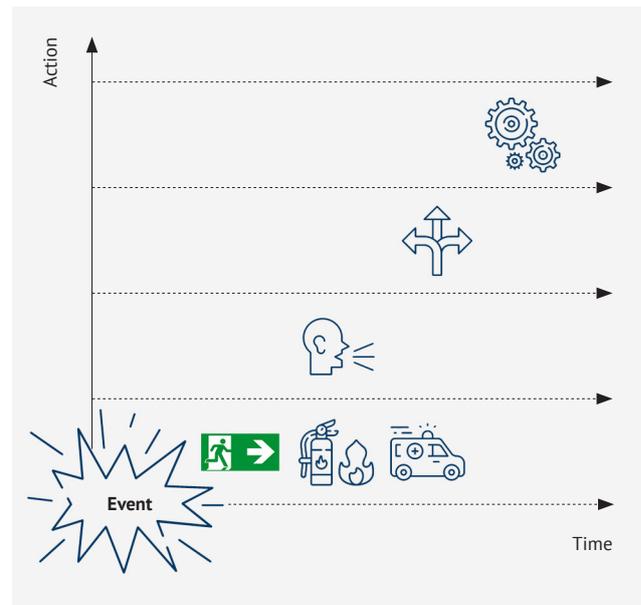
### CRISIS MANAGEMENT AND COMMUNICATION PLAN

This includes all activities and information flows designed to preserve the company's image and prestige. It is designed to guide the decision-making process of critical decisions regarding response and business recovery. After all, an event that is not initially considered to be a crisis may, over time, become one. Internal and external communication must be carried out effectively, as information does not stay hidden for long in this age of communication and social media. An error in this respect can haunt a company for quite some time.

### BUSINESS RECOVERY PLAN

This focuses on maintaining the company's revenues and market shares. It is, therefore, important to determine in what order, and when, operations should be resumed and what resources are needed to achieve this.

Stappen voor bedrijfscontinuïteitsbeheer



## **ACTION: PUT TEAMS TO WORK**

**IN ORDER TO ARRIVE AT A GOOD PLAN AND TO TAKE ADEQUATE ACTION IN THE EVENT OF AN UNEXPECTED SITUATION, IT IS ESSENTIAL FOR YOU TO ESTABLISH EFFICIENT AND COMPETENT TEAMS. THE ROLES AND RESPONSIBILITIES OF THE TEAMS MUST BE CLEARLY DEFINED FOR THE PERIOD BEFORE, DURING AND AFTER THE EVENT.**

If companies are aware of the business activities and the risks they face (physical, operational, financial, etc.), and have a keen understanding of what can cause a business interruption, they can prepare to respond quickly and effectively when a (potential) business-interrupting event occurs.

### **IMPORTANT: YOU NEED A RISK MANAGEMENT SYSTEM**

It is, therefore, necessary to have a risk management system in place in addition to business continuity plans. A successful system can be set up by applying the Plan-Do-Check-Act cycle.

Moreover, it is also an option to integrate all activities carried out to ensure business continuity into the company's existing management systems and have this certified by an independent party. On this basis, the ISO 22301 (Societal Security - Business Continuity Management Systems - Requirements) certificate can be obtained, which is sometimes requested by customers.

The step to take after the realisation of these activities is perhaps the most important one in the process. The system should be embraced by the organisation and maintained and kept up to date for the longer term. It has to be treated as a living system. It is also important to practice the processes and procedures periodically, based on realistic scenarios.

As in all management systems, the biggest success factor is for the top management level to feel responsible for the process, support it, commit to it and make the necessary resources (time, staff, budget) available to achieve it.

## WHAT CAN BUSINESS CONTINUITY MANAGEMENT DO FOR YOU?

ORGANISATIONS THAT ARE SERIOUS ABOUT BUSINESS CONTINUITY AND INVEST IN BUSINESS CONTINUITY MANAGEMENT, REAP SIGNIFICANT BENEFITS.

The advantages of a good and well-thought-out plan B are greater than can initially be fathomed. For instance:

- Preserving the company's image and prestige.
- Maintaining turnover, profitability and market share.
- Preventing the loss of customers.
- Gaining an advantage over the competition.
- Ensuring compliance with regulatory requirements.
- Safeguarding the rights of stakeholders.
- Benefiting on the insurance market.
- Acknowledging the company's strengths and weaknesses.
- Ensuring supply chain resilience (from bottom to top or vice versa).
- No interruptions in the supply chain.
- Establishing a system to obtain the ISO 22301 certificate and integrate it into current management systems.

Although our examples mainly focus on the supply chain and natural disasters, there are many other threats for companies that can lead to undesirable events. It is important to have already implemented the infrastructure required in order to be well-prepared and minimise the impact of undesirable events.

## BRONNEN

<http://www.husdal.com/2008/10/18/ericsson-versus-nokia-the-now-classic-case-of-supply-chain-disruption>

ISO 22301 Societal Security - Business Continuity Management Systems - Requirements

<http://www.munichre.com>

<http://www.michaelsamonas.gr/resources/Impact%20of%20Catastrophes%20on%20Shareholder%20Value.pdf>

<http://www.livescience.com/39110-japan-2011-earthquake-tsunami-facts.html>

[https://www.swissre.com/dam/jcr:c37eb0e4-c0b9-4a9f-9954-3d0bb4339bfd/sigma2\\_2019\\_en.pdf](https://www.swissre.com/dam/jcr:c37eb0e4-c0b9-4a9f-9954-3d0bb4339bfd/sigma2_2019_en.pdf)

## IS IT TOO COMPLICATED AN ISSUE AND COULD YOU USE PROFESSIONAL SUPPORT?

Do you need help identifying the risks your business faces, or would you like advice on how to ensure the continuity of your business the best way possible? Feel free to contact Özlem Emgen or Ron de Bruijn without any obligation. We are happy to help you.



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