

Business Continuity

By Lawrence S. Burke, CPA

THE ANNUAL START of hurricane season should serve as the catalyst for every organization to evaluate its plans for business continuity and disaster recovery. Although it has been less than a year since Florida businesses were impacted by Hurricanes Katrina and Wilma, recent surveys indicate that many businesses are still not adequately prepared to survive a business disruption from an event such as a strong hurricane. To minimize the business risks associated with disruptions caused by man-made or natural disasters, organizations of all types ranging from large sophisticated multinationals to sole proprietorships should have a business continuity management plan that includes a disaster recovery component.

Although the terms *business continuity management* and *disaster recovery* are sometimes used interchangeably, there are significant differences between the two. Although there are various definitions of what constitutes Business Continuity Management (BCM), it is generally accepted that it is a process designed to reduce an organization's business risk arising from an unexpected or unintended disruption of critical functions and operations necessary for its survival. This includes human and material resources supporting critical functions as well as assurance that a minimum level of service is maintained to support the identified critical operating functions. For example, a common challenge for certain businesses impacted last year by Hurricanes Katrina and Wilma was the need to process employee payroll. The facilities normally used to perform this processing function were without power for an extended period of time which prevented routine processing, so companies had to find alternative locations and methods to ensure that employees were paid on time and in full.

Disaster Recovery Planning (DRP), a component of BCM, is generally developed and implemented by a business to recover an Information Technology (IT) processing facility or function, which in most organiza-

tions, is of critical tactical and strategic importance due to the dependence of important business processes on such computer systems. DRP policies and processes should be designed to address various scenarios regarding business

interruption with the core objective of ensuring that both the physical facilities to process data and the corresponding critical data are completely and readily available to meet the ongoing needs of the business in accordance with criteria specified by the organization. DRP contingencies can be as robust as having agreements with third-party service providers to provide "hot sites" which are fully configured and ready-to-operate facilities that only need the organization's staff, programs, data files and documentation to be up and running, often within a few hours of the

business disruption. One of the most common and widely adopted DRP elements by businesses of all sizes is the practice of having data periodically backed up using one of the various commercially available backup applications. However, a DRP can quickly lose its effectiveness due to data incompleteness, loss of or damage to the backup media. Emmett Lange, a

principal with Sunera Business Consultants, stated that "a critical success factor to ensure that the DRP is effective in times of crisis is to incorporate a periodic testing plan validating that the data backups and facilities are fully functioning." As certain companies painfully learned last year, the alternative of having a DRP that is not fully effective during a business disruption can be very costly.

Implementing successful BCM strategies can often be the difference between business survival and failure, especially for smaller companies. According to a recent study from the University of Minnesota, 93 percent of companies that lose critical systems for more



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than 10 days quickly file for bankruptcy. Because of Florida's recent history with hurricanes, it would seem logical that all Florida businesses would be prepared for the current hurricane season. However, another recent survey published during June 2006 in the *South Florida Business Journal* noted that although 53 percent of the respondents stated that they had a well developed plan, a surprising 21 percent of the respondents indicated that they had no plan, and the remaining 26 percent indicated that they had only completed minimal planning.

BUSINESS CONTINUITY MANAGEMENT'S INCREASED EMPHASIS

Historically, BCM narrowly focused on data recovery and data processing within a company's information technology function. However, as a result of significant events disrupting business operations over the past few years including Sept. 11 and Hurricane Katrina, BCM is emerging as a mainstream corporate capability that operates with a framework to achieve acceptable results. In fact, a newly released Management Accounting Guideline (MAG), *Business Continuity Management* currently available from the AICPA notes that the frequency of man-made and natural disasters have increased in recent years. Perhaps most importantly in today's integrated world, the impact of disasters on companies has greatly increased because of the technological integration and globalization. A recent Deloitte & Touche/CPM study published in February 2006 indicated that the number of companies that have developed formal BCM programs has almost tripled in the past six years with nearly

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83 percent of survey respondents stating that they now have formal plans in place. Although the survey encompassed companies in all industries, 67 percent of the respondents had revenues in excess of \$100 million and were able to dedicate more resources and attention to BCM compared to the smaller companies in the survey. The survey attributes the significant increase in formalizing BCM programs to many factors including the terrorist attacks on Sept. 11, Hurricane Katrina, and an increasing regulatory focus which includes the Sarbanes-Oxley Act for U.S. Public Companies, HIPAA requirements for

companies working with healthcare information, and Basel II for financial institutions.

BUSINESS CONTINUITY MANAGEMENT CONSIDERATION

Successful BCM strategies should address the lessons learned over the past few years from both man-made and natural disasters. For example, after Hurricane Katrina it became apparent that many employees suffered personal disasters that either prevented them from returning to work, or made it very difficult for them to focus on the job at hand after returning to work. Another lesson was the need to have contingency plans in the event of a prolonged loss of power that would prevent even limited scale operations. Using these and other lessons learned, an organization can develop a more robust BCM program to address risks that were not considered likely prior to Hurricane Katrina.

Typical BCM programs begin with the recognition and commitment by senior management to the development and implementation of some type of plan. Based on that commitment, executives then develop an assessment of the organization's continuity objectives and subsequent identification of the organization's key business processes. As part of that analysis, there should be a detailed assessment of the potential negative impact of the business disruption to all facets of the organization including employees, facilities, technology systems and their corresponding data. Additionally, consideration should be given to the impact on customers, suppliers and intangible factors such as the business brand or reputation as well as whether or not the organization will be able to comply with its current regulatory environment. Using a basic risk assessment model, a BCM will provide a framework for how much risk an organization is willing to accept, how much risk an organization is willing to mitigate, and how much risk an organization can assign. An example of risk acceptance and mitigation strategies could include the engagement of a third-party service provider to provide the use of a "hot site" within a number of days versus a number of hours, as a result of a cost-benefit analysis. Risk assignment strategies typically involve the purchase of insurance which can supplement or replace an organization's revenues and profits in cases of business disruption.

Perhaps the most significant challenge to a successful BCM program according to author Eric Krell (2006)¹ is that it is difficult to sustain over time due to the following obstacles:

- Vividness bias (Bazerman and Watkins, 2004)² prevents most individuals from thinking about major risks unless such matters occur with frequency or intensity.

- Competing priorities often force BCM programs to take a lesser role in an organization due to more immediate needs such as quarterly earnings targets.

- Relatively recent emphasis on BCM has resulted in an emerging discipline with established standards and a framework that are new and continuing to evolve.

However, the expected trend is that BCM will continue to receive an increased focus by senior management, regulatory bodies and investors. As with any emerging discipline that has standards still being refined and often just beginning to be integrated into an organization's culture as well as policies and procedures, the challenge for senior management will be to maintain a consistent and sustained BCM focus in the current, dynamic business environment.

For those businesses that do not yet have a formal BCM program in place, a good start is for senior management to evaluate the organization's risks and objectives, especially in light of known and common disruptions like

hurricanes. Since many businesses informally have various components of a BCM in place, like DRP elements including data backup procedures of critical business data, senior management can easily leverage these existing components into a formal plan. As many organizations learned during last year's hurricane season, the lack of a formal BCM can have very severe consequences. ■

1 Krell, Eric 2006. "Business Continuity: Creating a Framework for Success. CMA Magazine 2006

2 Bazerman, Max H., and Watkins, Michael D. 2004. "Predictable Surprises: The Disasters You Should Have Seen Coming and How to Prevent Them." Boston: Harvard Business School Press.

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