BUSINESS CONTINUITY DELIVERS RETURN ON INVESTMENT

A Business Continuity Awareness Week 2016 white paper
A perennial question asked by business continuity (BC) professionals involves justifying the value of their activity to Top Management, their organization and its different stakeholders. Successfully justifying the value of BC more often spells the difference between obtaining executive support and getting required resources in embedding continuity, leading to resilience within an organization. It has been demonstrated how BC becomes an integral part of building resilience in organizations\(^1\) and it is crucial to maintain this capability in order to maximise adaptive capacity.

Literature demonstrates the link between BC and its benefits during times of disruption\(^2\). However, this paper pitched to BC practitioners in particular, and organizations in general looks at the other advantages offered by BC. It is argued that BC delivers a return on investment beyond adaptive capacity in times of disruption. Among other areas listed below, BC helps organizations realise a substantial return on investment.

- Business continuity helps organizations obtain lower premiums for business interruption and supply chain insurance.
- Business continuity enables organizations to realise increased efficiencies which may translate to decreased business costs, avoiding costly overlaps and duplication of work as well as streamlining preparation efforts related to compliance.
- Business continuity facilitates contract negotiations with customers and suppliers, increasing transparency and raising governance standards.

It is clear that BC significantly contributes towards optimising organizational performance. Indeed, BC is not just an overhead, it is an investment for a better organization.

\(^2\) These references and more are provided in the Further Reading section of this paper.
Business continuity reduces insurance premiums
Section 1

Business continuity reduces insurance premiums

An organization adopting a well embedded BC plan tends to recover more quickly from disruptions, thus reducing the time and costs of recovery. This leads to optimisation of resources deployed to resume business and increased organizational reliability. Hence, from an insurance perspective, this would be an important criterion in determining a risk premium when negotiating an insurance contract. It follows that a high level of preparedness and crisis management skills stemming from BC would demonstrate a lower probability of insurers paying out for business disruption, lowering prices for the business owner3.

Furthermore, BC includes all types of arrangements that may demonstrate stability and resiliency of a given organization to an insurer. Contingency measures such as testing and exercising, backing up computer data and establishing a crisis communication system are examples of good practices that can keep businesses afloat during disruption.

Insurers also account for contingency plans in setting premiums for a potential client. Risks including the loss of profits or ‘consequential risks’ related to disruptions affecting a firm’s premises have been known in the insurance field for over two centuries4. Insurers tend to take these factors, among others, into serious consideration when drafting insurance contracts5. For one, small and medium-sized enterprises (SMEs) can possibly avail up to a 15% reduction on insurance premiums by having a BC programme in place according to Cloud Direct6.

Case Study:

A 2012 study by the British Insurance Brokers Association (BIBA) in cooperation with the UK Cabinet Office surveyed insurance providers on the advantages of BC plans. From a respondent base of senior executives in the insurance industry, 55% stated that firms with a BC plan are likely to realise lower insurance premiums. 61% believed that organizations with a BC plan are also likely to get a reduced excess. An overwhelming majority (83%) also indicated considering lowering the premiums or improving business interruption insurance terms for organizations having a BC plan in place. Half of them also revealed that they tend to ask their customers to consider adopting a BC plan. Respondents also state that one of the benefits of a BC plan is turning otherwise ‘unacceptable’ risk into one insurers would underwrite against.


Business continuity reduces insurance premiums

An expert weighs in

Nick Wildgoose FCA FCIPS is currently the Global Supply Chain Product Leader for Zurich Insurance. He is a qualified accountant and supply chain professional and has held a variety of global financial, supply chain and commercial positions in a number of industry sectors, working for companies such as PwC, BOC Group and the Virgin Group. He is also a respected thought leader in supply chain resilience, having been involved with the World Economic Forum and supporting the BCI Supply Chain Resilience series of reports.

1. Do you think that organizations with clear evidence of BC planning and implementation are in a better position to get lower premiums for business interruption / supply chain insurance?

Organizations that have tested BC plans are in a much better place to recover from incidents than those that do not. This is recognised in the coverage values that are required and hence the overall cost of insurance. In the case of supply chain resilience, having the relevant transparency coupled with BC plans around critical supply chains has also been shown to improve resilience and hence can be recognised in terms of the cost of risk / premium. This is relevant to both an organisation’s internal and external supply chains.

2. How do you use evidence of BC planning and implementation in establishing premiums for business interruption / supply chain insurance?

We recognise BC planning and its quality in terms of the level of exposure that the business faces and its speed of recovery and these are fed into our overall grading approach.

3. Can you share with us an experience relating to the use of BC planning in determining insurance premiums (e.g. business interruption or supply chain insurance)?

My personal experience is in respect of business interruption (BI), grading around supply chain coverage and the existence and quality of BC planning and testing for key suppliers. The quality of BC planning is specifically recognised in the grading approach and then this is integrated with our pricing model.
Business continuity increases efficiencies
Business continuity increases efficiencies

Aside from improving an organization’s adaptive capacity during times of disruption, BC can also increase efficiency and overall competitiveness. Business continuity planning also allows organizations to reflect on their processes. Consequently, this allows organizations to map out their strengths and weaknesses and initiate further improvements. Efficiencies can be gained from understanding dependencies and applying improved processes. BC therefore provides a platform that maximises operations within an organization, contributing to further growth. This also provides greater visibility and understanding of the organization, ensuring that processes may be run in a more agile way and deliver better cost management. BC arrangements also assist in legal and regulatory compliance, preventing organizations from incurring costs from fines or unrealised benefits that divert resources from operations. Further research also points out that efficiencies generated by BC enable organizations to respond quickly to market changes, leading to increased competitiveness.

Case Study:

Business continuity has helped many organizations improve their efficiency, as in the case of a large mutual life society based in the UK. While transitioning to an e-commerce model and an IT-based system, this organization decided to certify against ISO 22301 and leveraged it against their existing good practices in information security. Embedding sound BC practices helped the organization avoid the duplication of efforts across both areas, reduce the preparation time for audits, and establish prevention tools to avoid disruptions and possible inefficiencies.

An expert weighs in

Barbara Spork AMBCI is currently the Global Resilience Manager for Pearson, one of the largest publishing and education companies worldwide. She handles risk and resilience issues impacting on Pearson’s operations which spans 70+ countries. She has around 20 years of professional experience and is sought after as an expert in BC, risk and resilience.

1. How has business continuity helped your organization develop its strategy?

Business continuity firmly has its place on the company risk map and our team takes direction from the company’s executive team. The low-risk appetite at the executive level helps our team tackle the ever-growing resilience challenge across a highly diverse and global delivery model. Through subjects like BC and resilience, but also from things going wrong, companies are reminded each day to think about where to take risk and where not to take risk, and the effort required to be able to mitigate situations. I think it is naturally always in the back of everyone’s minds.

2. Have you experienced an increase in efficiency or resilience in one or more operational areas following the adoption of business continuity good practices / standards?

In addition to focusing on BC, we have also needed to become more resilient. I greatly welcomed the position statement on organizational resilience published by the BCI in February highlighting the difference between BC and resilience, and the need for both. Being resilient is not something you do [resilience is not an activity] but something you are [resilience as a quality] and it is very much about connecting the various continuity capabilities that have been developed in the departments. A lot of great work is happening which at times still does not become part of a coordinated response and it’s a shame when that happens. There is no magic to implementing BC preparedness however [in my experience] well-connected plans provide increased resilience and allow efficient and effective responding to an event (e.g. quick and with the right team).

3. Can business continuity help in facilitating compliance? Kindly share with us a recent experience if so.

We have an internal business resilience management programme that supports the delivery of continuity preparedness across the company. The programme not only focuses on developing basic artefacts but also provides scenario-based training, through video conferencing if required, the most recent one with our teams in Nigeria and Turkey. In addition, parts of our business are heavily regulated and we get involved at times in supporting some of these obtain or maintain their accreditation. In addition to compliance with external regulators, the company looks for compliance of the programme through its internal audit function.

4. What would you advise BC managers who are looking to improve organizational efficiency through business continuity?

If you stick to the key BC deliverables in the Good Practice Guidelines and execute them in the right order (so Risk Assessment, Business Impact Analysis, Business Response Plan, exercising the plans and reviewing them annually), you have a very effective and process-driven way of separating the critical from the non-critical and delivering a lean response mechanism when faced with disruption. It helps with prioritising tasks extremely well.
Business continuity facilitates contract negotiations
Business continuity facilitates contract negotiations

Organizations nowadays are increasingly required by private and public sector customers to have BC in place. Otherwise, they risk being refused new contracts and excluded from tenders\textsuperscript{13}. For one, the UK government recommends contracting with organizations that have appropriate business continuity arrangements in place\textsuperscript{14}. As such, the presence of BC is normally associated with increased transparency, compliance and good governance as well as greater organizational resilience.

Business continuity also helps organizations manage their suppliers. Research demonstrates the scale of the challenge for organizations in maintaining relationships with key suppliers and ensuring supply chain visibility. The latest BCI Supply Chain Resilience Report reveals that while around three-quarters of organizations have experienced a supply chain disruption in the last 12 months, roughly the same number admitted that they do not have full visibility of their vendors and suppliers\textsuperscript{15}.

With many threats affecting supply chains, more organizations in the public and the private sectors are realising the importance of working with more resilient suppliers. For example, the US Department of Treasury has a set of specific guidelines for banks when thoroughly vetting third-party vendors, including monitoring contingency plans in place. Failing to do so would hold the banks accountable for their suppliers’ failure to handle disruptions\textsuperscript{16}. The recently passed UK Modern Slavery Act meanwhile requires organizations to provide assurance through a statement that their supply chains are slavery and human trafficking free\textsuperscript{17}. Failure to do may expose organizations to prosecution and penalties including fines\textsuperscript{18}.

Further examples of increased awareness are seen in various agencies within the United Nations, calling for more sustainable and transparent supply chains\textsuperscript{19}. It is also seen in initiatives within the banking sector such as the Africa Supply Chain Challenge sponsored by a large multinational bank\textsuperscript{20}.

Large consulting companies have also engaged in suggesting a better monitored framework for third-party vendors and suppliers. Common recommendations range from mapping of vendors to carefully evaluating the degree of risk that each one of them entails. It is emphasised that contract negotiations should not be reduced to a simple ‘tick-box’ activity. Firms are very much encouraged to be highly specific when asking questions to their suppliers on their BC plans, which should also be frequently audited\textsuperscript{21}. These cases reveal the increasing importance of putting BC arrangements in place as a prerequisite for doing business. As such, BC practitioners can more or less justify the value of their work by looking at the monetary and other benefits derived from winning new business.

\textsuperscript{13} ibid.
\textsuperscript{19} UN Global Impact. Supply Chain Sustainability [Internet]. Unglobalcompact.org. [cited 28 April 2016]. Available from: \url{https://www.unglobalcompact.org/what-is-gc/our-work/supply-chain}
Business continuity facilitates contract negotiations

Case Study:
One of the largest car manufacturers in the UK embarked on demonstrating robust BCM capability through ISO 22301 certification. A key driver for certification is providing assurance to UK fleet customers who are required by the Civil Contingencies Act to ensure emergency planning and response provisions are in place for suppliers. Certification enabled this organization to retain customers and win new business among these customers who are required to contract with suppliers demonstrating robust BC capability. Certification was also used to win business for non-fleet customers by providing strong assurance of resilience within the organization.

An expert weighs in
Nikolaos Loukeris MBCI is currently the Business Continuity and Crisis Management Manager for one of the world’s largest telecommunications companies. He has 15+ years of experience in BC, audit, compliance, risk and crisis management. One of the highlights of his career was managing continuity of operations for his organization during the 2004 Athens Olympics.

1. Is there any difference when you negotiate contracts with suppliers having relevant BC plans as opposed to ones not having any?

   It is an important differentiator when potential suppliers can demonstrate that they have comprehensive BC plans for the products and services they provide.

2. From your experience, is it easier to negotiate contracts with suppliers having BC plans?

   They tend to have a better understanding of the needs of the business they are supplying and generally go that extra mile to ensure there is minimal disruption to services when an issue arises.

3. Are there any other benefits in dealing with suppliers having BC plans? We would appreciate it if you can share with us a recent experience.

   In the early days of a new relationship, it can be quicker to get suppliers on board that have tried and tested business continuity plans.

4. How does having a BC plan helped your organization get optimal terms in negotiating with others?

   Important aspects of a good relationship between suppliers and their customers are quality of service, trust and reliability. Having an effective BC plan gives customers reassurance and confidence and helps fosters a strong working relationship.

5. Do you have parting advice for BC managers in this area?

   Business continuity plans should be a consideration for all suppliers. They should also be able to demonstrate to customers how the plan would work in practice, so it’s essential that they are tried, tested and continually updated.

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4 | Conclusion
Business continuity offers further value aside from increasing adaptive capacity and maintaining operations during times of disruption. Available literature, case studies and expert interviews confirm how BC can help organizations reduce insurance premiums, increase efficiency and facilitate contract negotiations with suppliers and third-party vendors. Business continuity also allows organizations to optimise operations and take advantage of market opportunities.

Business continuity professionals can frame a more positive case for the value of BC through the following:

- Determine possible savings in business interruption and supply chain insurance premiums as a direct result of demonstrating evidence of BC planning.
- Analyse how business continuity reduces more expensive workarounds, eliminates possible duplication and overlaps in operations, and saves personnel time and company resources.
- Estimate the value of new business and tenders that require evidence of resilience and BC planning. Quantify possible savings to be made as a result of reduced disruptions arising from supplier failure.

Expanding the benefits of BC beyond the costs of disruption would allow practitioners to justify how investments made in continuity and resilience generate far more positive returns. Business continuity, far from being a mere overhead, is a ‘business enabler’ that significantly impacts an organization’s short term prospects and long term viability. This message is being recognised by many organizations. The 2016 BCI Horizon Scan Report reveals that almost a quarter (24%) of firms are looking to increase their BC investment while most (54%) are retaining their BC spend\(^{23}\). The challenge for practitioners therefore is to build on that awareness and make a positive case for investing in BC.

Further Reading

A full list of the references cited in the paper are found below.

About the Authors

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About the Business Continuity Awareness Week

Business Continuity Awareness Week (BCAW) is an annual global event organized by the Business Continuity Institute to raise awareness of the importance of business continuity and resilience. Featuring publications, webinars and other resources promoting the importance of business continuity and resilience, this event is aimed at organizations. This year’s event has a theme of ‘return on investment’ and focuses on the benefits of BC beyond responding to incidents.

Andrew Scott CBCI (BCI Senior Communications Manager) leads BCAW 2016.
About the BCI

Founded in 1994 with the aim of promoting a more resilient world, the Business Continuity Institute (BCI) has established itself as the world’s leading Institute for business continuity and resilience. The BCI has become the membership and certifying organization of choice for business continuity and resilience professionals globally with over 8,000 members in more than 100 countries, working in an estimated 3,000 organizations in the private, public and third sectors.

The vast experience of the Institute’s broad membership and partner network is built into its world class education, continuing professional development and networking activities. Every year, more than 1,500 people choose BCI training, with options ranging from short awareness raising tools to a full academic qualification, available online and in a classroom. The Institute stands for excellence in the resilience profession and its globally recognised Certified grades provide assurance of technical and professional competency. The BCI offers a wide range of resources for professionals seeking to raise their organization’s level of resilience and its extensive thought leadership and research programmeme helps drive the industry forward. With approximately 120 Partners worldwide, the BCI Partnership offers organizations the opportunity to work with the BCI in promoting best practice in business continuity and resilience.

The BCI welcomes everyone with an interest in building resilient organizations from newcomers, experienced professionals and organizations. Further information about the BCI is available at www.thebci.org.

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