

## **WILL YOUR COMPANY SURVIVE A DISASTER?**

**Risk Assessment**  
**Risk Management**  
**Disaster Recovery**  
**Crisis Management**

Businessmen operate in an ever more uncertain world where hard to predict events can effectively destroy that which has taken years of hard work to create. Risk surrounds us and can arise both from factors which the business can control and those which it cannot.

**Risk** can be defined as the probability that a **given predictable event may occur** coupled with uncertainty as to when it might occur and what the magnitude and consequences of the event will be. Most risk events can be predicted/ identified and in many case steps taken to mitigate the chances of occurrence and the potential effects. Where risk cannot be mitigated it should in most cases be possible to insure the risk in the open market.

The more information companies and managers have the better prepared they are to deal with risk. The potential effects of certain risk factors may be so insignificant that they can be ignored. Others may require just small changes in procedures to mitigate. Others will be so potentially fatal that steps need to be taken to effectively deal with the consequences should the worst happen.

### **Risk Assessment**

The first step to be taken is a full risk assessment exercise. Most businessmen will be aware of major risks but may not be aware of others, not least as new categories of external risk arise (e.g. terrorism, riots etc.). Although this is an exercise which can be performed internally it is something which an external experienced adviser can assist with, sharing with the business his knowledge and experience. The process is sometimes referred to as a risk audit.

The range of possible risks which apply to a given business are huge but a typical list might include many of the following:

#### **Force Majeur**

- Storms and tornadoes
- Rain and snow
- Fire and explosions
- Climate change
- Nuclear contamination
- “No fault” accidents



### External market factors

- Global and local recession
- Tightening of credit conditions
- Technology change
- New competitors
- New restrictive legislation
- Labour shortages
- Industrial espionage
- Changes in consumer behaviour
- Inadequate sources of finance
- Break even

### Compliance factors

- Tax investigations and fines
- Health and safety transgressions
- Inadequate documentation of processes and transactions
- Cross border issues

### Procedural risks

- Inadequate management skills to deal with change
- Inefficient procedures allowing competitors to profit
- Inadequate contacts with customers and suppliers
- Inefficient supply chain management
- Lack of knowledge of market changes



### Management risk

- Death or incapacity of key managers and personnel
- High staff turnover
- Information and skills known only to a few employees
- Industrial relations, strikes and go slow
- Risk of financial and other fraud
- Security over assets
- Identification of all actual and potential liabilities
- Lines of authority and approval levels

### Product risk

- Faulty or dangerous products
- Product liability
- Adverse publicity (often initiated by competitors)
- Loss of major distributors
- Delisting of products by hypermarket chains
- Malicious rumours spread by internet

- Corrupt practices (in house or competitor)
- Infringement of patents

#### Accident risk

- Inadequate safety procedures
- Non compliance with established procedures
- Human error
- Failure to report “near misses”
- Third party actions

#### Systems risk

- IT system malfunction
- Loss or theft of data
- Internet fraud

In the process of establishing as complete a list as possible of the potential risks many of the preventative measures will be immediately apparent. However the business should move to the next stage and start work on an on-going process of risk management.

The starting point must be putting in place a regular review of risks to ensure that the business identifies promptly new risks as these arise and also reviews existing identified risks to see whether there have been any changes which might require an amended approach to that given risk.

The next step will be to review existing insurance levels and evaluate whether other risks should be insured. For instance it may be possible to insure on the open insurance market losses of revenue consequent on disasters. In general insurance will only be worth while where the events are remote such that the cost of insurance is a small percentage of the insured loss. There is little point in insuring an event which can be almost guaranteed to occur every few years.

The business should also evaluate those risks which are either so remote or whose potential consequences are so small that no action is appropriate. Which is not to say that can be forgotten – they still need to be monitored on a regular basis.

Which leaves us with probably the bulk of risks which probably account for 80% of the total population and whose potential effect lies in the mid range of losses. These require analysis from two perspectives:

- Can the level of risk be economically reduced or eliminated by changes in procedures, increased training or other means available (for instance outsourcing hazardous operations to specialist producers).
- Where the risk cannot be fully eradicated designing fall back procedures and scenarios to deal with the effects as soon as they arise. This may include storage of back up computer data off site, other disaster recovery procedures and in the case of really major incidents having ready crisis management procedures.

A classic example of a risk known to foreign owned companies operating in Poland but not, apparently, to local businessmen was the recent misselling by banks of toxic exchange rate options. These were sold to finance directors who should have known better but trusted the banks to act professionally.

As mentioned above it will very often be worthwhile to engage outside consultants to help with the process. In particular a good and experienced statutory auditor will, as part of a properly conducted financial audit, have identified key risks when evaluating the applicability of going concern i.e. the likelihood that the business will still be trading in the foreseeable future.

### **Disaster recovery**

This involves putting in place procedures which have been previously established to quickly overcome the effects of a major event such as fire or product issues.

For instance this may include moving production to other plants, considering sub contracting, using third party IT systems, efficient product withdrawal from the marketplace, dealer recalls of faulty motor vehicles, efficient clean up of pollution etc. This may include in the case of loss of key staff using the future proceeds of key man insurance to fund the immediate employment of experienced (and therefore expensive) interim managers.

The key issue is to ensure that the organisation very quickly is able to evaluate the full extent of the disaster and to communicate to staff, suppliers and customers what it is doing to mitigate the effects and get back to “business as normal”.

In the modern world of mass communications, web based for a etc there is absolutely no way that anything can long remain a secret. The issue is to be able to communicate quickly that “we had a problem which we have identified and are already working on a solution/ have put into place detailed procedures”.

In such hard times the top management must do everything to reassure the staff, customers and suppliers that any effect on them will be minimised.

### **Crisis management**

Crisis management involves all of the procedures of a disaster recovery programme but with the added factor of effective public relations.

The power of the popular press, populist politicians and internet based social to destroy a company cannot be overstated. All these constituents thrive on lack of information, rumours and sensation. Take away the oxygen of sensationalism and they will leave you alone.

Handling relations with these constituents should be left to professionals who have extensive experience of PR.

A first step will be evaluation with a PR/ marketing expert where the business is at risk from negative comment. In many instances the expert will identify those aspects of marketing which expose the company to potential bad publicity. This may be the overselling of a product (for instance cholesterol reducing properties of certain foodstuffs, ecological claims etc) which can provoke journalists to seek to expose the claim. This can of course be the risk of contamination

following a fire, significant loss of life in a hazardous environment or job losses in a company which aggressively promoted its CSR (corporate social responsibility).

Having identified the risk areas it is then necessary to identify all the possible sources of negative comment and prepare a contact list. Press releases should be drafted to cover predictable events.

Once a disaster has occurred two things need to happen:

- Complete identification of the scale, extent and consequences of the disaster.
- A complete ban on ANY communication which is not authorised by the appointed press officer. You will only have one opportunity to tell your story which needs to be complete (what has happened and what you are doing).

For these processes to be successful they need to have been planned in advance. For smaller companies the press officer may well be an outside professional who knows the company well.

The very worst thing which can happen is for the business to try to suppress information. This will ALWAYS come out in the end. The press in particular will seek new angles on a story and will talk to sources who may be hostile to your company.

In the first couple of hours, whilst the facts are being established, a holding release should be circulated (and posted on the company website), “XYZ Ltd has suffered a major fire at its factory. As far as we are aware there has been no loss of life and the fire brigade is in the process of extinguishing the flames. We will issue a further news release as soon as the fire is under control and we have been able to evaluate the scale of losses. We can reassure our customers that we hold adequate stocks off site and we do not foresee any disruption to supplies. Further details can be obtained from \_\_\_\_\_”.

If you cannot guarantee continuity of supply do not say so. What is important is that the press talk to you and not to third parties, disgruntled former employees, competitors or environmental pressure groups. They will of course interview eye witnesses. Just make sure that if it is your employees who are to be interviewed that they are briefed by the press officer as to how to answer leading questions.

As soon as you know all the facts issue a further press release, hold a press conference, update the website and start personally contacting staff, customers and suppliers.

The press officer needs to be available for as long as there is any interest being shown in the story. Once everything is back to normal consider a follow up story highlighting heroes “Our team worked round the clock to ensure that production of key pharmaceuticals was restored as soon as possible”.

Remember that the press are generally lazy, if there is no immediate story most will give up. They love “sound bites” so have these ready.

## How The Trusted Adviser Group can help

Our experts can have extensive experience of dealing with risk minimisation, have a broad cross sector experience and can help implement risk management, disaster recovery and crisis management.

In particular Agnieszka Szyfter, Magdalena Mikorska and Andrzej Kinast have over 20 years experience of dealing with the press in Poland.

Gnosis Business Solutions and Blackstones Audit have extensive experience of risk analysis audits and can call on tried and tested solutions which they have helped to implement.

Maciej Lichy and his team have extensive experience of evaluation legislative and tax related risk.

We are offering a free of charge one day on site overview analysis of risk to those companies which contact us as quickly as possible.

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