The value of a business continuity management plan from a shareholders perspective

A report by
Helena Bjelmrot
LTH

Introduction
Faster…better…cheaper. This has long been a mantra for most companies, and is often the way profits are made and competitive advantage is gained. But events like terrorism, natural hazards and Internet crime have recently brought new risks to these companies and the supply chain. The more efficient and global your company is in reducing costs and, the more at risk you are. Numerous management teams are not aware of the different risks, lurking around the corner.

Frame of reference
Supply Chain Management (SCM) is today a fairly common subject in companies and involves coordinating and integrating material, information and financial flows both within and among companies. It is said that the ultimate goal of any effective SCM system is to reduce inventory, but in case of an interruption still be able to get a hold of the required input actors.

As long as there have been Supply Chains, there have been disruptions, and no Supply Chain is immune to them. The focus on Supply Chain disruptions and discussions on how to protect your company has only recently grown and the reason for this is the 9/11, Hurricane Katrina and events similar to these. The cases studied in this thesis have been affected by risks that can be divided into natural hazards, social risks, legal risks and terrorism.

Figure 1: Foot and Mouth disease

Different drivers that could cause a Supply Chain disruption are:

- Competitive environment
- Complexity of the supply chain has increased.
- Complex technology in the company both in the machinery and in the products.
- Globalisation
- Outsourcing,
- Offshore supplier
- Customers needs or wants changes faster
- Single sourcing
- Just in Time delivery and zero inventories

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1 searchcio.com

2 www.wikipedia.com

3 Hendricks, K., Singhal, V.R., (2005)

- Companies focus on efficiency in the Supply Chain (lower the cost) but forget the flexibility.
- Firms have over concentrated their operations
- Poor planning and execution

The disruption of material or information flow in the supply chain is often unpredictable and rare but often quite damaging. The chances of experiencing a disruption in the supply chain are higher now, and in the future, than in the past. This because the supply chains are getting more complex but also the trends to slim the supply chain leaves no room for errors. Evidence indicates that ignoring the possibility of supply chain disruptions can be devastating for a company.

The different risks that can affect a company can be divided into likelihood (probability) and impact (consequences). Sheffi gives and example on different disruptions or crisis that can hit a company and the risk of these occurring together with the impact they would have. As can be seen in the picture, the chance of loss of key supplier is rare but the impact of the event would be severe.

A shareholder is defined as someone who owns shares of stock in a corporation or mutual fund. For corporations, along with the ownership come a right to declared dividends and the right to vote on certain company matters, including the board of directors.

Shareholder value relies on investors created expectations of future financial performance of the company. These expectations are based on corporate and financial information made available to investors, and will be revised as new information is received. The existing market value of a company, therefore, is dynamic, forward-looking and expectations-based. The difference between shareholder value and share value is the highlighting on future expectations for a company and the price of its shares in the future, as opposed to today.

During a disruption, the drop in shareholder value was between 5 and 60 percent in the different cases, but the average drop was 20 percent. What affects the outcome of the share values is how the management reacts and how to handle the media. Another factor is the importance of the product, if it is the main product of the company the share value is hit harder.

**Mitigating the shareholder drop**

What can be done to prevent the decreasing of share value after a disruption in the supply chain? Some steps can be taken in circumventing the decrease in share value.

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4 Chopra, S., Sodhi, M.S., (2004)  
6 Sheffi, Y., (2001)  
7 Sheffi, Y., (2001)  
8 Share holder is also called Stockholder. Share price or value is known as the price of a company’s stock (source: www.investorwords.com)  
10 www.wikipedia.com  
11 Knight, R.F., Pretty, D.J. (1996)  
• Improve the accuracy of demand forecasts
• Reduce the mean and variance of lead time
• Integrate and synchronize planning and execution
• Collaborate and cooperate with supply chain partners
• Invest in Visibility

To reduce the likelihood of a disruption occurring and the impact after the event; a business continuity management (BCM) plan can be implemented in a company. The BCM plan is the plan to ensure ability of an organisation to provide service and support for its customers and to maintain its capability before, during, and after a disruption. BCM is the ongoing management of the business continuity plan.

**Business continuity management (BCM)** is a tool that can be implemented to provide greater confidence that the outputs of processes and services can be delivered in case of a disruption. It is concerned with identifying and managing the risks which threaten to disrupt essential processes and related services, mitigating the effects of these risks, and ensuring that recovery of a process or service is attainable without significant disruption to the company.13

BCM is the *ongoing management of the business continuity plan and insuring that it is always up to date and available plus the ongoing management of operational resilience and process availability within an organisation, with the aim of ensuring that the organisation experiences the minimum possible day-to-day disruption.*

Even though there are clear connections between the disruptions and the drop of share holder value, companies lack recovery and contingency plans. Many of the cases show that the companies had to make up plans during the event and this resulted in higher costs due to alternative routes or costly supplier. There is a growing trend, which is still very uncommon, that a company has an implemented and trained BCM plan, especially in Sweden. Companies, studied in the thesis, have started implementing recovery plans or crisis plans but to get the company back to where they were, a contingency plan, is not common.

**Connections between SCM, BCM, and Share Holder Value**

By having a flexible and resilient supply chain, the risk of disruption is limited; hence the share holder value can be kept at a constant level. The connection between the risks, supply chain disruptions, shareholder value and BCM is presented in the picture below.

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14 BS 2599:1-2006
The risks, on the left side of the layout, are affecting the supply chain and the likelihood of a disruption. In case a disruption occurs, there will be an influence on the resulting share value.

By implementing a BCM plan into the company the outcome may differ. The impacts that the BCM can have on the company are; reducing the likelihood of a disruption and reducing the impact after a disruption. By reducing likelihood, the disruption might not even occur, but if, even so, the disruption takes place, the plan can reduce the impact of the crisis. Reducing the likelihood is done by identifying risks and creating awareness in the company of the different risks. By communicating the plan to the personnel, the awareness is created in the company and a disruption may be prevented. An example such as informing the production department which machine is the critical, or which supplier is the key supplier, result in the personnel being more alert if a disturbance occurs in these areas. The BCM process provides information on key suppliers or key production processes in the company. The awareness can also be increased by documenting the previous disruptions, even the smallest ones, to learn from the past and prevent the same from happening in the future. If the disruption occurs, the BCM plan will reduce the impact of the event, by having a clear recovery plan to reinstall the production but also a plan when communicating with the stakeholders and media. The recovery plan helps the company to faster deal with the different steps that need to be handled directly after the event. The personnel have different areas of responsibility, due to the plan, and there will be no uncertainty of duty during the crisis. The communication with the media helps the company to give a clear picture of the situation and present a strong management and gain the confidence from the shareholder. The problem with getting approval of the plan from the companies is that BCM contradicts SCM. SCM is often about slimming of the processes and saving money caused by unwanted buffers, while BCM is working towards having safety stock in case of a disruption. Trends towards JIT and low-cost outsourced production are still growing strong. This results in a higher risk and increased probability of a disruption.

The BCM plan does not implicate that the company should go back to full warehouses. Only to have a clear picture on how much safety stock is needed and an idea on how long the company can last on the stock after a disruption and the patience of the customers. A demanding customer and severe competition demands a different plan than a company in a softer situation.

The chain is just as strong as its weakest link. A company might get hit hard by a disruption even if there is an existing, implemented and rehearsed plan in the company itself but the supplier or sole distributor lack a contingency plan. Therefore the company gains from informing their suppliers and distributors of the plan.

A BCM plan is not a one size fit all. Every company is different and has different factors weighing in, for example the product. Can the product be sold at a later time or is it like a flight ticket, which can only be used once. Every company has different risks and different awareness and therefore every plan has to be tailor made. Also the plan is not a one time deal. The plan needs to be rehearsed and upgraded together with the changing of the supply chain and the personnel.

My assessment is that the existence of a BCM plan in cases studied would have prevented extra costs and drop in share value. The companies would have had a strict plan to follow, areas of responsibilities would have been mapped out and action would have been taken earlier. Instead of having large safety stock a company would have an additional supplier in case of a disruption or the supplier itself would have alternative units for shipment. By having a BCM plan implemented in the company the likelihood of a disruption occurring can be lowered as the impact after a disruption, is mitigated. Consequently; loss of shareholder value can be prevented.
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