Supply Chain Resilience

BCI Survey Report 2009

Full findings of the supply chain and business continuity management survey conducted by the Business Continuity Institute through August 2009

Business Continuity Institute

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Acknowledgements

The Business Continuity Institute (BCI) would like to thank the 201 respondents who took the time to complete the survey without whose contribution we would be none the wiser in so many areas! We hope that the consolidated response in this report provides fair reward to them in return.

We would also like to extend our thanks to Zurich Insurance for their proactive engagement with this initiative to better understand supply chain management issues and the positioning of Business Continuity Management (BCM) as a method to support greater supply chain resilience.

Methodology

Members of the BCI were invited to respond to the online survey and to invite their supply chain colleagues to respond as well. The survey was also promoted by Continuity Central and BCMIX and other online business continuity, risk and supply chain communities.

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Executive Summary

Rationale

The purpose of this survey of professionals involved in business continuity, supply chain and risk management was to understand levels of experienced supply chain disruption and the extent to which organisations of all sizes, sectors and geographies were contending with such challenges and the extent to which Business Continuity Management (BCM) was being applied to help tackle the problems.

The survey can be divided into three main sections:

- Experience of supply chain disruption and its consequences.

- Success or otherwise in getting an organisation's business continuity needs reflected in the supply chain.

- The tactics and actions that organisations are pursuing to achieve greater supply chain visibility, reassurance and resilience.

The survey also explores the extent to which force majeure clauses in contracts are negotiated, whether they consider supply chain disruption, and how BCM could be used to help negotiate these clauses.

Of course, there is a wider BCM issue being addressed here, which is that BCM programmes should include supply chain as one of the seven impact areas[1] to be evaluated when conducting a Business Impact Analysis and Risk Assessment. The relatively high response rate to the survey indicates that many organisations are tackling these issues and are keen to exchange ideas and learn from one another.

Survey findings

- Three quarters of respondents reported supply chain disruption within the past 12 months. The chief causes of disruption being down to the economic recession, influenza A H1N1 (swine flu), and IT and telecom disruption. Furthermore over one third of respondents reported *increased* supply chain disruption.

- The impact of the disruption was primarily a loss of productivity, although loss of revenue, customer complaints and delayed product availability featured highly.

- Some two thirds of organisations felt that they had been only partially successful in getting their business continuity needs adopted through their supply chain. One in nine felt their needs had been fully met, while almost a quarter had either not tried to do this or had not been successful at all.

- Where supply chain partners were not forthcoming, respondents considered a number of alternative approaches with the selection of an additional supplier being the most common response. Insurance products for financial protection registered a low response due to the

[1] Supply chain along with people, reputation, finance, customers, sites & facilities, and information & communication technology.

immaturity of the market for such products. However a number of insurers are starting to move into this area.

- Almost a third of respondents do not seek evidence of a BCM programme from their suppliers. Of the majority that do, the overwhelming favourite source of evidence is documentation: either a questionnaire or copies of supplier documents. Again when it comes to checking whether plans might work in practice, only very large organisations engage in exercises or workshops, the overwhelming majority do not go beyond asking for documentation.

- More than a fifth of respondents stated that the presence of a BCM capability was an entry ticket for suppliers to bid in the first place. A third of organisations expressed willingness to work with their suppliers to implement and maintain a BCM capability. However, the majority of respondents stated that BCM would become more important over time.

- Force majeure invocations have increased over the past year for one in ten responding organisations, however this figure hides wide regional disparities with almost a quarter of organisations with operations in Central & Latin America reporting an increase. A good majority of respondents report that they negotiate force majeure clauses, but over two-thirds of respondents still see value in a methodology that would help avoid or mitigate the impact of force majeure invocations.

Considerations & reflection

The high levels of disruption being experienced by the respondents to this survey underscore the importance of understanding an organisation's supply chain vulnerabilities. As some high profile historical cases have exemplified (Nokia and Ericsson), you need to understand and manage your supply chain because failure could mean your organisation bears the brunt of any reputational and consequent financial impact - not just the supply chain partner.

Business Continuity Management is being widely applied to build greater supply chain visibility, reassurance and resilience, which is good news. However, only half of supply chain management professionals responding to the survey said that they were involved in their organisation's Business Continuity Management programmes. This is probably an over-estimate of the level of engagement generally given that there would be a natural bias in favour of those who recognise the issue among survey respondents.

Nonetheless, alignment of Business Continuity Management objectives with supply chain partners has met with partial success for the majority of respondents. This would seem to be a sensible assessment given that few independent organisations share identical objectives. It is important to realise that any supply chain failure however good the business continuity programme may still leave you with a continuity problem. It would be wrong therefore to consider greater supply chain resilience as somehow outsourcing an organisation's own business continuity plan.

The heavy reliance on receiving and viewing documentation from supply chain partners tends to highlight the emerging nature of the practice of applying BCM through the supply chain and perhaps the difficulty in allocating scarce resources for more detailed work, even if the "internal" BCM programme is signed off.

As a minimum the Business Impact Analysis (BIA) needs to identify any critical supply chain partners, and the resulting action should be to gain an understanding of their BIA and where you fit in their priorities. From this solid foundation you can start to develop effective Business Continuity Management strategies that reflect the potential impact of supply chain management disruption.

Survey responses

Experience of supply chain disruption

The intention of the initial tranche of questions in the survey is to understand current levels of disruption, sources of disruption and the impacts being experienced.

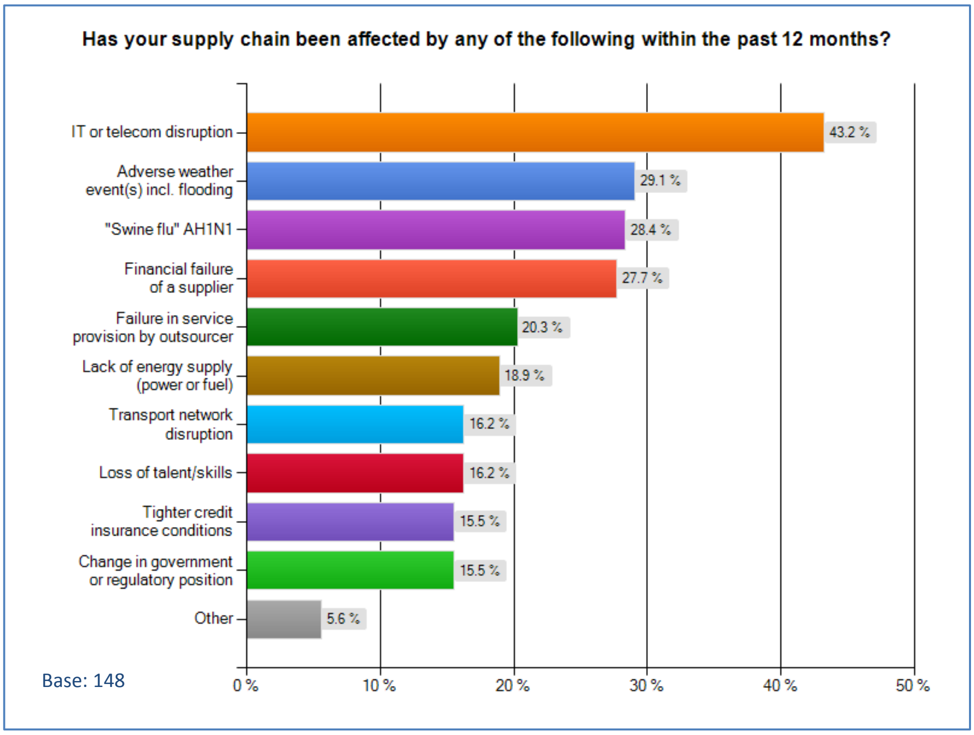
- 74% of respondents (148/201) experienced disruption in their supply chain in the past 12 months. 35% experienced increased disruption in their supply chain in the past 12 months.

- The main causes of supply chain disruption were IT & telecom disruption, adverse weather events, swine flu and the financial failure of a supplier.

Two sectors experienced above average levels of increased supply chain disruption:

- 58% of manufacturing sector respondents had experienced increased disruption with the financial failure of a supplier being a major cause; the impact of this for 50% of respondents was a delay in releasing a product. Looking ahead to the next 12 months the manufacturing sector was most concerned with the continued financial failure of suppliers (73%).

- Professional services also experienced high levels of increased disruption (52%); the main causes of disruption were given as adverse weather and changes in government or regulatory positions. The main impact of disruption was the impairment of service outcomes (39%).



The main causes of disruption by those respondents who reported increased levels of disruption were:

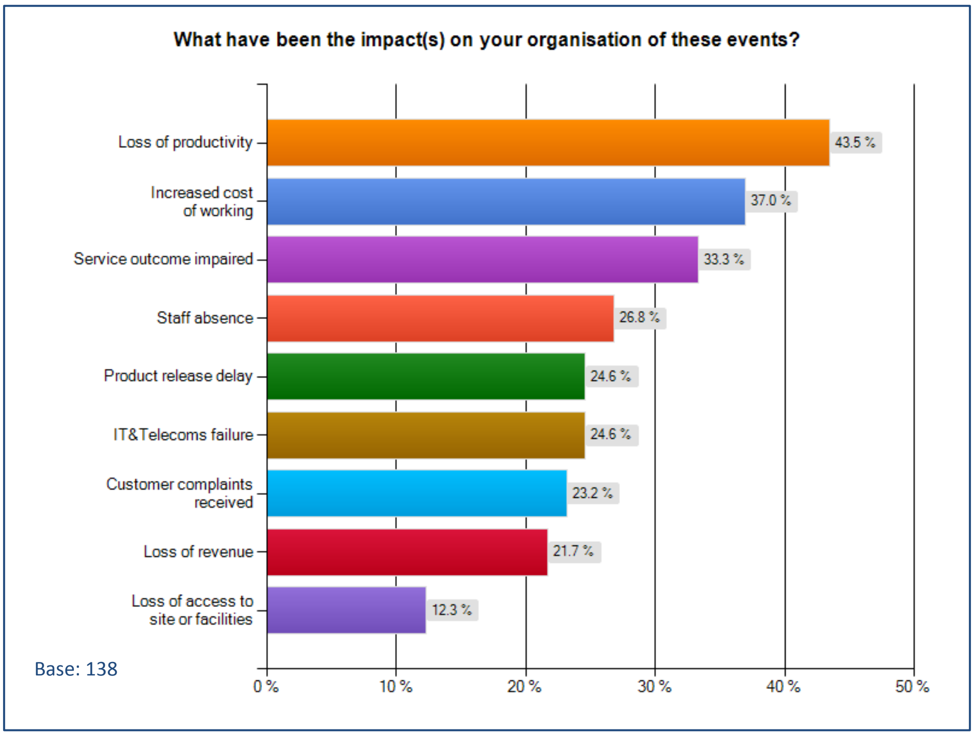
- IT & telecom failure: 52%

- Financial failure of a supplier: 43%

- Adverse weather: 36%;
- Swine flu 27%
- Failure in service provision by an outsourcer: 25%
- Lack of energy supply: 22%.

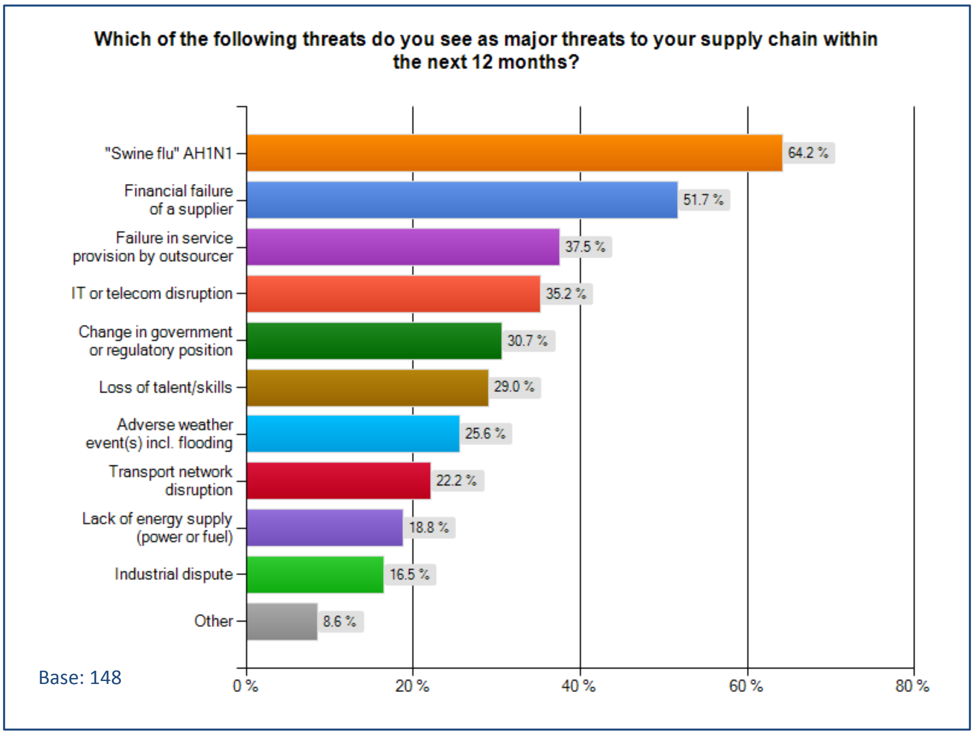
Not surprisingly, among this group 38% want better visibility of their supply chain. These respondents also experienced more force majeure invocations (16%) than the average of 10%.

IT & telecommunications was the main cause of disruption in the financial services and IT & Telecom sectors. The main impact resulting from this disruption was a loss of productivity.



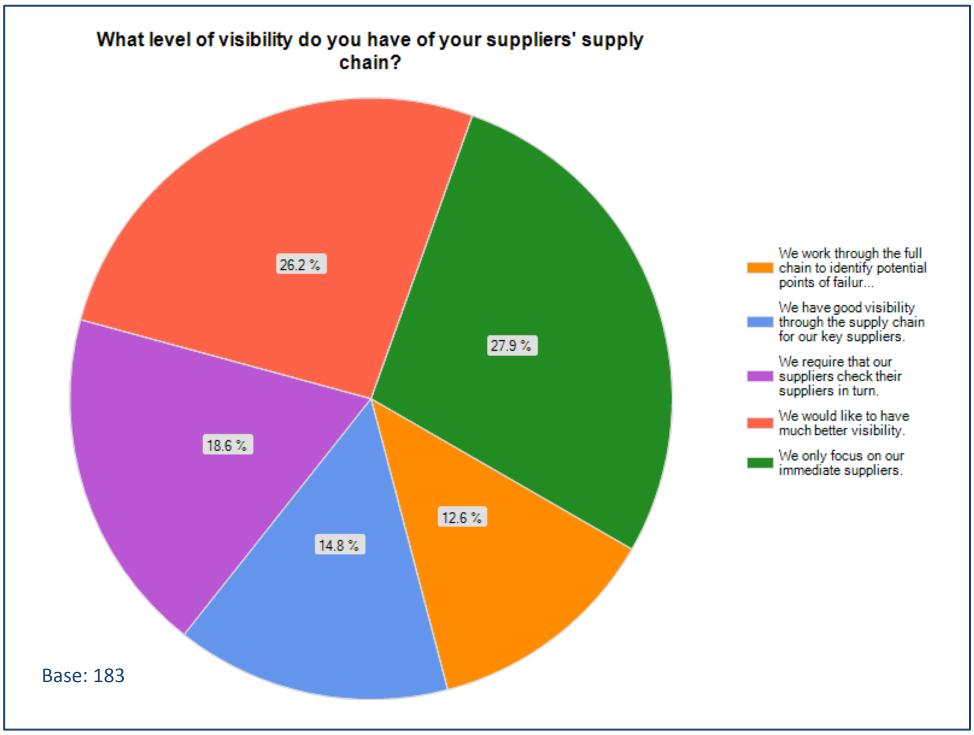
Looking at the next 12 months (see following chart), 88% expected to see some form of supply chain disruption. In fact, respondents were generally gloomier on all threats; however the top 5 were "swine flu", supplier financial failure, outsourcer failure, and a change in government or regulatory position.

The effects of the economic recession are therefore still a major factor in causing supply chain disruption in 2010.



What level of visibility in the supply chain?

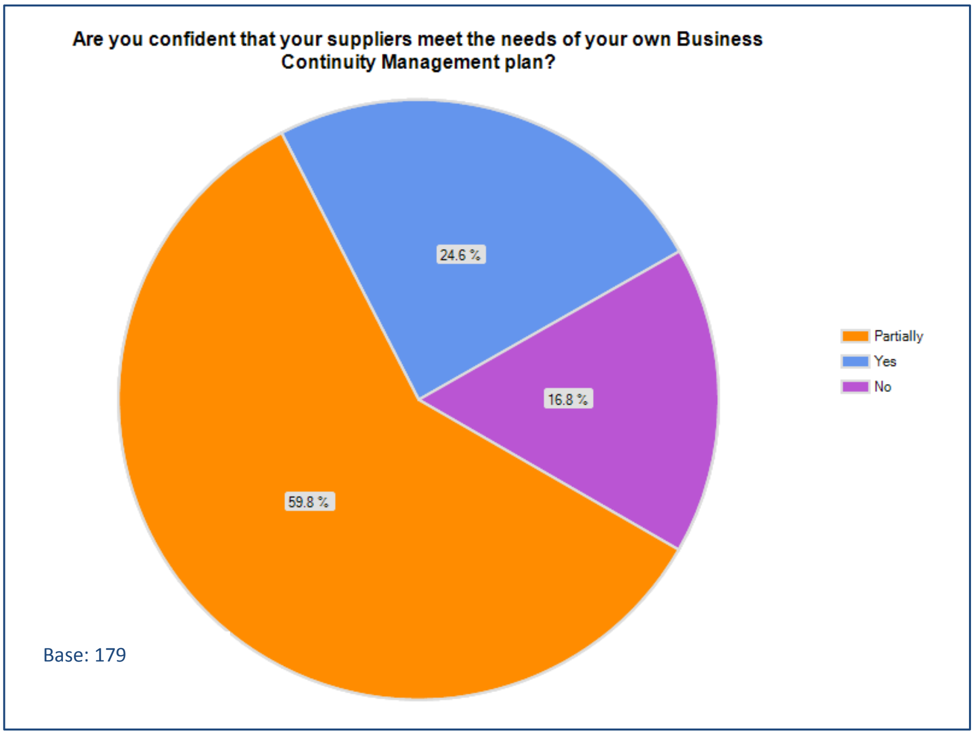
This question set out to test how respondents look at supply chain and some of the subtleties between "supply chain" and "suppliers". Some 13% take the forensic approach of working through the full supply chain themselves while another 19% expect their suppliers to check their suppliers in turn. The majority, in this case, will focus on their immediate suppliers only without any further examination.



Does your supply chain meet your BCM requirements?

The BCI's approach to the survey starts from the fundamental position that an organisation is seeking to ensure that its supply chain meets its own business continuity needs. The existence of business continuity programmes within partners in a supply chain does not in and of itself imply that objectives are aligned; in fact, it would be quite exceptional for independent entities to have fully aligned business objectives. So, the real objective is to understand how a disruption to your supply chain partner will affect your business continuity and where you fit within their recovery priorities.

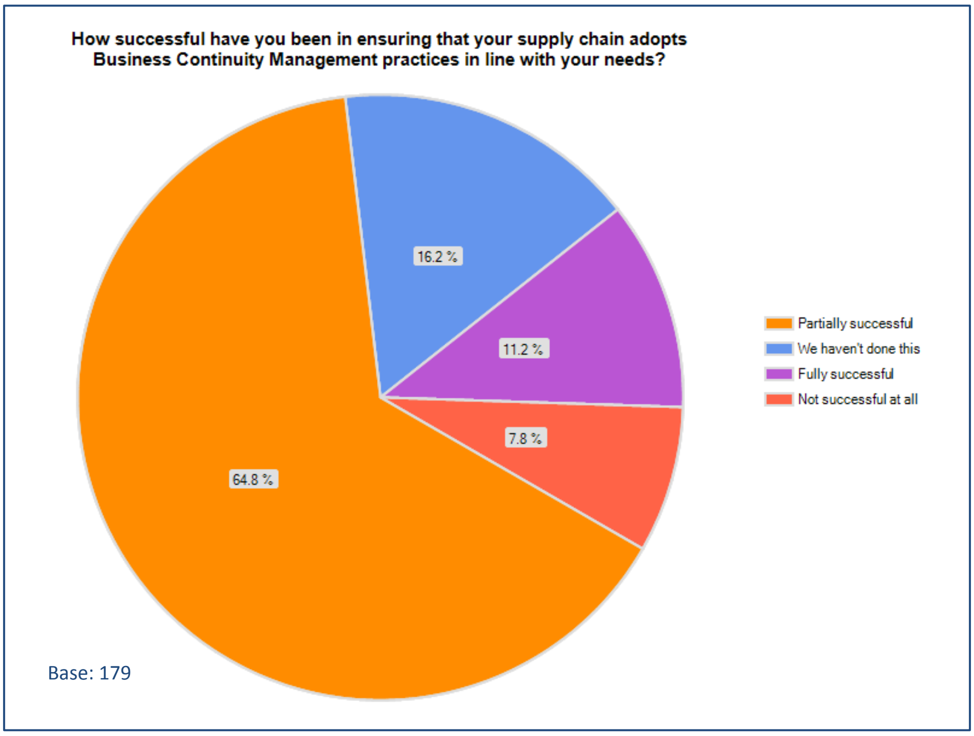
Arguably, visibility of their Business Impact Analysis (BIA) will give you a clue as to where your organisation fits in the priority of your supply chain partners, however this is not always going to be made available given its commercial sensitivity, and in the final analysis a critical supply chain partner may still fail and your organisation has to deal with the consequences of that disruption, responsibility for Business Continuity Management can't be outsourced!



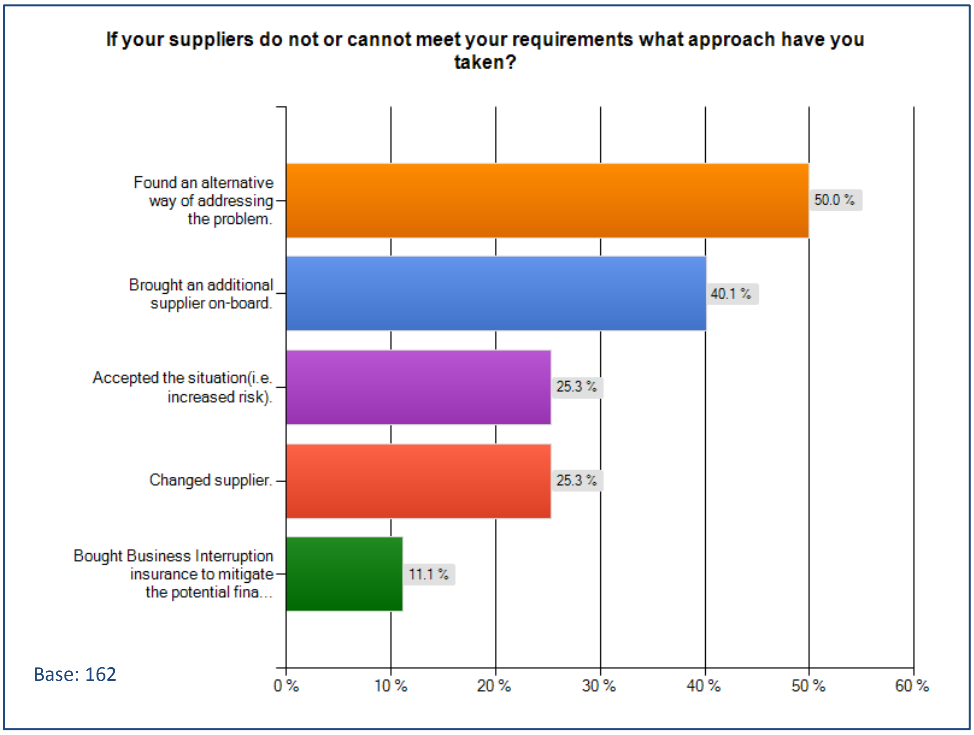
A key objective of the survey was to understand how successful organisations have been in getting their business continuity needs met by their supply chain partners, how they have re-assured themselves of the BCM programmes within suppliers, and what business continuity measures they have chosen in the event of supplier failure:

- 60% felt suppliers partially met the needs of their own BCPs.
- 65% have been partially successful is getting supply chain to adopt BCM practices in line with their needs.
- 16% have not done this, 8% have not been successful; only 11% have been fully successful.

The financial services sector was most bullish about having been successful in ensuring that the supply chain adopts BCM in line with its needs and only 18% do *not* ask for evidence of a BCM programme. Manufacturing was the least successful at getting alignment with the supply chain. IT & telecom sector companies were also weaker than the average in terms of alignment on BCM and asking for evidence of a programme (43% do not).



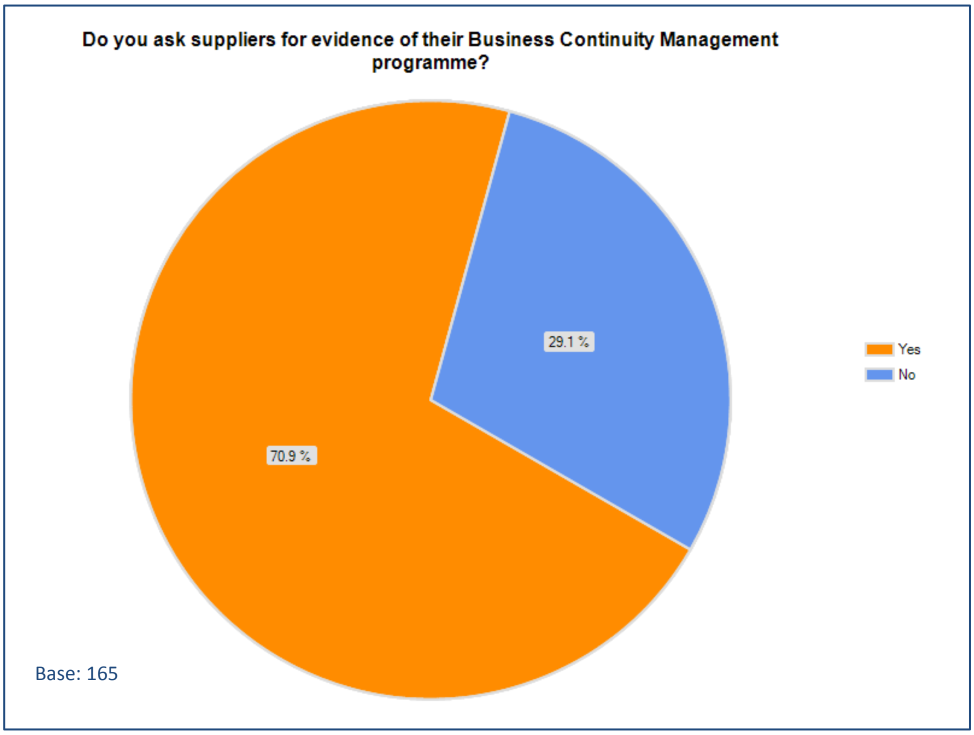
What are you doing about it?

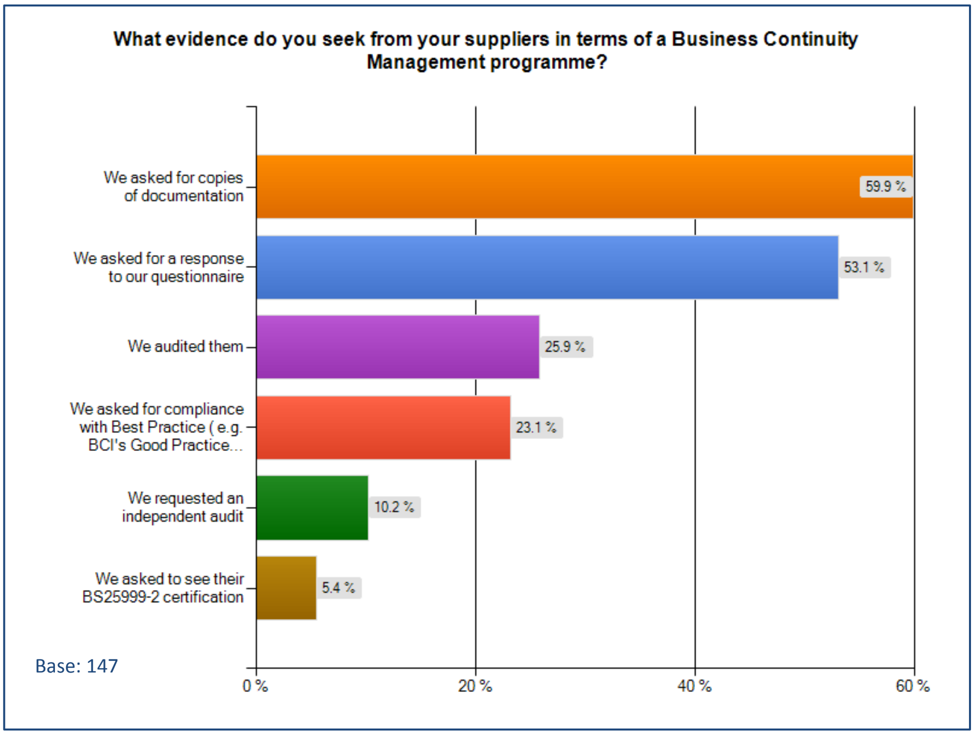


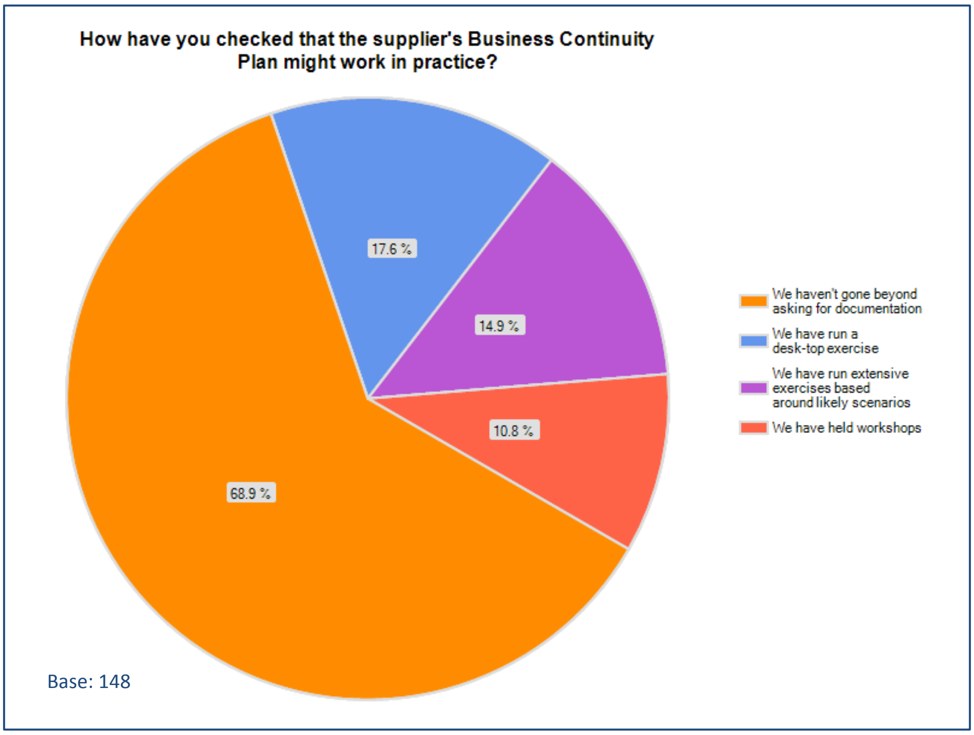
The question on taking business interruption insurance generated a low response level as we would expect given the immaturity of the insurance market in providing supply chain insurance cover. Organisations looking to cover the financial impact of disruption may want to investigate further.

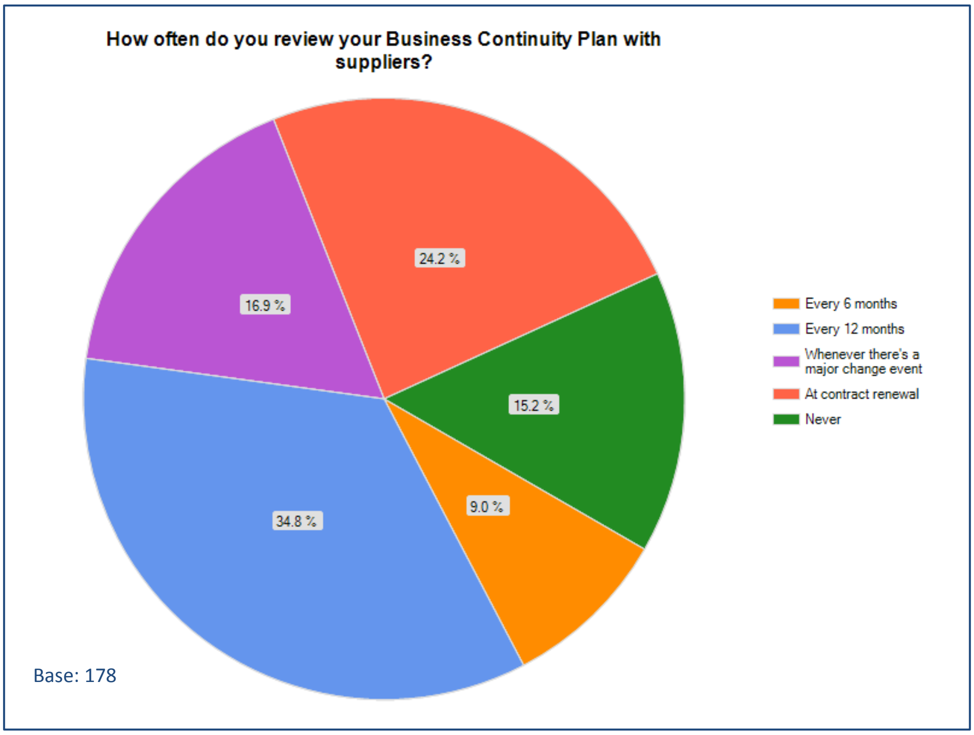
How do you really know?

We were interested to know how respondents satisfy themselves that supplier plans will work in practice and how they monitor for change, review or update their plans.







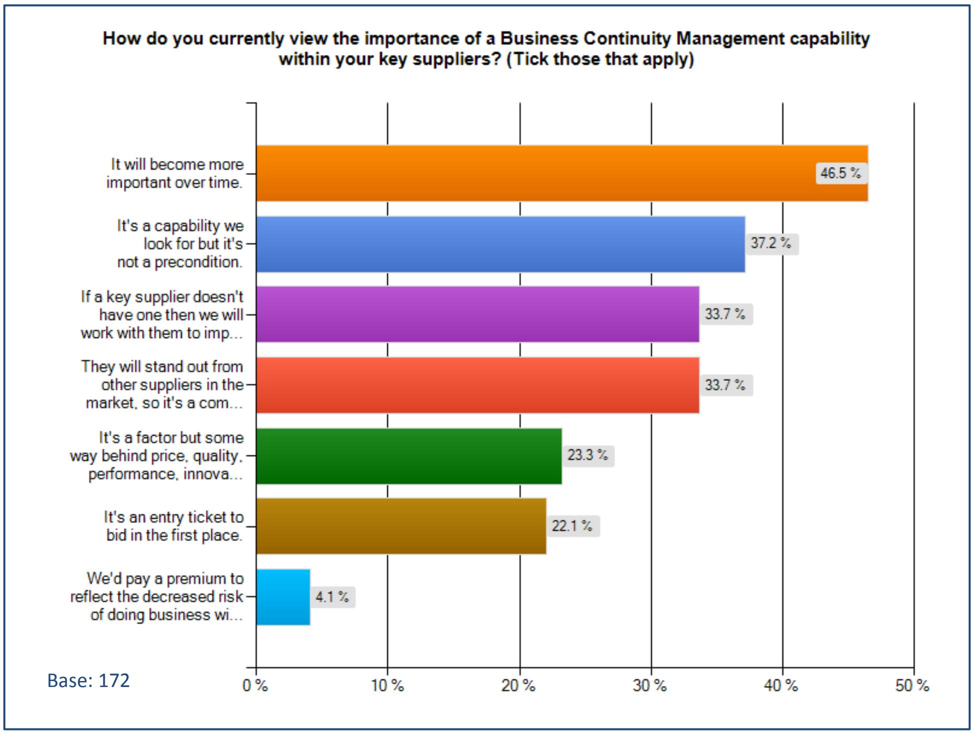


The results show a high level of respondents seeking documentary evidence to provide business continuity re-assurance either through questionnaire or requesting copies of documentation. Some individual respondents stated that their requirements depend on the criticality of the supplier. This raises some interesting questions around the value of asking non-critical suppliers to provide evidence of plans, especially if this is at the cost of critical suppliers being able to "get away" with only providing documentation. Exercising and reviewing plans are mandatory elements of a BCM programme but have clearly not been substantially extended into the supply chain to date, arguably, reflecting the emerging nature of BCM practice in this area.

How important is BCM capability in your key suppliers?

We wanted to understand where organisations today place the "presence of a BCM programme" in supplier selection criteria. This question did enjoy a relatively high response rate but those hoping to be able to charge customers a premium will be disappointed.

While some individual respondents made the comment that they would not purchase from organisations without one, the majority did not take this position and firmly put BCM as a factor that would become more important over time.



"BCM is increasingly becoming important to our supply chain assessment and decision making and will shortly be embedded within our supplier selection processes from cradle to grave and will be viewed on a risk basis." Survey respondent.

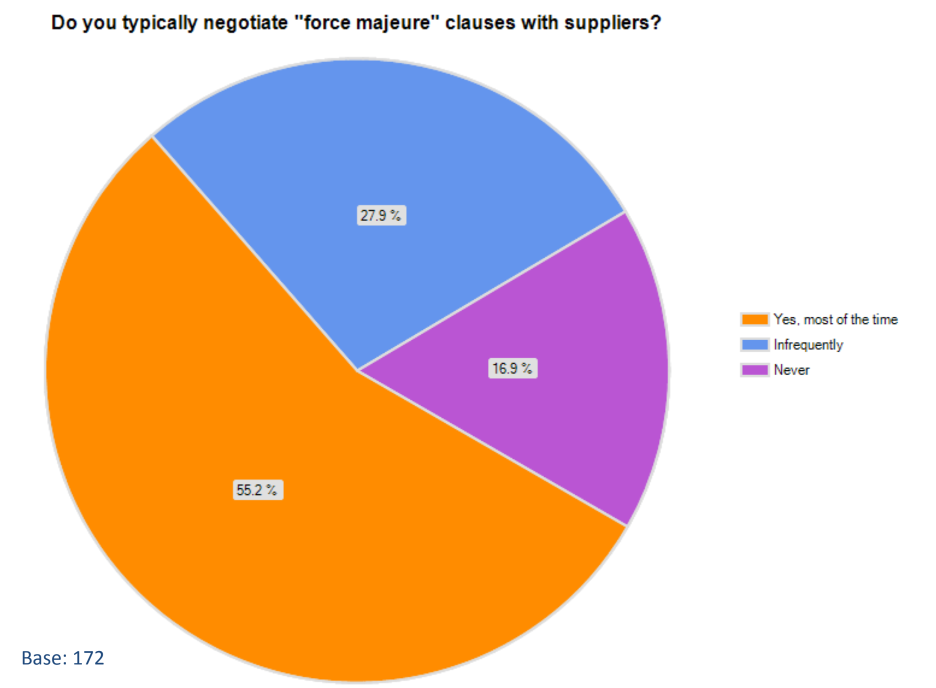
Force majeure[2]

On force majeure, our initial thinking assumed that it was a boiler plate clause in contracts and one of those that was quickly covered off in the final stages of contract negotiation *but* that there was the potential for BCM to bring value if this clause were brought into negotiations.

We were therefore keen to assess whether there had been increased levels of force majeure invocations over the past 12 months, whether such clauses were being negotiated with suppliers and customers and the extent to which supply chain disruption was already considered as a force

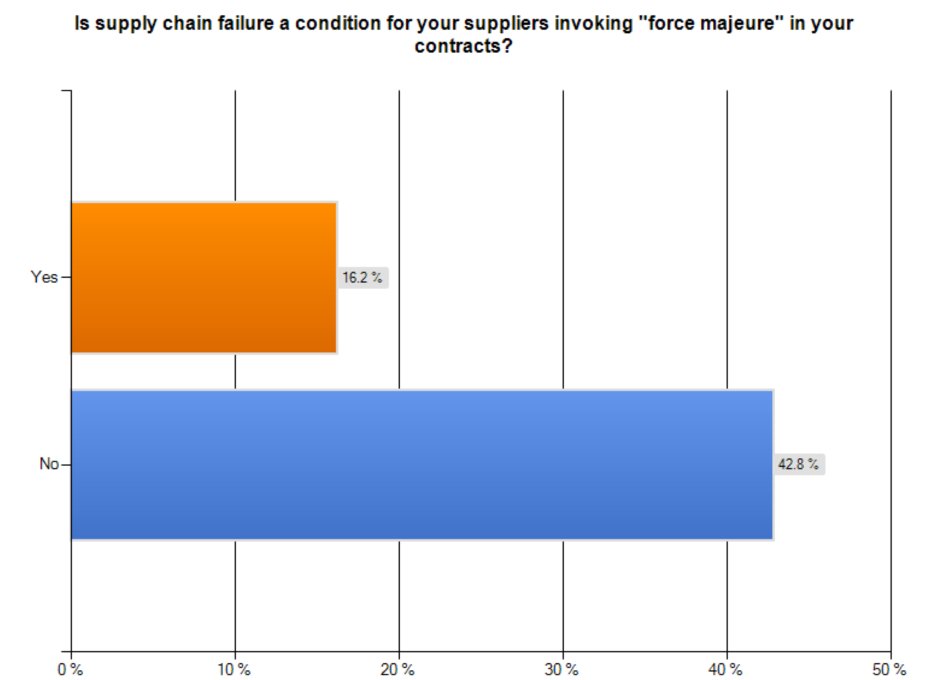
[2] Force majeure clauses: these clauses excuse a party from liability if some unforeseen event beyond the control of that party prevents it from performing its obligations under the contract (Yale Law Library). According to one respondent Japanese law prevents the inclusion of force majeure clauses in contracts.

majeure event. Finally, we were interested in understanding whether respondents felt that a methodology to negotiate force majeure would be of value (i.e. BCM).

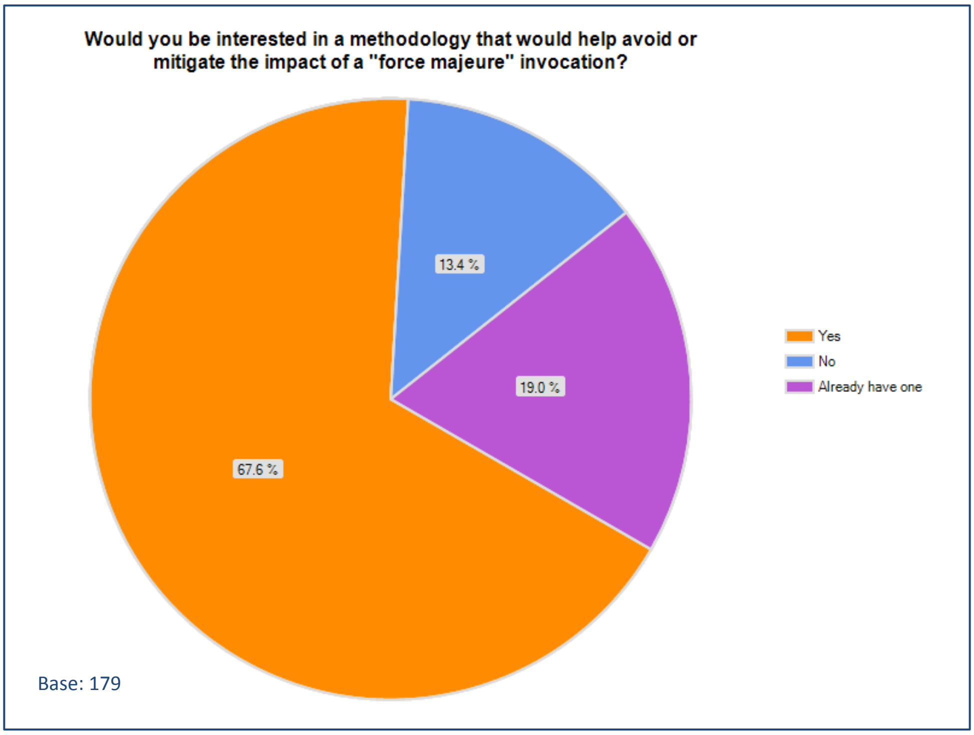


Base: 172

I have established a discipline of negotiating service specific MOUs with supply chain and critical infrastructure providers as an alternative to SLAs which always have a force majeure clause. MOUs are designed to specific circumstances and therefore force majeure does not apply." Survey respondent.



Base: 173; "Don't Know": 41%



So, maybe contract negotiations will change in the future as the force majeure clause does provide a hook for BCM practitioners to push the case for BCM programme extension through the supply chain. This will, however, mean an additional investment on behalf of the supplier even with support from the contracting organisation.

Additional analysis by sector

Comparison by number of suppliers

In comparing organisations with 1-50 suppliers with those having more than 1,000 there were few discernable patterns of difference in approach. The only area of significant variance was around the question "how have you checked that the plan might work": Organisations with more than 5,000 suppliers had much high levels of workshop (53%) and desktop exercises (40%) than any other categories. This is not a surprise given the greater level of resources available to larger organisations.

Small organisations vs larger organisations

Small businesses (0-50 staff) had experienced increased levels of disruption (41%). This was the one category where tighter credit insurance conditions made the top three of disruptive events on a par with swine flu but behind IT & telecom. 40% experienced a loss of revenue (compared with 20% average) and 44% want better visibility. Small businesses are therefore bearing the brunt of any disruption.

Private sector vs public sector vs third sector

There were few discernable differences between the sectors, although 44% of public sector organisations responding had more than 1,000 suppliers. The breakdown was as follows:

- 76% private sector; 23% public sector; 1% third sector.

Organisations taking advantage of off-shoring or outsourcing in designated countries

40% of respondents stated that they had off-shore or outsourced partners in the designated countries. These respondents experienced higher levels of increased disruption at 40% compared to the average level. Disruptions experienced were IT & telecom (58%), lack of energy (36%) and failure of an outsourcer (28%). Force majeure invocations were also higher at 16%. The use of off-shoring was dominated by the financial services sector (60%).

Regional variations

The survey asked respondents to confirm the geographical regions where they have business operations. A comparison on this basis against the overall survey average is given in this section:

- UK and Europe were very much in line with each other and the overall survey result reflecting the bias to these regions among survey respondents. Those with operations in Asia reported increased disruption levels at 39%. The main disruptions here were IT & telecom (42%), adverse weather (39%), and financial failure of a supplier (39%).

- In North America, the main causes of disruption were different from the overall results with financial failure of a supplier 36% (28%); IT & telecom 27% (43%); industrial dispute 21% (10%). The primary impact was increased cost of working rather than lost productivity. In terms of future threats, computer virus/cyber threats were higher at 21% (16.5%). For force majeure, there were higher levels of negotiation at 67% (55%). Organisations were also much more confident in claiming that they had been fully successful in ensuring that their supply chain adopted their BCM needs at 20% (11%). Finally, companies with North American operations were much more likely to change supplier if suppliers did or could not meet their requirements with 43% (25%) registering this option.

- In the Middle East, 42% had experienced increased disruption. The main causes of disruption were transport network disruption (41%); IT & telecom (35%); financial failure of a supplier (35%); and change on government of regulatory position (30%).

- In Africa, 58% had experienced increased disruption. The main causes were financial failure of a suppler (50%); IT & telecom 50%; lack of energy supply (39%); and transport network disruption (33%). There were also much higher levels of force majeure invocations in Africa (18%).

- Central and Latin America had the highest levels of force majeure invocations at 24%, however, it is also the region where supply chain failure is a recognised event for invoking force majeure at 37%. In Africa, the figure is 26% and in the Middle East it is 22%.

Supply Chain Management practitioners vs Business Continuity Management practitioners

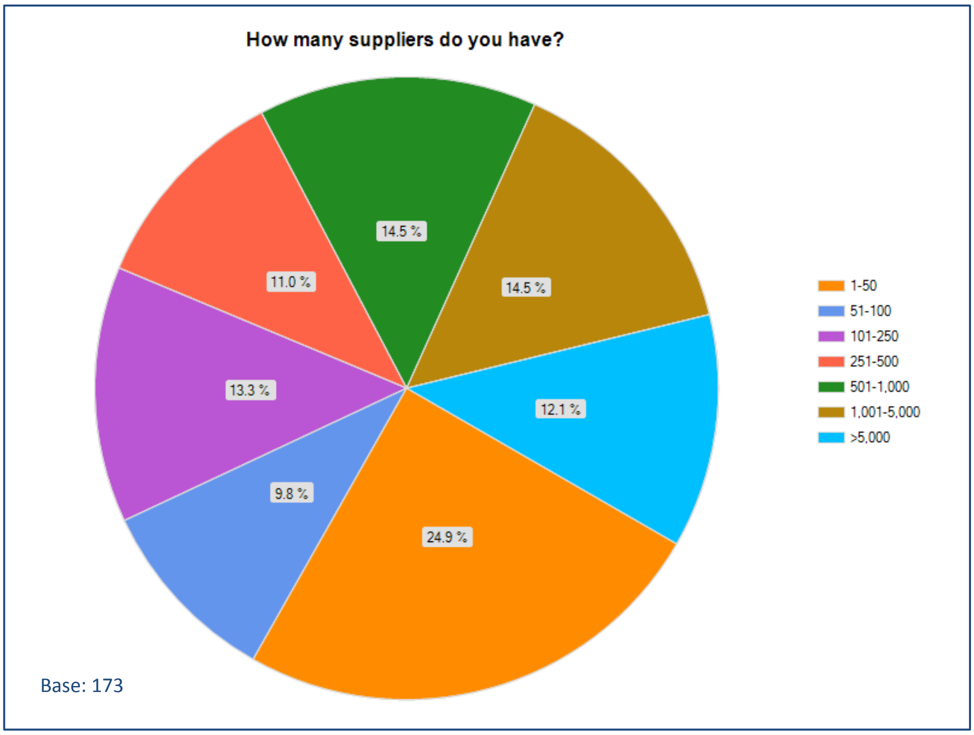
57% of supply chain management professionals have seen increased levels of supply chain disruption. The main threats were financial failure of a supplier (47%), tighter credit insurance conditions (29%) and swine flu (29%).

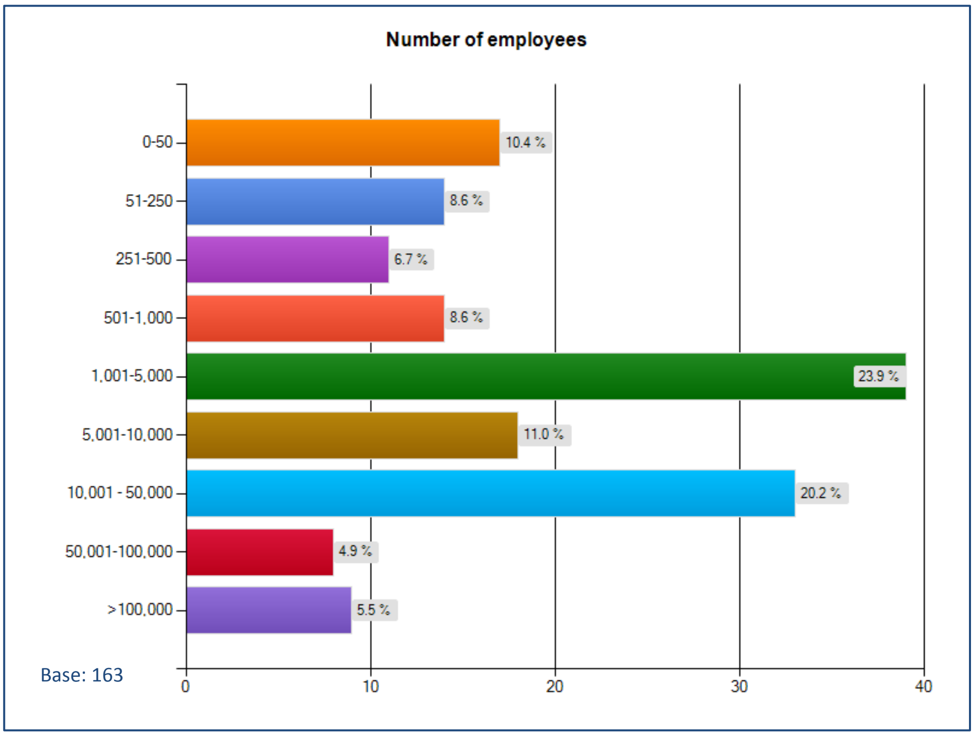
However, only 52% of supply chain people responding in this survey were involved in the BCM programme in their organisation.

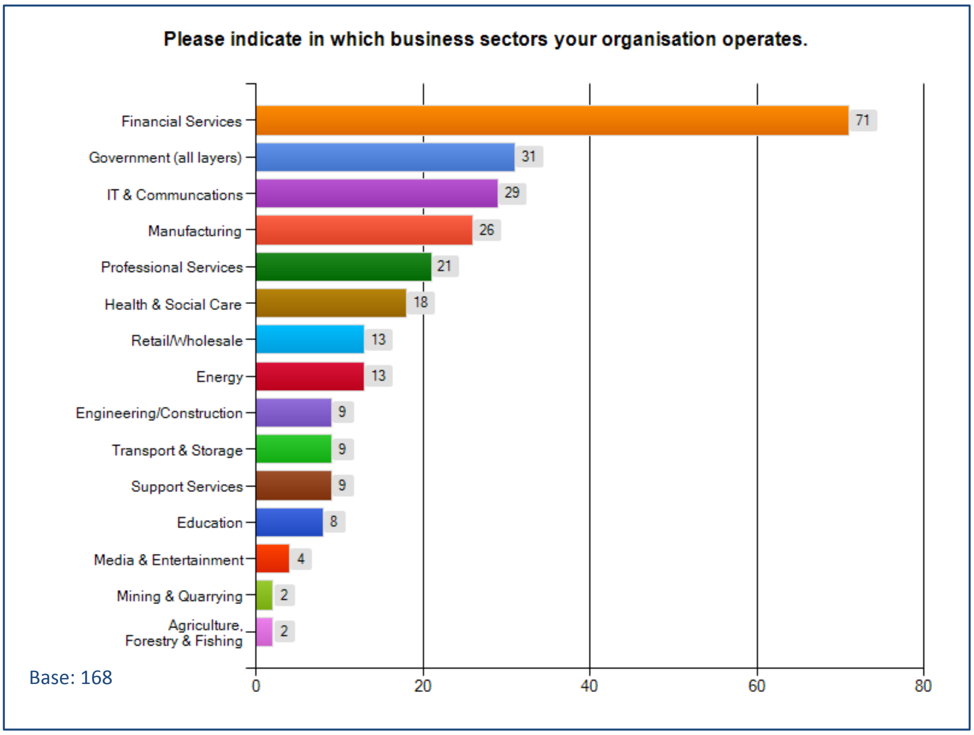
It seems reasonable to conclude from these results that BCM and supply chain practitioners may see different causes of disruption to their organisation and this emphasises the need for a consistent, cross-functional approach to BCM.

Profile of respondents

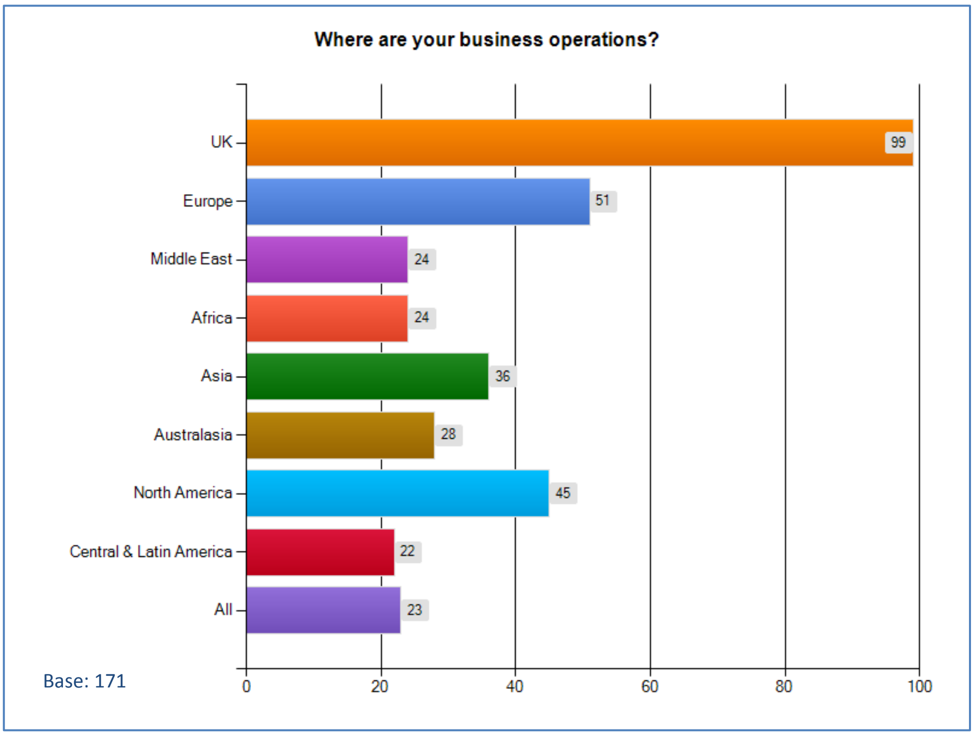
Where respondents provided profile information, this is given in the following charts:



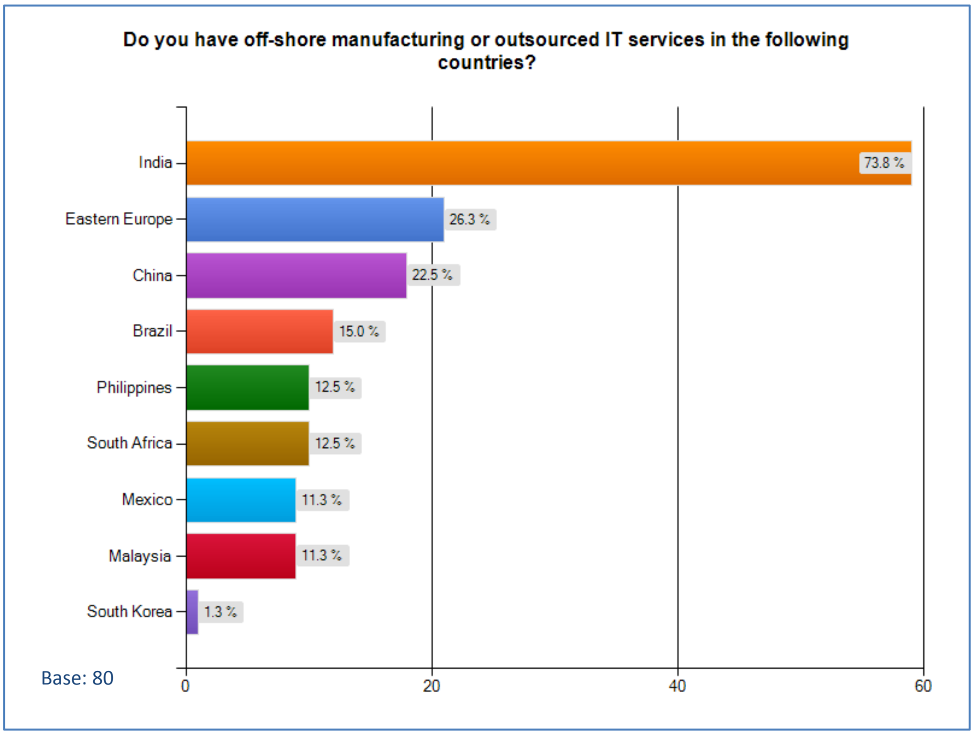




Note to "Business Sectors" response: organisations can choose more than one sector.



Note to "Business Operations" response: organisations can choose more than one geography.



Note to "off-shore manufacturing or outsourced IT services" response: the figures here are greater than 100% because organisations can choose more than one country/region.

Next steps

The objective of the survey was to test out some ideas and obtain a snap-shot of current practice and challenges in applying Business Continuity Management through the supply chain. We are therefore looking to use the findings of the survey to move the public body of knowledge forward in four distinct ways:

- A concise practical guide for BCM and supply chain practitioners on considerations and actionable insights to help improve supply chain resilience.
- Establish closer co-operation with supply chain management practitioners and consultants to explore and demonstrate the benefits of BCM.
- Publish a whitepaper on the application of BCM as a method to deliver supply chain resilience within the broader practice of supply chain management.
- Confirm our thinking around force majeure and the value that BCM can bring to help organisations avoid force majeure invocations or at least minimise the impact.

We would welcome any further thoughts from readers of this report on any of the topics covered in this survey. Please send any comments to lee.glendon@thebci.org.

About Business Continuity Management

Business Continuity Management is a holistic management process that identifies potential threats to an organisation and the impacts to business operations that those threats if realised might cause, and which provides a framework for building organisational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

About the Business Continuity Institute

The Business Continuity Institute (BCI) was founded in 1994 and leads on the development of best practice in Business Continuity Management. The BCI also contributes to relevant legislation and standards. It has some 4,800 members in over 80 countries active in an estimated 2,500 organisations in private, public and third sectors.

The BCI Partnership, established in 2007, is the corporate body within the BCI with over 60 member-organisations including Continuity Shop, Marsh, Milton Keynes Council, BAE Systems, BP International, BSI Group, BT, Community Resilience UK, Continuity SA, DNV Business Assurance, EADS, Garrison Continuity, HP, HBOS (Lloyds Banking Group), Lockheed Martin, Prudential, PwC, Royal Mail, SunGard, Vocalink, Zurich, and the UK Government's Cabinet Office.

Contacting the Business Continuity Institute

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About Zurich

Zurich Financial Services Group is an insurance-based financial services provider. Our headquarters are in Zurich, Switzerland. Founded in 1872, we now have a global network of subsidiaries and offices in North America, Europe, Asia Pacific, Latin America and other markets. Our 60,000 employees serve customers in more than 170 countries.

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