



## *Understanding Disaster Preparedness*

### **Ignoring Disaster Preparedness Akin to Gambling**

A staggering 40 percent of small to midsize businesses are not prepared for manmade or natural disasters, and 70 percent of small businesses go belly-up after suffering a disaster, according to research firm International Data Corp. While most business owners would rather not think about earthquakes, fires or power outages, such events can erase the hard work and invested dollars of any organization in a matter of minutes.

Businesses should take the time to understand the breadth of what is meant by disaster, make a detailed assessment of the organization's vulnerabilities, check and double-check insurance policies and then execute an active, comprehensive program, experts say.

Otherwise, the gamble could result in bankruptcy or worse.

#### **What Exactly is a Disaster?**

Disasters with the ability to flat-line a business come in all shapes and sizes, do not always originate from Mother Nature and sometimes are not even considered disasters at the outset.

The word "disaster" conjures up images of hurricanes, floods and earthquakes, says Bob Boyd, CEO and president of Agility Recovery Solutions. But those events are only what we see on the evening news, Boyd says, and do not represent the majority of threats to an organization.

"In reality, those big geographic storms only account for about 17 percent of disasters that effect businesses," says Boyd, whose company is based in Charlotte, N.C. "Usually, it's a server meltdown, power outages, sabotage by a disgruntled employee or fires."

Business owner Donna Childs suggests businesses start by preparing for the less-serious scenarios – such as power outages or network disruptions – and work up to the more serious threats. By focusing just on the most dramatic events, businesses remain vulnerable to the lesser threats, says Childs, president of New York-based Childs Capital LLC.

Even a disaster that leaves a business untouched can effectively shut down operations, says attorney Susan Fowler McNally, a partner with Santa Monica-based Gilchrist & Rutter P.C.

"Think about all the mom and pop store owners. They may find that nothing inside their premises is damaged, but maybe they're in a strip mall and access is blocked," says McNally. She suggests business interruption insurance to protect against losses from such a scenario.

For California businesses, the likelihood of earthquakes and wildfires is palpable. But businesses located near rivers should absolutely consider the possibility of floods, says Ian Mitroff, founder and president of Oakland-based consultancy Comprehensive Crisis Management.

"Engineers say the potential flood from the Sacramento River levees would make Katrina look like a pawn," says Mitroff, citing the acknowledged deficiencies of the Sacramento River levee system.

#### **Disaster Prep as Risk Management**

Although the potential for disaster is clear – the Sept. 11, 2001 terrorist attacks, the aftermath of Hurricane Katrina, wildfires in Southern California, to name the more high-profile catastrophes – denial seems to be part of human nature, Mitroff says.

"A major crisis is guaranteed to happen to every organization," says Mitroff, explaining how even though the risk is high, denial tends to override the enactment of a proactive policy.

Shortly before the Sept. 11 attacks, Mitroff conducted a crisis prevention survey among a wide variety of businesses. He sent out the same survey shortly after the attacks, and predictably discovered more interest in crisis prevention. But it declined in successive years, according to survey results, finally returning to pre-

9/11 levels three years after the attacks.

Only the crisis of legal action consistently figured into the realm of risk management, based on the crisis prevention survey results, Mitroff says. Businesses should apply the same level of concern they have with litigation to other vulnerabilities, he says.

“You’re sending soldiers into battle without basic training. You have to view it as preparation for war,” Mitroff says.

As with many other risk assessments, the danger of not at least having a plan in place is measurable. According to research from the Association of Small Business Development Centers, more than one in four businesses will experience a crisis in a given year; of those businesses that experience a disaster and have no emergency plan, 43 percent never reopen; and of those that do reopen, only 29 percent are still operating two years later.

### **Are You Fully Insured?**

While insurance companies can only write checks, it definitely makes sense to have the right kinds of insurance policies, experts say.

Childs, whose Wall Street-based business was evacuated in the wake of the Sept. 11, 2001 attacks, says she benefited from having a background in disaster preparedness. Her data was backed up and accessible online, she had a backup communications plan in place and had business continuity insurance.

McNally says business owners need to take the time to fully understand what their various insurance policies actually cover. Often, she says, business owners are stunned to discover that some critical business assets are not covered by what they thought was comprehensive insurance.

“The sprinklers go off, the files are scattered all over the floor. Who is going to recover those documents? There is actually an insurance policy that covers that,” McNally says.

Also, typical property insurance usually covers the depreciated value of something lost or damaged, but not necessarily the replacement cost. And if the insurance company believes the policyholder has underinsured, they can charge a steep penalty. Even less understood are “change condition” endorsements to a policy, which cover additional costs, associated with changes made to the property since the policy was bought.

McNally suggests business owners sit down with their insurance agent and discuss what is needed to protect their business in the event of a disaster, and to never make assumptions about coverage.

### **Proper Planning is Just the Beginning**

The next step is to draft and execute a comprehensive disaster preparedness and recovery plan, which California Executive will address step-by-step in the next issue.

To make such a plan effective requires involvement, practice and updating, experts say.

“Merrill Lynch, two weeks before [Sept. 11, 2001], conducted an evacuation drill. From what I heard, they got more of their people out faster and quicker than some of the other companies,” says Mitroff, illustrating the crucial importance of making disaster preparedness an ongoing concern.

Boyd, whose company provides mobile workstations and other business continuity systems, says the biggest mistake many businesses make is letting the disaster response plan collect dust.

“Once they start developing a plan, they need to test it. Don’t just write a business continuity plan and put it on the shelf,” Boyd says. “Every time you test your plan, you’ll find something that needs to be fixed.”

Disaster preparedness as an essential part of an enlightened and profitable business plan, a claim Mitroff asserts through his survey results.

“When we looked at the data, the proactive companies were far more profitable than the reactive organizations,” Mitroff says. “If you actually do things like crisis management, then you’re more profitable.”

At least you’re more likely to continue doing business after The Big One.