



A. C. MACRIS CONSULTANTS

UPDATE

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HIGHLIGHTS

This issue of Update explores the lessons learned from the present disaster in the Gulf States to illustrate the concepts and principles discussed in our previous two articles titled "Leadership, Business and Terrorism - The Ripple Effect and Leadership, Business" (Issue 03-05) and "Terrorism - The Case for Understanding Your Risks & Vulnerability" (Issue 02-05).

Terrorism, natural disasters, economic crises and a multitude of smaller disruptive events will happen. Risk Management, Preparedness, Response and Recovery Planning have proven effective, as demonstrated by how quickly well prepared organizations operating out of the WTC on 9/11 managed to recover, particularly when backed up by effective leadership. These are complex yet compelling issues that are challenging leaders across all levels of the government, military and private sector.

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Where have Terrorism, Iraq, Afghanistan and the War on Terror Gone?

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The events following Hurricane Katrina's drive into the Gulf States of Louisiana, Mississippi and Alabama suddenly shifted the national focus from the War on Terror to the power of nature and the horrors of its capricious temper. Once again, Mother Nature made it clear that in comparison to man's seemingly limited ability to do mischief, it could bring devastation at will in spite of our efforts to prepare.

As our fellow citizens begin the process of stabilizing their lives, it is only natural that they will soon be looking beyond what is needed to make life possible to those factors that ultimately define the quality of life. For individuals who contribute to the economic well being of their families, the return to normalcy must include a job, business or other source of income. Charity will help, but for most Americans, charity's primary purpose is to serve as a bridge to productive employment.

In our last two issues, we covered several timely topics, particularly in light of Katrina's impact: (1) direct and indirect effects of terrorism and (2) the use of integrated risk profiles (IRPs) as a means of protecting businesses from disasters, man-made and natural. These topics focused on the perspective of business leadership and the need to engage management in decisions which are designed to ensure the survivability, recoverability and profitability of their business following a major jolt to their industry, clients and general economy.

This issue of *Update* leverages lessons learned from the present disaster in the Gulf States to illustrate the concepts and principles discussed in our previous articles. In doing this, it is our hope that the business community will take time to reassess the role of preparedness thereby ensuring the long term well being of the enterprises in their charge.

Katrina's Direct and Indirect Effects

Images of Katrina's direct effects on the economy of the Gulf States have been seared into our minds by intensive news coverage of the disaster. The aftermath of Katrina has also motivated citizens of our nation as well as nations throughout the world to provide assistance to the most visible victims through direct economic support, medical and living assistance. Congress is expected to provide over fifty billion dollars in direct aid to the region as it struggles to rebuild communities and lives, and re-energize the local economies. As we discussed in our newsletter articles, direct effects are clear and compelling, and generally result in direct assistance.

The indirect effects of Katrina, on the other hand, are clouded by distance, time and the sense that others outside the direct path of the storms should simply count their blessings. And yet, for businesses with major economic involvement in the Gulf State area, the economic impact may be equally compelling. The same applies to those who rely heavily on petrochemical products and oil based energy

supplies, and who are now faced with much higher prices and potential threats to availability. Travel companies that specialize on trips to the Gulf will also feel the pinch, as will investors in what had been a growing gambling industry throughout the region. More importantly, Federal dollars previously planned or earmarked for other projects and programs may well get re-allocated for years to come, further impacting companies that rely on Federal funding for their prosperity.

A final negative consideration for companies indirectly affected by the storm is the fact that they will not be able to gain access to cheap loans, grants and other types of support. While their competitors in the areas affected by the storms may well suffer in the short term, they may in turn gain significant advantages in the long term through improved access to capital, lower capital costs and greater local economic activity from recovery efforts. In addition, at least some local businesses will benefit from increased visibility as they rebuild and news stories get out, attracting new clients in areas outside the region, even internationally. This isn't to say that our fellow citizens have not suffered great losses, both personal and economic, but nothing in the economy exists without feedback loops and sometimes disasters lead to a better economic outcome after recovery, as San Franciscans experienced post-1908.

Government Response

There has been a great deal of criticism over the government's (Federal, State and Local) response before and after Katrina. One thing is certain, however: those who had the means, preparation and willingness managed to escape with their lives, while minimizing the effects on their economic situation. Businesses, as witnessed post-9/11, who prepared and acted in advance of the catastrophe are likely to be better off than their counterparts, since they, too, will be able to benefit from disaster relief without having to overcome the terrible effects faced by the unprepared.

The importance of being prepared

The results from the Gulf States provide additional validation that the prepared and determined are most likely to survive and ultimately prosper. These experiences add to those of 9/11, when (1) it was our fellow citizens on United Flight 93 (rather than law enforcement or the military), who kept the terrorists from flying the plane into the Capitol or White House, (2) investment companies that had consistently backed up and stored their records quickly got back in business, while many who did not, failed to survive the ensuing economic slowdown regardless of post-event government action and (3) companies with existing policies and procedures were able to support

employees who were traveling and those who needed to travel right away in order to support their operations, clients and other critical functions.

In the modern economy, nothing moves without information and the systems that capture, process and produce it. Here again, it is the best prepared, who are able to recover and re-start critical operations. A lessons learned report prepared by Price Waterhouse Cooper for the Johns Hopkins Health System made clear the importance of preparation for tenants in the WTC, many of whom had been prompted by the 1993 attacks to take steps to develop and test response plans, and protect their critical data:

- *Due to the 1993 attack on the WTC, more companies had disaster recovery plans than a decade ago. Companies who had tested their programs fared better than those who had not tested.*

On the down side, the report also identified weaknesses, which impacted many of the tenants and made recover more difficult and costly:

- *Business resumption plans were not communicated well enough to employees, who did not know who was in charge, what was expected of them and what to expect from the company and recovery teams,*
- *Manual workarounds to cover the interim period between the event and systems restoration were not adequate and did not allow core business functions to be performed,*
- *Data restoration on behalf of the business personnel could have been better. A recent PwC benchmarking study found that only 50% of companies that have Business Continuity Plans include data restoration procedures in their plans,*
- *Financial services companies had to borrow large amounts of money on short notice to cover their positions as they were not able to calculate how much money they needed at the end of the day for such coverage.*

Similarly, in post World War II Europe and Japan, it was those who were best prepared with an understanding of the challenges ahead and a vision and determination to recover that were able to move their businesses and nations out of the ashes of five years of unrelenting violence. Honda in Japan, Porsche, Mercedes and Volkswagen in Germany and many others overcame dire circumstances through the vision and leadership of their directors, owners and workers. In Japan, the contributions of Dr. Edward Deming were incorporated into the country's industrial culture to ultimately lead Japanese companies to a competitive advantage over many of their counterparts in the West.

Finally, we mentioned in our last article the need to develop an integrated risk profile to help define threats and their probability. The power of the IRP is that it looks beyond the threat of the moment to identify those events with the

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greatest potential for occurrence, greatest measure of impact and likely duration. Rather than looking for terrorism and getting slammed by Mother Nature, or focusing on natural disasters but being exposed to the effects of terrorism, the IRP process puts in place the means, methods and procedures necessary to keep pace as conditions change. The intent is not so much to deal with a specific threat, but rather to maximize the reduction of risks for a given investment in time/resources and to keep senior management fully aware of the existing and evolving threats to the organization. We continue to assert that the IRP approach offers the most business-oriented approach to protecting the enterprise and ensuring its survivability and profitability from the direct and indirect effects of the threats they face.

Government can help, but it cannot help everyone and it is no substitute for preparedness. To rely on government alone is to rely on luck and bet the farm on the likelihood of an eventual government loan or other type of support. A century of progress in the face of disasters, wars and other calamities has provided ample evidence why there is no government substitute for organizational knowledge and preparation, energized through effective leadership. As the Gulf States rebuild, it will be interesting to see which enterprises survive and prosper and which ones will struggle and become consigned as tragic footnotes to Katrina's devastation. It is our hope that those who read our newsletter articles will pause to consider the implications.

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Key thoughts

Terrorism, natural disasters, economic crises and a multitude of smaller disruptive events will happen. To a large degree, organizations are powerless to prevent large-scale threat events from taking place and have only limited influence over government response. Risk Management, Preparedness, Response and Recovery Planning have proven effective, as demonstrated by how quickly well prepared organizations operating out of the WTC on 9/11 managed to recover, particularly when backed up by effective leadership. These are complex yet compelling issues that are challenging leaders across all levels of the Government, the military and businesses. We want to leave you with a few concepts to consider and even ponder.

Complacency – the Malaise

Complacency and inaction are the enemies of preparedness and lack of preparation translates into betting the business on someone else's initiative during the most stressful types of situations. Over a combined 40 years of consulting, Ozzie and I have found that when an organization, its leadership and its people become complacently unprepared, perturbations to normal operations are magnified by the organization's inability to respond, resulting in more serious

consequences that could ultimately threaten the organization's ability to quickly adapt and overcome eminently survivable events.

The Other Guy Blows It – You're Vulnerable

In a crisis, if the organization is depending on someone else and the other guy blows it, what are you going to do? While others, including customers, will understand and want to help, they are not likely to compromise their own operations by waiting for an undefined recovery over an uncertain time frame. FEMA, local and State officials may be to blame, but that will not change the calculus, when hard-won customers are usurped by the competition, when the business finds itself unable to deliver its goods and services on time.

In Which Tiers Are Your Impacts Represented?

More importantly, as previously pointed out, businesses can be severely impacted by events outside

their physical area of production. This is where the Direct and Indirect impact of any crisis comes into play. One concept we did not address in our previous articles regarding the indirect impact is the levels at which indirect consequences continue to have significant impacts. There are 2nd, 3rd and 4th levels; even more in highly integrated operational environments. Katrina's devastation and the initial clumsy response to the disaster illustrated how these multi-tiered indirect consequences can impact an organization, leaders, community and nation.

Have a Process in Place, Don't Just React

It is not enough to know where a business is today and how it could react based on current conditions. Risk assessments have their part in defining a baseline; however, in today's rapidly changing economic climate, businesses need an approach that is integrated into their day to day operations and decision making processes. New customers can lead to capital investments, which could be affected by anything affecting those customers, such as a hurricane or terrorist attack. Changes in the customer base can affect what the organization critically needs to succeed and in turn the composition of its critical assets list. The process and, more importantly, the leadership of the organization must support and promote growth on the upside, while mitigating threats on the downside. We believe that the IRP process is ideally suited to support effective leadership and maximize opportunities, while minimizing exposure to unpredictable events.

Is your organization nimble?

Finally, an organization's ability to be nimble and agile is a key predictor of its ability to adapt and be prepared in the face of emergent crises. It is a trait that can also help

it respond to suddenly evolving opportunities and changes in the economic climate from well-known business cycle effects. They are two sides of a common coin; one protects what is, while the other promotes what could be.

Leaders Are Needed More Than Managers

If life was fair and doing a job well was all that mattered, there would be no need for leaders, just managers to keep operations running on an even keel. Such is not the case and it remains up to business leaders to deliver a compelling vision, energize their organization, understand contextual differences between normal operations and effective crisis management, take the initiative and reject complacency. As you might be able to discern, we consider Leadership a critical ingredient in being prepared and able to respond to crises.

Final Thoughts

As we went to press, the impacts from the latest hurricane to hit the Gulf Coast, Rita, were beginning to trickle in. No one could complain this time that the authorities did not prepare and respond quickly. While there is always room for improvement, it became clear that from the President to local mayors, officials were not about get caught in a slower than expected response track. And yet, for all the successful evacuations, many towns and cities were still devastated. Some business operations will likely never return, particularly in areas where only marginal operations remained after changes in the oil production and processing economy, which have been impacting these communities for over a decade. Human casualties were limited, but business casualties were just as affected as they were a few weeks before when Katrina came ashore. Once again, help is coming to individuals and businesses that were directly affected, while those already suffering from Katrina's indirect effects will be worse off and still largely on their own.

Our first two Update issues on Leadership Business and Terrorism are:
"Terrorism - The Case for Understanding Your Risks & Vulnerability" (02-05), and

"Leadership, Business and Terrorism - The Ripple Effect and Leadership, Business" (03-05)

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