



Contingency planning:

the people factor

By Mike Hurlé

Many companies have detailed continuity plans to help them respond to business interruptions such as fire. But how can you guard against the loss of key personnel? It's a particular concern for managers as they consider the harm an influenza outbreak could cause to their business.



Traditional disaster planning tends to concentrate on one-off destructive events such as a fire, a flood or a terrorist strike. These incidents typically cause a temporary halt to a company's business, so the emphasis is on how to get things up and running again as quickly as possible.

The emergence of the H5N1 influenza virus demonstrates why plans need to be reviewed and updated regularly. "Many companies' disaster plans include well-oiled contingencies to track down employees and shift to alternate facilities," says Gustav Ando,

a healthcare analyst with research house Global Insight in London. "The possibility of a bird flu outbreak has spurred more companies into action, as they see a clear threat to their operations."

It's not a threat to be taken lightly. Influenza is sure to disrupt business in a very different way to a one-time accident. The demand for goods and services will change, while certain economies may be virtually closed off to the world. The two big influenza pandemics of the 20th century killed millions of people, and took between six and 12 months to bring under control.

Did you know

The incubation period for the H5N1 strain of influenza could be as short as seven days, but an infected person may transmit the disease one day before the symptoms appear.



Bird flu: considerations in Hong Kong financial reporting

Standard

Possible impact

HKAS 1 *Presentation of Financial Statements*

Disclosures are required wherever bird flu has a material impact on income and expenses.

HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*

The credit standing of counterparties may fall, leading to write-down of assets measured at fair value and possible impairments.

HKAS 36 *Impairment of Assets*

Bird flu may require an assessment of whether assets are impaired, requiring them to be written down to the recoverable amount.

HKAS 38 *Intangible Assets*

Technologies to produce medicine may increase in value, although it is unlikely the value can be recognised, given the constraints of HKAS 38. Expenditure on research and development may increase, but much of this will need to be expensed. This may lead to a reduction in performance over the short term, which will require explanation.

HKAS 40 *Investment Property*

In a pandemic, the overall economy may be affected. A company holding property as an investment may need to recognise a drop in property price in their profit and loss account as either a fair value reduction or impairment.

HKFRS *Insurance Contracts*

Huge casualties and business risk insurance policies may increase the insurance claims facing the insurance and banking industries.

HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Even if Hong Kong comes off lightly, other infected countries' currencies may drop drastically as export levels fall. This will affect calculations of exchange rate gains and losses.

HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

The government may offer specific financial assistance to certain sectors, including the medical or travel industries, to help them cope with the crisis.

Thanks to Raymond W.P. Yuen for his help in compiling this table.

Bird flu and you

The World Health Organization (WHO) has now placed the world on stage three of its six-phase pandemic alert system. This means H5N1 is being transmitted from birds to humans, but has yet to become transmissible between humans. The WHO predicts this will happen within the next five years.

The Hong Kong government is playing its part in preparing quarantine procedures and medicines and educating the public, but has stressed that businesses must play their part to minimise the overall losses to the economy. Contingency planners typically advise companies to take a series of simple, yet critical steps. First, set up a disaster planning team to conduct risk assessments. Based on those findings, establish a disaster plan and test it. Finally, communicate the plan to your staff and review it regularly.

Many companies in Hong Kong are already putting disaster plans in place to cope with an influenza outbreak. These plans require coordination between human resources, operational managers and the IT department. Philip Tsai, human resources partner at Deloitte, has been coordinating the company's incident management team. "Health threats such as bird flu are now a central consideration for our team. We produce an incident management plan, the fundamental aim being to protect our people, assets and reputation. We have different alert levels, each with its own action points. These include monitoring and disseminating information to our staff and among our offices. At the higher alert levels they mean instigating specific crisis management measures."

This rigorous approach may not be feasible for smaller companies, but any business can start by asking itself some fundamental questions. If you answer "yes" to any one of these, it's time to act.

If disaster struck tomorrow, would the company survive? It may be good to start by

Previous outbreaks

50,000,000

Spanish influenza (1918-1919)

One of the most devastating pandemics in history, with over 50 million fatalities worldwide.

4,000,000

Asian flu (1957-58)

Originated in China and then spread through Asia and to the United States, killing four million people.

750,000

Hong Kong flu (1968-69)

Estimated 750,000 fatalities. A build up of immunity from the 1957 pandemic may have prevented a higher death toll.

36,000

Seasonal flu strains

Also known as annual flu, these strains kill an estimated 36,000 people each year in the United States alone, despite vaccines.

looking at your insurance policy and other contractual agreements. Is there clear and adequate cover? Many hotels in Hong Kong are still negotiating insurance claims arising from business interruption during the SARS outbreak. Then there is the issue of staff. Contagion, and the fear of contagion, could reduce your workforce by up to 20 percent. This means you need resources in reserve to help you keep things running over one to three months. It could mean arranging for people to work from home, so they can mind their children or care for a sick relative.

Is there a specific risk to the core operations of the business? Bird flu could have a range of effects on the way a company reports its finances, as outlined in our table (see table, *left*). Certain assets may be impaired, so consider how this would affect your solvency. Another big risk to consider is how to share and manage information. Identify staff holding vital knowledge on financial or IT systems and how that could be shared in the event of their illness or death. If employees need to travel frequently, consider alternative solutions such as video conferencing. And if you rely on contractors and out-sourced processes, consider how these people might react to a crisis. You may

not be able to rely on them to keep their own services running effectively.

Can we learn from past experience?

Hong Kong's dense population makes it vulnerable to an influenza outbreak, but it also learned much from the experience of SARS. Companies need to take a measured view and try to provide balanced information to their staff. Newspapers and television can be guilty of hype and overreaction, and Hong Kong's media during SARS was no exception. "People in Hong Kong are more prepared now and have a heightened state of awareness," says Tsai. "We were lucky to come off relatively unscathed from the SARS crisis, but there were still important lessons for our incident team and we have updated our plans accordingly. We had 2,000 staff at the time of SARS; today we have more than 5,000 and have even more people travelling."

Tsai's experience underlines the importance of making plans and reviewing them regularly; an out of date plan may be worse than having no plan at all, if it means time and resources get wasted on irrelevant or outdated measures. By preparing for the worst, businesses can continue with greater confidence. A⁺

Did you know

Once the exact strain causing the pandemic is known, it will take around six months to manufacture an effective bird flu vaccine.