



RISK ADVISORY SERVICES

Business resilience in China

A KPMG China study

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Introduction



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The year 2008 will be remembered in China for several contrasting events. Early in the year the country was blanketed by heavy snowstorms across central and southern regions, and later shaken by a devastating earthquake in the south-western province of Sichuan. The second half of the year was dominated by the successful staging of the Olympic Games in Beijing.

These events, whether negative or positive, all served to highlight the importance of business continuity in

China. Business leaders and officials recognise that effective business continuity management can reinforce the country's economic resilience during tumultuous or high-profile events.

As the global economic slowdown starts to be felt in China, business continuity takes on further significance. In a time of austerity, business continuity plans need, more than ever, to be based on practical and cost-effective measures, while remaining flexible enough to handle sudden changes in people and processes.

The economic downturn is also accelerating the trend to outsource key processes and back office functions in many sectors. This interconnectedness, leading to increasingly complex supply chains, requires a whole-business approach that addresses the continuity of service in the event of a major operational disruption. It also needs to recognise the importance of appropriate and responsive communications. Today, many global companies view business resilience and continuity as a critical component of corporate governance.

The following report includes the results of an online survey conducted by Questex Asia between September and December 2008. The survey was sent to KPMG clients and selected subscribers to *Enterprise Innovation Magazine*, with a total of 215 qualified executives participating. It confirms that awareness of business continuity issues is rising, with a majority of respondents having a dedicated programme or system in place. Responsibility for business continuity

is taken at the highest level in many organisations. A majority of them highlighted that the Executive Board is responsible for implementing the programme, and that the general management was the primary owner of the programme.

While there are some positive signs, many organisations in China have room to further improve preparedness. Almost one-quarter of respondents said that their business continuity programmes have never been tested, while a significant majority felt that their employees did not receive adequate training.

Many respondents do recognise how dependent they are on their partners or external processes. In many cases, the importance of ensuring that partners have continuity plans that are aligned with their own seems to be appreciated. However, the level of integration of their plans with their partners' seems to be low.

These findings reinforce a key message of this paper, namely that business continuity plans cannot exist in a vacuum or remain unresponsive to other changes occurring across the business. Organisational change can arise from rapid growth in an organisation, but equally from a contraction or restructuring during a downturn. Any change can have implications for business resilience.

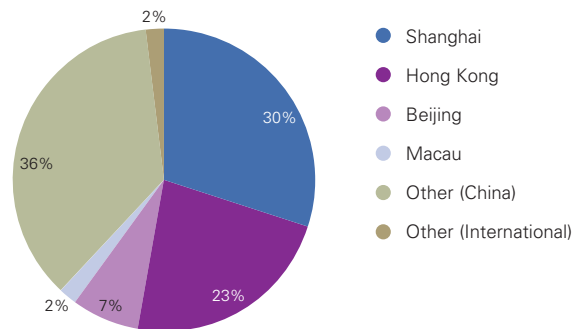
KPMG findings

- Due to industry regulations and the globalisation of business, an increasingly high proportion of companies in China have deployed business continuity management (BCM) programmes. However, this has been a relatively new phenomenon as a majority of respondents said that such a programme had only been put in place within the last two years.
- BCM programmes at organisations in China have typically received senior-level executive support. A majority of respondents identified the Executive Board as being responsible for implementing the programme, with the general management being the primary owner/coordinator of the programme. Such support not only shows the high strategic value given to such programmes, but should also ensure stronger buy-in from employees.
- The results show that organisations in China are genuinely concerned about business continuity, with hardware failure being the most pressing area of concern. This underscores the increasingly interconnected business environment in China and the rising cost of disruptions to these organisations.
- A fundamental shortcoming for many organisations is the lack of frequent testing or measurement of their systems. The current economic turmoil may heighten those risks as staff turnover and organisational restructurings become more commonplace.
- Many organisations in China do not fully appreciate the value of ensuring their continuity plans are aligned with current goals and business needs. The infrequency of testing suggests that costs or availability of resources may be key concerns.
- Many of the respondents felt that their employees were not receiving sufficient training on business resilience and continuity issues. This highlights a huge risk for these organisations, as having the right processes and programmes in place may count for nothing if their own personnel do not know what roles and tasks they need to assume in the event of a major disruption.
- Business impact analyses and risk assessments are not common in organisations in China, with a significant majority reporting that their organisations never conducted such an assessment. This may indicate the low appreciation of such tools for business planning and management in China.

About the survey

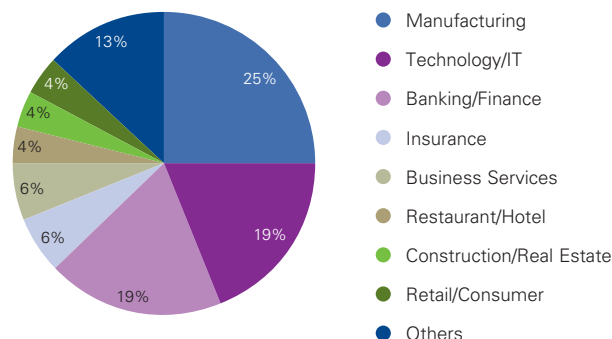
A total of 215 qualified executives contributed to the survey between September and December 2008. Thirty percent of respondents hailed from Shanghai, with 23 percent from Hong Kong and 7 percent from Beijing. The rest of the respondents came from cities across China, including Chengdu, Dalian, Guangzhou, Hangzhou, Macau, Nanjing, Qingdao, Shenyang, and Shenzhen. A small number of respondents were based in overseas locations including Canada and Singapore, but were included as their operations were primarily based in mainland China.

Fig 1.1 Location of respondents



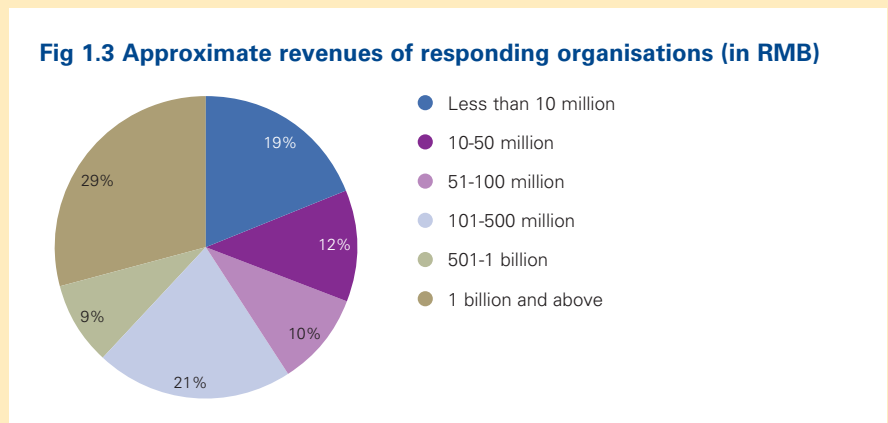
The majority of respondents came from financial, manufacturing, technology and IT sectors, representing 63 percent of the total respondents.

Fig 1.2 Which industry sectors did respondents represent?



The majority of the respondents also represented medium-size enterprises. Smaller companies with less than 100 employees had a significant representation of 29 percent, while those with 101 to 500 employees had a 27 percent representation. In comparison, companies with 1,001 to 5,000 employees and more than 5,001 employees had 19 percent and 13 percent representation respectively.

A majority had revenues of over RMB 100 million and 29 percent had revenues of more than RMB 1 billion.



The survey looked at the China region as a whole, and while some regional differences were observed, the majority of the companies taking part in this survey were either international companies (33 percent) or national companies with offices across many different cities and provinces (24 percent).

The participation of this diverse group of companies also points to the fact that size does not matter in business interruptions. Regardless of whether you are a large multinational, a local factory or a corner store, a power outage or natural disaster will affect you.

The vulnerability of smaller companies to business disruptions is further compounded by the fact that a majority of these companies are also supply chain partners of larger companies. As demonstrated by Hurricane Katrina in the United States, these companies can prove to be the weakest link and can cause significant disruption to larger businesses situated elsewhere.

Hence, organisations will need to learn to work together with not only their peer companies but also their partners and suppliers on a regular basis regarding business continuity. The fact the companies of all sizes consider BCM to be important to their business is a positive sign.

How prepared is China?



After years of strong growth, many businesses across China have reached a scale of operations where they need to pay greater attention to risk management issues, including business continuity.

BCM is an approach that coordinates people, processes, facilities and technology through an effective organisational framework to sustain a business's operation, in the event of a natural disaster or other disruptive event.

Many international organisations own or outsource operations in China and the preparedness of these operations can form a critical part of their global resilience. Service availability and responsiveness have always been key concerns for companies looking to outsource their operations. In certain industries, business continuity arrangements are also subject to review by business partners, regulators and government organisations.

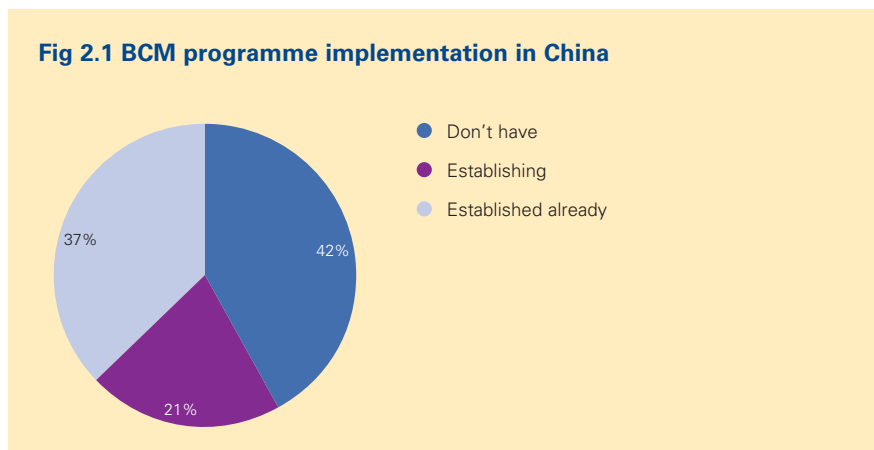
These factors suggest that BCM is likely to receive more attention in China in the years to come, as China drives towards higher value-added manufacturing and a service-oriented economy.

This is the first time that KPMG has conducted a survey on business resilience and continuity in China, although we have conducted several studies globally and across the Asia Pacific region. It is apparent from our research in China that the approach and level of understanding among executives has evolved rapidly, with a high proportion of companies having developed a BCM programme within the last two years.

While this suggests that practices in China are rapidly "catching up", BCM continues to evolve globally. Many international organisations who already have operations in China have contributed to the acceptance of BCM in China by importing tried and tested processes and adapting them to local needs and requirements.

BCM adoption rising fast

According to the survey results, Chinese organisations now seem to be reasonably familiar with the concept of business continuity. Almost two-thirds of the companies taking part in the survey either had a BCM programme in place already (37 percent) or were in the process of developing one (21 percent). However, perhaps more significantly, 30 percent said they had only put a programme in place within the last two years and 29 percent had a programme in place for less than one year.

Fig 2.1 BCM programme implementation in China

Our survey suggests many BCM programmes are already comprehensive in their scope. Twenty-nine percent of those with a BCM programme indicated that their plans covered all critical processes, independent departments and divisions, while 28 percent said that their programme covered all business processes and interdependent service providers and suppliers.

People matter

Business continuity has historically focused on information systems and workspace recovery. However, far greater emphasis is now needed on less predictable people-related issues. Only 24 percent of respondents said that their business continuity programmes were focused on IT disaster recovery, suggesting that the concept is already widely recognised to be more than simply an IT issue.

By recognising the value of an organisation's personnel, and the role they need to play in coping with disruption, it is clear that BCM needs to develop preparedness measures that involve people from functions such as corporate communications and human resources.

Corporate communications can play an important role in ensuring that the right information is shared with the right stakeholders and that a level of awareness is sustained over time. Communications teams can help to clarify the expectations and responsibilities of different stakeholders and manage information with customers to eradicate baseless fears and rumours. This point is highlighted by Richard Grezl at Swiss Re, where business continuity planning has to be communicated across offices of different sizes, with different operating models (see case study, page 10).

As highlighted in the 2007 KPMG whitepaper entitled *Living on the Frontline*, during the July 2005 terrorist bombings in London, many employees accessed media information that was at odds with the corporate information being given to them. A clear channel of communication among all people involved with the organisation needs to be in place to ensure that mis-communication or misinterpretation of instructions is minimised.

Human resources departments, especially in this age filled with pandemics and terrorism threats, also play a major role. They can help in gauging the impact of a business disruption on an organisation's personnel and their safety and help to approach disruption within the emotional and practical context of people's wider lives. This is illustrated by the fact that many organisations have plans that allow people to work from home if their normal work place is inaccessible, or offer counselling to help staff manage stressful situations.

Also, in the case of severe disruptions, such as the September 2001 terrorist attacks, not having trained employees to take on the key roles of other employees also exposes the organisation to key business risks or gaps in business processes.

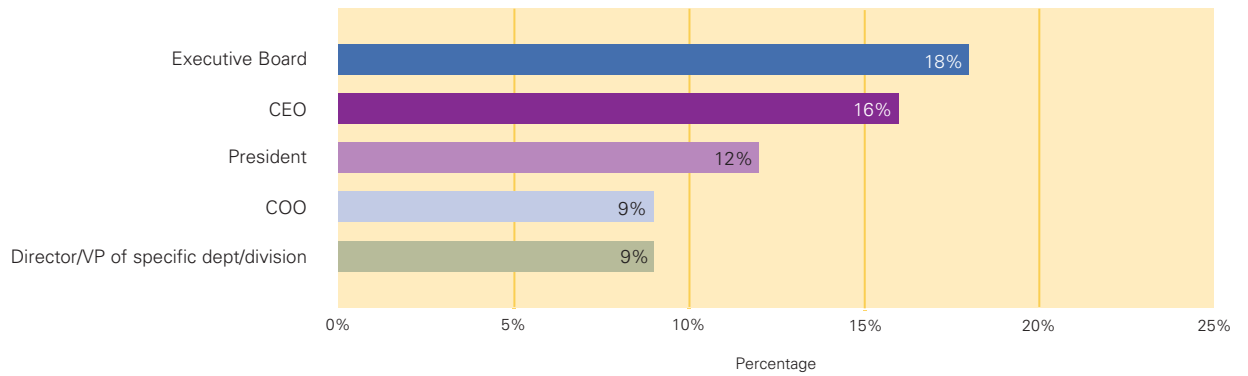
It should be possible to address these factors through training that ensures that employees from all departments are well aware of the steps to take during a disruption. As Nelson Ho of OOCL recognises, training is not only critical to a BCM programme, but may require increased investment over time as user systems become more complex (see case study, page 18).

This, unfortunately does not always seem to be the case for organisations in China. A common sentiment expressed by respondents was that there were insufficient resources devoted to business continuity training. A majority of respondents (66 percent) expressed dissatisfaction with the training given to their employees in the past 12 months.

This sentiment is perhaps unsurprising, given the costs involved in training and the time that continuity issues can divert from core business activities. Eighty-two percent of companies use internal company training, while other training methods fared much lower with only 31 percent citing attendance to conferences/seminars and 22 percent citing off-site training using an independent trainer.

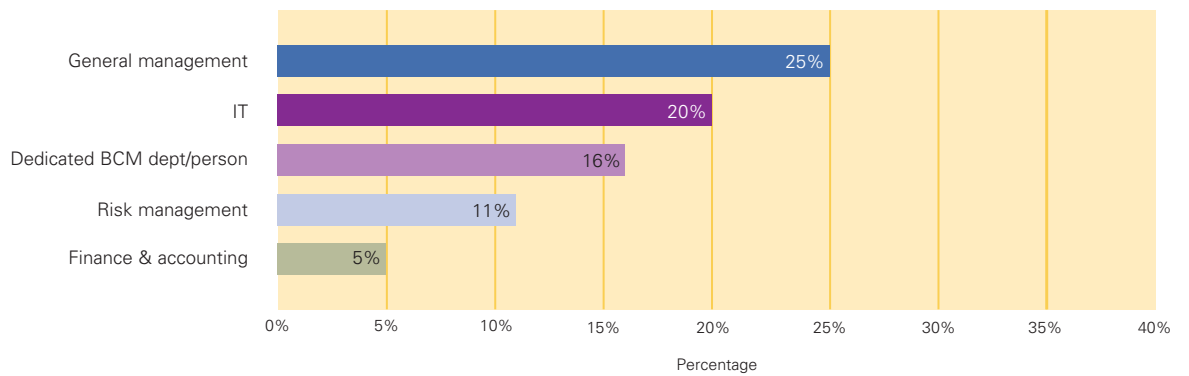
This appreciation of business resilience and continuity as critical issues is illustrated by the people in whose hands the BCM processes reside. According to the survey, the key people in charge of BCM programmes held relatively high management positions, illustrating the importance attached to the issue. Eighteen percent of respondents said that their executive board was responsible for overseeing implementation of the programme, with 25 percent indicating their general management was the primary owner of the process.

Fig 2.2 Top five designations/organisations in charge of implementing BCM



However, the number of full-time personnel dedicated to business continuity remains low. Thirty-seven percent said that only one or two employees have been assigned this role, while 16 percent said that they had between three and five employees focused on this area.

Fig 2.3 Top five primary owners of BCM



New business continuity standards evolving

According to the survey, appreciation of new BCM standards, such as BS25999, remained low. Less than two percent of respondents said their organisations had implemented this recently-established certification for business continuity, while 35 percent indicated that they were not aware of it.

BS25999 has two components. BS25999-1 is a code of practice for BCM that has been available since 2006. It serves as a set of guidelines detailing BCM best practice.

BS25999-2: 2007 is a *Specification for Management Scheme* that has been available since November 2007. It makes it possible for organisations to have their BCM programmes independently certified by external auditors. In this respect, BS25999 has similarities with, and a close relationship to, the information security certification ISO27001.

Thirty-four percent of respondents said they were considering pursuing the certification while 15 percent said that they will not be implementing the standard anytime soon. This suggests that respondents see some merit in pursuing such a certification, but have yet to be fully persuaded of the commercial case for doing so.

This view may start to change as awareness of the standard itself and the general awareness of business continuity matures. The adoption of the standard will allow organisations to make reference to international best practices and also provide them with an opportunity to benchmark their own BCM adoption.



Case Study

Experience counts

Richard Grezl, Vice President, Risk Management, Swiss Reinsurance

"China's markets have been expanding at such a rate that inevitably business continuity management is a fast-emerging issue for many companies," says Richard Grezl, regional business continuity manager for Swiss Re, based in Hong Kong. "Creating a resilient organisation is not easy when managers have other growth and logistics issues to consider, but when companies are laying people off and seeking cost efficiencies, these can equally be a source of risk."

The good news, Mr. Grezl believes, is that the Chinese authorities fully realise the importance of effective risk management. He expects regulations to be developed in a logical manner over the coming years.

Mr. Grezl admits that the challenge for Swiss Re is having offices of different sizes operating with different business models. "We have a small office in Shanghai, a larger office in Beijing and our main regional headquarters in Hong Kong. Each one needs its own business continuity strategy and plan. We are in the process of creating a new tiered structure, based on a global review, which will establish more clearly the procedures for our different locations."

Swiss Re is one of the world's largest reinsurance companies, with almost 12,000 employees providing risk transfer, financing and asset management services to insurance

companies and financial markets. Mr. Grezl is part of a dedicated global security and business continuity team, which reports directly to Swiss Re's head office in Zurich, Switzerland. Complementing this team, individuals in each office take responsibility for business continuity in addition to their primary roles in areas such as communications, IT and logistics. "For these people, business continuity planning should only take up 10 or 15 percent of their time," Mr. Grezl remarks.

All the offices in Asia Pacific report into Hong Kong and all, apart from Australia, include relocation to Hong Kong in their crisis plans as one level of a tiered response to crisis scenarios. However, this relocation would only take place if a regional facility is lost or inaccessible for an extended period.

Mr. Grezl plays a key role in coordinating the company's business continuity preparedness by liaising with internal parties including IT, logistics, human resources and communications. "We see our team's role changing from a primarily audit function, to one more focused on communication, training and preparedness," he says, although he acknowledges that the audit function remains critical.

Mr. Grezl understands that the current financial crisis has the potential to impact business continuity management due to travel

restrictions and budget reductions. While any corporate restructuring strategies inevitably entail business continuity considerations, he believes the current ongoing review is likely to preempt the emergence of any major concerns. "Critical staff and critical processes need to be reviewed and tested every year," he says.

With his background in corporate security, experience in volatile markets such as Indonesia and time working with other financial institutions operating in the region, Mr. Grezl notes that experienced business continuity professionals are in short supply in Asia. He believes his past roles give him an advantage over those who are approaching the practice from more of a specialised background such as IT, but at the same time he acknowledges that disruption risks can come from the most innocuous sources.

"Our focus has to be on low probability, high-impact factors," he says. "For example, if a government enacts a small change in its policy on immigration for example, that can prove a major issue for the mobility of our staff, which in turn creates a continuity issue."

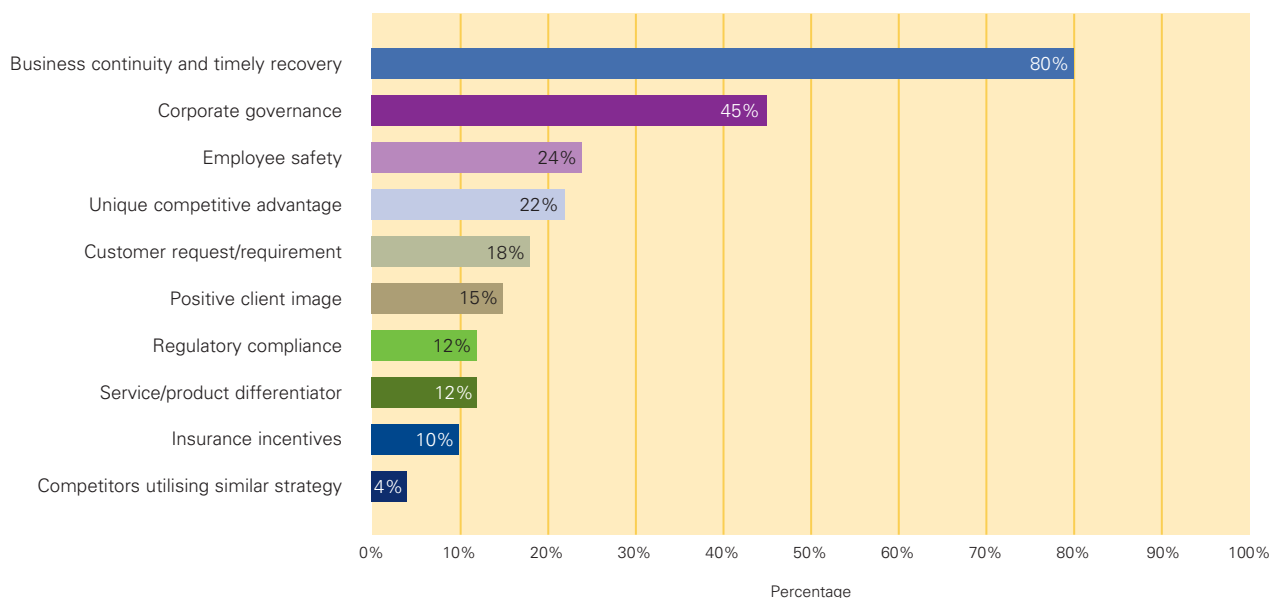
BCM implementation in China

The development of BCM programmes has been driven overwhelmingly by practical and pragmatic considerations. Eighty percent of respondents who already had a programme selected continuity of business operation and the need for timely recovery from business interruptions as their primary reasons for BCM implementation.

While corporate governance was cited as an important consideration by 45 percent of respondents, compliance with specific regulations was cited by only 12 percent of respondents. This low number reflects the limited number of actual regulations in China addressing continuity within organisations. The discrepancy between these two statistics may narrow as China expands corporate governance requirements and the appreciation of global BCM standards grows.

Other important considerations that have driven business resilience and continuity planning included employee safety (24 percent) and a wish to gain competitive advantage (22 percent). A relatively low number of respondents (10 percent) chose insurance as the reason for BCM adoption. This is perhaps not surprising as the insurance market is still developing in China and insurance carriers there may not yet offer such coverage to organisations in China. Globally, insurance carriers are increasingly looking at BCM when evaluating a company's Total Cost of Risk, with some offering discounts or simply mandating that a business continuity plan (BCP) be developed. This trend may soon take root in China due to globalisation and the need for global insurance coverage.

Fig 3.1 Ten reasons for implementing BCM programme



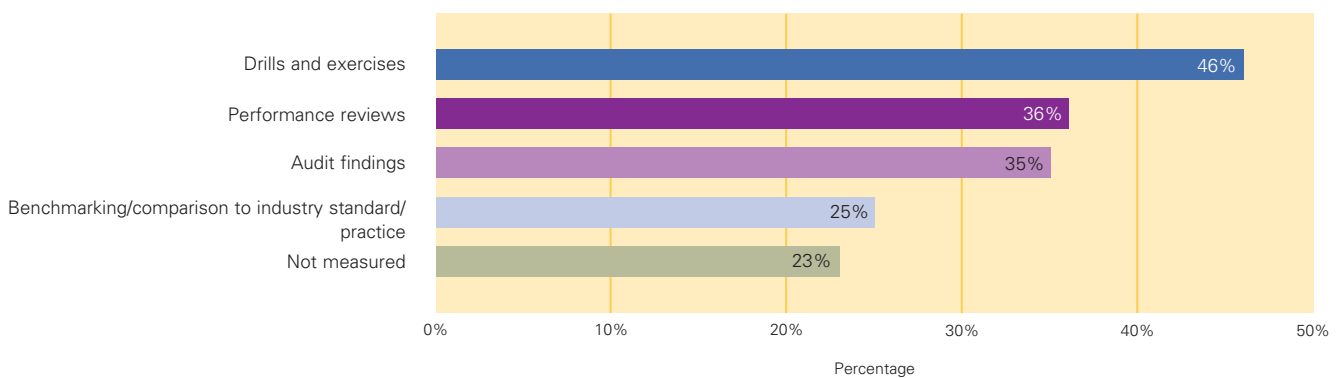
While the appreciation of business resilience and the adoption of BCM programmes have occurred rapidly within China, the survey reveals some potential areas of weakness. Slightly less than half the respondents indicated that they do not have a dedicated recovery facility. This highlights a key problem for these organisations when a natural or man-made disaster occurs. It can prove to be a huge business risk as these organisations will have no means to recover lost data or processes. A dedicated recovery facility is also more than an archival point for the entire business. It can also provide an alternative workplace for employees in the event that their current offices are rendered inhospitable during a disaster.

A significant number of respondents (25 percent) believed that the performance of their BCM programmes was not being effectively measured.

The measuring and testing of systems is an essential part of business resilience and readiness. Drills, exercises, audits, performance reviews and benchmarks provide organisations with reliable metrics on how well prepared they are to mitigate business continuity risks.

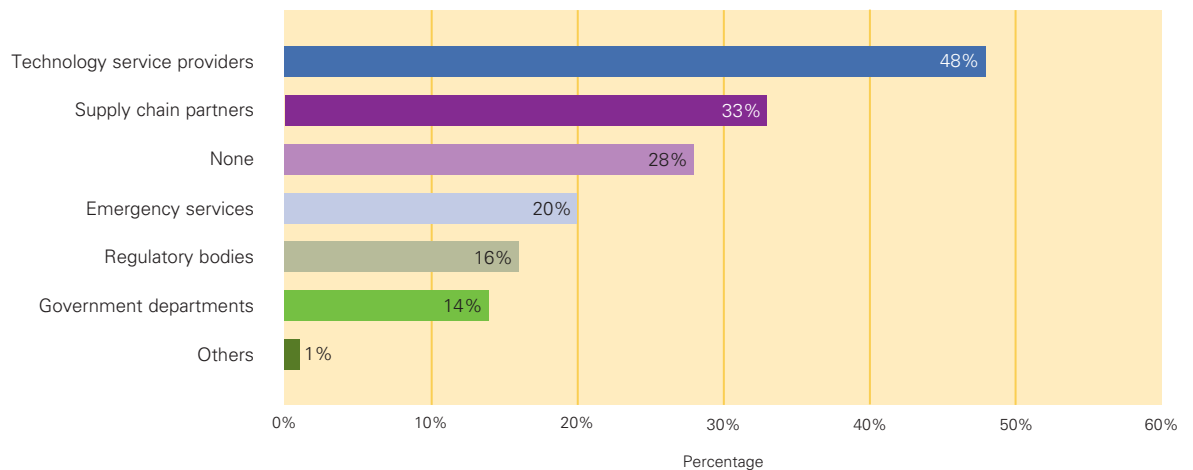
With almost one-quarter of the respondents saying that their business continuity preparedness was not being measured, it appears that the actual performance of an implemented programme is not always aligned with expectations or current market needs.

Fig 3.2 How organisations measure BCM performance



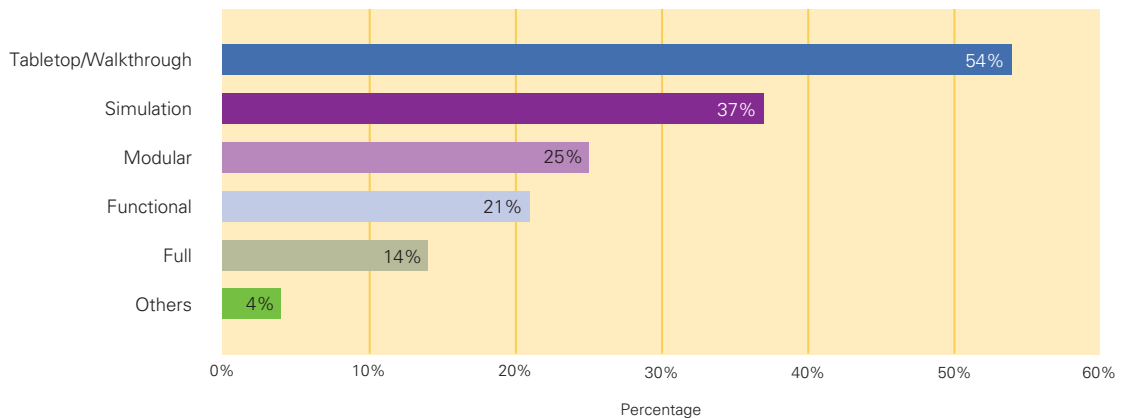
Even where testing occurred, the frequency of testing remained low. Thirty-four percent of respondents said that their BCM programme was tested once every year with an equal number stating that testing was conducted infrequently or within no defined period. A further 24 percent said that their programme had never been tested at all.

Fig 3.3 External organisations involved in BCM exercises



When asked about the external organisations involved in BCM exercises and tests, the participation of technology service providers figured highly at 48 percent, followed by supply chain partners (33 percent) and emergency services (20 percent).

Significantly, 28 percent said that no external organisations were involved in such tests, illustrating that a large number of organisations continue to view business continuity preparations as an internal process or do not see the need to align their programmes with external partners, customers or suppliers. As businesses become increasingly interconnected and seek to rationalise their operations around key suppliers and customers, organisations in China will need to align their goals with key stakeholders, as well as regulators and the government bodies. This may help to trigger an increase in the number of external organisations being involved in tests.

Fig 3.4 Types of tests used to measure BCM performance

Types of testing

There are five main types of BCM tests:

- 1. Tabletop or walkthrough** tests have business unit managers or process owners reviewing the organisation's business continuity arrangements through a facilitated discussion. It is often considered a preliminary step in the overall testing process and may be used as an effective training tool. However, it is not a preferred testing method as its primary objective is to ensure that critical personnel from all areas are familiar with the BCP and that it accurately reflects the organisation's ability to recover from a disaster.
- 2. Simulations** use test scenarios or scripts with real life situations to test employee responses. This kind of testing is somewhat more involved than tabletop or walkthrough tests because the participants choose a specific event scenario and apply the BCP to it. Often it is seen as a preliminary step in the overall testing process that may be used for training employees.
- 3. Modular** testing involves exercises that are specific to an area or component to validate the information and process. This type of testing is often more exhaustive than simulations but often does not involve the mobilisation of personnel.

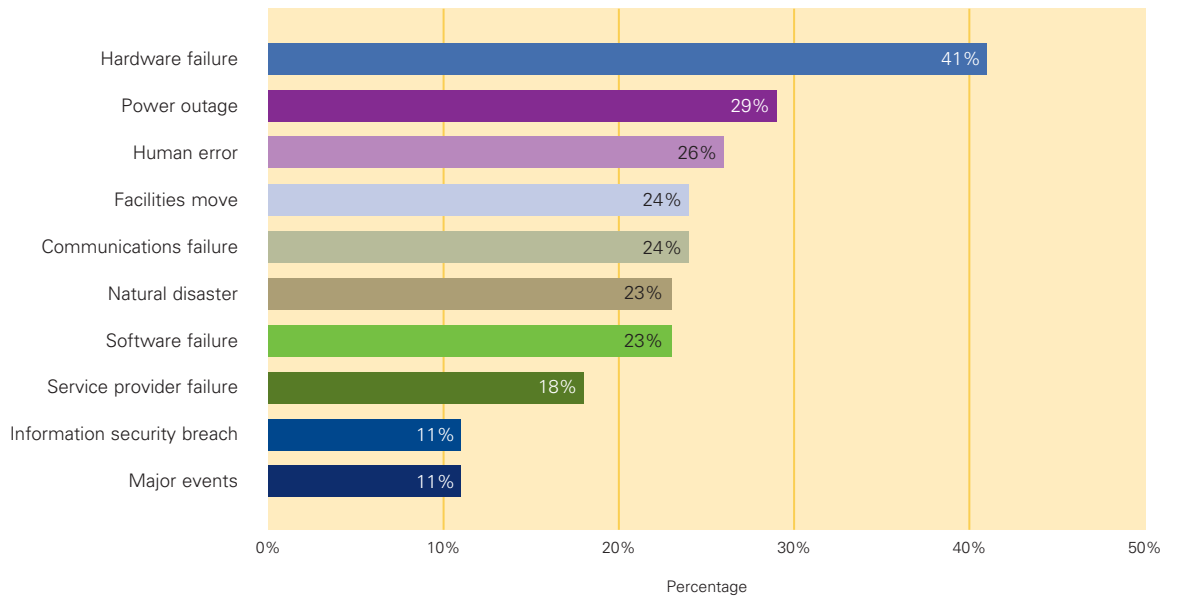
4. Functional testing involves testing a certain function or business unit and the interdependencies within the function. This is the first type of test that involves the actual mobilisation of personnel to other sites in an attempt to establish communications and perform actual recovery processing as set forth in the BCP. The goal is to determine whether critical systems can be recovered at the alternative processing site and if employees can actually deploy the procedures defined in the BCP.

5. Full testing provides a comprehensive assessment of an organisation's business continuity arrangements and employees using a step-by-step process at an alternative site. This is the most comprehensive type of test. In a full-scale test, a real-life emergency is simulated as closely as possible. Therefore, comprehensive planning should be a prerequisite to this type of test to ensure that business operations are not negatively affected. The organisation implements all or portions of its BCP by processing data and transactions using back-up media at the recovery site.

Tabletop and walkthrough testing were most common, used by 54 percent of respondents. This was followed by simulation (37 percent), modular (25 percent) and functional (21 percent). Only 14 percent of organisations surveyed conducted full testing.

Although comprehensive tests (like functional and full testing) do require greater investments of time, resources, and coordination to implement, they will more accurately depict a true disaster and will assist management in assessing the actual responsiveness of the individuals involved in the recovery process. In addition, comprehensive testing results can be used by management to enhance awareness of risks and responsibilities before a disaster occurs.



Fig 3.5 Top 10 reasons for BCM activation in the past 12 months

When alarm bells ring

Business continuity plans need to be resilient enough to handle low-probability but high-impact events. Indeed, BCM is always brought into focus by high-profile events such as the September 2001 terrorist attacks. The reality, however, is that many continuity measures are put into practice regularly, and in less devastating situations. Hardware failure is cited as the biggest reason for organisations in China to activate their BCPs. Over 41 percent of those surveyed saw this as the main reason, with 29 percent citing power outage and 26 percent indicating human error.

The Sichuan earthquake and unexpected snowstorms that hit China during 2008 may explain why 23 percent cited natural disasters as a reason for activation of their continuity plans, whereas terrorism was not cited as a reason for BCM. Although during the Beijing Olympics security measures were tightened due to terrorism threats, these do not seem to have been a cause for concern among organisations.



Improvements to current BCPs had been made among half of the surveyed organisations, with 46 percent saying that some kinds of enhancements were made due to past disruptions. This suggests that many organisations did not have a strong process to continuously improve their current business continuity plans based on previous experiences.

The immediate fiscal cost of disruptions is only part of a bigger picture. The impact to the entire organisation can also be long-term and result in far greater fiscal cost, such as loss of reputation among partners and customers or even losing the qualified status of business partner. Empirical evidence clearly shows that companies with a weak or poorly implemented crisis communications plan struggled to recover, or never fully recovered from a major crisis.¹

The results also showed that only a few of the China organisations surveyed had a government or related organisation to contact regarding BCM-related emergencies (21 percent). These organisations include the People's Bank of China, the China Banking Regulatory Commission, the China Insurance Authority, the State Administration of Foreign Exchange and the police.

¹ The first study to identify this correlation and the impact on long-term share performance was conducted by Knight & Petty (1996): *The Impact of Catastrophes on Shareholder Value*, Oxford Metrica. See also *Living on the frontline*, published by KPMG International, March 2007

Case Study

Carefully steering a global group

Nelson Ho, Assistant General Manager, OOCL

OOCL can't take any chances when it comes to business resilience. As one of the world's largest integrated international container transportation, logistics and terminal companies, assuring business continuity to its diverse group of customers and partners is crucial for its operations.

The Hong Kong-listed company offers customers fully-integrated logistics and container-based transportation services through its more than 250 country offices. This global network is served through a single data centre residing in Hong Kong. That means that disruptions at the data centre can spell major trouble for its more than 5,000 users worldwide.

"Business resilience and continuity is important to us. We are an international company but we have only a single data centre. We are serving globally and centrally in Hong Kong," says Nelson Ho, Assistant General Manager, OOCL.

Realising the need for better business resilience early, OOCL began developing its business continuity processes by enabling a Disaster Recovery Process in the early 1990s. "When I joined OOCL, we already had a disaster recovery plan," says Mr. Ho. "But we were starting to look beyond disaster recover, and by the year 2000, business continuity was seen as a holistic management process that involved the entire business, and not just IT. One of the main differences is that it now involves user-based processes."

One of the key drivers for the adoption of BCM was OOCL's strong focus on standards. Right from the beginning when the company had its own disaster recovery plan, it merged it with its user processes under ISO9000. "Staff were given their own manual processes to continue their day-to-day jobs," he describes.

Now, with its own dedicated disaster recovery facility situated 20 kilometres away from its primary site, OOCL is confident that its business risks are well mitigated. The company uses also this facility as a development centre during standby periods, improving the overall total cost of ownership and IT utilisation.

To ensure OOCL's readiness for any disruptions is in keeping with industry standards, the company continues to invest in training. Although training is already a key component of its ISO9000 certification, Mr. Ho highlights that the training budget had to be increased as user systems became more complex. "Also, our users now need more on-time information, so this complicates our ISO9000 procedures and processes, leading to an increase in the training budget," he adds.

Compliance and privacy are also becoming significant drivers for OOCL to strengthen its business continuity processes. "The US government now requires that you have some contingency plans for your business and all processes need to be audited and secure. So starting

from 2004, for example, our data centre was certified for ISO27001, the specification for an Information Security Management System," explains Mr. Ho.

OOCL also coordinates business continuity tests and assessments with its suppliers and IT vendors. Mr. Ho feels that it only makes "business sense" to involve them as any business disruptions will require them to be ready as well. However, business partners were excluded as it was difficult to align with their business objectives and plans. "Instead, we emulate the external partners," he explains.

Mr. Ho attributes OOCL's relentless drive toward business continuity to senior management backing. It is a factor that he advises other organisations not to overlook.

Senior management support provides several advantages in terms of project management. But according to Mr. Ho, the most important facet was that it drove the adoption of a project that is not often easy to get "credit" for. "Often when nothing happens, no one will be aware of BCM. But when something happens, everybody demands to know what measures are in place. So having senior management support to drive support and uptake is important," he adds.

Case Study

Knowing your risks

John Byrne, Chief Risk Officer, Standard Chartered Bank

In recent years, Standard Chartered Bank has developed an increasingly sophisticated view of all its risks and sought to enhance risk awareness throughout the organisation. Each major bank entity within the group has a chief risk officer and risk committees looking at all the risks facing the business, from credit risk in the wholesale and commercial banking operations to IT and operational risk.

In Hong Kong, this led to the appointment of John Byrne as Chief Risk Officer in 2008. Coming from a credit risk management role at the group office headquarters in Singapore, and prior to that serving as the credit risk officer for the Greater China market, Mr. Byrne's new role involves chairing all the bank's risk committees, including those addressing operational issues such as BCM.

"As a bank, we are familiar with our credit risks and our risk appetite for different products over the course of an economic cycle," says Mr Byrne. "As such, we should feel prepared for a downturn. But I have to ask our people; are we equally prepared operationally for the storm? We have zero appetite for operational losses because even minor disruptions can affect our reputation and customer loyalty."

To understand the risks that can arise from disruption, Mr. Byrne tries to see things from the perspective of a manufacturer. "We have learnt a lot by benchmarking ourselves against

other sectors, such as the automotive industry," he says. "That means looking at our people as the key element in a manufacturing process. When you provide a service, the impact of discontinuity is even more immediate than when supplying a product."

Standard Chartered treats its backup IT systems as "continuity 101". Regular testing and auditing of the backup systems at different locations are essential.

Clarity of manuals and critical documentation is also something Mr. Byrne considers particularly important, and he looks for people with strong communication skills to write all manuals as clearly and concisely as possible. "The manuals are critical documents that need to be quickly understood by people at all levels of the organisation, including junior staff," he says. "That means it is essential that the materials are produced in the local language, which in many cases, of course, is not English. There can be no room for ambiguity."

To say that people are at the heart of business continuity can sound like a tired cliché, but in Standard Chartered's case, the policy of rotating high-performing employees and focusing on succession planning are also fundamental ways to ensure business continuity.

On a practical day-to-day level, this can bring challenges. For Mr. Byrne, it means continual retraining, as new

staff join his team. On the other hand, he adds that "the rotation policy does ultimately mean that all our senior management and our emerging mid-management staff have a well-rounded view of risk. I think that is missing in some organisations, where senior management have emerged from other parts of the business."

Mr. Byrne believes that his role is to ensure that people are risk-aware and ultimately, to "uphold the integrity of all the decisions we make," adding that, "In the current environment, all organisations are coming under some kind of stress. For us, the important thing is to have an attitude to risks and a risk tolerance that can withstand tough times and not be compromised during good times."

Risk, dependency and the downturn



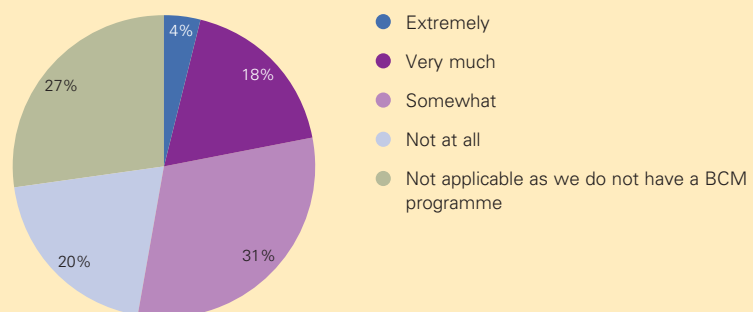
Critical to business resilience and continuity is the ability to recognise and mitigate dependency on external processes, partners, suppliers and service providers. In many cases in China, these dependencies remain unclear, although there is recognition that this must form a key aspect of BCM.

When asked about how dependent their organisations were on external processes and partners, over 41 percent replied ‘very much’, while 37 percent replied ‘somewhat’. Consequently, when asked to rate the importance of their partners having their own BCM programme, 36 percent said ‘very much’ and 34 percent said ‘somewhat’. These responses illustrate that China is a maturing and increasingly interconnected business environment. Although not conclusive, the survey results show a rising realisation that these programmes need to extend to cover partners and external processes.

While 31 percent of the respondents said that their partners’ BCM programme was ‘somewhat’ integrated with their own, 20 percent indicated ‘not at all’.

The latter percentage is significant considering that for a majority of the respondents the continuity of business operation and timely recovery together with corporate governance were major reasons for implementing a BCM programme. Hence, having a clearer idea of dependency and ensuring that the business continuity plans of all partners, suppliers and service providers are well integrated may help in improving business recovery and overcoming major disruptions. Of course, this dependence works both ways and many leading outsourcing service providers now proactively seek to understand their clients’ business continuity needs and plans as part of their contractual engagement (see case study on Neusoft, page 22).

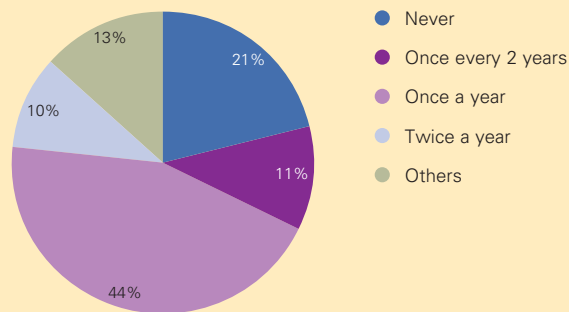
Fig 4.1 How integrated is the BCM programme with external parties



Impact analysis and risk assessment are not frequent activities for many organisations in China. Of those surveyed, 44 percent indicated that their organisations conducted business impact analyses and risk assessments once a

year. Another 11 percent said once every two years, while 10 percent said twice a year. Significantly, 21 percent of respondents indicated that their organisations never conducted such an assessment.

Fig 4.2 Frequency with which business impact analysis and risk assessment is conducted



However, a majority of those who conducted these assessments said that the results directly impacted their BCM programmes, with 65 percent using the results as input for the further development of those programmes.

Resilience and continuity during the financial crisis

The extreme turbulence in financial markets since September 2008 has caused a number of institutions to go into liquidation and forced others to readdress their lending and investing policies. This challenging environment has created difficulties for organisations that need liquidity to maintain their operations, as well as those that rely on vendors and partners who may themselves be encountering financial distress.

A volatile market is susceptible to rumours and minor events may snowball into a more serious crisis if matters are not handled carefully. The people management issues and crisis communications approach developed for business continuity purposes may also help organisations handle these kinds of scenarios. Hong Kong's Monetary Authority already issued reputation risk management requirements in response to the banking crisis, in December 2008.

However, the most direct lesson arising from the downturn may be a very simple one: that plans need to adapt to changes in operations and personnel. BCM programmes rely on clear communication and coordination between people and with many companies currently experiencing increased staff turnover, redundancies or organisational restructuring, it is important that preparedness measures are regularly reviewed and are ready to adapt to changing circumstances.

Case Study

Powerful partnering

Feng Wang, Vice President, Neusoft IT Service

Founded in 1991, Neusoft is a leading IT solutions and services company and the largest offshore software outsourcing service provider in China. With eight regional headquarters, 16 software development and technical support centres, five software R&D bases, a marketing and service network in over 40 cities across the country, as well as overseas subsidiaries in North America, Europe and Japan, the company treats business continuity with the highest importance.

“As an outsourcing service provider seeking to build our reputation with global clients, BCM is a high consideration and integral to our daily operations,” says Ms. Feng Wang, the company’s vice president. “The reason for this is that we typically need to satisfy our customer’s business continuity requirements, as well as our own. We see great benefit in service providers’ participating in their customers’ business continuity drills and we are keen to join industry-wide business continuity exercises.”

Beyond that, Neusoft is committed to providing continuous and disruption-proof support to its clients. “For Neusoft, the cost of service interruption is the risk of losing credit,” Ms. Wang adds. “It is as important as the financial impact.”

In terms of structure, Neusoft has a standing Management Committee whose main responsibility is to lay out the BCM standards and framework. Implementation and compliance is then monitored by the IT and Quality Assurance Departments, facilitated by other relevant operational and support

functions. For Neusoft’s own needs, they identify the critical processes in their daily operations and map out main affecting factors, predictable and unpredictable, which will cause disruption. They then identify the right precautionary measures.

When addressing comparably unpredictable forces such as an earthquake or the outbreak of an infectious disease, Ms. Wang’s team assesses how quickly they can restore the disrupted business by moving people and facilities to other offices and locations or running the back-up systems.

For their IT and business process outsourcing services, Neusoft will agree with the clients on what level of continuity support they need, with rights and obligations stipulated in the service contract.

Where necessary, Neusoft simulates real life disasters and tests their fast-response capability together with the participation of the client. The practical considerations can be different according to the type of service provided. “Business process outsourcing requires a more complete, thorough understanding of customers’ business processes, and as such it can be more challenging and complex than IT outsourcing, which main area of focus is technology,” says Ms. Wang.

The snowstorm in early 2008 was an example when transportation was broke off and access to work was cut off. It was easier for staff working on IT outsourcing projects to work from home or take time off as the work is project-based and did not require a 24-hour physical presence. Business

process services are more often continuous services and may be supporting customers in an entirely different part of the world.

The Sichuan earthquake in 2008 verified Neusoft’s ability in disaster control as it had about 200 employees based in Chengdu where they had many of their outsourcing services. Both fixed-line and mobile communications were out of service following the quake.

Neusoft immediately notified their clients of the situation in Chengdu and organised a local emergency team with support from the head office to handle client enquiries. The company then relocated its Chengdu staff to other cities including Dalian, Shenyang and Beijing. Those services that require real time coverage were taken over by other centres. Other operations originally covered by the Chengdu office were all up and running again within a week. “Anticipating queries from customers and responding quickly are both critical in a crisis situation,” Ms. Wang adds.

Ms. Wang acknowledges that ITO and BPO are both types of service where the role of people is critical. “We can back up data, software and hardware, but it is not easy to back up people’s knowledge and talents,” she says. “A key way to achieve reliance and spread that knowledge is to encourage staff mobility across functions and locations. We are also developing standardised training to ensure that service levels can be maintained by an accessible pool of human resources.”

Conclusion

Organisations in China increasingly realise the value of a holistic approach to business continuity which includes clearly defined processes and investment in resources and training.

Respondents also seem to understand that BCM is not just about averting disasters and ensuring continuity. They appreciate that benefits can accrue, such as effective and timely communication, better response times and improved capability to take advantage of market opportunities. With so much market uncertainty across Asia Pacific, these can prove to be vital in allowing companies to take advantage of new opportunities, while keeping regulators and customers assured. Over the mid to long-term, such programmes can help cement the positive reputation of an organisation.

The reality, however, is that for many organisations there are still shortcomings and vulnerabilities. They need to devote more time and resources to testing, reviewing and updating their BCM programmes.

This is not intended to sound alarmist or overly-critical; after all, it is clear that many organisations have made considerable strides even within the past two years.

Yet, in these challenging times, business continuity must fight to remain on the corporate agenda. BCM is not just a box to be ticked off. Moreover, it cannot be approached in isolation from the wider challenges of improving governance and performance and meeting expectations for ever higher ethical and environmental standards.



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