

# BCM in Japanese Corporations

## --- Present and Future ---

Yoshihiro Kohno

Director of BCM, Japan Technology Transfer Association

BCM Expert, SEMI Japan



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## 1. Characteristics of Japanese Corporations (1)

Historically there were no “castle walls” protecting Japanese Capitals

- Capital

Heijyokyo (Nara Prefecture) 708年 – 784年

Heiankyo (Kyoto Prefecture) 794年 – 1869年 (Meiji 2)

Tokyo 1869年 -

- Other Cities

Sapporo, Sendai, Niigata, Osaka, Nagoya, Hiroshima, Fukuoka etc.

Traditionally, Japanese culture does not value “defense”.



To expand BCM in Japan, we will need the well balanced strategy between defense and offense.



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## 2. Characteristics of Japanese Corporations (2)

Strategic initiatives were developed by type of peril

- **Crime:** Protect human life from crime  
- Police, Building security, Bodyguard
- **IT :** Protect the public from IT crimes  
- Police, Corporate IT manager, IT provider
- **Fire, Explosion:** Protect human life from Fire / Explosion  
- Fire department, volunteer fire department
- **Natural disaster:** Protect human life from Natural disasters (EQ/FL/Wind)  
- Local governmental fire & disaster planning departments

To expand BCM, it is important to create macro strategies including prevention planning, emergency planning, business continuity planning and recovery planning rather than a peril specific disaster plan



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## 3. Japanese Government – Core Disaster Plan

### Disaster Planning Central Committee Planning documents

- Earthquake (incl. Tsunami)
- Wind/Flood
- Volcanic action
- Snow
- Marine/Maritime
- Aviation
- Railroad
- Roads
- Atomic Energy
- Hazardous Products
- Large-scale Fires
- Forest Fires
- Others

### Disaster Planning Central Committee Members

- **Chairman**  
Prime Minister
- **Committee**  
All Cabinet Ministers (17)  
President of Bank of Japan  
President of Japanese Red Cross  
Chairman of NHK (National Public  
Broadcasting System)  
President of NTT  
Technical Professionals (4)

**Total 26**

Since 2005, I have proposed corporations and local governments prepare disaster strategy planning process (prevention, emergency, continuity, recovery)



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#### **4. Peril specific disaster plan: Positive points**

1. Loss assumptions / scenarios relatively easy – (eg. fire, EQ, typhoon)
  - Ease of planning for controlling and recovering from disruption
2. Governmental agencies response are set up by specific disaster
  - Police, Fire department, Public health center, local governments
  - Excellent communication within disaster specific response teams
3. Relative ease of determining specific cause of disaster
  - Caused by fire, EQ, explosion, atomic power plant
  - Scientific approach
  - Determining cause becomes top priority
  - Once cause is identified, easy to take corrective action
4. Determining cause of disaster/disruption enables easy identification of which entity should be responsible for risk.

#### **5. Peril specific disaster plan: Weak points**

1. Difficult to define overall picture of organization's risks
  - Focusing on each risk = difficult to understand the overall picture
2. Difficult to apply unplanned scenarios
  - New Flu strain pandemic, IT crime, Port blockade, Food tampering
3. Difficult to respond to simultaneous occurrences of more than one risk
  - EQ & Crime, Power outage & IT crime, Flu pandemic and Crime
4. Difficult to respond to chained or sequential risks
  - IT fire – IT accident – Stop order – Shut down at other operation
5. Lack of Strategy of supply chain
  - Loss of critical customers, Stop order in supplying major parts
6. Difficult to see overall picture of resources – (staff, property, money, information)

## 6. Peril specific disaster plan: Weak points (continued)

### 7. Point strategy, lack of comprehensive strategy

- Uncoordinated action without advanced plan
- Focus on one location at a time for disaster planning and not planning on macro level

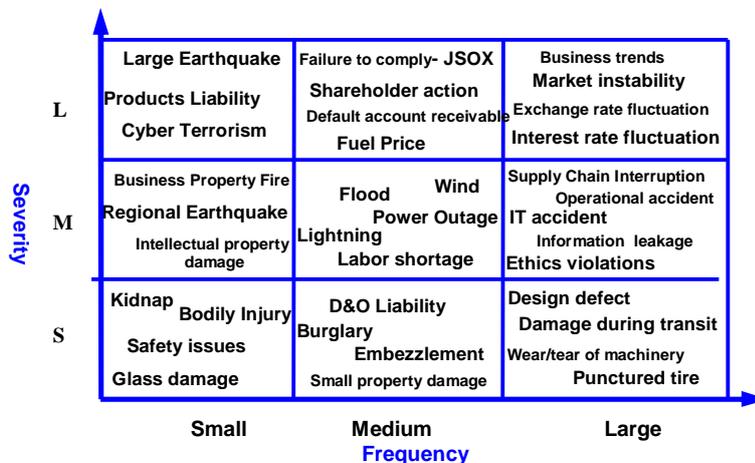
### 8. No assessment of causes of disruption

- No incident analysis and impact analysis.
- Have data but no information on incident results / incident impact
- No time frame analysis
- Difficult to estimate controlling /emergency cost

### 9. Focus on prevention approach including emergency response and recovery, but lack of continuity planning strategy.

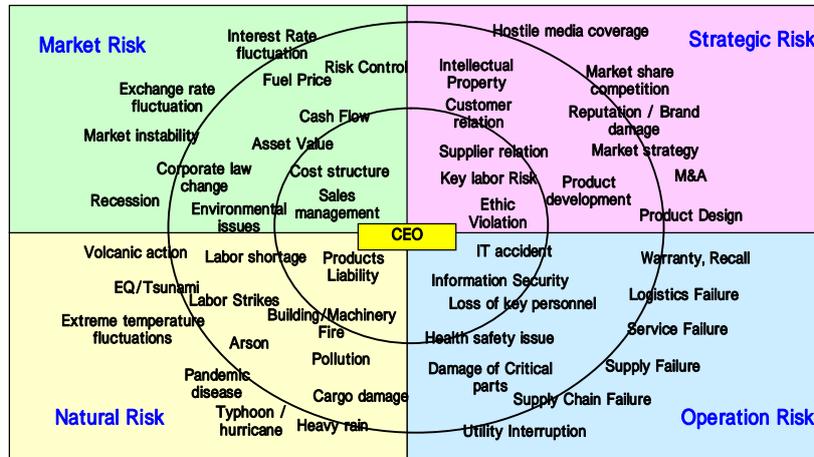
- Not planned: alternative production / service planning.
- No training /education of alternative workforce.

## 7. Corporate Risk (Risk Map 1)

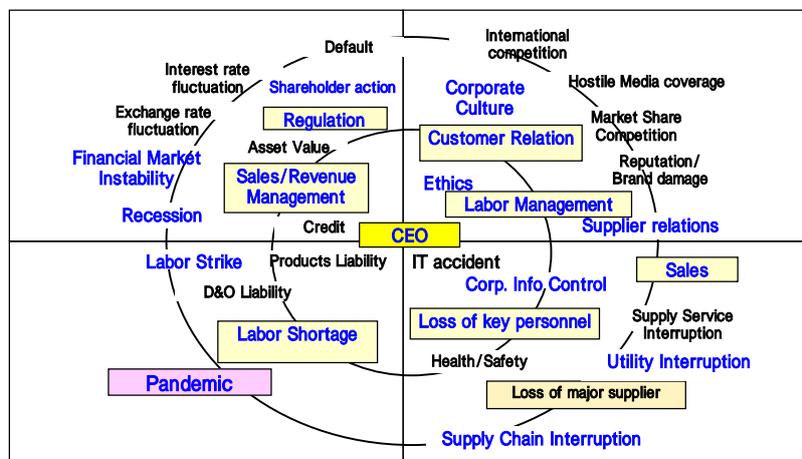


This map has a scientific basis, but not practical due to the lack of data

## 8. Corporate Risk (Risk Map 2)



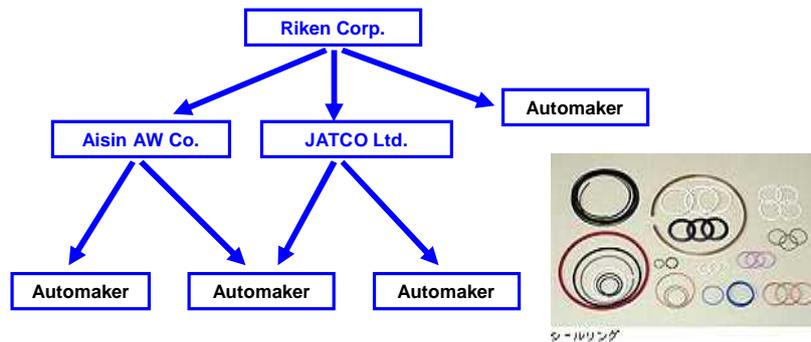
## 9. Exposed Risks



## 10. Understanding Supply Chain Risk Management Interruption

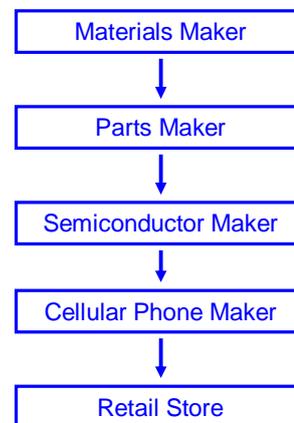
July 16, 2007 Fire (Riken Corp. in Niigata Prefecture)

July 18, 2007 Due to supply shortage, production lines stopped at Toyota, Nissan



## 11. Supply Chain Interruption

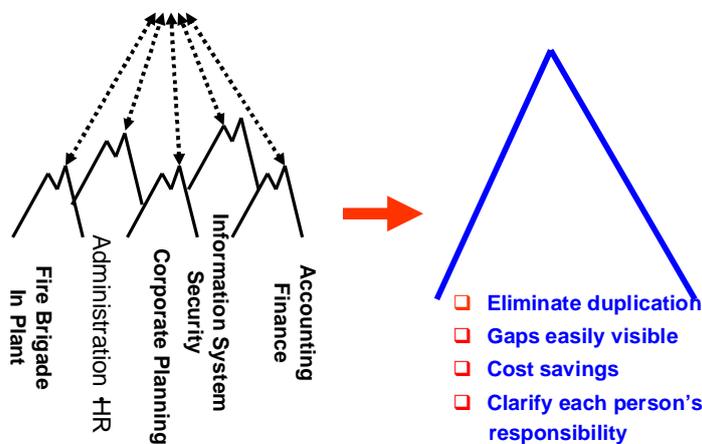
- While no direct BI/PD at manufacturer, production lines stopped due to the supply chain interruption. – Contingent business interruption
- Particularly critical for manufacturers who are relying increasingly on global suppliers:  
Electronics, Automobile, Food,
- Supply Chain Management is the first initiative for Japanese organizations to introduce BCM



## 12. Historical Supply Chain Interruption incident

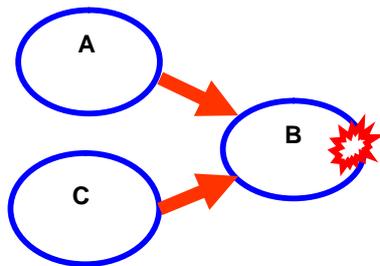
7/4/1993	<b>Fire /Explosion</b> at Sumitomo Chemical Resin plant
1/17/1995	<b>Catastrophic Hanshin Earthquake</b> (West of Japan)
2/1/1997	<b>Fire</b> at Aishin Seiki
9/21/1999	<b>Earthquake</b> in Taiwan
3/17/2000	<b>Small fire</b> at Philips plant in Albuquerque, NM
6/10/2000	<b>Fire/Explosion</b> of Hydrozylamine at Nisshin Kako
9/11/2001	Catastrophic Terrorist Attacks on the World Trade Center (Financial systems interrupted)
9/27-10/8/2002	West coast lockout due to maritime labor union disputes
9/8/2003	<b>Fire</b> at Bridgestone Tire in Tochigi
10/23/2004	<b>Earthquake (mid-sized)</b> at Niigata
3/20/2007	<b>Fire</b> at Shinetsu Chemical (Methylcellulose shortage)
7/16/2007	<b>Earthquake (mid-sized)</b> at Niigata

## 13. Difference between Overall Corporate disaster strategy and disaster-specific strategy

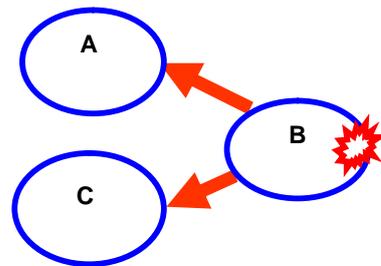


## 14. Abandonment of disaster damaged location is considered

If small damage,  
quick recovery supported by  
other entities



If large damage,  
alternate production by  
other entities



## 15. Small damage vs. Large damage

### Small Damage

- Not life threatening
- No damage / effect on other neighboring entities/ properties
- No subsequent damage anticipated
- IT incident / damage (manufacturing industry)

### Large Damage

- Impact in business management continuity
- IT incident / damage (financial industry)

Treat as large damage until the degree of damage identified

## 16. Change of time / damage

BCP name	Financial Impact		BCP Code			
Interrupted section			Date created / revised			
Interrupted operation			Resource			
	6 hrs.	24 hrs.	48 hrs.	72 hrs.	1week	1 month
Impact on sales						
Impact on expense						

It is critical to assess the damage correlation between cost and time



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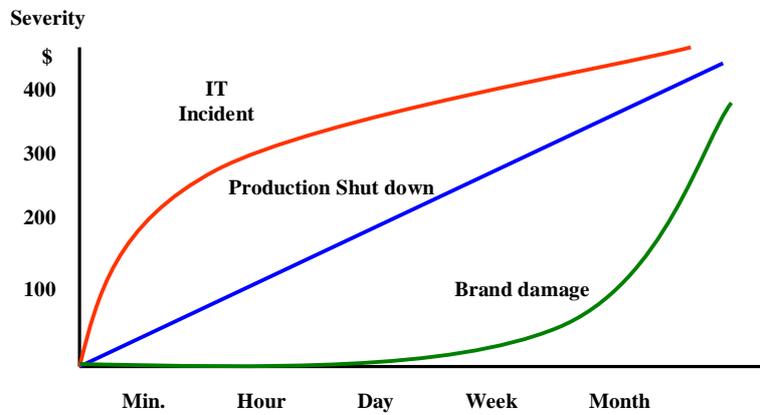
## 17. Tangible vs. Intangible Impacts

A1. Impact on sales (Tangible)		B1. Impact on expense (Tangible)	
Delayed sales		Overtime	
Volume discount		Service	
Order Cancellation		Temporary staff	
Interest / cash flow		Rental equipment	
Protracted default		Fine	
Others ( specific )		Others (specific)	
A2. Impact on sales (Intangible)		B2. Impact on expense (Intangible)	
Corporate Image		Work Ethic	
Loss of Market share		Productivity	
Customer Service		Legal Compliance	
Relationship with peer companies		Legal Liability	
Others ( specific )		Others (specific)	



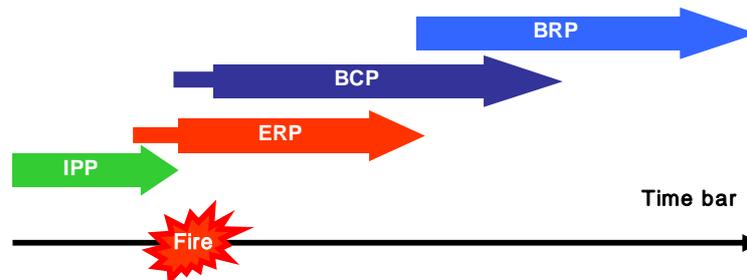
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## 18. Identify the time / impact



## 19. Understanding time and planning

- IPP: Incident Preparedness Plan
- ERP: Emergency Response Plan
- BCP: Business Continuity Plan: limited BCP
- BRP: Business Recovery Plan



## 20. Consider each plan from Staff, Property, Money and Information perspective

Tying strategic planning processes closely with its operations (Operation, Facility, Equipment, Finance, I.T.) makes it more easily understandable for organization's management.

IPP: Incident Preparedness Plan \* Operation, Facility & Equipment, Finance, I.T.  
 ERP: Emergency Response Plan \* Operation, Facility & Equipment, Finance, I.T.  
 BCP: Business Continuity Plan \* Operation, Facility & Equipment, Finance, I.T.  
 BRP: Business Recovery Plan \* Operation, Facility & Equipment, Finance, I.T.

- Total of 16 items

## 21. Proposed planning by each strategic planning process ( Japanese XYZ company)

IPP	Operation	130	BCP	Operation	9
IPP	Facility/Equipment	239	BCP	Facility/Equipment	15
IPP	Finance	49	BCP	Finance	3
IPP	I.T.	91	BCP	I.T.	8
ERP	Operation	11	BRP	Operation	12
ERP	Facility/Equipment	10	BRP	Facility/Equipment	10
ERP	Finance	4	BRP	Finance	4
ERP	I.T.	13	BRP	I.T.	9

- More heavily weighted in IPP.
- Most plans for ERP, BCP and BRP were extracted from my text

## Appendix

Text in Japanese



## 22. Incident Preparedness Plan

Operation	Identify the importance of products/service, risks and levels of impact
Operation	Documented working relationship with Police & Fire, response personnel familiar
Facility/Equipment	Routinely inspect alarm systems and repair any defects immediately
Facility/Equipment	Ascertain intrusion alarms are monitored centrally
Finance	Risk transfer through Property and Casualty Insurance
Finance	Maintenance contact for machinery and equipment
I..T.	Consideration for both widespread damage as well as geography specific damage
I..T.	Obtain available government data regarding estimated loss of basic services (electricity, water etc.), road and railroad

## 23. Emergency Response Plan

Operation	Manage emergency response incl. backup staff. In advance, identify persons who are in charge of taking action.
Operation	Identify and make known temporary response center and shelter until official emergency response center is established. Document same.
Facility/Equipment	Ascertain proper and working communication systems, including phones are adequate and in proper working order. and public announcement methods/ tools are provided at each emergency response center
Facility/Equipment	In preparation for power outage, ascertain emergency notification and public address systems are adequate
Finance	In order to handle claims, are claims handling infrastructure adequately planned for post disaster. (including emergency personnel, and related costs).
Finance	If employees are directed not to report to work, how will these costs be recovered?
I.T.	At the customer service center, are there adequate and tested alternative methods of receiving communication from customers
I.T.	In an emergency, is there an established external public contact focal point to respond to external media?



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## 24. Business Continuity Plan

Operation	Ascertain personnel manufacturing replacement products are not affected by the same catastrophe
Operation	Documentation authorizing assignment of regular manufacturing personnel duties to temporary replacement personnel
Facility/Equipment	Alternative supply sources for raw material and parts
Facility/Equipment	Identify all BOM (Bill of Materials) per supplier
Finance	Are substitute facilities properly contracted and maintained?
Finance	Relocation costs of information systems to alternate location budgeted
Information	Established communication policy/ methods with both inside and outside stakeholders
Information	Trained point person for responding to press and media

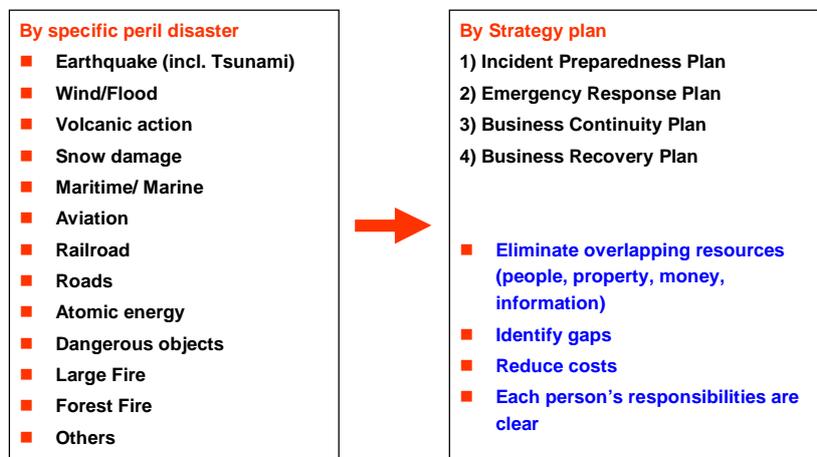


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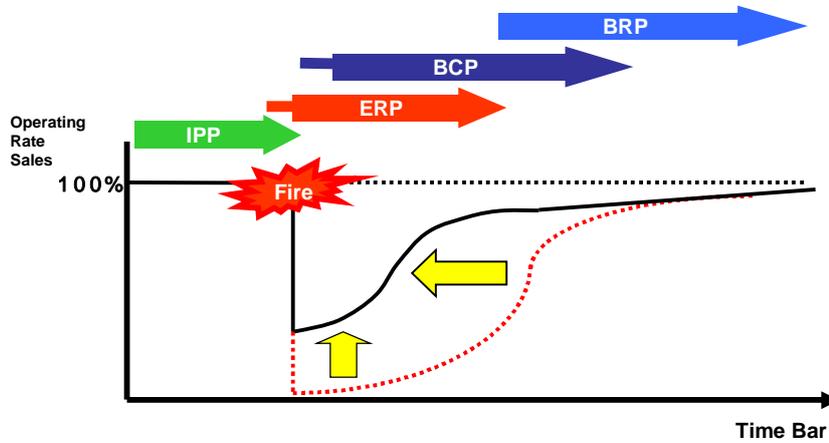
## 25. Business Recovery Plan

Operation	Establish standard to assess repair or replacement by following categories: land, building (improvements) and equipment
Operation	Establish recovery targets (time, scale, response, prioritization)
Facility/Equipment	Identify and assess impediments or environmental issues when facility is rebuilt
Facility/Equipment	Consider additional timing for re-application for license or authorization from proper authorities
Finance	Consider exclusions of insurance policies in the event of Earthquake and other catastrophes and recovery costs when purchasing insurance
Finance	Extra Expense costs considered and budgeted until recovery
Information	Establish an information system which supports recovery effort and ascertain system is operable after disaster
Information	Enable collection of necessary information on industry competitors and customers

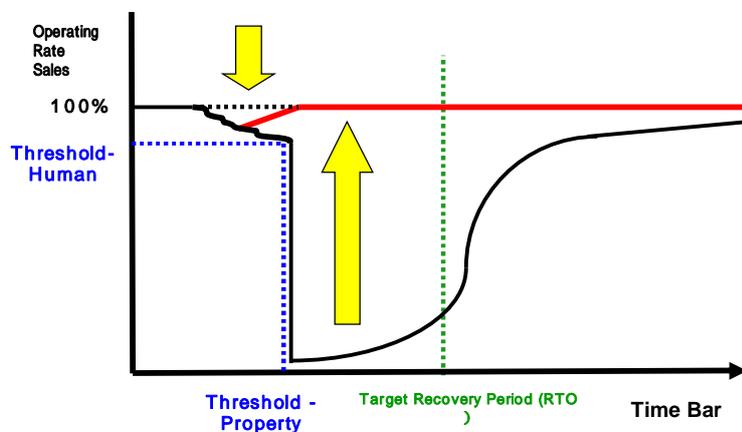
## 26. Through internal discussions understand benefits of overall strategy plan vs. peril specific plan



## 27. Effectiveness of BCM – Natural Disaster



## 28. Effectiveness of BCM – Accident or Incident



## 29. Understand BCP Design

BCP1 : Relating to Staff, Property, Money and Information

- EQ, Wind/Flood, Fire, Terrorism, Supply Chain Interruption
- Training staff is important

BCP2 : Relating to Staff, Money and Information

- Bird Flu, Strikes
- Training staff is important

BCP3 : Relating to Money and Information

- Fluctuation of interest rate, fluctuation of stock price, increasing raw material cost
- Mainly market and strategic risk

## 30. Lastly, teach management that “BCM = Management”

1. Prioritize all operations and products

- (1) Large volume of sales and profit
- (2) Strategic operation, Products (expected large volume of sales/profit in the future)
- (3) Large influence on overall market

2. Prioritize all operations

- (1) Core business operations
- (2) Other business operations

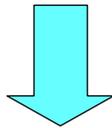
3. Prioritize recovery operations

- (1) Core major business operations
- (2) Core other business operations
- (3) Other major business operations
- (4) Other business / other operations

Not easy to prioritize in Japan  
Do Japanese prefer ambiguity?

## 31. Appeal to International Market important

Japanese organizations conduct BCP and apply disruption strategy scientifically.



Japanese corporations are resilient to disruptive events

Japanese corporations recovery recover relatively quickly from disruptive events

Japanese corporations utilize disruption strategy and are confident of maintaining a stable supply chain.

## 32. What are Disruption events?

- Causes of Disruption
  - Natural Disaster (EQ, Wind/Flood, Bird Flu)
  - Accident (Human error, Design defect, Wear/Tear)
  - Incident (Terrorism, Kidnap, IT Crime)
  - Supply Chain Interruption
- Increasing complexity and refinement of industry increases influence of disruption
  - Large damage by one disaster, accident or incident
- Increases the frequency of disruption by increasing share of international supplier chain
  - Increase of theft, terrorism or IT crime and internationalization
  - Bird flu – and other pandemic disease affects worldwide
- Business Continuity Management
  - Protect human life and corporations

Thank you for your attention

