



The Supply Chain Working Group

On the Voluntary Business Preparedness Accreditation and Certification Program

Hosted by:
International Center for Enterprise Preparedness (InterCEP)
New York University

SUMMARY PROCEEDINGS

Initial Meeting
March 18, 2008

DRAFT SUMMARY PROCEEDINGS

(6/13/08 Version)

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EXECUTIVE SUMMARY

On March 18, 2008 a diverse group of public sector officials, private sector executives and practicing attorneys convened in an initial meeting of the Supply Chain Working Group to discuss supply chain issues pertaining to the Voluntary Business Preparedness Certification Program.

A primary consideration for implementation of any voluntary certification program will be whether or not it delivers real value to the business. Given that primary consideration, significant interest was identified in the potential application of the business preparedness certification program in assessing the resilience of organizations in critical supply chains. It was offered that customers are concerned about the preparedness of suppliers, especially those who provide mission critical resources to them. Some participants stated that they survey or question their suppliers in this regard but noted that such an effort is time consuming. It was also suggested that few firms actually confirm the responses to their surveys or questions about the level of preparedness of their suppliers. Lack of resources to do so was cited as a primary reason. Some participants noted that their only choice was to wait until there was a failure on the part of their suppliers and then take punitive action against them. One participant noted an effort by the financial services industry to develop a comprehensive survey for suppliers of such firms. Lessons learned from these and other efforts may be appropriate for consideration in the development of the voluntary certification program.

The discussion focused on issues including:

- The global reach of supply networks means that firms are exposed to a wider spectrum of possible disruptions at all levels of operation.
- Forward-leaning businesses are already implementing standards and best practices designed to ensure supply chain resilience – while many other businesses have not yet developed robust business continuity programs.
- Firms frequently require supply partners to adhere to certain preparedness requirements.
- Some firms promote preparedness-related best practices through mentorship, training, education and joint exercises with supply partners.
- The management and oversight of preparedness among supply partners remains difficult however for a variety of reasons.
- There are a number of ongoing initiatives within specific markets as well as industry verticals to promote supply chain resilience through third-party coordination and oversight.
- In view of these various issues pertaining to the resilience of supply chains, the voluntary business preparedness certification program could have a number of concrete benefits.
- The extent to which individual companies realize benefits from a voluntary business preparedness certification will depend on a variety of factors.
- The certification program should be relevant for firms of all sizes.
- Other organizations should be invited to engage and participate in the Supply Chain Working Group.

ABOUT INTERCEP

- InterCEP is the world's first academic research center dedicated to private sector preparedness & corporate resilience.
- The Alfred P. Sloan Foundation funds InterCEP's research on incentives for business preparedness. The Center is currently addressing the following areas:
 - Insurance, rating agency, mitigating legal liability, supply chain, corporate governance
- InterCEP's research focus is on the linkage of "what" & "why" of private sector preparedness.
 - What = preparedness standards and best practices
 - Why = business & economic motivations to develop greater preparedness

MEETING AGENDA

- 11:00 – 11:10: Overview of New Law: "The Implementing Recommendations of the 9/11 Commission Act of 2007" (Public Law 110-53 – Title IX, Section 524)
- 11:10 – 11:20: Focusing on the supply chain perspective: Key questions
- 11:20 – 12:00: Open, facilitated discussion
- 12:00 – 12:30: Defining the Working Group agenda, including: possible next steps, activities, recommendations, etc.

GROUND RULES

- Participants may contribute directly to the conversation but should be recognized by the moderator first.
- Conference call will be recorded.
- All comments are not-for-attribution.
- Those not participating verbally, please forward your questions and comments throughout the discussion via Question & Answer Function.
- For post-forum comments, please email to intercep@nyu.edu.

OVERVIEW OF NEW LAW

"The Implementing Recommendations of the 9/11 Commission Act of 2007" (Public Law 110-53 – Title IX, Section 524) was signed into law on August 3, 2007. Section 524 calls for the creation of a voluntary business preparedness accreditation and certification program. The legislation stipulates that the program should:

- Provide a method to independently certify the emergency preparedness of private sector organizations, including disaster/emergency management and business continuity programs;
- Be administered outside of government by third party organizations with experience / expertise in managing and implementing voluntary accreditation and certification programs;
- Be voluntary;
- Designate one or more preparedness standards. NFPA 1600 is referenced as an example;
- Integrate/recognize existing industry efforts, standards, practices and reporting in this area;

- Give special consideration to small businesses; and
- Protect proprietary and confidential information of companies.

DEPARTMENT OF HOMELAND SECURITY'S RESPONSIBILITIES

The legislation also assigns the following specific responsibilities to the U.S. Department of Homeland Security:

- Designate one or more organizations to act as the accrediting body to develop and oversee the certification process, and to accredit qualified third parties to carry out the certification program;
- Separately designate one or more standards for assessing private sector preparedness;
- Provide information and promote the business case for voluntary compliance with preparedness standards; and
- Monitor the effectiveness of program on an ongoing basis.

CURRENT STATUS

As of March 7, 2008, the current status of the certification program development process (to the best of InterCEP's knowledge) reflects the following:

- A 'Framework for Voluntary Preparedness' encompassing multiple preparedness standards and other guidance has been developed by key organizations (RIMS, DRII, ASIS, NFPA) with the support of the Alfred P. Sloan Foundation.¹ This argues for flexibility within a framework in terms of preparedness standards and related certification activity.
- DHS preparing to report soon to Congress on a plan for program development.
- A potential accreditation body has been identified and notification published: ANAB
- One or more preparedness standards are still to be designated.

THE WORKING GROUPS INITIATIVE

The objectives of InterCEP's initiative to organize Working Groups focused on the voluntary business preparedness accreditation and certification program are as follows:

- To identify existing practices and principles in specific topical areas relevant to private sector preparedness;
- In view of these practices and principles, to identify issues, opportunities and potential strategies relevant to the design and implementation of the voluntary business preparedness certification program; and,
- To gather these outputs generated by Working Group participants and communicate them to program stakeholders including where appropriate DHS, accrediting and certifying bodies.

Building on InterCEP's ongoing research on the business case for preparedness, there are currently five Working Groups, each focused on a particular area of business benefit that could potentially be enhanced by the certification program: insurance, legal, rating agency, supply chain, and business reporting requirements.

¹ Cf. "Framework for Voluntary Preparedness – Briefing Regarding Private Sector Approaches to H.R. 1 and public Law 110-53 'Implementing Recommendations of the 9/11 Commission Act of 2007' Title IX" prepared by representatives of ASIS International, DRII, NFPA, and RIMS. Available at www.sloan.org

THE SUPPLY CHAIN PERSPECTIVE

With regard to the potential supply chain significance of the voluntary business certification program, discussion among participants in the initial meeting of the Supply Chain Working Group is framed by the following key questions:

- How do firms in supply chain relationships already assess and audit each other's preparedness?
 - Current best practices, existing challenges and obstacles
- How should the voluntary preparedness certification program be designed and implemented in order to build on current practices in supply chain resilience and the assessment thereof?
 - Existing efforts that should be acknowledged, integrated and credited

DISCUSSION

InterCEP has identified general themes addressed during the Working Group discussion. In this summary, these themes are briefly articulated, and then specific issues relevant to each theme are presented.

- **The global reach of supply networks means that firms are exposed to a wider spectrum of possible disruptions at all levels of operation.**
 - Global organizations are affected by all kinds of human, natural and technological incidents on regular basis.
 - Internally, supply chains tie together logistics, transportation, order management, customer service, manufacturing, operations, finance, sales and marketing -- essentially everything to meet the needs of customers and clients.
 - Externally, supply chains include suppliers of all kinds including product distributors, service vendors, manufacturers, contractors, and logistics firms that move materials.
 - An organization that has identified applicable risks and critical processes at every stage of this process and prepared appropriately will be in much better shape to respond to disruption and recover rapidly and with lessened effects on the supply chain when an incident occurs.
- **Forward-leaning businesses are already implementing standards and best practices designed to ensure supply chain resilience – while many other businesses have not yet developed robust business continuity programs.**
 - A number of preparedness standards exist, and they reflect a core of common elements or best practices.²
 - Following guidelines such as these, firms can pre-plan for supply chain disruptions so that they can better respond, restore and recover whenever an incident occurs.
 - When a preparedness process is based on commonly acknowledged standards, it can be easily shared with critical customers and key suppliers.
 - Many industry-leading firms are already working proactively through their purchasing and legal teams to share their preparedness process with supply partners.
 - Supply partners can be prioritized in terms of risk based on their criticality to the business.
 - Firms can work with critical supply partners to gain a common understanding of the shared benefits of ensuring supply chain resilience.

² Cf. "Framework for Voluntary Preparedness – Briefing Regarding Private Sector Approaches to H.R. 1 and public Law 110-53 'Implementing Recommendations of the 9/11 Commission Act of 2007' Title IX" prepared by representatives of ASIS International, DRII, NFPA, and RIMS. Available at www.sloan.org

- One participant suggested that there is a misconception that just because larger organizations have more people and more resources to devote to business continuity, they have developed more robust programs than small- or medium-sized businesses. Many businesses, large and small, have not yet developed business continuity, security, crisis, and other risk-oriented management processes.
- **Firms frequently require supply partners to adhere to certain preparedness requirements.**
 - Many firms have already established standard business continuity language for supply contracts, and such language is designed to cover the specific needs associated with particular supply relationships.
 - In some cases, supply partners audit each other to verify that the business continuity capability stipulated in the contract actually exists and is sufficient.
 - Some firms have developed automated vendor management systems to push out business continuity questionnaires to clients, to gather relevant information, and to integrate it into their risk management and business systems.
 - IT systems are particularly amenable to preparedness audits, but it's more difficult to audit other operational systems including transportation and logistics.
 - Some supply partners are tied in to contracts that last several years and thus may not be immediately subject to the addition of new resilience requirements. It is important however to begin to have the conversation around business continuity, to share information with such suppliers and identify elements of the process that appear to be working.
- **Some firms promote preparedness-related best practices through mentorship, training, education and joint exercises with supply partners.**
 - In some cases firms identify a current provider or a potential new provider that they want to do business with which does not have a very resilient or fully documented business continuity capability. Firms may work with that provider to improve its capability, and even stipulate contract terms and conditions that say by a certain date the vendor agrees to do undertake certain resilience/preparedness activities.
 - Another way to validate a supply partner's business continuity capability is by testing the services actually contracted from them in a real crisis or a simulated one, but this requires considerable effort and can only be undertaken infrequently.
 - For example, following the hurricanes in 2004 and 2005, one company brought in a handful of suppliers that were found valuable or necessary during the critical incidents to engage in joint exercises focused on the development of better communication. This company learned that although it had been collecting great situational awareness and had a good idea of what was going on and what it would be doing during a critical incident, this information was not adequately communicated up and down the supply chain.
 - Another company working on pandemic planning engaged with its top 200 suppliers, brought them in, gave them education and training from government partners, told them where they could go get more information. The goal was to bolster the capability of those suppliers to continue operations to the best of their ability if a pandemic were to occur.
 - Although there is considerable talk about public-private partnerships and how private sector companies need to partner better with the government, there is also a need for firms to partner with each other.
- **The management and oversight of preparedness among supply partners remains difficult however for a variety of reasons.**
 - It may not be possible to determine whether stated compliance with contractual terms is actually being met until an incident occurs, and then it's often too late to prevent or mitigate the impact of disruptions, notwithstanding any punitive liability associated with breach of contract.

- It can become prohibitively expensive to move beyond checking the boxes on a questionnaire and to begin undertake audits of physical facilities and program capabilities, especially when a firm has hundreds or thousands of suppliers.
 - Vendor firms can also be overwhelmed by customer requested requirements, especially when they have multiple clients and each client has a different set of continuity needs, which not only must be met but then communicated to, and perhaps in some cases validated with, the customer.
 - Sometimes firms will issue continuity requirements but receive push-back, either for legal or compliance reasons, or because a supplier has a position of strength in the market that allows it to do so.
- **There are a number of ongoing initiatives within specific markets as well as industry verticals to promote supply chain resilience through third-party coordination and oversight.**
 - It was reported that the New York Stock Exchange (NYSE) and the National Association of Securities Brokers (NASD) have instituted requirements that financial services firms have a certain amount of transparency into the business continuity capabilities of their critical service providers.
 - It was also reported that the National Markets Association (NMA) has a best practices committee for business continuity that has initiated a program to develop a business continuity questionnaire that associate members can send out to their critical vendors. This questionnaire in its current form contains over one hundred questions. The basic intention is to enable critical vendors to fill out this single questionnaire and submit it every time they get a request for service from a financial services firm, rather than submitting different information in response to different surveys from various firms. This puts the responsibility on individual financial services firms to review the data contained on the questionnaire, determine the quality of the data, and if necessary, to sit down with the provider firm and discuss areas of concern and/or potential improvement.
 - Another initiative reported was the Financial Institution Shared Assessment Program (FISAP), which reportedly goes beyond the business continuity capability, and digs deep into companies' information security and physical security, access control, personnel background checks, etc. This program addresses 14 separate domains via a standard information gathering tool, a set of questionnaires. There is also an agreed upon procedure to be followed to implement this FISAP assessment, and the intent is that it be performed by an accredited public auditing capability company.
 - In the parallel arena of environmental management, historical experience suggests that a consortium model may similarly allow redundant, parallel audit processes to be rationalized. In this case, there were large multinationals who used landfills for their waste management activities and had the problem of how to check that the waste management facilities they were sending their disposable materials to were in fact compliant with appropriate regulations and standards. A primary concern was to avoid involvement in any superfund or similar liability. What these companies did was they formed a consortium where a third party organization was created. That third party went out, did the actual onsite audits of each of those vendors and then shared the audit results across the consortium group. This allowed the on-the-ground auditing of the vendor facilities including whether or not they were keeping up with appropriate environmental health and safety laws, etc. The consortium members split the cost of the report, and therefore cut costs dramatically and did not burden the consortium companies with going out and doing the onsite audits themselves.
 - The Customs-Trade Partnership Against Terrorism (C-TPAT) is a voluntary supply chain security program led by U.S. Customs and Border Protection (CBP) and focused on improving the security of private companies' supply chains with respect to terrorism. This program provides another relevant parallel to be taken into consideration.
 - Some firms also have technology providers who have their organizations evaluated by CPA's and they provide documentation from those evaluations.

- **In view of these various issues pertaining to the resilience of supply chains, the voluntary business preparedness certification program could have a number of concrete benefits.**
 - There is a need to rationalize and streamline redundant efforts to audit and verify business continuity capabilities. Some Working Group participants suggested that there may be too many standards, and that there is a tremendous amount of overlap. From this perspective, one of the values of the certification program is that all of these different sets of guidelines and standards might be brought into alignment with each other.
 - In areas such as the financial services sector, there is a need for uniformity of evaluation processes utilized by regulators and auditors from year to year. In some cases, examination processes are based on the approach regulators choose to take in any given year, and what they perceive as the status of the markets and the risk that one firm might pose to those markets.
 - A universally-accepted certification process could also minimize the potential for push-back from individual suppliers.

- **The extent to which individual companies realize benefits from a voluntary business preparedness certification will depend on a variety of factors.**
 - It will be important to cultivate regulatory buy-in to the process. Some Working Group participants suggested that the certification process would have great value if it were accepted by regulators. That acceptance would take the onus off individual firms to expend the manpower and conduct the necessary due diligence
 - It will also be important to obtain management buy-in and support for the certification process within each company.
 - Some firms are eager to determine how the certification process might be leveraged for international suppliers as well.
 - Many firms will attempt to realize value through the certification process by tying in or “piggy-backing” on existing audit processes, for example around quality, risk management, etc.
 - Working Group participants suggested that the value of the certification process will also increase once further specifications of the guidelines are developed for particular industry sectors, as was the case with the ISO 9001 standard.
 - Participants also cited the importance of DHS’s involvement in the promotion of the certification program through channels such as state and local government; chambers of commerce; and industry associations. It was also suggested that DHS might consider providing training around the certification program for small businesses through state and local government.
 - Participants noted the importance of capturing and communicating all the economic motivations for certification, including those cited above.
 - It was also suggested that a multi-level approach maturity model might be integrated into the certification program to provide companies with an incentive to get started and achieve initial progress, then continue to work on achieving subsequent levels of certification as the business case for it evolved.

- **The certification program should be relevant for firms of all sizes.**
 - Some participants questioned how readily the certification program would be accepted by small or medium sized businesses, but acknowledged that if the large businesses that provide the critical infrastructure across the various industries were to seek certification, then as time goes by it would become a more commonly accepted part of operating a business, whether large or small.
 - Other participants cautioned against the perception that big businesses would simply bear the costs associated with certification. Both large and small companies will only pursue certification if they see value in it.
 - Larger companies may choose to assist/mentor their suppliers (especially critical ones) in areas of preparedness and to promote voluntary conformity with designated standards. Separate ways may perhaps be needed to help educate and to help small and medium sized businesses be aware of how to improve their business continuity capabilities.

- **Other organizations should be invited to engage and participate in the Supply Chain Working Group.**
 - Participants signaled out the importance of inviting representatives from the following organizations to join in the dialogue about the relevance of the certification program for supply chain resilience:
 - The General Services Administration (GSA)
 - The Council of Supply Chain Management Professionals (CSCMP)
 - MIT Center for Transportation & Logistics (CTL)
 - The Supply Chain Management Research Group at Ohio State University;
 - The Center for Supply Chain Research at Pennsylvania State University
 - The Risk and Insurance Management Society (RIMS)
 - The Association of Contingency Planners (ACP)

INTERCEP'S ACTIVITIES

InterCEP is committed to supporting the Supply Chain Working Group by undertaking the following activities:

- Produce high-level summary proceedings of Working Group meetings, to be drafted by InterCEP, then vetted with participants, and finally distributed for stakeholder consideration;
- Develop greater awareness within the general business community of the voluntary business preparedness certification program;
- Produce research output that presents knowledge generated by the Working Group relevant to the design and implementation of the voluntary business preparedness accreditation and certification program;
- Develop an online clearinghouse of documentation relevant to the voluntary business preparedness accreditation and certification program.

SETTING THE WORKING GROUP AGENDA MOVING FORWARD

Next steps possibly to be undertaken by InterCEP with the support and involvement of members of the Supply Chain Working Group include:

- **Gather specific supply chain and logistics considerations from key stakeholders (e.g., professional associations, industry-leading firms, academic centers of expertise) that should be incorporated into the initial design and development phases of the new voluntary certification program.**
- **Specify, to the extent feasible, activities that firms can undertake to support the successful implementation of a voluntary certification program in a supply chain including, if applicable, mentorship, training, education and joint exercises with supply partners.**
- **Identify and evaluate for lessons learned any existing supply chain resilience initiatives (e.g. BITS, C-TPAT).**
- **Continue to clarify the supply chain-oriented business case rationale for preparedness certification.**

With respect to each of these possible next steps, InterCEP seeks feedback and indications of interest from Working Group participants and readers of this document in response to the following questions:

- Do you think these next steps would have value?
- Do you have any information relevant to these next steps?
- Would you like to get involved and help craft these next steps?

In general, InterCEP is committed to shaping an agenda for the Working Group, including additional next steps and other action items, based on the feedback gathered from participants in response to these additional questions:

- Who else should be at this table?
- In what forums should this discussion be taking place?
- Who/what are the most relevant individuals, job titles, organizations, associations, etc.?
- What concrete next steps can be taken to acknowledge, integrate, and credit existing efforts?
- Additional next steps – what are we missing?
- What meeting formats are most appropriate to maximize participation and productivity?
- How regularly should Working Group meetings be scheduled?

InterCEP encourages readers of this document and other stakeholders to contact us on an ongoing basis with questions, comments and suggestions regarding the Working Group agenda, as well as in reference to the broader process of developing and implementing the certification program. InterCEP's efforts to support this process are undertaken independently with the support of the Alfred P. Sloan Foundation.

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