

STEP 2: CRITICAL BUSINESS FUNCTIONS

1

2

Have A Plan

Are You Prepared?

The process of identifying your critical business functions will work in closely with your risk assessment analysis. You will identify and classify the critical business functions required to run your business. You can determine which are most necessary to continue business during a crisis.

Critical Business Functions

1

2

3

Have A Plan

Critical functions are:

- Sensitive to down time
- Fulfill legal or financial obligations
- Maintain business market share or reputation
- Safeguard an irreplaceable asset



Critical functions are those that are most necessary for continuing your business as you recover from a disaster. They bring in the revenue you need to cover your expenses, and meet your obligations to your customers.

Critical business functions will be different for different types of business. But all share some common purposes: especially keep revenue flowing and meet client deadlines, which usually means you must keep your employees working.

Keep in mind each Critical Business Function may require a specific individual be assigned as the Responsible Person for disaster and disruption planning and recovery. Identify that person and provide guidance.

Determining a Critical Function

1

2

Have A Plan

When determining the criticality of a function consider:

- Business goals
- Frequency of the function
- Business context of the function (why and how)
- Legal penalties, fines and regulatory requirements
- Impact on image and market share
- Priority of function



Determining the criticality of a function requires thinking through the function from various internal and external perspectives.

Hard and Soft Impact

1

2

Have A Plan

- Think about hard and soft impacts to your business
- Hard impact quantifies financial loss for number of days operations are down
- Soft impacts have indirect impact and are less quantifiable



Hard Impacts have a Direct Financial Impact. Soft Impacts may have an Indirect Financial Impact or a Non-Financial Impact.

Examples of Financial and Non-financial Impacts include loss of:

- Reputation
- Revenue
- Goodwill
- Customer confidence
- Competitive edge
- Opportunities
- Trading fees
- Loss of employees' morale
- Loss of efficiency
- Management fees

To quantify impact determine the potential impact or loss for 1 day and multiply by the number of days the disaster stops your operations. For example, \$20,000 received per day in revenue multiplied by 2% interest payment for overdraft, multiply by X days of outage equals the impact for lost revenue. Continue calculations for other quantifiable impact or loss items. This analysis will help you identify and understand critical functions.

Quantifying Disaster Impact

1

2

Have A Plan

Consider a disaster which stops your business for 5 days:

- \$5,000 received per day in revenue multiplied by 2% interest payment for overdraft, multiply by 5 days of outage equals the impact for lost revenue:
 $\$5,000 + 2\% \text{ Interest} \times 5 \text{ days} = \$25,500 \text{ impact}$
- A reduction in Goodwill and Customer Confidence reduces revenue 5% per day for 30 days:
 $\$5,000 - 5\% \text{ Revenue Loss} \times 30 \text{ days} = \$7,500 \text{ impact}$

To quantify impact determine the potential impact or loss for 1 day and multiply by the number of days the disaster stops your operations. Continue calculations for other quantifiable impact or loss items. This analysis will help you identify and understand critical functions.

Identifying Critical Functions

1

2

Have A Plan

- List each function and the impact it has on other business functions
- Identify the resources and personnel required to restore the function
- Include a brief guide on how to restore the function

PREPARE MY CRITICAL BUSINESS FUNCTIONS

Function	Criticality	Maximum Downtime	Person/Team	Required Resources	Impacted Functions	Brief Process to Complete Function
Example: Insurance Claims	High	2 Days	A. Jones - Mgr. Alt 1: K. Smith Alt 2: R. Howard	10 employees, phones, claim mgt software, paper forms	Claims assessing, filing	Take calls, document in system, file
Example: Open new savings acct.	Low	1 Week	L. Singleton	1 employee, account mgmt software, N103-B form, printer	New accounts	Customer completes N103-B form on-site, enter into system
Example: ...	Low	1 Week	L. Singleton	software, N103-B form	New accounts	N103-B form on-site, enter into system

This form helps you identify the steps to clarify what the critical business functions are so you can prioritize your resources and efforts.

Begin each function description with an action verb, for example administer loans or monitor outstanding transactions.

Finding your Critical Functions

1

2

Have A Plan

Now that you have an understanding of why it is important to define the critical functions in your business, download the Critical Functions worksheet and complete it.