

4-1-2006

Using a Contingency Plan to Combat Human Resource Risk

Maria I. Marshall

Purdue University, MIMARSHA@PURDUE.EDU

Corrine Alexander

Purdue University, cealexan@purdue.edu



This work is licensed under a [Creative Commons Attribution-Noncommercial-Share Alike 4.0 License](https://creativecommons.org/licenses/by-nc-sa/4.0/).

Recommended Citation

Marshall, M. I., & Alexander, C. (2006). Using a Contingency Plan to Combat Human Resource Risk. *The Journal of Extension*, 44(2), Article 21. <https://tigerprints.clemson.edu/joe/vol44/iss2/21>

This Ideas at Work is brought to you for free and open access by the Conferences at TigerPrints. It has been accepted for inclusion in The Journal of Extension by an authorized editor of TigerPrints. For more information, please contact kokeefe@clemson.edu.



April 2006 // Volume 44 // Number 2 // Ideas at Work // 2IAW1



PREVIOUS
ARTICLE



ISSUE
CONTENTS



NEXT
ARTICLE



Using a Contingency Plan to Combat Human Resource Risk

Abstract

Small business owners spend little time thinking about human resource risks, although the absence of key personnel can be devastating to a small business. By leading small business owners through the process of writing a contingency plan, Extension professionals can help business owners reduce these risks. A contingency plan helps business owners identify the best possible risk management strategies and ensure that risk management dollars are spent wisely.

Maria I. Marshall

Assistant Professor and Extension Specialist
mimarsha@purdue.edu

Corinne Alexander

Assistant Professor and Extension Specialist
cealexan@purdue.edu

Department of Agricultural Economics
Purdue University
West Lafayette, Indiana

Introduction

Extension helps small businesses confront many different types of risk. However, little consideration is given to human resource risk and how the absence of key personnel can affect small businesses. Contingency planning is a method that Extension professionals can use to help small businesses combat human resource risk.

A contingency plan is a structured way of deciding what to do when key operations are disrupted and key personnel are not available. Extension professionals can use this planning process to help small businesses identify and mitigate risks. It can also help small business owners identify their best options and ensure that their risk management dollars are spent wisely.

Writing a Contingency Plan

A contingency plan is a set of procedures that defines how a business will continue or recover its critical functions in the event of an unplanned disruption to normal activities. It is a process by which a business can assess its operations in order to determine how well it can function when key resources, such as personnel, are not available.

When writing a contingency plan, use the knowledge and input of the business's key employees. You should encourage the business owner to establish a planning team in order to share the responsibility among key personnel. This is important because key employees will be a critical part of any recovery strategy that the business puts together. A contingency plan consists of six main sections:

- Executive summary
- Risk management goals
- Risk assessment
- Business impact analysis
- Risk management strategies
- Plan maintenance

The executive summary is written last but appears at the beginning of the contingency plan. It should include the business's risk management goals, a summary of the business's risk assessment, and the selected risk management strategies addressed in the plan.

Risk Management Goals

In this section, risk management goals should be identified. The purpose of risk management goals is to reduce uncertainty, but they can also help manage business opportunities. For example, a risk management goal can be as simple as wanting the farm to remain in the family, which would require the family to prepare an estate and/or succession plan. In the end, risk management goals help business owners decide which opportunities and risk management strategies to pursue.

Risk Assessment

This section of the contingency plan is about identifying and assessing the risks to the business. The business owner pinpoints the events that could cause financial or operational harm to the business. See Alexander and Marshall (2006) for an effective risk assessment tool. Human resource risk can be due to:

- Death
- Disability (temporary or permanent)
- Divorce
- Management error/incompetence
- Unexpected temporary leave
- Poor employee management practices

You should have the business owner answer two main questions in this section:

1. What are the events that could harm the business or inhibit them from reaching their goals?
2. On a scale of one to 10, how likely is it that the event will occur?

A rating of one would signify that the event had a low probability of occurring and a rating of ten would signify a high probability. For example, a corn producer might identify an injury on the job as a possible event and rate the likelihood of that happening as an eight. The next step is to determine the impact or consequence of that event on the business.

Business Impact Analysis

The impact of an event on a business can be assessed in three ways: operating impact, financial impact, and legal impact, and in many ways these are interrelated. Operating impact is loss of operating efficiency such as a decrease in sales volume. Loss of customers, increased costs, and cash flow problems are examples of financial impact. Legal impact entails the inability to fulfill business contracts with suppliers, customers, or vendors. For example, hiring an inexperienced person to cover the duties of an injured salesperson might lead to decreased sales and cash flow problems such that the business cannot pay its vendors, thereby causing a decrease in the business's credit rating and a lawsuit.

Part of this section includes identifying critical functions within the business and how the loss of key personnel will affect those functions. You should have the business owner answer the following questions:

- What are the critical functions performed by each individual?
- How will the event (loss of key personnel) affect that function?
- What are the impacts on the business (operating, financial, and legal) if that function is not performed?
- How long can that function remain deficient? The business owner should determine whether that particular function needs to be covered immediately or can be part of a long-term recovery strategy.

Risk Management Strategies

After the business owner has identified the risks to the business, the probability that those threats will occur, and the consequences of those threats, he or she should prioritize these threats and begin to establish risk management strategies. He or she can decide to retain, reduce, avoid, or transfer the risks detailed in the risk assessment section (Alexander & Marshall, 2006). Each strategy should contain the roles and responsibilities of everyone involved in the recovery of an event and the procedures to be followed if that event should occur.

The main questions to be answered in this section are:

- What are the resources required to continue to perform critical functions?
- How can the business decrease the likelihood of an event occurring?

- How can the business lessen the impact of an event?

Plan Maintenance

It is important that the contingency plan be kept up to date and revised once a year. The plan should reflect any changes in the business. You should help the business owner identify ways to keep the plan fresh and relevant.

Conclusion

Through various workshops, we have found that when small business owners begin writing a contingency plan, they develop a better understanding of how their business actually operates. Many find that they have serious gaps in the way that knowledge is transferred within their business and use the opportunity to make changes in their business operations.

References

Alexander, C., & Marshall, M. I. (2006). The Risk matrix: Illustrating the importance of risk management strategies. *Journal of Extension* [On-line], 44(2) Article 2TOT1. Available at: <http://www.joe.org/joe/2006april/tt1.shtml>

Copyright © by Extension Journal, Inc. ISSN 1077-5315. Articles appearing in the Journal become the property of the Journal. Single copies of articles may be reproduced in electronic or print form for use in educational or training activities. Inclusion of articles in other publications, electronic sources, or systematic large-scale distribution may be done only with prior electronic or written permission of the *Journal Editorial Office*, joe-ed@joe.org.

If you have difficulties viewing or printing this page, please contact [JOE Technical Support](#)