

How Corporate Security Is Reshaping the Post-9/11 CEO Agenda

New Booz Allen Hamilton Study Examines Heightened Concerns of Chief Executives

While United States chief executive officers are confident about the ability of their companies to continue serving customers in the United States and abroad, the September 11 attacks almost certainly will affect the way they operate internally.

The findings are a result of a Booz Allen Hamilton survey conducted by RoperASW in the last two months of 2001 with CEOs from firms with more than a billion dollars in annual revenues. These CEOs were interviewed to learn how the terrorist attacks in September had changed the way they view security at their own firms, had affected their operations, and had changed the way their companies worked with federal and local government authorities.

From an operations perspective, the CEO survey showed that reviewing supply chains is a critical issue: Nearly half of the surveyed companies (49%) are reviewing alternatives in case of disruptions, and 42% are reviewing their suppliers' abilities to ensure production is safe from sabotage. Smaller firms in the Fortune 1000, those with \$1.0 billion to \$2.5 billion in annual revenues, appear more concerned that the aftereffects of September 11 will hinder their competitiveness. Smaller firms are more likely to be reviewing alternative supply chains and reviewing their suppliers' abilities to produce. And while only 15% of chief executives are rethinking strategic alliances with partners due to their relative vulnerability, a third of CEOs from smaller firms are doing so.

In terms of customer service, nearly three-fourths of CEOs (72%) believe that the quality of corporate security is no more important now to customers than it was prior

to September 11, and that customers' willingness to purchase from their companies will not be affected. This is less true for non-financial firms, however; more than a third believe that the quality of their corporate security has become a somewhat or much more important factor in customers' willingness to purchase their products and services.

At least three-quarters of the executive sample expressed increased concern for such day-to-day activities as mail processing, travel, protection of employees, and protection of infrastructure (see Exhibit 1). Risk assessment,

Exhibit 1
Issues of More Concern Since September 11

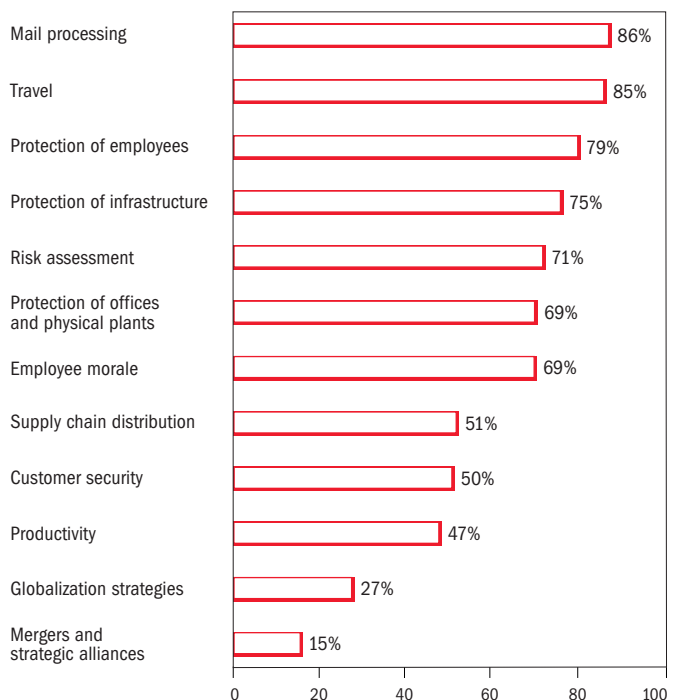
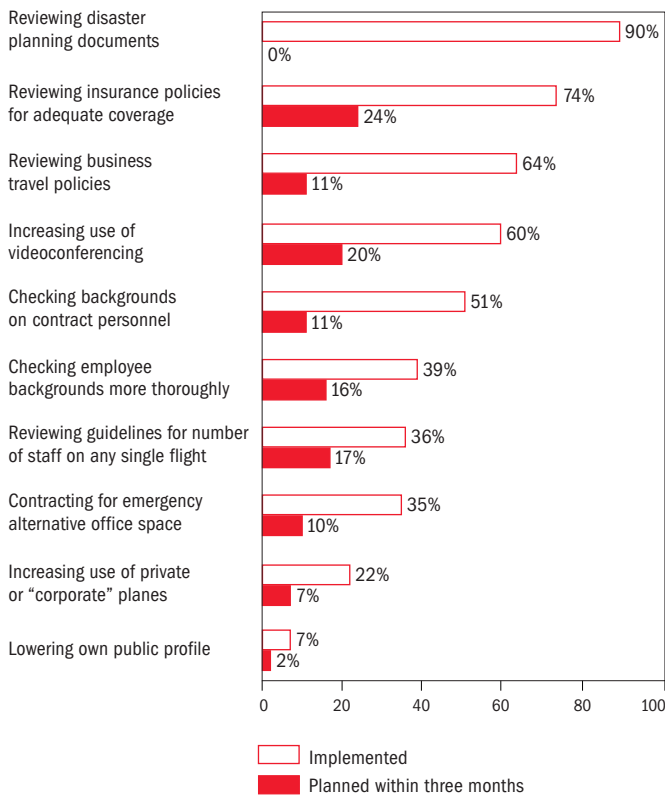


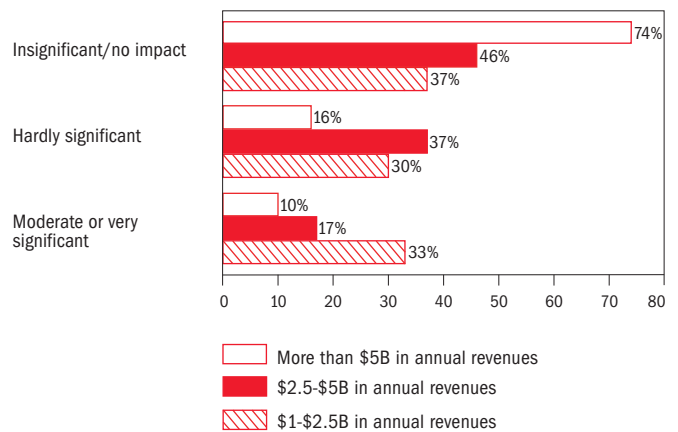
Exhibit 2**Changes Since September 11**

protection of offices, and employee morale are among their top concerns. An overwhelming majority (78%) of chief executives have no additional concern regarding the impact of September 11 on mergers and strategic alliances; 69% believe the aftershocks will have no significant effect on globalization strategies. Furthermore, according to CEOs surveyed, globalization strategies have been largely unaffected by events of the past year, including September 11 and the protests in Seattle and Genoa.

Insurance policies and disaster planning documents have been reviewed by at least three-fourths of CEOs since September 11 to ensure adequate coverage and preparedness (see Exhibit 2). For those CEOs who have not yet reviewed their insurance policies, such a review tops the list of planned activities in the next three months, followed by increased use of videoconferencing to replace air travel. Interestingly, only a few CEOs (7%) appear concerned about lowering their public profile.

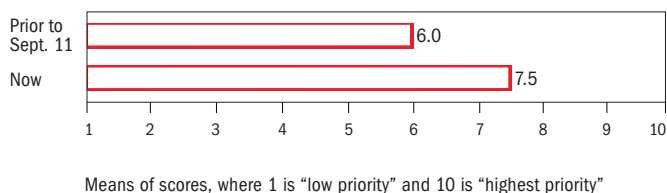
In spite of the different kinds of concerns, however, a fifth of the interviewed executives believe that corporate security is no more important than it was prior to September 11.

Half the interview group believe that any new barriers to previously open borders both in the United States and abroad will have either an insignificant or no impact on their companies. While this is especially true for large firms (with annual revenues of more than \$5 billion), CEOs of smaller firms (between \$1 billion and \$2.5 billion in annual revenues) are more concerned (see Exhibit 3). A third of these executives believe that any new barriers will have a moderate or very significant effect on their companies.

Exhibit 3**Impact of Any New Barriers to Previously Open Borders on Company**

Nearly three-fourths of CEOs believe that recent events will not change their companies' relationships with federal and state authorities. Most of those who do believe this relationship will change believe that the change will involve coordinating protection of physical locations within the United States. Any additional costs for new private-sector security needs should be shared by government, shareholders, and customers, according to two-thirds of those CEOs who believe such additional security costs are possible. A third of CEOs don't anticipate substantial new security costs.

Prior to the attacks, corporate security was a mid-level concern for CEOs, averaging 6.0 on a 10-point scale (see Exhibit 4). Since September 11, CEOs view corporate

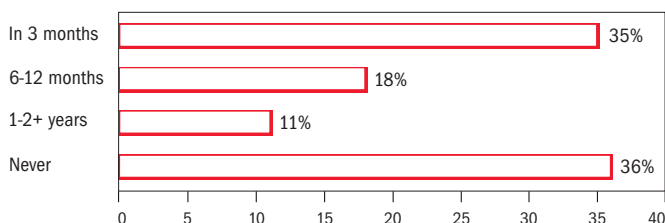
Exhibit 4**Corporate Security in List of Priorities**

security as a significantly higher priority (7.5 on average). These results generally are consistent across industry, company size, and extent to which sales are derived overseas. Those who don't plan increases in corporate security — including some energy and transportation firms — report that security already was a major (7.3) concern before the raids. The CEOs with heightened concern about security expect this concern to last at least one to two years; half of this group project that this heightened concern over security will continue at least five years.

Just over half of CEOs in the Booz Allen survey (54%) have a Chief Security Officer (CSO) in place, and nearly all of these security officers (90%) have been in this position for more than two years. Chief Information Officers (CIOs) are more likely than other executives to have a CSO's

responsibilities when there is no CSO in place, but half of those firms that do not have a CSO have someone other than the CEO, Chief Operations Officer (COO), or CIO responsible for security planning and operations now. That's not likely to change soon: 97% of firms that do not have a CSO have no plans to create this position within the next three months.

CEOs are evenly split on the question of when or whether "business as usual" (as defined by the state of business on Monday, September 10, 2001) will return: a third feel that business as usual would return within three months, a third feel that it will return sometime between six months and five-plus years, and a third believe that business will never be the same (see Exhibit 5). Chief executives of global firms are less positive: more than half of these executives believe that business will never be the same.

Exhibit 5**When "Business as Usual" Will Return****Methodology and Demographics**

During November and December of 2001, RoperASW, on behalf of Booz Allen Hamilton, spoke by telephone to 72 chief executives (including presidents and chairpersons) in United States firms with annual sales of at least one billion dollars. The respondents are divided roughly into three size groups by annual revenues:

- Between \$1 billion and \$2.5 billion (39%)
- Between \$2.5 billion and \$5 billion (33%)
- More than \$5 billion (28%)

By industry, half are financial firms. Commercial banks comprise 15% of the sample, with other types of financial firms making up 35%. Retail/wholesale firms are 14% of the sample, and energy/transportation firms are 10%. Using a different industry filter, two-thirds (65%) are service businesses, and a fourth (28%) are in manufacturing/mining and construction.

Most of the respondent firms (74%) derive at least 90% of their revenues from the United States. However, 11% derive between 10% and 39% of their revenues internationally, and 15% generate at least 40% of their revenues from outside the United States.

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With 11,000 employees on six continents, the firm generates annual sales of \$2 billion. Booz Allen provides services in strategy, organization, operations, systems, and technology to the world's leading corporations, government and other public agencies, emerging growth companies, and institutions.

Booz Allen is actively engaged in helping companies increase their business resilience in the post-9/11

world. To survive and prosper, companies must address the immediate concerns of reducing risk and ensuring continuity — within a corporate strategy that remains focused on growth and profitability. Booz Allen is the only major consulting firm with both commercial and government divisions, bringing both to bear on issues relating to strategic security.

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