Business continuity planning: A comprehensive guide

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Business continuity planning

Too few firms are actively preparing their businesses for the worst case scenario. Business continuity planning is practiced by less than two-thirds of businesses according to research by AXA.

Many of those who do not prepare contingency plans wrongly believe themselves to be too small to plan; however, business continuity planning really can make the difference between a company folding after a relatively minor insured event or recovering to a stronger position.

Mid-market businesses are more likely than larger-sized employers to suffer from cash-flow problems. Operating on lower revenues and lower margins can make it difficult to accrue sufficient working capital to keep creditors at bay.

The risk of businesses simply running out of cash is a real concern. This is particularly true during a downturn when suppliers often seek to delay their payment terms. With suppliers legally permitted in many countries to make payments for goods and services up to 90 days after receiving them, it is advisable that all firms seek to hold up to 3 months business revenues to help manage cash flow. AXA research has shown that 68% of businesses fail to hit this 3 month benchmark.

Despite this, management literature and business media consistently publish surveys revealing that many – if not most – companies have not made adequate preparations for managing disruptive incidents.

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The simplest overview of deciding whether or not to spend time developing a Business continuity plan (BCP) are shown in the chart below.

Developing a BCP

	Choosing to make business continuity plans in advance	Choosing to make business continuity plans under emergency conditions
Upside	**If an incident occurs:** The well-managed establishment of emergency operations quickly and cost-effectively	**If an incident doesn't occur:** A few hours of management time is saved
Downside	**If an incident doesn't occur:** The cost of a few hours of management time which perhaps could have been spent bringing in the next order sooner	**If an incident occurs:** Failing to achieve the most time – or cost-effective recovery of operations, causing lost productivity, reduced customer confidence and immediately reducing the firm's resilience window and thus its ability to survive the crisis

Why do businesses not undertake BCP?

There are some key assumptions made by business owners that drive their apparent lack of concern to make appropriate business continuity plans:

Lack of resources

The assumption that the business cannot afford the costs or management time to make continuity plans.

- BCP is regularly considered an area where consultants are required which, is far from the truth.
- Business continuity planning requires a knowledge of the business and the ability to think of what could interrupt trading.
- A simple template may be all that is required to improve the resilience of their business.

Lack of impact estimation

The assumption that the business will be able to survive the period of interruption, both financially and in terms of customer tolerance.

- What cash is available today in the bank and how long will it last with nothing coming in?
- I can't deliver to my top 3 customers for 8 weeks – can they wait that length of time or will they go to our competitors?
- What if my peak income comes from pre-Christmas sales and my premises is burned down in September?

Lack of probability/scenario planning

The assumption that many problems are either too small to matter or too large to deal with, and that those within a conceptual 'comfort zone' will be manageable as they happen.

A simple process of planning can be as simple as asking 'What if':

- 'What if' our building burns down?
- 'What if' our main supplier goes bust?
- 'What if' our premises are flooded and machinery can't be replaced for 9 months?
- 'What if' a key component supplier has a major incident and as a result we can't complete the work or product?
- 'What if' our sales director leaves with all the main contact details for our most valuable customers?
- 'What if' all our production staff have an illness meaning they are not at work for 2 weeks?
- 'What if' we lose our telephone and computer system for 4 weeks?
- 'What if' our bank changes their lending policy or interest rates change?

Lack of prioritisation

The assumption that if a crisis hasn't happened yet, it's not urgent enough to plan for.

- Sales are the no. 1 priority however what happens when there is nothing to sell or no customer wanting your products?

Many managers are operating in blissful ignorance of the importance of effective BCP measures on their businesses or are over-confident in their firm's ability to survive a major incident – whether through an under-estimation of the impact on their business or through assumptions about having the time and management capability to deal with incidents as they happen. Managers are also failing to recognise the impact of a minor incident and its knock-on effect.

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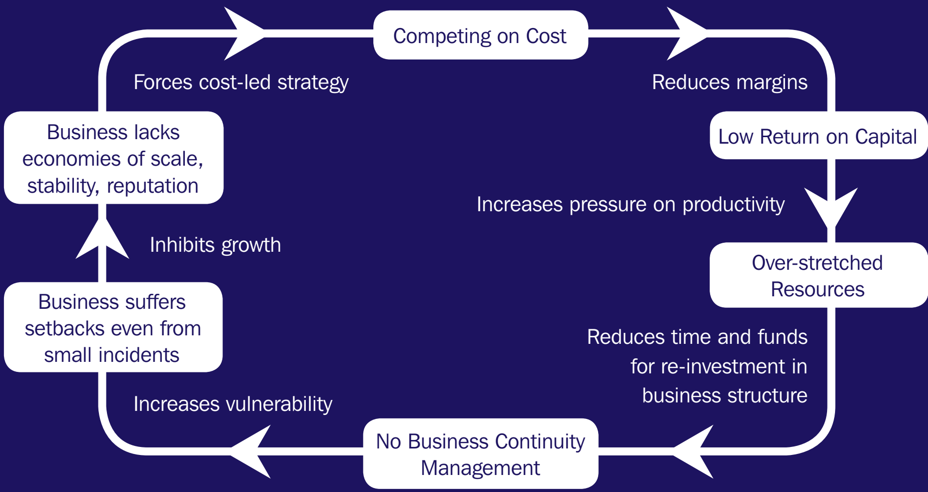

What is business continuity planning?

Business continuity can be described as 'The ability of an organization or business to provide service and support for its customers and to maintain its viability before, during and after a business threatening event.' The elements necessary for business continuity include the physical location of the place or places of business, staffing and equipment, IT, impact on customers, inventory, and transportation/ distribution channels.

The various aspects of a BCP will be different dependant on the size and nature of the business with the following table showing a number of aspects which may be relevant.

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Relevant aspects of business continuity planning

Premises	Identification of possible first and second choice locations for relocation, which can include business continuing to trade from employees homes.
Infrastructure	A quantified list of what must be available or added to the locations to enable sufficient business operating ability – e.g. how many phone lines, fax machines, computers, fileservers, ADSL/broadband lines, printers, tablets? How much of the above are in place or can be connected immediately or within 24 hours? What could/should be arranged in advance? (e.g. broadband at employees homes and ability to access corporate networks using such as VPN).
Key Suppliers	Where will the above be sourced? Do contracts, credit limits, specifications and service-level agreements need to be agreed in advance?
Data systems	What data needs to be restored from backups/accessed from a remote managed system? Who is able to do this? What server is data being restored to? Does work need to be distributed to employees' homes? Can clients be notified quickly?
Production and operational systems	How can these be restored? How long will it take to be up and running? Can invoicing/bookkeeping operations continue to function to maintain cash-flow? What outsourcing opportunities exist?
Contact List	Businesses and domestic contact details, landlines, cellular numbers (business and private), contractors, principle customers, insurance brokers, insurance companies.
Cash Requirements	How much will the above cost – on day one, and per day/week thereafter? How much of this is covered by insurance? When will the insurance pay out? How much can be arranged on credit and what will the cash-flow be over the maximum length of time emergency operations would be sustained for?
Roles and Responsibilities	Who is authorised to initiate the emergency plan? Who is responsible for each key action? Who is their backup? Is everyone aware who is responsible for what?
Restrictions and Limitations	What aspects of business will we not be able to do – e.g. manage the loss of stock or client records, hold team meetings?
Welfare	Will families need to be alerted? Will any staff need special support – e.g. child care? Will staff working during emergency conditions need to be fed, etc.?

BCP – a requirement of sound business practice?

BCP is often regarded as offering only contingent benefits, proving worthwhile only in the event of disaster. However, BCP can play an active role in increasing a firm's ability to operate within its risk appetite. Without BCP as a process, a business is operating in denial of a full knowledge and understanding of the impact of the risks to which it is exposed, and without the necessary measures and resilience to withstand the impact. A firm with a strong BCP culture has greater ability to measure both the extent of its exposure and its resilience to tolerate the downside of the risks it is taking.

Managers can make better decisions, and ensure the firm operates within predetermined tolerance parameters they set for the trade-off between risk and profit.

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Managers must first be convinced of the fallacy of the myths inhibiting BCP activity: that disasters happen only to large firms; that a smaller firm's flexibility is enough to ensure recovery; that insurance cover replaces the need to plan; and that the commitment, time and expense are too draining to justify the effort.

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Risk Appetite

To create business resilience against a wide range of circumstances, managers must weigh sources of threats against the firm's risk appetite. Some commonly identified examples are detailed, indicating the breadth of considerations required for BCP.

As an essential component of profit, business risk is unavoidable. Managing risk is not simply about risk-reduction but understanding the firm's appetite for risks and mitigating these by reducing their probability and/or impact as far as possible without inhibiting the firm's business.

With optimally managed risks, the firm can safely tolerate increased exposure, increasing potential profits without exceeding its risk appetite.

A firm assesses new projects according to their fit with risk appetite, deciding whether the risk is explicitly acceptable, manageable or unacceptable. Business continuity planning is therefore an essential condition for the development and growth of any business, whatever its size, whatever its ambition.

Sources of threats against the firm's risk appetite – common examples

Category	Potential Risks
People	Succession planning at all levels within the organisation for both crisis and long term continuity, coping strategies for prolonged absences, risk of fraud, accident/illness, employee liability, defection to competitors and retirement.
Intellectual property	Knowledge of clients and business processes, skills, specialised training, customised software.
Operational issues	Production facilities, telephone services, internet connectivity and computer system (including facilities to restore from backups)
Premises	Contingency planning for office accommodation, risk reduction through property maintenance, health and safety, security, equipment repair and renewal.
Environmental liabilities	Asbestos, other forms of contamination or hazard – e.g. fire-water run-off.
IT	Mechanical failure, lack of scalability, employee misuse, automated attack, new viruses.
Financial	Customer payment default, currency risk, inflation
Legal	Employment law, public liability, professional indemnity, legislation and regulatory requirements.
Supply Chain and Outsourcing	Managing dependency on an external solution (e.g. contract management, auditing supplier/outsourced processes, value management and contingency planning for supplier failure.)
Emerging liabilities	Changes in external factors: e.g. legislation, new competitors, changes in demand.

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