Economy
Research Report

Out-of-Business As Usual?

The challenges of Business Continuity Management in the UK's small and medium-sized enterprises.

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Executive Summary

Business Continuity has risen in focus in the UK over the last few years amongst employers, employees and government. Large companies, particularly within regulated industries, have invested heavily in improving their resilience against interruptions to their business operations. There is a preparatory specification for a British Standard for continuity (PAS 56), providing detailed information on how to implement measures to protect a business. 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. This applies particularly to small and medium-sized enterprises (SMEs).

Despite growing awareness of the problem, UK SMEs appear to have been failed to be stimulated into action. This is of particular concern, given that SMEs represent more than half of the UK's private sector turnover and employment (3.8 million SMEs in the UK, accounting for over 99% of total number of UK firms and generating 52% of total turnover. They employ 12.6 million people, representing 56% of the private sector workforce (source: DTI Small Business Service website)). With fewer resources to withstand the business impact of a major incident than larger firms, under-prepared SMEs expose a significant vulnerability in terms of their own survival, and the consequential impact on their employees, their customers and their suppliers.

In the light of evidence that 40% of businesses suffer a terminal failure as a result of an incident[1], the purpose of this report is to elevate the debate about Business Continuity Management (BCM) in SMEs – raising awareness of the key issues SMEs face and their evident failure to address those issues, and also more usefully to examine the reasons *why* the reported majority of the UK's SMEs fail to plan for their own long-term survival.

The research comprises 16 in-depth interviews with senior owner/managers who have hands-on experience in one or more small to medium-sized firms with a range of 20 to 200 employees, representing a variety of sectors and levels of maturity.

From these interviews, we have been able to identify some key assumptions made by SME managers 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.
- **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.
- **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.
- **Lack of prioritisation** – the assumption that if a crisis hasn't happened yet, it's not urgent enough to plan for.

These assumptions are manifest in both acknowledged and underlying influences on BCM reported by the participants. Together they illustrate that SME managers are operating in blissful unawareness of the importance of effective BCM 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. They also illustrate the failure to recognise the impact of a minor incident and its knock-on effect.

SMEs are by no means fated to be under-prepared. Our research uncovered some excellent examples of continuity preparation that go well beyond the common assumption that making computer back-up tapes is sufficient effort to ensure the business can resume trading following a major disaster. These examples show that SMEs are not limited by size or resources from improving their resilience to threats to their business operations.

Why Managing Directors Must Be Engaged

We found that BCM is a direct result of commitment from the top of the organisation. Without backing from the managing director or chief executive, BCM does not happen. The strongest influence that determined whether or not directors took BCM seriously was past experience of a disaster – whether in their current business, a previous business or through witnessing problems in a close company such as a trading partner or a friend's firm. Non-executive directors and outside advisors also proved to be a strong influence, helping a director step back from being too close to the day-to-day business and bringing in outside experience of good practice.

Management commitment created noticeable differences in how BCM is integrated into company culture. The report illustrates through a cultural model that BCM activity can in some firms become part of 'business as usual'; an implicit and integrated aspect of everyday operations. In such cases, the investment in BCM is part of normal operating costs and a contributor to the returns generated, requiring no additional justification. This contrasts with firms with more 'visible' BCM activity, necessary only to provide a perceived level of contingency benefits, but representing a sunken cost and time investment.

Firms without any continuity preparations tend to have only negative perceptions – that BCM is a drain on resources, increases workloads and does not yield a return. Yet the 'implicit' culture of BCM was found to show direct business returns – from preventing minor issues becoming drains on productivity, to providing a competitive advantage by demonstrably lowering supply chain risk for customers. BCM activity is, in part, deterred through lack of vision of these benefits.

A Future Necessity?

BCM is often regarded as offering only contingent benefits, proving worthwhile only in the event of disaster. However, BCM can play an active role in increasing a firm's ability to operate within its risk appetite. Without BCM, 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 BCM 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.

BCM is some way from achieving the recognised status of Total Quality Management as a business benefit and competitive advantage, although parallels between the two movements are notable: the growing recognition of its importance in business literature, the proposed adoption of a British Standard and, perhaps most importantly, increasing awareness within supply chains to question the continuity practices of the firms with which they interact.

SME managers must first be convinced of the fallacy of the myths inhibiting BCM activity: that disasters happen only to large firms; that a small 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 for an SME. The reality, as the evidence suggests, is that BCM should be regarded as a business necessity, not a luxury that SMEs can postpone. There is a role to be played by influential governmental and business support organisations in encouraging SMEs to address this blindspot, including raising awareness amongst SME directors of both the impact and probability of business threats. Whether this is achieved through regulatory influence, education or commercial pressure, the UK's economy as a whole can only benefit from the reduced vulnerability that would result.