

Business Continuity Management

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Introduction

The Chartered Management Institute, supported by the Civil Contingencies Secretariat based in the Cabinet Office and the Business Continuity Institute, has published new research into Business Continuity Management (BCM). This is the fourth survey that the Chartered Management Institute has undertaken into Business Continuity, which is defined by the Business Continuity Institute as:

“...an holistic management process that identifies potential impacts that threaten an organisation and provides a framework for building resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value creating activities.”

The objectives of the research were to explore the awareness, extent, and nature of BCM among managers and to assess any changes from earlier Chartered Management Institute research in 1999, 2001 and 2002. In addition, this survey focused, for the first time, on the issue of community resilience.

The research took place in late February and early March 2003, at a time when military action in Iraq was looking increasingly likely. The views of 742 managers were obtained from a postal questionnaire sent to a random sample of 5,000 individual Chartered Management Institute members, a response rate of 15 per cent.

Survey Findings

Preparedness for recent business disruption scenarios

- Managers were asked whether their organisations had improved their ability to deal with six topical disruptive scenarios – military action in Iraq, increased terrorist activity, damage to reputation and brand, the firefighters’ strike action, other industrial action and flooding.
- The firefighters’ strike action had caused 44 per cent of organisations to make improvements to their business continuity arrangements. Organisations responded to the possible threat posed by increased terrorist activity and damage to their reputations in equal measure (32 per cent). Similar numbers acted both to deal with military action in Iraq and other industrial action (17 per cent).
- Larger organisations had done more to respond to these possible disruptions. For instance, 65 per cent of organisations with an annual turnover of over £500 million had improved their ability to deal with increased terrorist activity, in contrast to only 17 per cent of those with turnovers of under £11 million. This suggests that small organisations tend to react to the immediate day-to-day disruptions, while larger concerns also tend to take into account macro-economic issues.

The UK’s preparedness for terrorism

- Forty-nine per cent of managers considered that the UK’s preparedness for the rising threat of terrorist activity was insufficient, compared with only 23 per cent who agreed that it was adequate. Clearly there



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is a lack of confidence among the management community about whether the counter-terrorism measures that have been taken in recent months have been sufficient to deal with the potential threats posed to the UK.

Disruptions experienced by organisations in the past year

- This year's survey, in common with those in 1999 and 2002, asked respondents what disruptions their organisations had experienced in the past year. Whereas there was a considerable rise reported in the extent of business disruption experienced in 2001, this year's survey showed that the level of most of the different types of disruptions experienced actually fell in 2002. This reflects the general national and global situation, with fewer major disasters and other disruption scenarios.
- There were some notable exceptions however to this trend. The 2003 survey asked for the first time whether organisations had experienced significant staff turnover and 26 per cent of organisations reported that they had. This was the biggest single form of business disruption experienced. Loss of IT capacity continued to increase, from 19 per cent in last year's survey to 24 per cent in this. Interestingly, there was a significant increase in the number of organisations experiencing an employee health and safety scare, up from three per cent in 2002 to nine per cent this year.
- With business disruption of various kinds remaining high, the need for high quality and effective Business Continuity Management (BCM) has never been greater.

Business Continuity concerns

- In common with the previous three surveys, managers were asked about their perceptions of the potential threats and disruptions to their organisations.

Types of disruption	1999 %	2001 %	2002 %	2003 %
Loss of IT capacity	78	82	46	58
Loss of site	33	55	32	54
Loss of skills	37	59	43	51
Loss of people	-	-	-	54
Floods/high winds	18	29	9	24
Fire	45	62	32	51
Terrorist damage	22	30	23	47
Military conflict	-	-	-	16
Supply chain disruption	-	-	25	34
Environmental liability	20	19	19	26
Employee health and safety scare	22	30	22	35
Customer health/product safety	19	21	22	25
Pressure group protest	7	14	9	14
Damaging corporate image story	41	50	40	46
Negative publicity/coverage	34	43	37	45

Table 1 *Extent of concerns about organisational disruption 1999-2003*

- Unsurprisingly, it is concerns about terrorist damage that have risen the most, more than doubling on last year. Concerns about fire, employee health and safety scares and flooding and high winds have also increased. However, it should be noted that loss of IT capacity still tops the list of organisational concerns about business disruption.

Extent of Business Continuity Plans (BCP)

- The 2003 survey shows that well under half (46 per cent) of managers report that they are aware of a Business Continuity Plan (BCP) being in place in their organisations. Thirty-eight per cent confirmed that their organisations do not have a BCP, a significant increase from 30 per cent in 2002. Large organisations are significantly more likely to have a BCP in place. Organisations with an annual turnover of over £500 million are more than twice as likely to have a BCP than those with a turnover of under £11 million, (68 per cent and 32 per cent respectively). This is of some concern when one considers that many large organisations across the economy are reliant on smaller firms for their supplies and services.

Scenarios covered by Business Continuity Plans

- More encouragingly, a wider range of disruptions are being covered by BCPs than ever before. As Table 2 below illustrates, of the 12 eventualities covered by a BCP which were asked about in all the surveys, seven have seen an increase in 2003 on previous years.

Types of disruption	1999 %	2001 %	2002 %	2003 %
Loss of IT capacity	75	69	75	82
Loss of site	49	43	62	69
Loss of skills	24	28	36	36
Loss of people	-	-	41	41
Floods/high winds	38	28	35	37
Fire	55	47	51	58
Terrorist damage	37	26	39	47
Military conflict	-	-	-	20
Supply chain disruption	-	-	42	35
Environmental liability	32	21	30	28
Employee health and safety scare	26	30	40	39
Customer health/product safety	21	22	30	25
Pressure group protest	10	11	17	18
Damaging corporate image story	26	26	32	34
Negative publicity/coverage	27	24	31	37

Table 2 Disruptions covered by Business Continuity Plans 1999-2003

- While the range of business disruption covered by BCPs has increased, the priorities remain the same with the top three scenarios covered being, respectively, loss of IT capacity, loss of site and fire.

Good Practice in BCM

Regular rehearsal

- A vital component of Business Continuity Management involves the regular rehearsal of the BCP. Annual rehearsal helps ensure the plan's quality and effectiveness. The Business Continuity Institute recommends that organisations rehearse their BCP at a minimum every year.
- Table 3 reveals that the general standard of rehearsal remains short of this good practice criterion, with only 55 per cent of organisations with a BCP adhering to it in 2003. With only 46 per cent of organisations having a BCP and only 55 per cent of these rehearsing them properly, by this simple measure, only 25 per cent of organisations have effective plans in place.

How often rehearse	1999 %	2001 %	2002 %	2003 %
At least every three months	10	4	6	8
At least every six months	11	14	12	11
About once a year	30	31	39	36
About every two years	9	9	7	8
About every three years	3	3	3	4
Not at all	30	40	16	19
Don't know	-	-	16	12

Table 3 Frequency with which BCPs rehearsed 1999-2003

- The 2003 survey asked managers in the 236 organisations that rehearsed their BCPs several new questions about the process. Asked whether the rehearsals had revealed any shortcomings in their BCPs, 81 per cent said that they had, underlining its importance for meaningful and effective BCM.
- They were also asked what rehearsal techniques their organisation had used. Only 21 per cent used full plan scenarios with all partners. Most used a combination of less comprehensive rehearsal techniques, with 55 per cent using desk-based audits, 43 per cent walk-throughs and 35 per cent prepared rehearsals.
- In addition, these managers were asked about the extent of their organisation's BCP rehearsals. Again this revealed significant limitations, with 40 per cent restricting their rehearsals to IT recovery, and only 21 per cent conducting them on an organisation-wide basis and eight per cent carrying them out at Board level.

Benchmarking BCM

- Another means of ensuring the effectiveness and quality of BCM is to benchmark or evaluate against external standards. Forty-nine per cent of managers in organisations with a BCP supported the idea of an independently run benchmarking scheme for BCM. Encouragingly, as Table 4 below illustrates, there has been a significant rise in this best practice technique on last year.

Whether benchmark or not	1999 %	2001 %	2002 %	2003 %
Yes	23	21	27	40
No	59	56	47	46
Don't know	16	21	26	7

Table 4 External evaluation or benchmarking of BCM 1999-2003

Communication of BCP arrangements

- Business Continuity professionals recommend widespread communication of the BCP to all parties necessary for its effective implementation. At the very least, this requires effective communication to all internal audiences, from the Board down to the most junior employee.
- As Table 5 illustrates, the most significant development this year has been a considerable increase in the communication of the BCP to insurance companies. This is perhaps a result of insurance companies increasingly insisting on firms having a BCP in place before they agree cover. It is encouraging that there is a continuing upward trend in the reporting to Board level management.

Stakeholders	1999 %	2002 %	2003 %
Regulators	-	-	25
The investment community	8	8	8
Insurance companies	18	16	29
Shareholders	21	15	16
Board/Company management	71	73	80
Employees	53	63	52
Local community	8	7	9
Suppliers	15	15	7
Customers	28	19	20
Others	7	3	5
Don't know	-	8	4

Table 5 Stakeholders to whom BCP is communicated 1999-2003

- However, nearly half of organisations who have a BCP do not communicate it to their staff. It is also of concern that there is apparently a steady decline in the level of communication to suppliers, customers and shareholders.

External drivers for BCM

- Both this and last year's survey asked managers which external stakeholders and professional groups were driving their organisations to consider changing their approach to BCM. As with the 2002 survey, this year a clear majority (75 per cent) identified at least one external driver for change.
- There has been an interesting realignment of the key external drivers in the past year. The top driver for change remains existing customers, with 30 per cent citing this (compared to 36 per cent in 2002). However, the number identifying corporate governance (up from 22 to 26 per cent) and insurers (up from 12 to 25 per cent) has risen. The number identifying central government (down from 24 to 15 per cent) and potential customers (down from 29 to 22 per cent) has fallen in the past year. Regulators, listed for the first time this year, were identified by 17 per cent of managers.
- The significant rise in insurers as a key driver confirms and complements the findings outlined above in Table 5 that they represent an increasingly prominent force for the promotion of BCM. Correspondingly the number citing central government can, for the most part, be accounted for by the introduction of regulators as an option for the first time this year.

Attitudes to BCM issues

Regulation

- Many managers appear to view the role of regulation in order to encourage BCM with suspicion and there has been no significant shift of opinion in this area. Approximately half continue to believe that the 'light touch' approach of self-assessment is the best one. Despite the widespread media coverage of the various international corporate scandals, many would prefer to see regulation kept to a bare minimum. Furthermore, the prominence given to the corporate governance issues sparked by the recommendations of the Higgs Review in January 2003 into the role and effectiveness of non-executive directors, has yet to have a discernible impact on managers' thinking.

Responsibility for BCM

- The survey asked managers to specify at which level of the organisation they believe BCM needs to be owned in order for it to be implemented effectively.

Levels of organisation	1999 %	2002 %	2003 %
Board level	79	61	48
Senior management	69	46	57
Middle management	46	25	46
Business Continuity Manager	15	6	35
Operational staff	43	24	42
Don't know	1	1	3

Table 6 *Where ownership of BCM should reside for it to be effectively implemented*

- As Table 6 illustrates, the 2003 survey provided a mixed message from managers. While there was a significant fall in the number of those who think that the BCM process should be owned by the Board, managers increasingly think all the other levels of the organisation need to own it. While the trend in this year's survey is broadly encouraging, top level involvement in, and advocacy of, BCM is also vital for it to be high quality and effective.

Supply chain management issues

The extent of supply chain disruption

- One in nine organisations (11 per cent) had experienced a supply chain disruption in the past year, compared to nearly one in five (19 per cent) in the previous year. This is probably in large measure due to the comparative absence of major disruptive situations in 2002 and early 2003. By contrast, the impact of the 11 September attack in 2001 was highly disruptive to the supply chains of many organisations.

Measures against supply chain failure

- Somewhat disturbingly, organisations generally appear to be taking fewer measures to protect themselves against supply chain failure in comparison to 2002. Perhaps the relative quiet of 2002 has led to a degree of complacency in organisations.
- Asked what measures organisations take to protect themselves against failure, imposing delivery obligations on suppliers was the most favoured with 26 per cent practising this. This was closely followed by joint development of continuity plans with suppliers, with 22 per cent practising collective ownership of risk. The extent of the implementation of these key measures was significantly down on 2002, with the former measure falling by nine percentage points and the latter by eight percentage points.
- Insurance against the losses caused by supply chain disruption was taken out by 13 per cent of respondents' organisations, while the imposition of BCM requirements on suppliers was reported by only eight per cent of organisations (down from 12 per cent in 2002).

Community resilience

- For the first time, this year's survey posed questions about community resilience. Community resilience may be defined as:

“...the ability of a community to absorb the impact of a major disruption and continue to function at an acceptable level. ”

- Following the events of 11 September 2001 and the rising concern about international terrorism, there has been increased awareness of the need for communities to work together to deal with disruption as quickly as possible. Business Continuity professionals advise that commercial and voluntary organisations should work with local and national government and the emergency services to build resilience into the community.
- Encouragingly, a clear majority of managers, 57 per cent, said that their organisations considered community resilience to be important compared with only 14 per cent who did not. Interestingly, there was significant variation in these figures by size of organisation with smaller organisations generally regarding it as more important than larger organisations. Sixty-two per cent of organisations with an annual turnover of under £11 million considered it important, compared with only 48 per cent of those with a turnover of between £101 million and £500 million. This indicates that smaller organisations might feel more vulnerable to disruption in their localities.
- The respondents sent out a clear signal as to where the responsibility for developing community resilience lay. The overwhelming majority of managers considered this to be principally a governmental responsibility, rather than that of the commercial and voluntary sectors. In addition, they believed that responsibility should be devolved, with 46 per cent saying that local government should take the lead and 15 per cent saying that it should be the role of the emergency services. Only 16 per cent thought it should be led by central government.
- Organisations' awareness of community resilience activities in their localities is however very low, only 13 per cent of managers said that their organisations knew about them. This awareness drops lower still among managers in smaller organisations. Only six per cent of managers in organisations with turnover of under £11 million were aware of local community resilience activities, compared to 25 per cent in organisations with a turnover of over £500 million.
- A more encouraging picture emerges in relation to the level of commitment to participation in community resilience activities. Overall, over half of organisations said that they were either already committed (18 per cent) or would consider being so in the future (35 per cent), while only 20 per cent said that they were not committed. Significantly, nearly a quarter (23 per cent) of managers said that they did not know. This is a symptom of the low levels of awareness about this relatively new concept and suggests that more work is needed to raise its profile.

Conclusions

- The research findings show a considerable discrepancy between what organisations fear and plan for, and what *actually* happens to them. IT failure for example continues to be much planned for (and loss of skills and people remains a great deal less so), yet it is loss of skills and people that is causing significantly more business disruption.
- There is a high level of scepticism among managers about the degree to which the UK as a whole is prepared for the potential threat of terrorist activity. At the same time, the survey revealed that organisations have tended to react to threatened local or internal disruptions rather than taking a more strategic approach.
- A majority of managers either know that their organisation does not have a BCP in place, or are unaware of its existence. On the positive side, those BCPs that do exist are continuing to cover a wider range of potential business disruptions. However, the scope of BCM is limited even among the minority of organisations which have a BCP and rehearse it.
- Very few organisations practice high quality BCM as shown by BCP rehearsal, that involves the whole organisation, both in terms of its functions and personnel.
- It remains a concern that despite the limited nature of BCM in organisations, such a large number of managers think that no more than self-assessment is required in order to encourage best practice.

- It is also of some concern that the significant fall in the measures organisations have taken to protect themselves against supply chain failure suggests that the relative quiet of 2002 seems to have lulled organisations into a false sense of security.
- The survey findings show that managers clearly think that the development of ‘community resilience’ is the responsibility of governmental agencies, with a clear majority thinking it should be devolved to local bodies. Community resilience is a relatively immature management concept and discipline. There is clearly much to be done to raise levels of awareness about community resilience activities and to stimulate a desire among organisations to take part in its development.

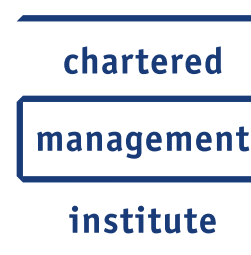
Recommendations

- The Chartered Management Institute and the Business Continuity Institute recommend that all organisations should have a BCP in place and practice good BCM. For further information about how to implement BCM visit the Business Continuity Institute website (www.thebci.org).
- We recommend that those organisations that currently have BCPs consider further ways of enhancing their effectiveness through regular, thorough and comprehensive rehearsals, internal and external communication, and evaluation.
- While noting that the trend continues to go in the right direction, we recommend that organisations further extend the scope of the scenarios covered by their BCPs. Organisations need to consider much more than IT when developing and rehearsing their BCPs.
- The Chartered Management Institute and the Business Continuity Institute welcome the moves within Company Law Reform to include company reporting on risk management. They urge organisations to pre-empt likely legislative developments in this area, and take decisive steps to introduce high quality BCM.
- We recommend that BCM is used throughout supply networks in the UK.
- We recommend that local and central government take the lead to promote the awareness and development of community resilience, particularly among SMEs. Further awareness raising action is needed by governmental bodies in order to build strong, coherent and well-understood community resilience across the UK.
- We note that recent developments in corporate governance, in particular the Turnbull Report, mean that risk management is now on the boardroom agenda. We urge that organisations in all sectors take note of this development and introduce and maintain high quality BCM in response.
- We note the recently published Higgs Report places greater responsibility on non-executive directors to ensure that their organisations are being managed prudently. We urge non-executive directors to promote well-developed BCM procedures that involve, and are owned by, the Board.

For more information contact:

The Public Affairs Department
 Chartered Management Institute
 2 Savoy Court, Strand, London WC2R 0EZ
 tel: 020 7421 2704 fax: 020 7497 0463
 email: research@managers.org.uk
 website: www.managers.org.uk

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