Economist.com BUSINESS

Business continuity planning

When lightning strikes

Oct 27th 2005
From The Economist print edition

How to maintain business as usual in unusual times

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Just a temporary upheaval

COMPANIES' contingency planning used to consist of little more than duplicating IT facilities in case their systems went down or the hardware in their basement was flooded. Today, however, firms are aware that they need to think about many more potential disruptions. Hardly a week goes by without a new threat. Last week, the government of New Zealand issued a pandemic planning guide for businesses, suggesting how firms should prepare for an outbreak of avian flu. Gartner, a large IT research firm, has advised companies to consider whether their systems could continue if up to 30% of their staff were to be absent from the workplace.

This week yet another hurricane swept across the southern states of America. Every time a Katrina, Rita or Wilma wreaks her havoc, firms around the world worry that a vital supplier may have been knocked out of their increasingly global supply chains. In a recent survey by Harris Interactive, a polling firm, and FM Global, an American property insurer, financial executives in Britain and North America said that the top threat to their revenues came not from terrorism or natural disasters directly, but from a breakdown in their supply chain.

The effect on Ericsson, a Swedish mobile-phone company, of a fire in a New Mexico chipmaking plant belonging to the Dutch firm Philips, has become a legend. The fire, in March 2000, started by a bolt of lightning, lasted less than 10 minutes, but it caused havoc to the super-clean environment that chipmaking requires. Ericsson, unable to find an alternative source of supply, went on to report a loss of over $2 billion in its mobile-phone division that year, a loss that left it as an also-ran in an industry where it had once been a leader. The lesson was not lost on other firms with far-flung global supply chains. General Motors, for example, now systematically tracks the geographic origin of all the bits that go into making its cars.

The growth of outsourcing has added to the complexity of the issue. Removing back-office business services to low-cost (and frequently more hazardous) locations leaves firms vulnerable to hard-to-monitor disruptions in those faraway places. Susir Kumar, chief executive of Intelenet, an Indian outsourcing firm that is 50% owned by Britain's Barclays Bank, says that Indian firms are in fact more diligent about continuity planning than firms in the West—partly because disruptions there are more frequent (so they get more practice), and partly because costs are so much lower they can afford to duplicate more facilities. Indian outsourcers say there was little consequence for their clients from the flooding in Mumbai in July.

Firms around the Gulf of Mexico also get plenty of practice at business continuity plans that kick in when the storms blow in. Companies such as Boeing, UPS and Wal-Mart, which have thousands of employees in and around Houston, for instance, were up and running again a couple of days after Hurricane Rita hit the city in September. NASA's flight controllers were away from their desks for six days, during which time control of the international space station passed seamlessly to colleagues in Moscow. Good planning can save both money and lives.

For businesses around the Gulf, property damage is the least of their worries. Relatively cheap techniques now minimise the damage: using top-quality roof fastenings, for example. The biggest challenge during this year's spate of hurricanes has been keeping in touch with employees forced to flee to new locations. Mobile phones proved unreliable as masts were blown down, and Boeing, Southwest Airlines and UPS are among those companies that have modified their procedures as a result, relying more on e-mails, hot lines and their own websites to keep in touch with distant employees.

While most big companies are continually refining their business continuity plans, many smaller firms are not. Recent research by AXA, a European insurer, found that 46% of small and medium-sized businesses in Britain do not have a business continuity plan of any sort, despite being alerted again to the risks of disruption by this summer's terrorist bombings in London. For some, the task is too daunting; the risks too universal. They prefer, says AXA's Douglas Barnett, to assume “they can deal with disruptions as and when they happen.”

In a book published this month (“The Resilient Enterprise” by Yossi Sheffi; MIT Press), the author, a professor of engineering systems at MIT, gives some guidance to firms that are shy of examining these risks. “Large-scale disruptions”, he says, “rarely take place without any warning ”. By carefully monitoring and analysing near-misses, the airline industry has avoided many a crash. Likewise, says Mr Sheffi, “learning from small incidents can help organisations correct the conditions that lead to accidents.” Lightning can strike twice in New Mexico.