SECTION 6:

Business Continuity Strategies

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In 2003, a University of Minnesota study of disasters reported that 80 percent of businesses that experience an extended disaster go out of business within five years. When the first edition of Before Disaster Strikes was published, business continuity planning was not the industry it has become today. Since that time, the importance of technology to real estate managers has moved beyond record keeping and word processing; it has become a gateway for connecting to colleagues, employees, tenants, vendors, and others.

The contemporary notion of business continuity planning began to develop in late 1970s, when professionals first identified the need to protect their data and mainframe computers. The next decade saw the rise of the disaster recovery profession—a subset of the industry built specifically around information technology and computer systems. However, it wasn’t until the 1990s that the term “business continuity” was coined, when it became clear that entire business enterprises—not just their data centers—needed the planning and protective services developed by disaster recovery experts.

Rooted in the complex world of computing systems, disaster recovery concepts and methods were historically not easily understood by many in the business world. A further level of complication arose in that continuity concepts were often shrouded in secrecy to protect sensitive data, leaving many with a feeling that the entire process of business continuity planning was just as secretive—difficult to understand.

Planning for business continuity means making sure that critical business functions, such as project management, system backups, change control, engineering services, and support will be available to necessary customers, suppliers, vendors, regulators, and others. Business continuity planning is not a series of actions to be implemented at the time of a disaster, but refers instead to those activities performed daily to maintain service, consistency,
and recoverability. The term *business continuity* describes a mentality or methodology of conducting day-to-day business, whereas *business continuity planning* is an activity determining what that methodology should be, and must be followed by everyone in an organization on a daily basis to ensure normal operations.

**WHAT IS BUSINESS CONTINUITY MANAGEMENT?**

Business continuity is an understanding of what might go wrong and having a plan in place to overcome it. It’s what real estate managers have long done for their properties, if not for their businesses. It goes beyond what has been done to prepare for fires and floods, winter storms, and power outages—business continuity management includes recovery and resumption of normal business operations with the ability to efficiently and effectively handle an insurance claim and reduce rent loss and business interruption costs.

Business continuity is about knowing that after a disaster strikes, the real estate manager has a responsibility to preserve and protect the property from further damage, and that they will have the knowledge of how to do it. It forms a complete package of preparing, responding, and recovering from an event that can disrupt regular operation—recognizing that it’s sometimes the smallest, simplest interruption that can be the most disruptive. Business continuity helps make sure your business will survive a disruption and recover in the most effective and efficient manner possible.

**ELEMENTS OF BUSINESS CONTINUITY PLANNING**

Traditionally, business continuity planning includes five core developmental processes: (1) risk assessment, (2) business impact analysis, (3) strategy development, (4) testing and exercising, and (5) maintenance and evaluation.

**Performing a Risk Assessment**

Risk assessment is the process whereby the potential for a disruption is assessed, whether that disruption occurs from loss of facilities, computer systems, loss of data, communications, or loss of key personnel.
Business Impact Analysis

Business impact analysis helps to identify which parts of a business can be affected by any of the risks identified by a risk assessment. While performing a business impact analysis, consider how those disruptions can affect revenue, market share, reputation, and productivity. In this phase, interdependencies between departments and external resources begin to become identifiable, allowing for the establishment of priorities for those business functions that are most critical to regular operations.

Strategy Development

Strategy development helps to identify strategies for reducing risks, mitigating impacts, and responding to disruption with an organized, teachable methodology. In this stage, consider and choose a strategy or methodology for recovering data and other systems for a return to normal operations.

Testing Systems

In the typical terms of business continuity planning, people and systems are tested. Both exercising and testing systems are critical to ensure the best chance of continuity. Testing systems can take a variety of forms from evacuation drills and tabletop exercises to checklist tests and simulations. Testing will provide feedback as to the efficacy of the plan. Any post-test evaluations will highlight gaps or shortcomings present in the existing plan.

Maintenance and Evaluation

Just as people need to be trained routinely, all parts of a continuity plan need to be regularly reviewed. Changes in personnel, upgrades in equipment, and changes in location all merit immediate attention in your plan. Prepare a schedule for routine maintenance or revision to the plan as well, just as routine maintenance might be done on a boiler system or emergency generator. The emergency procedures manual is a compilation of routine, tested action. Your business continuity plan should be established on the same grounds.
RISK ASSESSMENT

To ensure the continued operation of your business, begin with understanding the risks. Only by understanding the risks posed to a property or business can you create a comprehensive strategy for business continuity.

Real estate managers have long identified risks to their properties, whether in areas prone to earthquakes or hurricanes, or if their tenants’ operations use hazardous materials, etc. Business continuity takes the notion of risk further than loss of physical asset, and asks that the risks inherent to a business be examined as well. At the broadest level, begin with a consideration of previous disruptions or other disastrous events that have impacted your properties and business over time. This provides an obvious baseline—what is most likely to be experienced is based on historical data.

Next, consider threat sources, including natural, manmade, and technical disruptions. Section 4 of this book discusses a wide variety of natural and manmade disasters, but business continuity also looks deeply at the potential for technical failures—disruptions to data, communications, and utilities. Consider the following questions:

- Is your fee-based management company supported primarily by a single owner that might change?
- Are your residential tenants employed by a single large firm in the area that could move those jobs to another location or lose them altogether?
- Are your own systems and data protected with network backups and redundancies?
- In the event of a regional disaster, will your staff be able and/or willing to report to work?

Once risks are identified, consider how these events might impact critical operations or processes at our properties or businesses. Also, consider the impact on every part of your operation, from janitorial and maintenance functions to payroll and human resources, and from security to reporting requirements. How extensive could a disruption be? How long might the disruption might last? For example, take loss of power as a disruption that could impact almost every aspect of what you do every day.

BUSINESS IMPACT ANALYSIS

To fully appreciate the risks on your business, you must also identify the potential financial and intangible impacts of each risk exposure. What will
the financial consequences be on a daily, weekly, monthly, or annual basis? This information is generated by each of the critical functions or departments that could be impaired.

By looking at risk exposures, the impacts on business processes, and financial ramifications, you can get a perspective on the requisite hierarchy for mitigation response and recovery. A well-conceived analysis will highlight the most significant financial and intangible exposures, and lead to establishing maximum tolerable downtimes for the various facets of the business.

When calculating the costs to the business, you may use either a quantitative or qualitative analysis. In financial, quantitative terms, consider loss of rental income, sale, leasing, and ancillary income. Also calculate the costs of fixed expenses that will continue—even if the business or property cannot operate as usual. Additionally, consider extra expenses that may be incurred during the disruption, outside of normal operating costs. All of these expenses will impact corporate valuation.

Similarly, there are intangible, qualitative impacts. A business disaster may affect your brand or goodwill in the marketplace. This may produce loss of investor confidence, market share, or competitive edge. It may impair relationships with tenants, vendors, and suppliers. You may also lose employees who are essential to routine operations. Understanding the potential loss of value helps create a hierarchy for recovering or restoring property or business functions in a well-established order.

**RISK MANAGEMENT STRATEGIES**

Identifying risk is the first step in developing strategies to address them. Generally there are four primary approaches to risk management: (1) elimination, (2) reduction, (3) transfer, and (4) acceptance.

**Elimination**

What can you do as the real estate manager to eliminate possible risks? Are there cost effective steps to be taken? Replacing a worn electrical service entry line is an example.

**Reduction**

Can you make reasonable investments to reduce risk to an acceptable level? In a flood zone, for example, storing valuables above the first floor could be a solution.
Transfer

“Transfer” is the terminology used for insuring against a risk. The cost of your insurance policy, in effect, transfers risk to the insurance carrier.

Acceptance

There may be risks that can’t be mitigated, or for which the cost of mitigation outweighs the benefits. Imagine your building is located near a railway leading to a chemical plant. You may decide there are few cost effective alternatives to eliminate or reduce the exposure to a possible chemical spill. The risk is recognized, monitored, and accepted.