



# New York's Small and Medium Sized Businesses Are Not Prepared for Emergencies. *Why?*



A project of the Center for Catastrophe Preparedness & Response, the International Center for Enterprise Preparedness and the American Red Cross in Greater New York

## EXECUTIVE SUMMARY

While a majority of New York's small and medium sized businesses claim to be better prepared, only one quarter have a formal preparedness program in place and only four in ten have provided any preparedness information or training to their employees. Establishing a formal program and training and informing employees are core elements of business preparedness.

This report summarizes the findings of a New York City-wide survey that both assesses the state of preparedness of New York's small and medium sized businesses and identifies key reasons why they do and do not prepare for emergencies. Small and medium sized businesses surveyed cited risk to employees and business operations (69-percent), legal liability (51-percent), reputation (49-percent), and insurance requirements (37-percent) as major motivators to prepare.

Through analyzing these results, this report identifies a path forward to improving preparedness before and resiliency after emergencies among small and medium sized enterprises. This path includes the development and promotion of incentives to encourage businesses to better prepare for emergencies large and small.

## KEY FINDINGS AND RECOMMENDATIONS:

Based on a telephone survey of 200 small and medium sized businesses in New York, this analysis suggests:

### *Key Findings*

#### **Many businesses report taking general preparedness steps, but few are prepared for a major emergency**

- 85-percent of small and medium sized businesses report some preparedness activity
- 38-percent say they are very prepared for a hurricane
- 35-percent say they are very prepared for a wide-scale blackout
- 24-percent say they are very prepared for a disease pandemic
- Nearly 17-percent of businesses say they are very prepared for a major terrorist attack

#### **Most businesses lack formal preparedness programs**

- Just one-quarter of businesses surveyed have a formal, written emergency preparedness plan
- Just four in ten businesses report providing preparedness information and training to their employees

#### **Accessing information is critical to preparedness, with New York City agencies as the leading source of information for small and medium sized businesses**

- New York City's Office of Emergency Management is the leading identified source of emergency information among businesses surveyed

#### **Businesses that prepare see a financial rationale**

- Risk to employees and business operations, legal liability, risks to business reputation, regulatory requirements, and insurance requirements, are the main factors motivating businesses to prepare

### *Key Recommendations*

#### **Government and non-governmental organizations should:**

- **Encourage wider awareness of the existing business case for preparedness.**
- **Increase business awareness and accessibility of existing informational resources on business preparedness** such as the Ready New York and Ready.gov programs.
- **Increase availability of training and resources for businesses** to establish the necessary expertise to develop and implement preparedness programs.
- **Promote awareness of the National Preparedness Standard** which lists criteria for organizational preparedness programs and has been endorsed by the U.S. Department of Homeland Security and the 9/11 Commission.
- **Promote wider information sharing** regarding emergency preparedness, response and recovery between the public and private sectors.

#### **Businesses must:**

- **Increase both availability and implementation of general preparedness training for employees.**
- **Analyze their own case for preparedness and invest accordingly.** The hard facts of business survivability are a compelling rationale for investing time and effort in preparedness.

## INTRODUCTION

Business preparedness is a critical part of protecting the lives and livelihoods of millions of workers and business owners alike. Small and medium sized businesses employ half of the nation’s private sector workforce, and nearly half of the private sector workforce in New York City. These same businesses are often the most vulnerable to being permanently shuttered by a disaster. Federal experts estimate that 40-percent of all small businesses closed by a major disaster will never reopen<sup>1</sup>. These losses among local businesses impair the ability of afflicted communities to recover from disaster. The impact of future disasters on vulnerable cities and towns across the country can be significantly lessened if small and medium sized businesses are armed with preparedness and recovery programs.

To improve the preparedness of New York’s small and medium sized businesses, this study assesses the state of business preparedness of New York City and identifies key reasons why businesses do or do not prepare for disasters. The survey results suggest that financial concerns, such as legal liability, business reputation and insurance requirements, are the strongest factors motivating businesses to undertake emergency preparedness efforts.

Half of New York City businesses polled feel that they are better prepared today than they were a year ago, but much work remains. For example, while a majority of businesses surveyed say that they have some type of emergency preparedness program, most of these programs are incomplete. Only 23-percent of businesses surveyed have a formal written emergency program. Still, businesses heeding the call to preparedness appear to do so effectively, with most of the formal preparedness programs reflecting key elements of the National Preparedness Standard (NFPA 1600).

Based on these findings, this report proposes a path forward to improving business resiliency through key incentives that will encourage small and medium sized businesses to become better prepared.

### METHODOLOGY

This telephone survey of 200 small and medium sized businesses in New York City was conducted on behalf of CCPR and ARC/GNY by Princeton Survey Research Associates International between Mar. 13 and Apr. 17, 2006 and has a margin of error of plus or minus seven-percent.

### PREPAREDNESS SAVES:

The most prepared businesses are most likely to survive catastrophe. For example, New Orleans-area insurance brokerage firm owner Anderson Baker saw his facilities closed and 38 employees scattered by Hurricane Katrina in 2005. However, just five days after New Orleans flooded, Baker was back in business, operating out of a backup location in Baton Rouge equipped with phones, computers, Internet service and a backup generator. Baker told the *San Francisco Chronicle* that without the equipment, “we wouldn’t be able to communicate with our clients, we wouldn’t be able to deliver any services to them. This has meant the survival of our business<sup>2</sup>.”

## OVERALL PREPAREDNESS IS MIXED AMONG NEW YORK CITY BUSINESSES

### BUSINESSES HAVE UNDERTAKEN LIMITED EFFORTS BUT REMAIN WIDELY VULNERABLE TO MAJOR EMERGENCIES

While 85-percent of the businesses surveyed indicated that they have undertaken at least one initiative in preparedness, few businesses report themselves as “very prepared” for significant emergencies, such as hurricanes, pandemics and terrorism.

- **Only 38-percent of Businesses Report Themselves as Very Prepared for Hurricanes and Severe Weather:** Despite the widely reported impact of the Gulf hurricanes and reports of another severe hurricane season this year, only 38-percent of businesses report themselves as “very prepared” for a hurricane or severe blizzard. Twenty-nine percent report themselves as “somewhat prepared.”
- **Only About a Quarter of Businesses Report High Preparedness for a Pandemic:** 24-percent of businesses report that they are “very prepared” for a naturally occurring disease pandemic such as avian flu. Twenty-six percent report themselves as somewhat prepared with 43-percent reporting themselves as “not at all prepared” or “not too prepared.”
- **About a Third of Businesses Say They Are Very Prepared for a Broad-Scale Blackout:** With the August 2003 blackout nearly three years past, only 35-percent of businesses report themselves as “very prepared” for a widespread blackout with 37-percent reporting a level of “somewhat prepared.”

- **Minimal or No Preparedness for Terrorism Reported by Over Half of Businesses:** 54-percent of business report themselves as either “not at all prepared” (46-percent) or “not too prepared” (8-percent). Only 17-percent report themselves as “very prepared” with 23-percent reporting themselves as “somewhat prepared.”

### MANY BUSINESSES LACK AN EMERGENCY PREPAREDNESS PLAN

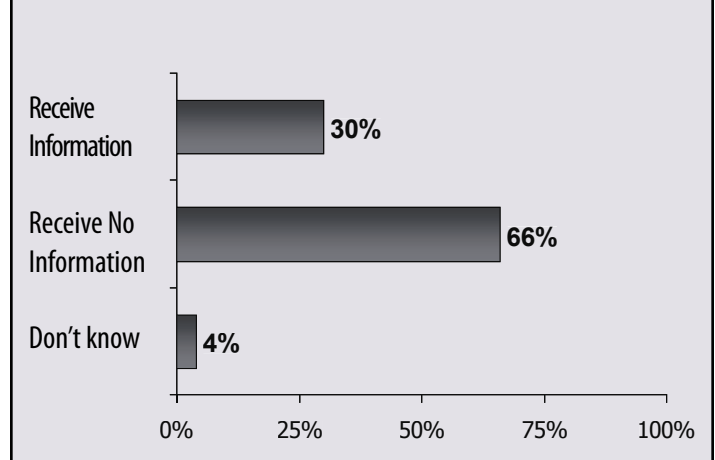
While the majority of small and medium sized businesses polled have undertaken preparedness efforts, only 23-percent of businesses have a formal, written program in place. Other businesses reported having an informal plan (30-percent) or are developing a program (11-percent).

Preparedness plans and programs are critical, since businesses with a program to ride out a disaster and quickly re-establish contact with employees, vendors and customers get back to business more quickly following a disaster. For small and medium sized businesses facing a large-scale disaster, a slow recovery can mean no recovery at all.

### MOST PREPARED BUSINESSES REFLECT KEY PREPAREDNESS GUIDELINES

The survey also indicates that the preparedness steps businesses do take appear to reflect the guidance of publicly available information offered through programs such as those of the New York City Office of Emergency Management. Businesses that report having emergency programs in place or in development are largely reflective of key industry guidelines, such as the National Preparedness Standard (NFPA 1600).

**FIGURE I: TWO-THIRDS OF BUSINESSES SAY THEY RECEIVE “NO” SECURITY OR EMERGENCY PREPAREDNESS INFORMATION**



Among respondents with emergency preparedness programs:

- 80-percent of programs include how the business will communicate with employees in an emergency situation
- 80-percent of programs include how the business will evacuate its facilities, including established evacuation routes and meeting places
- 75-percent say their plan includes how the business will respond to an emergency, especially in terms of protecting people, property and the environment
- 75-percent of programs include how the business will maintain its core operations during an emergency, including how to protect and recover data and systems
- 73-percent of programs include how the business will recover after an emergency to get back to business

There is mounting evidence that well-prepared businesses – and those that follow key guidelines – are more likely to survive a catastrophe. A leading insurance firm has found that investments in hazard mitigation can reduce disaster damage by 75-percent.

### SMALL AND MEDIUM SIZED BUSINESSES AFTER KATRINA

Even when businesses are aware of the risk they face from catastrophe, many may not do enough to prepare for recovery afterward. For example, the catastrophic threat posed by hurricanes in New Orleans has been widely publicized for decades. In the summer of 2005, hurricane forecasters gave New Orleans a three-day advance warning of Hurricane Katrina’s impending landfall near the city. Still, many business owners seem to have been caught unprepared. Of the 12,685 small businesses operating in Orleans parish, employing 245,000 people before Katrina made landfall, only an estimated 2,000 had reopened by May of 2006<sup>3</sup>. Research suggests that better business preparedness, including business interruption and flood insurance, formal recovery programs and – where possible – the establishment of backup facilities or alternate ways of doing business prior to Katrina’s landfall might have enabled the reopening of more of these businesses.

## LACK OF INFORMATION, RESOURCES AND EXPERTISE ARE MAJOR OBSTACLES TO BUSINESS PREPAREDNESS

A lack of information on “what” to do and “how” to do it prevents many companies from preparing for disaster. Of businesses that reported not having taken any steps to prepare for disaster, the major reasons cited were the lack of enough information on how to prepare (46-percent), the lack of financial and staff resources (41-percent), a lack of expertise on how to prepare (32-percent), and the absence of a strong “business reason” to prepare (26-percent). Businesses appear to be either unaware of existing business preparedness information or feel it is insufficient. Furthermore, businesses see themselves as lacking the know-how and resources to prepare.

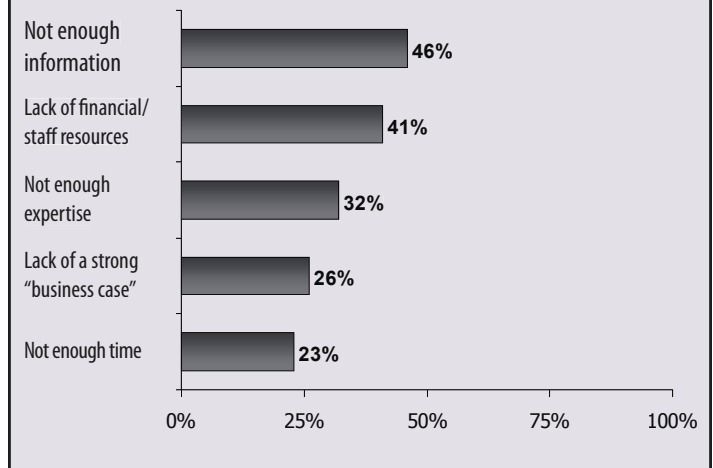
The business rationale for preparedness appears to be a strong factor in motivating preparedness, as discussed earlier. Those companies that undertook preparedness efforts cited a range of financial reasons, including risk to operations and legal liability, for doing so. However, 26-percent of businesses in the survey that did not prepare cited the lack of a strong “business reason” for preparedness. There is a clear differential between businesses that see a business rationale and do prepare and those that do not see a rationale and do not prepare.

These results suggest that businesses need a compelling reason as to why they should become better prepared. Once this rationale is made clear many businesses decide to become better prepared. Promoting public awareness of the business case for preparedness could provide a substantial increase in preparedness among this group of small and medium sized businesses.

## TWO-THIRDS OF BUSINESSES RECEIVE “NO” INFORMATION ABOUT SECURITY AND EMERGENCY PREPAREDNESS

Prior to a disaster, businesses need information on how to prepare. During a disaster, businesses need timely and accurate information to make decisions and respond effectively. Following a disaster, businesses need accurate information on how to locate and secure resources for recovery. When this information filters

FIGURE II: KEY REASONS BUSINESSES GIVE FOR NOT TAKING STEPS TO PREPARE FOR DISASTER



through the news media, it may arrive too late, conflict with other information, or be of insufficient detail to be actionable. A number of federal, state and local agencies offer programs providing security, emergency preparedness and situational awareness information to businesses. Utilization of these programs varies.

Two thirds of businesses surveyed report that they receive “no” information about security and emergency preparedness from any government agency or other organization. This finding underscores the earlier discussed finding that businesses identify the lack of information as a major obstacle to preparedness.

Of the one-third of New York businesses polled that do receive security and preparedness information, New York City’s Office of Emergency Management (OEM) is by far the most commonly identified information source, and the New York City Police Department is the second. Survey results indicate that businesses are more likely to receive information from the local or state level than from the federal government.

Emergency preparedness information is most often received by the business owner. According to the survey, the top recipients of emergency information within businesses include the business owner (33-percent) and the operations manager (15-percent).

Among those businesses that reported receiving emergency information, overall satisfaction with that information is high. Fully 88-percent of respondents say the security and emergency preparedness information they have received is useful in their preparedness

activities. Sixty-five percent say they receive just the right amount of information, while 12-percent say they receive too little information. Ten-percent of emergency information recipients polled say they receive too much information.

In sum, it would appear that while there are existing information-sharing programs that meet the needs of some businesses, the vast majority are either unaware of these programs or have not accessed them. Questions as to ease of access, appropriateness of content, format of information and delivery mechanisms are some of the factors which may play a role.

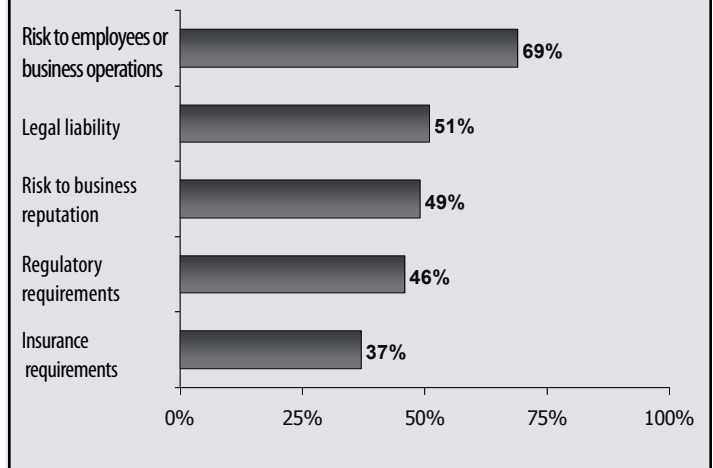
#### FOUR IN 10 EMPLOYEES RECEIVE PREPAREDNESS INFORMATION OR TRAINING AT WORK

Only four in 10 businesses polled have provided specific information or training to their employees on how to prepare for disasters or emergencies affecting their business. Asked to identify their preferred formats for preparedness information or training for their employees:

- 54-percent said they preferred detailed written information
- 49-percent said they preferred training employees through small class instruction
- 45-percent said they preferred information on video or DVD
- 44-percent said they preferred using drills to train employees
- 25-percent said they preferred web-based training
- 22-percent said they preferred interactive CD-ROMs

Fully 53-percent of businesses surveyed said they would be interested in receiving emergency preparedness training for their business. Twelve-percent said they were not very interested, and 29-percent report having no interest.

**FIGURE III: KEY REASONS BUSINESSES GIVE FOR TAKING STEPS TO PREPARE FOR DISASTER**



### WHY BUSINESSES PREPARE

Focusing on those businesses that have undertaken some preparedness efforts, the survey indicates that the key motivating factors leading to preparedness are the threat to business operations and employees and legal liability. Sixty-nine percent of those businesses polled that did prepare said that risks to their employees or business operations were the major reason they undertook preparedness actions. Legal liability was the second most commonly identified motivator, with 51-percent of respondents saying it was a major reason they prepared for disasters. Other major reasons include risks to business reputation (49-percent), regulatory requirements (46-percent), and insurance requirements (37-percent).

The survey suggests that businesses acknowledge employees as their most important asset along with core business processes and operations. Although human impact is generally the major concern in the aftermath of any crisis, the 9/11 experience of area businesses may have underscored the importance of risks to employees as well as their critical role in the operation of business post-crisis.

In this increasingly litigious society, lawsuits have followed recent crises ranging from the 9/11 attacks to the Gulf hurricanes, and as this survey suggests, businesses recognize potential further liability. The definition of what is “reasonably foreseeable” and therefore requiring preparedness efforts on the part of business appears to be expanding. For example, the federal courts have held that the World Trade Center attacks were reasonably foreseeable and have refused to dismiss suits brought

against the airlines involved and other parties<sup>4</sup>. Much of this litigation continues through the system. Such litigation has received exposure in the general media and may be a factor in the prominence of legal liability as a major concern for businesses.

With nearly half of responding organizations citing reputation risk as a rationale for preparedness, the survey suggests that businesses are concerned about the impact of crisis on their “brand.” History suggests that how a corporation prepares for and responds to a crisis can significantly impact its market reputation. Johnson & Johnson’s proactive response to the Tylenol product tampering incident in 1982 won it high marks in the arena of public opinion and subsequent market rewards. Arthur Anderson’s poor management, in 2002, of a single incident in a branch office in connection with the Enron scandal led to such a tarnish on its reputation that the entire global firm collapsed. It would appear that these lessons are not lost on small and medium sized businesses.

### ONE-THIRD OF BUSINESSES REPORT HAVING BUSINESS INTERRUPTION INSURANCE

Business interruption accounts for a significant portion of the dollar losses incurred from modern disasters. Both cash flow and profits can be halted or severely diminished during business recovery efforts. This impacts not only business owners but employees and suppliers as well. The City of New York estimated business interruption losses from the September 11 attacks at \$11-billion, out of some \$30-billion in total insured losses. Early estimates for insured losses from Hurricane Katrina range from \$35-billion to \$60-billion, with as much as 40-percent of the total resulting from business interruption.<sup>5</sup>

Small and medium sized businesses need insurance coverage to recoup at least part of the losses they will inevitably suffer for each day their doors are closed.

One-third of small and medium sized New York City businesses polled report that they carry business interruption insurance. Such insurance is often included as part of a package of insurance coverage offered to small and medium sized businesses. By comparison, 39-percent carry flood insurance. Strikingly, a full 31-percent of business respondents did not know whether or not they carried business interruption insurance, and 20-percent were uncertain

whether or not they carried flood insurance. While business interruption insurance covers only a portion of the total losses, such insurance can be crucial to providing needed capital to business owners during the recovery period following a disaster.

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## RECOMMENDATIONS: ADDRESSING THE “WHAT” AND “WHY” OF BUSINESS PREPAREDNESS

### ADDRESSING “WHAT” BUSINESSES SHOULD DO TO PREPARE

**Government and non-governmental organizations should:**

- **Increase business awareness and accessibility of existing informational resources on business preparedness** such as the Ready New York and Ready.gov programs. This addresses the finding that 45-percent of those businesses that are not prepared cite the lack of information as the major reason. Additional resources should be committed to these and similar initiatives. In addition to online resources, the Ready New York program includes a free two-hour event dedicated to preparing individuals and families for emergencies. New York City attendees have access to information booths staffed by emergency experts from such agencies as the New York City Fire Department, New York City Police Department, New York City OEM and the American Red Cross in Greater New York, where they can receive answers to specific questions. Participants receive an interactive CD that can be used to create a customized evacuation plan and other tools that will help any family get prepared along with information from the Red Cross and OEM.
- **Promote awareness of the National Preparedness Standard**, which provides basic criteria for organizational preparedness programs and has been endorsed by the U.S. Department of Homeland Security and the National Commission on Terrorist Attacks Upon the United States (the 9/11 Commission). This addresses both the lack of information cited above as well as more specifically the finding that only 23-percent of businesses surveyed

have a formal emergency program in place.

- **Promote wider information sharing** regarding emergency preparedness, response and recovery between the public and private sectors. Only one-third of New York businesses polled indicate that they receive security and preparedness information. Timely, accurate and actionable information is critical to effective preparedness, response and recovery.

**Government and educational institutions must:**

- **Increase availability of training and resources for businesses** to establish the necessary expertise to develop and implement preparedness programs. This recommendation addresses the survey finding that 32-percent of those businesses that have not prepared cite the lack of expertise on how to prepare.

**Businesses must:**

- **Increase both availability and implementation of general preparedness training for employees.** This recommendation addresses the finding that only four out of 10 employees have received preparedness information or training at work and that 53-percent of businesses surveyed say that they are interested in receiving emergency preparedness training.

ADDRESSING “WHY” BUSINESSES SHOULD PREPARE

**Government and non-governmental organizations should:**

- **Develop wider awareness of the existing business case for preparedness.** This acknowledges the finding that those businesses that have undertaken preparedness efforts have done so primarily due to basic business rationale: risk to business operations and employees (69-percent), legal liability (51-percent), reputation risk (49-percent) and insurance requirements (37-percent). Yet of those businesses that have not prepared, 26-percent cite a lack of a strong “business reason.” Furthermore, 41-percent cite a lack of financial and staff resources which arguably indicates a lack of willingness to invest in the same due to lack of a compelling business rationale.
- **Expand existing incentives for businesses to prepare,** building upon the most compelling

reasons cited by the responding businesses: risks related to business operations, employees, legal liability and insurance requirements. All avenues should be investigated to motivate the private sector in this regard.

**Businesses should:**

- **Investigate the business case for preparedness and invest accordingly.** The hard facts of business survivability are a compelling rationale for investing time and effort in preparedness.

RELATED ACTIVITIES

- **The American Red Cross in Greater New York** plans to develop a special brochure and section of its website dedicated to business preparedness.
- **The American Red Cross in Greater New York** will continue to expand its communications with companies of all sizes to engage them and their employees in emergency preparedness programs. This will include offering the preparedness programs and tailoring other preparedness initiatives to address specific company and employee requirements.
- **The International Center for Enterprise Preparedness (InterCEP),** a project of NYU’s Center for Catastrophe Preparedness and Response, continues its research efforts on expanding and promoting the business case (and related incentives) for preparedness and more effective public-private information flow.

## ENDNOTES

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### THE INTERNATIONAL CENTER FOR ENTERPRISE PREPAREDNESS (INTERCEP)

Analysis of survey results were accomplished in conjunction with InterCEP, the world's first academic center dedicated to private sector emergency preparedness, response and recovery. InterCEP is a funded program of the University-wide Center for Catastrophe Preparedness and Response at New York University.