



Adopting standards: A proven way to optimize risk and enhance competitive advantage

Life as a business leader today is demanding. Organizations face greater complexity than ever before.

To quantify the challenge, the Boston Consulting Group created a Complexity Index. They estimated that in 1955, American and European companies focused on between four and seven performance requirements. Today, complexity has expanded considerably and Western firms now strive to meet at least five times that number of requirements. Not only do organizations like yours face many more demands, but many of the performance requirements also present conflicting goals. For instance, you may be striving to:

- deliver high quality products at a low price;
- achieve global scale while retaining local knowledge; or
- guarantee fast and reliable supply of quality products.

As complexity grows, so does risk and sophistication. Many organizations and governments across the globe look to adopting standards. These modern standards provide frameworks that drive strong governance, leadership, process commitment, and robust system design practices. In addition, they support a continuous improvement culture and foster your people development along the way. They deliver evidence points internally and externally that they are operating to a high level required of the market and best practices.

The motivations for organizations also differ. Some organizations view standards compliance as necessary overhead to satisfy regulations. Others view standards compliance as a necessary qualification to compete for business in your industry. Both are very real and legitimate commercial drivers associated with certification to standards.

Other organizations take a more progressive view of certification to standards. They recognize that standards are more than just a checkbox to please regulators or request for proposal reviewers. **Rather than an organizational burden, standards become tools that enable business leaders to view risk in entirely new ways.**

Standards compliance can support a risk-based-thinking culture that promotes 'whole organization' involvement and commitment, continuous improvement, competitive advantage, and greater efficiency.

STANDARDS: THE BASICS

The adoption of standards offers a practical and internationally-recognized mechanism to optimize organizational performance, as well as drive capability and optimal process design that equips the business to optimize all situations that carry risk.

STANDARDS CAN BE CLASSIFIED BASED ON VARIOUS CRITERIA:

- **Formats.** Standards may take the form of a specification, code of practice, guide, or method. For example, new buildings may need to meet construction specifications to ensure safety or environmental compliance. Alternatively, professionals may have a code of practice that helps them conform to their industry's standards for deliverables or ethical behavior.
- **Geographic Scope.** Standards apply to different geographic areas. Some are international in nature, such as the International Organization for Standardization (ISO) standards. Others are national or regional in scope.
- **Voluntary or Mandatory.** Voluntary standards may also be called industry standards. They articulate best practices that improve the quality of products, services, or processes. While they are recommended, adoption is not required. However, compliance with mandatory standards is required to sell products or services. These standards may be imposed by industry regulators or governmental agencies.

Many of today's standards focus on the holistic elements that are needed in an organization to support a culture of continuous improvement and risk-based thinking. They promote the journey to build capability and a process based organism that implicitly can recognize and deal with risk dynamically and produce optimal outcomes. These elements include governance, leadership, training, competency, processes, documentation, monitoring, reporting and more.

It's worth also recognizing the evolution that a world leader in standards design, ISO, has experienced. This organization has shifted the ethos of standard adoption from the generalized 'bottom-up', document-driven measurement of a quality system to a modern holistic perspective. ISO's new approach to standard adoption requires elements such as governance, leadership, clear roles and responsibilities, holistic process design, measurement and reporting. ISO looks for outcomes by way of evidence, not necessarily through documentation alone. This represents a considerable step forward in recognizing quality is a 'whole-organization' responsibility. Failures can occur anywhere and it's essential to link leadership with the critical success factors.

EXAMPLES OF STANDARDS

CORPORATE STANDARD

Supermarket supply chain standards often go above and beyond typical requirements and are designed to reflect a company's commitment to consumer quality product experiences. U.S.-based Lucky Supermarkets, for instance, has implemented policies around supply chain transparency that support the eradication of human trafficking.

INTERNATIONAL STANDARD

ISO 9001:2015. This International Organization for Standardization standard establishes criteria for quality management systems. It can be used by organizations of any size and in any industry.

REGIONAL STANDARD

EN 50581:2012. This European Union standard relates to technical documentation for the assessment of electrical and electronic products with respect to the restriction of hazardous substances.

INDUSTRY STANDARD

API Std 1104. This American Petroleum Institute standard relates to the welding of pipelines and related facilities.

INCORPORATING STANDARDS INTO RISK MANAGEMENT PRACTICES

Savvy companies use standards as a way to optimize risk, improve business performance, and cultivate a culture focused on risk-based-thinking.

Use standard certification to transform risk into a market differentiator

Use standard certification to manage exposure to risk

Pursue minimal standard certification to meet obligatory regulatory and/or customer requirements

When it comes to standards, companies usually fall somewhere along the continuum above. Organizations on the left view standards as a means to meet obligatory business requirements. Those on the right, however, use standards as a way to optimize responses to risk, improve business performance, and cultivate a culture focused on risk-based-thinking. A vital first step is understanding your organization's current position along this continuum, and setting realistic goals that support a stepped progression. It's also important to appreciate that all organizations are at different stages in this evolution. There is no relationship to size, category/industry – all successful organizations go through this.

An important element of your risk management system is responding to risks in ways that strengthen the organization's market position compared to competitors. Standards provide practical tools to accomplish this goal. However, standards compliance alone will not necessarily achieve that objective. Compliance must be incorporated into a broader culture of risk management. The expression is never truer for certification to standards. In the end, it's the journey that provides the real gold rather than the final achievement alone. Organizations that embrace a risk-based culture typically have:

- leaders who understand the need for risk management and the role standards play;
- a "process is king" ethos that brings rigor to company operations;
- people, people, people – who are equipped and enabled; and
- systems, including software, that help automate risk management.

In this type of environment, standards compliance becomes a tool to support modern managers and leaders, rather than onerous overhead. The solution is implicit in the way the business operates; it's not a separate 'compliance obligation'. To incorporate standards compliance into risk management practices, organizations must understand and consider the following issues:

- **Standards change over time.** As markets, products, and industries evolve, standards must also be modified to keep up with those changes. This means that organizations must stay abreast of the way standards are changing to keep to 'best-practice'. Part of the risk management framework should include ongoing monitoring of relevant standards and processes so company operations can be updated to remain consistent with updates.
- **Standards certification.** Some standards provide certification, if an organization can demonstrate that they are compliant with the standard. Certification can be a true competitive differentiator and valuable marketing tool. However, it also is typically a rigorous process.
- **Maintaining certification.** Once an organization achieves certification on a standard, it must ensure that it maintains that certification as time passes and standards change. The risk management framework must include processes for ensuring that certifications don't lapse. Without such processes, expired standards certifications can present reputational and business risks to an organization.

STRENGTHENING COMPETITIVE ADVANTAGE WITH STANDARDS

As noted above, standards certification can be a competitive differentiator. This is true for companies of all sizes, industries, and geographies. Since standards compliance is an involved process, it requires a significant investment of time and energy. Below are seven benefits of standards certification:

- **Attention to quality standards** is a powerful way to build trust. Standards certification demonstrates to shareholders and stakeholders that suitable processes are in place and that managers are adhering to them.
- **International standards promote global trade.** Companies that comply with international standards often find that it's easier to sell products and services across trade borders. This can be a source of competitive advantage, as organizations strive to enter new markets and enable evidence of consistency that can be experienced across various global regions to a standard framework, measured constantly.
- **Standards help small companies compete with larger firms.** Scalable processes are essential when small and medium-sized firms are going head-to-head with larger competitors. Compliance with process-related standards can help firms boost their productivity. By demonstrating benchmark to an independent standard, smaller organizations communicate they hold the same levels of internal processes and scrutiny applied by larger competitors
- **Production-oriented standards lower costs.** By minimizing errors, organizations reduce costs and increase productivity. At the same time, they create higher quality products. They also provide much needed confidence and transparency to management (particularly in large and or multinational organizations) where it is challenging to maintain visibility across adherence to performance standards in all areas. Standards certification requires these are met and measured frequently.

- **Safety standards increase brand trust and customer satisfaction.** Customers have greater peace of mind when using products that conform to safety standards. A commitment to product safety is a proven way for companies to build or maintain trust with consumers. Ethically responsible companies enjoy higher profits and levels of customer satisfaction – 83% of surveyed consumers worldwide agreed that ethical behavior from a company is a trust-builder.
- **Compliance with standards increases confidence for shareholders and stakeholders.** Standards certification provides evidence that an organization adheres to the international benchmarks expected in their market. It also demonstrates that the organization takes risk management seriously.

OPERATIONAL EFFICIENCY THROUGH STANDARDIZED TECHNOLOGY

Throughout most of its history, Southwest Airlines has only flown Boeing 737 jets. By standardizing on one type of plane, the company has reduced costs in several different ways. Mechanics only must be trained to maintain one type of aircraft, crews can fly any plane in Southwest's fleet, and the SKUs in the company's spare parts inventory is minimized since repairs are always made to the same type of jet. When airlines use a single type of plane, they also benefit at purchase time from manufacturer bulk discounts. All of these factors support Southwest's value proposition of low-cost air travel.

Adapted from:

"The Secrets of Southwest's continued success" (<https://www.economist.com/blogs/gulliver/2012/06/southwest-airlines>)
Southwest Corporate Fact Sheet (<https://www.swamedia.com/channels/Corporate-Fact-Sheet/pages/corporate-fact-sheet>)

THE VALUE OF STANDARDS ADOPTION

ISO conducted a study to quantify the value of standards adoption. This included case studies that showed a contribution to gross profit ranging from 0.15% to 5% and, in one case, as much as 33%. The three key benefits associated with standards adoption include: (1) streamlined internal operations; (2) innovation and scaling up operations; and (3) creating or entering new markets.

(Source: ISO, Economic Benefits of Standards (2014))

- **Standardized technology or systems lead to greater organizational agility.** Adopting standardized systems and off-the-shelf technology translates into faster time to market, since organizations don't have to invest as heavily in R&D. In addition, standardized IT systems give companies the freedom, flexibility, and agility to make changes faster in response to competitive pressures.





REALIZING YOUR POTENTIAL – TAKE THE NEXT STEP

Standards can be more than just a 'check box' for organizations – it all depends on where you are as an organization and what you want to achieve. You may be seeking ways to deal with complexity, promote continuous improvement, or build competitive advantage in the marketplace. Incorporating and embracing standards to build a risk-based-thinking culture can help with all these challenges, and produce the somewhat elusive 'transformational' tangible and visible results sought by organizations.

For a comprehensive guide on this topic, download the white paper, *The Value of Standards for Business*.

About SAI Global

At SAI Global, we help organizations proactively manage risk to achieve business excellence, growth, sustainability and ultimately, create trust.

Our integrated risk management solutions are a combination of world-class tech platforms, services and advisory capabilities that operate across the entire lifecycle allowing businesses to focus on opportunities presented by uncertainty. Together, these tools and knowledge enable customers to develop a

holistic, integrated view of risk. In Australia, we are also a leading provider of settlement-related services; company, personal and property information.

SAI Global's head office is located in Chicago, Illinois. We employ more than 2,000 people across 28 countries and 51 locations across Europe, the Middle East, Africa, the Americas, Asia and the Pacific.

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