

— BUSINESS ASSURANCE: SETTING THE AGENDA FOR CHANGE

A RESEARCH REPORT FROM LRQA



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METHODOLOGY

METHODOLOGY

The report is based on extended interviews by ICM Research conducted with 350 directors and senior managers that have managerial control or input into the way management systems are used. Fifty interviews were conducted in each of seven national markets; the USA, Netherlands, France, Spain, the UK, Japan and China.

All companies had more than 1000 employees and were certified to at least one international management system standard in areas such as quality, health and safety or environment.

The research was conducted in August 2006.

LRQA

LRQA is a leading business assurance company providing verification, certification and training services to a wide range of organisations around the world. LRQA helps clients use management systems to reduce their risks and improve their business. LRQA is a member of the Lloyd's Register Group.

The Lloyd's Register Group is an independent risk management organization that works to help improve its clients' quality, safety, environmental and business performance throughout the world, because life matters. Its expertise and activities cover railways, shipping, oil and gas, and other asset-based industries.

Based on the outcomes of this research, in November 2006, LRQA decided to fund a collaborative knowledge portal for the entire management systems industry.

This new project, to build a global management systems community, will evolve throughout 2007 and beyond.

It is located at www.businessassurance.com

AN INTERNATIONAL, SENIOR MANAGEMENT PERSPECTIVE ON MANAGEMENT SYSTEMS

by **Professor Andrew P. Kakabadse**

Professor of International Management, Cranfield School of Management

FOREWORD

I'm delighted to introduce *Setting the Agenda for Change*, an international research report from LRQA, the management systems assessment arm of Lloyd's Register. The report makes a critical contribution to both academic and professional knowledge of management systems as they operate internationally.

This research, which is based on 350 in-depth interviews with international directors and senior managers that have managerial control or input to the use of management systems, shows conclusively that senior management believes in the power of management systems. The report firmly establishes the senior management agenda to improve the effectiveness and accountability of management systems. It's now for individual system managers to respond to the strategic agenda of these senior managers and to deliver on their high expectations.

The research will undoubtedly help global business leaders fine-tune their approach to the challenges of systematic management. It will also make valuable reading for anyone who has day-to-day responsibility for co-ordinating business partnerships across borders. Finally, it will help managers with responsibility for management systems design and development to identify the priorities and pitfalls of moving to a strategic application of management systems.

The emergence of management systems

Management systems are the theoretical designs and actual practices by which organisations manage their operational effectiveness and efficiency. Ever since management systems emerged in the form of simple quality control processes more than 60 years ago, both the systems and the standards that support them have gradually crept into every corner of our lives. But the past two decades with their accelerated globalisation have seen the most rapid proliferation of systems.

Because neither blunt regulation nor remote market forces can be relied on to trigger specific responses to socio-economic pressures inside corporations, a 'third way' of accountability has emerged to help align organisational capabilities to stakeholder needs. This third way is the standardised management system.

Over this period, management systems have established themselves as key tools by which managers change behaviour - not just across their own organisation, but right across their supply-chain networks, and ultimately within the economic and social fabric of which they form a part. Indeed, as this social role of a company has been redefined, so management systems have come to embrace governance, environmental impact, and even the social contribution of organisations.

Management systems can reduce not only *internal organisational* friction caused by, for example, inefficient resource allocation or

variability within production processes, but also *external market* friction caused by supplier mistrust, inefficient responses to risk, and duplication of processes within supply-chains, among other reasons.

When the need for internal improvement coincides with a need for external acceptance, in the interests of international trade, management systems are at their most powerful. It's not for nothing that China now leads the world with its near exponential adoption of management systems standards - not just in quality (ISO9000), but also in environmental systems (ISO14000). Who's to say that it won't ultimately embrace social and governance processes with similar fervour in due course? We may well see a day when China out-competes the West on ethics, as well as productivity.

Where next?

Given their proliferation, it's only fair to ask just how well management systems are working, and what their future might be. *Setting the Agenda for Change* marks a key moment in the reappraisal of management systems, not merely as an operational control system, or a mode of legal compliance, but as a strategic business discipline in their own right - aligning the financial interests of shareholders with the wider concerns of all other stakeholders.

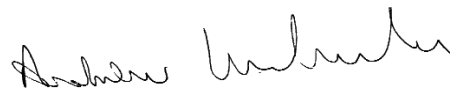
LRQA's Ian Hodgskinson, in his introduction to the research, identifies the key lessons that emerge for the management systems industry overall. The ten items on his agenda clearly spell out the critical challenges for all systems managers and should be on any board agenda.

But from an academic perspective, as someone with a wide lens on international management trends, it's the distinctive approaches and attitudes that emerge here between different countries that intrigue, reflecting not only the maturity levels of management systems adoption, but also the vital factors of geopolitics and management culture.

There's no room for complacency around management systems effectiveness. Professionals from around the world should look to swap insights and experiences - to see how others are using their systems to gain competitive advantage.

With this report, LRQA has identified a need for much deeper systems integration internally, for wider systems-sharing externally, and for improved best practice-sharing around the critical issues of business impact measurement and risk management.

Smart organisations would do well to step up to LRQA's agenda for change.



Professor Andrew Kakabadse

SEIZING THE INITIATIVE: LESSONS FOR MANAGEMENT SYSTEMS PROFESSIONALS

By Ian Hodgkinson
Managing Director, LRQA

THE BUSINESS ASSURANCE AGENDA FOR CHANGE

The *Setting the Agenda for Change* report challenges management systems professionals to play a more strategic role within their organisations, and to embrace their wider role as enablers of organisational change.

The research challenges all senior managers to better understand the potential of their management systems, in order to reap the risk management and business performance benefits already being experienced by some respondents. By delivering real stakeholder value, management systems can also provide increased value for shareholders. What's clear from this research, though, is that far from being mature, management systems are only just beginning to realise their full potential as a tool of organisational management.

The potential has scarcely been explored.

- In some organisations, integration is proceeding apace.
- In some organisations, reporting practice is driven by a rigorous analytical process.
- In some organisations, assessment is a tool for strategic learning.
- Some organisations are actively disseminating their systems expertise among their partners.
- Some organisations are beginning to measure their systems effectiveness.
- Some organisations place a high value on their management systems professionals.

As assessors of global management systems, LRQA would recommend that all organisations should be adopting these practices.

Based on the findings of this research, we've set out below our view of what this change should look like for our industry in ten years' time, in the ten areas we addressed.

We recommend:

1. That systems develop away from a narrow focus on the recipients of the services, to a broader range of interests of all stakeholders, and particularly those holding a financial stake.
 - *80% of senior managers strongly perceive the main purpose of the system to be that traditionally held: customer satisfaction and product quality.*
2. That management systems data actively contributes to the internal governance of organisations - ensuring that strategy is carried through to action, and that values and principles are upheld in operations day-by-day.
 - *More than 80% of managers believe systems improve environmental and social performance, but only 25% see clear links with governance and protection of shareholder value.*
3. That ALL leading organisations adopt a materiality process, which means they report to stakeholders on their real risks, with real data fed directly from their management systems.
 - *While 80% believe their non-financial information is accurate, only 33% of managers think it is targeted on current risks to the business.*
4. That ALL senior managers see management systems as a key corporate asset, and that they actively seek to share their understanding with their business partners.
 - *66% of senior managers currently see their management systems as a key corporate asset, but of these 60% don't then require their suppliers and partners to adopt these systems.*

5. That as business and supply-chains expand on a global basis, management systems are trusted as an indicator of reliability for contractual arrangements, including mergers and acquisitions.

- *At present, 41% of senior managers distrust the quality of assurance in emerging markets, yet 70% rely on this assurance when selecting their partners.*

6. That the performance of management systems is evaluated for its contribution to risk reduction and business impact.

- *While up to 88% of senior managers want to use systems to reduce business risks, only 55% believe they can actually measure their business impact.*

7. That management systems are employed to manage a broad range of strategic management imperatives and that management systems integration drives business process improvement.

- *Fully 66% of senior managers say they're already pursuing management systems integration.*

8. That ALL management system assessments become a genuine way of providing business assurance, helping organisations to look both forwards (identifying areas of future improvement) and backwards (validating the impact of past improvements).

- *Today, 73% of senior managers say they expect assessments to focus on business issues and to evaluate the effectiveness of actions taken.*

9. That every CEO understands the value of the management system in delivering sustainable business, and invests time and energy in making sure systems receive both financial investment and personal commitment.

- *Nine in ten (89%) senior managers believe that the support of leadership makes employees more likely to adhere to a system.*

10. That management systems professionals are highly regarded by their organisation as a result of the input they provide to strategic planning.

- *Just half (52%) of senior managers believe that systems professionals are currently highly valued by their organisation.*

These ten agenda items should be the natural consequence of senior management understanding more about management systems. But this understanding will only come about if management systems professionals deliver tangible results for the business - reducing risk by integrating and sharing disparate management systems; better connecting them to core financial and HR systems; and improving their evaluation and reporting.

And while more change is required, there's no doubt it's already underway. It's only by sharing our experiences and expertise as an industry that we'll build organisations that are truly fit for tomorrow's ever more demanding world.

This research shows up key differences between countries across the world - raising the obvious question of what can be learned from international co-operation.

As Professor Andrew Kakabadse points out in his foreword, our most pressing challenge now is to promote and propel this shared learning across departments, organisations and nations.



Ian Hodgskinson

SETTING THE AGENDA FOR CHANGE

THE FINDINGS

MOTIVATION TO IMPROVE MANAGEMENT SYSTEMS

Overview

The research sought to establish, first and foremost, what organisations are actually expecting to achieve when they invest in management systems. What are their motivations? Only by understanding their expectations can we begin to make judgements about systems performance.

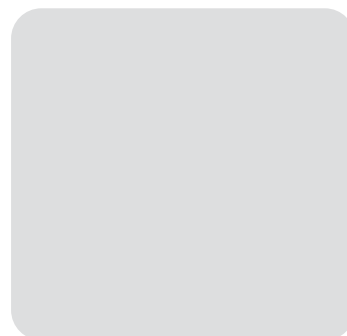
In the eyes of our respondents, management systems have moved beyond their historic remit as quality control and compliance tools to become a core part of the way organisations engage with the outside world. The primary reason among senior management for investing in management systems, with 82% agreement, is to improve customer satisfaction. The other outward-looking factor that scores highly on their radar is reputation (77%), reflecting an organisation's increasing dependence on stakeholder goodwill to maintain its licence to operate.

These external, outcome-based measures rival or exceed the traditional motivation of 'improving quality' (77%) - one that might be assumed to be the focus of many systems. This gives strong reassurance that senior managers are looking at management systems as a core part of the business improvement arsenal.

This doesn't mean the focus has shifted entirely to the external. Looking at the internal agenda, risk and control-based motivations continue to score highly, as might be expected. Addressing regulatory risks, the traditional compliance agenda, is mentioned by 76%, and cost reduction, a promised outcome that's clear and explicit in environmental systems, for example, is the focus of 71%.

Taking the findings at face value, management systems are not yet seen as an engine of growth. Just 48% of respondents see systems as a tool to gain access to markets - whether geographic or sectoral - and just 33% see them as a tool to shorten time to market for new products. This may signal a missed opportunity for those organisations who aren't applying systematic management approaches to their 'market-facing' processes.

The consequence of this restricted view is that only a narrow majority of participants (60%) say they're investing in order to create value for shareholders. This is perhaps the greatest challenge facing management systems professionals: to carefully build senior management's expectation and understanding of systems' contribution to shareholder value.



International Dimension

Motivations offer an intriguing insight into corporate culture. Some significant differences arise when comparing different countries.

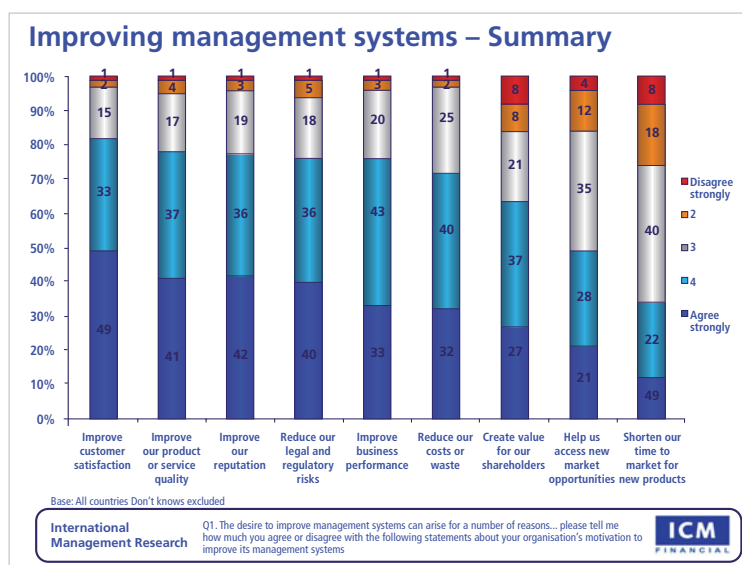
China is most focused on customer satisfaction, with 90% of respondents saying this is a motivation for management systems investment, closely followed by France, with 88%. The Dutch and the Japanese trail in this category, with 72% each, although the lag is relative. In the Dutch case, this figure still represents their highest priority category.

Further reinforcing the external-facing motivations of emerging markets, the Chinese are also most concerned to maximise their reputation, with 92% agreeing this is a priority. But US and Spanish companies are close behind, with 86% and 82% respectively. The Netherlands and the UK are least motivated by reputation, with just 64% and 66% agreement respectively. This is perhaps merely a pragmatic reflection that the differentiation value of certified standards is reduced in mature management systems markets.

Turning to the market-facing motivations throws up the widest disparities. Fully 76% of Chinese companies are motivated by 'access to new markets', followed by 64% of Spanish. Only 28% of UK companies think like this, and 32% of Dutch.

In a similar vein, speeding up time to market meets with some scepticism across all countries. The Japanese see systems most sceptically in this light, with just 10% believing systems can help here in product innovation. By contrast, 64% of Chinese do see management systems having a role to play in product pipeline acceleration.

Finally, shareholder value is a significant motivation for management systems investment in the US, Spain and China (all between 72% and 74%), but much less so in France, the Netherlands and the UK (between 44% and 50%). This may reflect a dominant cultural mindset and market maturity, rather than the role of management systems per se. Nevertheless, the Northern European nations might pause to consider whether their systems should be more explicitly aligned to shareholder interests.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

THE SOCIAL ROLE OF SYSTEMS

Overview

When considering the effectiveness of management systems, it's critical not just to understand the internal business agenda, but also to reflect on the impact the systems have on stakeholders. The research sought to understand whether systems managers have confidence in these external dimensions of systems effectiveness.

Environmental systems and social management systems like health and safety and labour standards are both seen to be working by those who are responsible for them. 82% of respondents agree that environmental systems are reducing environmental damage, and 79% agree that social systems are improving the lives of workers.

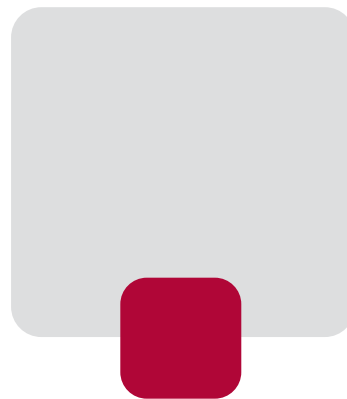
There's a surprising degree of vehemence in these opinions, with 48% agreeing strongly that environmental systems work, and 40% agreeing strongly that health and safety systems and labour standards work effectively for the benefit of employees. This seems to imply that management are highly engaged and committed to the performance of these systems.

However, respondents are far less convinced about the existing measures in place to improve governance, with just 53% believing that existing governance systems like non-executive boards and policies actually protect shareholders' interests.

It's in this area of 'operational' governance, not merely the rules of the boardroom, that management systems can make the greatest future contribution and truly embed themselves in the fabric of the organisation - a territory that is largely unexplored today.

By making sure that values and principles are operationalised consistently, and that discrepancies on the ground are brought to light and addressed in policy, management systems could make a dramatic difference to shareholder accountability, and value.

This possibility, of dynamic governance, rather than static rule-based governance, is an area that management systems professionals could viably own from now on, and it would make a major contribution to corporate life.



“Just 53% believe that existing governance systems like non-executive boards and policies actually protect shareholders' interests”

International Dimension

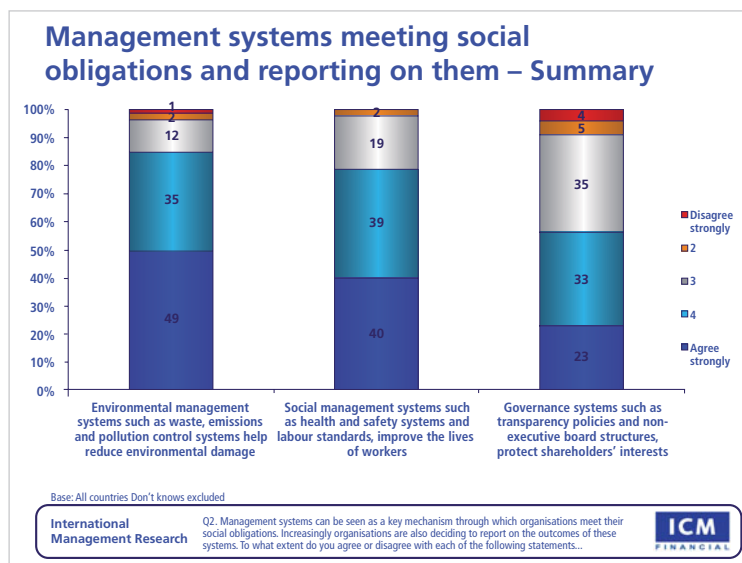
There's a high level of agreement across all nations that systems are working, when it comes to systems performance in these non-economic categories. Nevertheless, some national biases still emerge.

When assessing the effectiveness of environmental systems, the Japanese are vociferous: 96% of Japanese management believe environmental systems help reduce environmental damage. Chinese management (90%) and Spanish (88%) are the next most convinced, while the Dutch are the most sceptical, though still overwhelmingly positive (64%).

There's even less variation around the effectiveness of social management systems. The Spanish and Chinese are most likely to agree that these systems work, both at an 88% agreement level, and the UK is not far behind on 84%. But the Japanese score drops sharply here to 68% - the most sceptical score.

Finally, when it comes to governance concerns, the Northern European markets tend to be less convinced by existing standards than others.

Just 38% of UK respondents think governance systems are working in the interests of shareholders, and just 42% of Dutch and 48% of French respondents think governance is working. These low figures are responsible for dragging the average score down to the 53% level, as all other markets lie between 60% and 64%.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

THE QUALITY OF REPORTING

Overview

Communicating the outcomes of operational systems to the stakeholders who care about them is a critical part of the organisational learning loop. Non-financial reporting informs both internal improvement, and external accountability. We wanted to understand how well organisations are performing in this increasingly important domain.

The research suggests that non-financial reporting, as currently configured, is not yet consistently producing robust, useful and relevant data that would be valued by shareholders. Just one in three companies (33%) believes it is focusing reporting on its most important business risks.

Until organisations adopt a rigorous and transparent process for determining their reporting priorities, stakeholders will have good reason to be sceptical of what they're being told. As things stand, 61% of respondents claim to have such a process.

Most organisations are very confident in their data gathering skills. Fully 80% believe their information is completely accurate, and 45% strongly believe this.

This does imply that organisations have a strong platform for third party assurance and stakeholder engagement, if only they can start reporting on their most material issues and do so in an even-handed manner.

“Just one in three companies believes it is focusing reporting on its most important business risks”



International Dimension

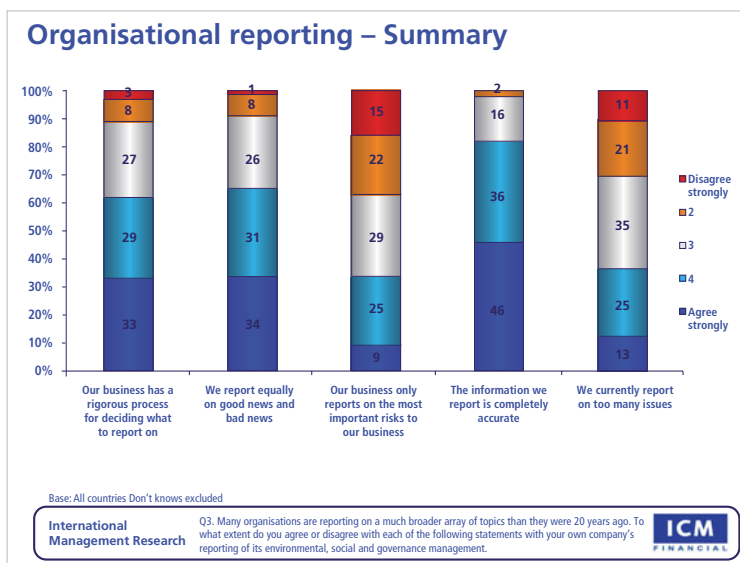
When it comes to developing a rational basis for reporting - a 'materiality process', as they have come to be called.), the Chinese appear most confident, with 76% claiming to have a rigorous approach. The French are least positive - just 46% believing they have a rigorous process.

When it comes to reporting equally on good and bad news, the US and Japan run neck and neck, with 76% of each group saying that they do. Spain comes just behind on 74%. The Chinese and Dutch are most sceptical about even-handed reporting, with just 54% of Chinese and 48% of Dutch respondents believing they report equally on good and bad news. Superficially, this evidence suggests that organisations' rigorous processes may not, in all cases, actually be leading towards transparent disclosure. This may again raise alarm bells for some stakeholders - especially those making financial decisions based on non-financial disclosure.

When asked whether their reporting is indeed aligned to genuine business risks, the Dutch feel they have the greatest alignment. 44% of

respondents in the Netherlands agree that they only report on their most important business risks, compared to just 18% of Japanese. Fully 64% of Japanese respondents disagree that their reporting is focused on business priorities - the highest level of disagreement.

The Japanese are the most dissatisfied with the current volume of reporting - 48% agree that they report too much, and just 16% disagree. Meanwhile, the neighbouring Chinese near perfectly reverse this position. Just 20% believe they report too much, and 42% disagree with this statement.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

SYSTEMS SHARING ACROSS VALUE CHAINS

Overview

If management systems are working in the ways respondents want - satisfying customers, protecting reputation, reducing cost and reducing risk - we would expect managers to be sharing them widely across their value chains. The research sought to understand their confidence in the value of their systems, and whether systems-sharing with partners and suppliers was on the increase.

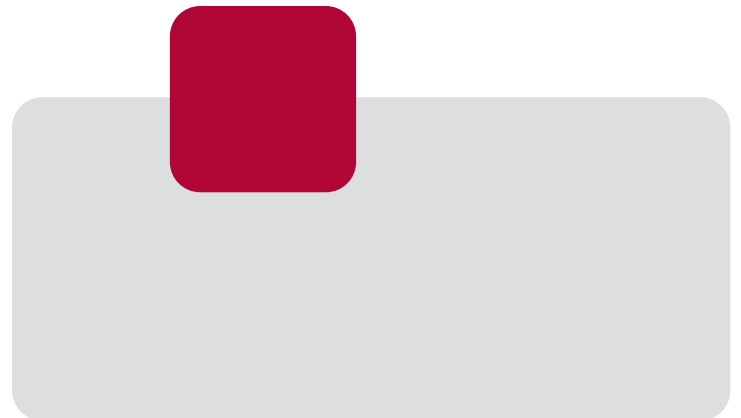
The key finding is that two thirds of respondents (66%) already see management systems as a key corporate asset.

But the fact remains, in today's connected world, that a chain is only as strong as its weakest link. 66% of respondents think they would reduce risk if partners and suppliers adopted their systems, and 61% of directors believe their business would be more effective with common management systems across the whole value chain.

This is not, however, being put into practice. Despite this high level of buy-in regarding the principle of shared systems, just 40% of businesses say they actively encourage partners to adopt their management systems. Of these, we can safely assume that only a few are actually successful in their encouragement. So the level of global systems alignment is inevitably far lower than is desirable.

This appears to be an area of significant missed opportunity for many businesses.

“Two thirds of respondents already see management systems as a key corporate asset”



International Dimension

Although a very high proportion of respondents sees management systems as a key asset, international views vary widely and distinctively.

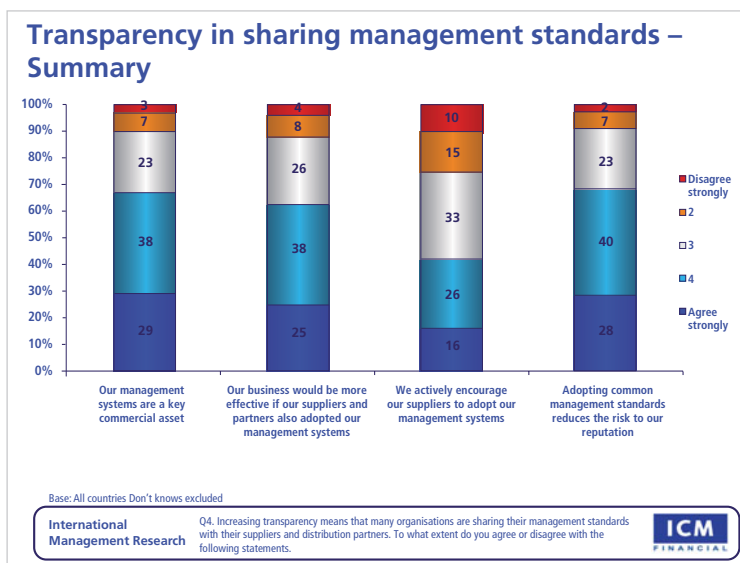
In Spain, the US, China and Japan, between 70% and 78% of directors think their systems are a key commercial asset. The Northern Europeans - the UK, France and the Netherlands - take a broadly tactical perspective. Between 52% and 56% of these directors see management systems as a key asset.

Most vociferous in this case are the Spanish, of whom 42% strongly agree that their systems are a key asset. The British are the least convinced, with just 16% in strong agreement.

When asked whether encouraging partners and suppliers to adopt their systems would actually improve effectiveness, the Dutch and the British remain sceptical. Just 48% of British and 36% of Dutch respondents believe that widespread adoption of their approaches would improve their own business effectiveness. This relative lack of belief contrasts with 74% agreement in China and 78% in Spain.

And as to whether shared systems would reduce reputation risk, 80% of US and 78% of Chinese respondents agree with this.

When it comes to taking action to standardise management systems approaches across the supply-chain, the Chinese and the Spanish are most proactive (64% and 52% respectively). The US belief in the value of shared approaches isn't matched by action, with just 36% actively encouraging suppliers to share systems. Worse still, barely 26% of the Japanese take action to promote shared approaches, making them marginally less active than the Dutch (at 30%).



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

MANAGEMENT SYSTEMS IN EMERGING MARKETS

Overview

The intention of our research into opinions of management systems in emerging markets was to uncover potential barriers to closer integration of supply-chains, and to find out if successful management systems in these markets are improving the perception of them.

The research findings are extremely finely balanced. Certainly, there's still a perception that ethical, environmental and quality standards are lower in emerging markets - around half of respondents believe their standards are lower - but emerging market operators should be pleased to hear that these views are now so very far from being universally held.

What negativity there is about systems is most strongly felt in terms of environmental performance (54% agreement), with 47% agreement for health and safety and 41% agreement for quality. However, there's a sizeable minority who disagree with these negative perceptions, particularly in relation to quality, where a full 20% disagree.

This negative perception over social and environmental performance is certainly having an effect. One effect of this perception is that 65% of companies now seek evidence of strong systems (for example through standards certification) when choosing companies to work with in emerging markets.

However, this reliance on 'assured' companies is potentially flawed, or at the very least self-deluded, in light of respondents' concern over the standards of certification that prevail in emerging economies. A substantial 41% of organisations believe that emerging market assessment is less rigorous than in the developed world.

Developed markets not trusting the assurances emerging economies provide presents a real challenge to their growth aspirations. But if it can be overcome, the research also implies that emerging economies' investment in environmental and social systems will pay lucrative dividends in terms of reputation.

If emerging market operators can achieve the same successes on the environmental and social sides as they have on the quality side, there'll be few sources of differentiation left for the so-called developed markets of the northern hemisphere.

International Dimension

Perceptions of emerging economies differ dramatically in different countries. And they differ dramatically across different issues.

Social Systems

When it comes to social responsibility, the Japanese and the Dutch are most sceptical of emerging market performance. For example, 62% of Dutch and 60% of Japanese believe that health and safety standards are lower in emerging markets. Just 38% of Chinese accept this statement, but this proportion is, precisely the same ratio as for the British indicating a surprising level of acceptance, or perhaps, complacency over social responsibility practices in the developing world.

The French are more positive about developing market labour standards than the Chinese. Just 34% of French believe that emerging markets have lower labour standards.

Interestingly, the US is the most split nation. While 46% agree that performance is lower, a full 26% disagree, a figure which runs well ahead of China.

Environmental Systems

A near identical pattern is repeated on the environment, with the majority of Japanese (68%) and Dutch (66%) believing emerging market standards are worse and a narrow minority of British (44%) and French (40%) being similarly pessimistic.

Quality Systems

When it comes to quality, for the first time we find a nation that actively believes quality from emerging markets is better

than that from developed economies. That nation is the UK. In the UK, only 20% agree that quality is lower in emerging markets, and 26% actively disagree! Nonetheless, the rest of the world is fairly evenly balanced, with between 40% and 46% believing that quality standards are worse in emerging markets. The only other stand-out nation, at the other end of the scale to the UK, is Japan, where a full 56% think emerging market quality is lower, and a mere 8% disagree.

Seeking Evidence of Strong Systems

When asked whether they look for evidence of management systems effectiveness when selecting emerging market partners, most organisations said they did so, with the Chinese and the Spanish the strongest advocates (86% agreement).

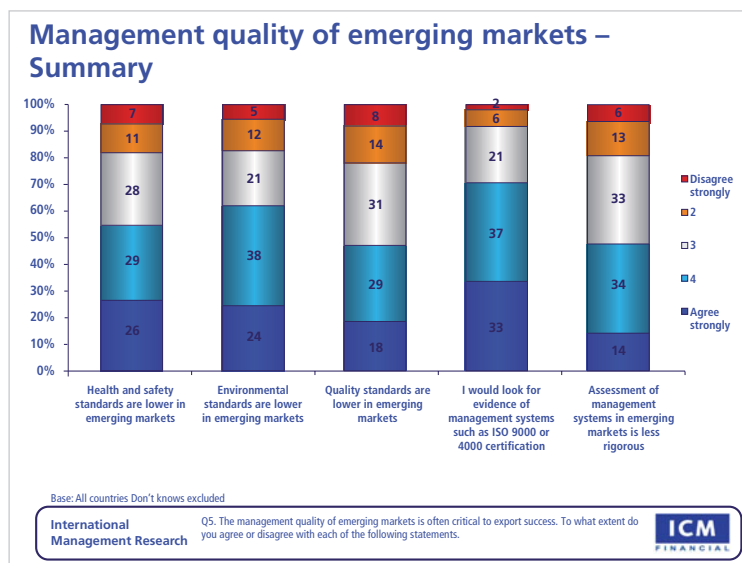
The Dutch and the Americans were next most enthusiastic, both with 70% agreement.

Among the Japanese, just 38% look for evidence of social, environmental or quality processes. A further 50% said they were ambivalent - neither agreeing nor disagreeing.

Quality of Assurance

The quality of assurance provided in emerging markets was treated sceptically by around two in five respondents, and there was relatively little variation.

The most sceptical of quality of assurance were - predictably on this evidence - the Japanese with 52%. The most accepting - again, predictably - were the UK and France, with just 34% and 32% scepticism respectively.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

BUSINESS PERFORMANCE IMPROVEMENT

Overview

Management systems outcomes are notoriously difficult to evaluate. Against this backdrop, our objective was to understand how well management systems metrics are being aligned to wider organisational thinking.

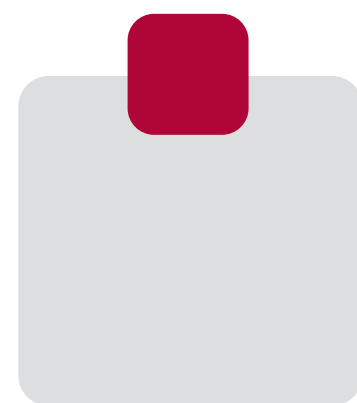
Reassuringly, a substantial majority of respondents are committed to measurement, especially if it gives them insight into underlying changes in their risk profile or competitive position.

Already, just over half of the respondents (55%) claim they can measure the business impact of their systems, but this doesn't dampen their enthusiasm for better and more strategic metrics.

When asked about the metrics they would actually like to have, fully two thirds of them (67%) said they would like to understand the effect of systems on risk, and even more (70%) said they would like to make an open comparison with their peers.

The lesson here is that the more strategic the metrics become, the more alluring they are to business leaders and the more vehement their opinions. So, while just 20% of respondents are strongly confident they can measure the business impact of their systems, 25% strongly agree that they would like to evaluate their ongoing reduction of risks, and a full 37% strongly agree that they would like to benchmark their systems effectiveness with competitors.

If businesses could accurately compare the outcomes of their systems with each other, these comparisons would act as a major catalyst of improvement.



“Just over half of the respondents claim they can measure the business impact of their systems”

International Dimension

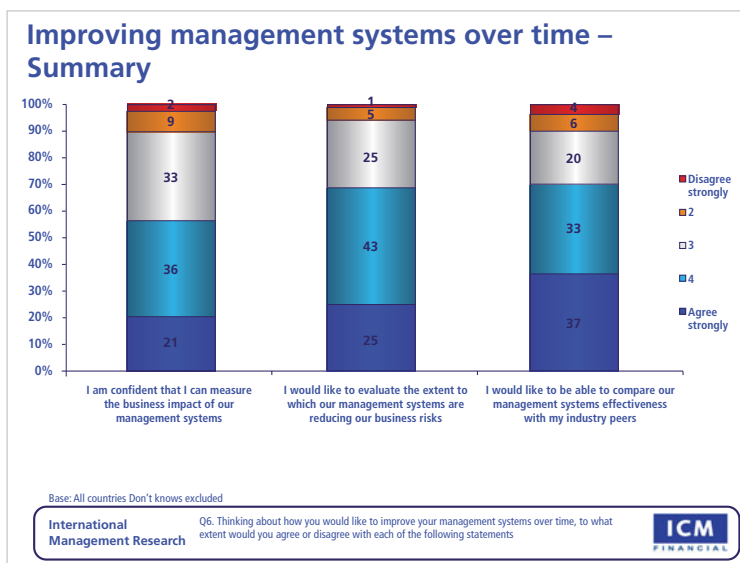
When it comes to measuring the business impact of management systems, the research reveals wide disparities in confidence.

The Dutch and the Japanese are the least confident, with just 38% of Japanese claiming they can measure the impact of their management systems, and only 48% of the Dutch. Meanwhile, the Spanish (72% confident) and the Chinese (74% confident) are notably positive about their measurement capability. Other markets are more or less evenly split, in the 50% to 56% range.

Turning to their measurement aspirations, the Japanese are the most keen to evaluate their systems' effect on corporate risk: 40% strongly agree that they want to assess this, and 84% agree overall. The Spanish (78%) and the Chinese (also 78%) are next keenest, followed by the US (68%) and France (58%), with the UK (42%) and the Netherlands (46%) showing least appetite.

Finally, there is consistent desire to benchmark management systems against those of peers. All markets have more than 70% agreement, with the exception of Japan (62%) and the UK (54%). More interesting here is the sheer level of enthusiasm. In Spain, for example, 68% strongly agree that they would like to benchmark performance, and 46% of Chinese strongly agree, too. Even in the least enthusiastic country, the UK, more than half of our respondents would like to do this, with a full 22% strongly agreeing.

The research clearly signals an appetite, at least at the senior management level, to exchange and compare information - a classic indication of a business discipline entering into strategic thinking.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

SYSTEMS INTEGRATION

Overview

It's becoming increasingly difficult to tackle business risks on an individual basis. For example, the safety of employees can be directly affected by poor environmental practice. And both social and environmental impact can be dramatically intensified by poor governance. Our research objective was to investigate to what extent organisations are adopting a joined-up response to these risks.

On the basis of this research evidence, the integration of management systems appears well-entrenched as a response to the increasing complexity of risks.

Critically, the research found that 76% of respondents believe that integrated management systems would help them manage their risks better. And unlike their efforts to share systems with suppliers, most are turning intentions into deeds. Fully two thirds (66%) of senior management claim to be actively pursuing integration already.

This commitment to integration implicitly recognises the increasing interaction of different organisational risks and the practical difficulties of targeting them individually. While as many as 63% of respondents already assert that they have effective management processes in place to manage all their key risks, this drive to integration is a recognition that having single processes targeting single risks is no longer a valid response to risk management.

“76% of respondents believe that integrated management systems would help them manage their risks better”



International Dimension

Internationally, levels of confidence vary widely. The Japanese are least likely to believe they have their risks under control. Just 40% believe they have processes that address all their business risks, and almost a quarter (24%) actively disagree with this statement. The next most pessimistic are the British. Barely half of UK directors (54%) believe they have all key risks covered.

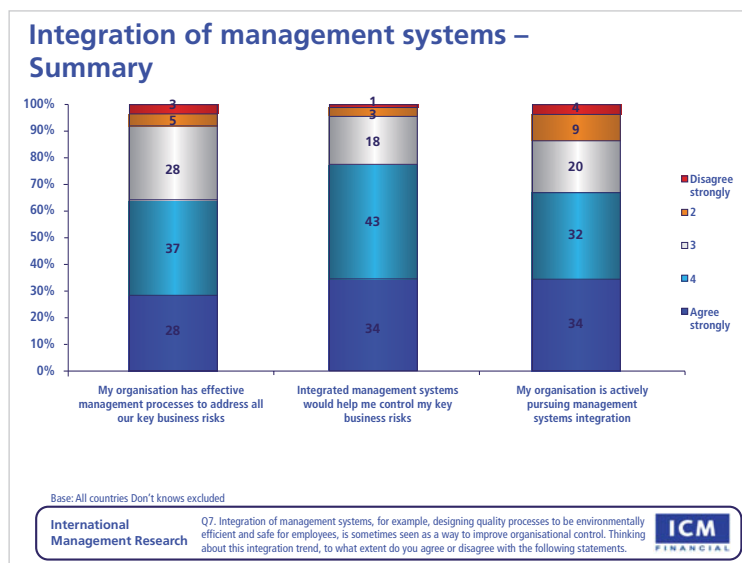
The Chinese are the most optimistic again (76%), and the Dutch are the second most confident, with 70% believing they have all risks under control.

However, turning to integration, respondents are consistent in believing that integration would help to achieve greater control. At the low end, a full 70% of Japanese agree that integrated systems would be beneficial to them, and this figure rises to 84% for Dutch and Spanish respondents.

When it comes to pursuing integration, the Chinese and the Americans are furthest advanced, with 82% and 78% claiming to be

doing it. The Japanese are least advanced at present, with just 32% having an active programme in place and 34% asserting that they don't.

Clearly, on this evidence, respondents are keen to see integration take root. It's down to individual systems managers to help make the case, and to collaborate on integration programmes. If they don't, organisations are likely to be left behind the competition, which will inevitably increase their risk exposure.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

VALUE OF ASSESSMENT

Overview

The two questions we asked of managers in this area were designed to understand the twin uses of assessment: ratifying past performance and supporting planning for the future. Both are necessary, and indeed crucial, to effectively implement a programme of continual improvement.

We were looking at not only external assessment - third party assurance - but also internal assessment.

As a whole, the results were extremely consistent.

73% of respondents use assessment as a forward-facing activity, designed to identify improvement priorities, and 68% use it as a backward-facing exercise, designed to validate the effects of past improvements. This suggests only a slight balance in favour of planning, rather than understanding the impact of past efforts.

“73% of respondents use assessment as a forward-facing activity, designed to identify improvement priorities”

So those who provide assessment services, whether internal or external, must continue to develop exercises of verification and validation for both aspects - not only focusing hard on what's still going wrong and what can be improved, but also checking what impact past improvements are really making. Only then can managers see the whole picture.

This is, indeed, the essence of LRQA's Business Assurance approach, validating the *effectiveness* of past efforts and planning to improve the *efficiency* of future changes.

International Dimension

Despite apparent consistency when looked at as a whole, the picture is currently much more varied - at least in three of our markets.

For example, in the UK, 84% of respondents use assessment to deliver a forward-facing agenda for prioritisation, while only 54% are expecting assessment to deliver validation of past efforts. This gives a net balance of 30% in favour of improvement-seeking.

The Netherlands is, on balance, also a forward-facing country, with 72% to 54%, a net balance of 18% looking to identify areas of future focus.

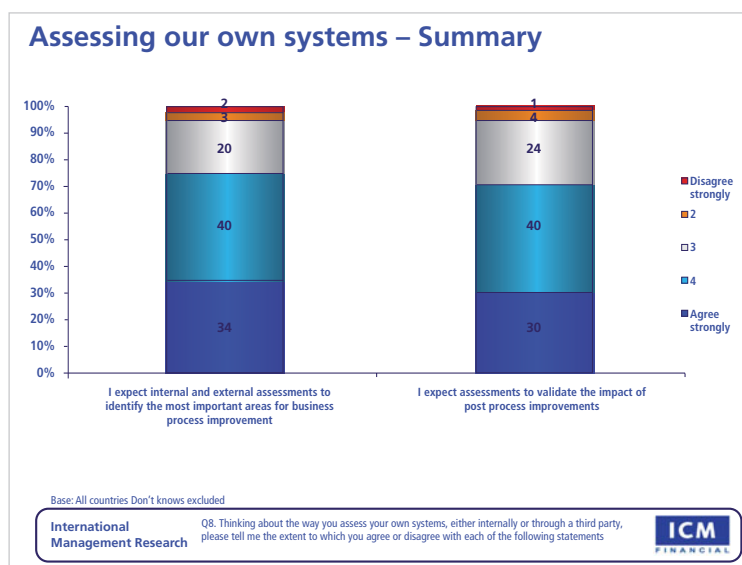
The only net backward-facing country is Japan. Here, just 44% see assessment as a planning support tool, and 68% see it as a mechanism for understanding past efforts - a net 24% bias towards understanding the impact of past decisions.

Spain has universally high expectations of assessment, scoring 90% forwards and 90% backwards, with the US and China not far behind

and, again, broadly neutral - 82% forwards and 78% backwards for the US, and 84% forwards and 78% backwards for China.

Meanwhile, in France, it's striking how low expectations of assessment are - full stop. Just 56% expect assessment to identify improvement areas, and just 54% to validate past improvements.

The lesson here is perhaps simply that all markets should expect more of their assessment. Assessment should be a valuable learning tool that looks both forwards and backwards, creating a complete learning cycle.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

PEOPLE AND SYSTEMS

Overview

In looking at the interface between people and systems, we wanted to understand how the so-called 'soft factors' govern systems performance. What motivates people to adhere to - and ideally contribute to - management systems?

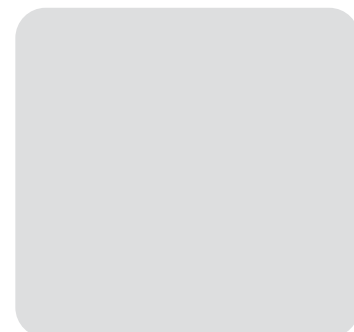
Respondents were clear that the process of persuasion starts with the leadership. 88% said that if senior management emphasise the value of a system, then employees and partners will be more likely to abide by it. More than half of respondents (53%) strongly believe this.

Looking to other soft incentives, two thirds of respondents (66%) believe that having a prestigious brand motivates systems compliance. This is likely to be the result of at least two factors. First, representing a powerful brand tends to instill additional pride in performance. Second, employees and partners have a greater sensitivity to risk, recognising that the higher the brand reputation premium, the greater the potential loss in the event of systems failure.

More direct, pragmatic measures such as specific incentives and penalties weren't considered as effective as leadership endorsement, but were actually on a par with branding. 64% of respondents thought incentives and penalties would encourage compliance.

The research shows clearly these softer, cultural factors like brand and leadership have just as strong an effect on the management of risks and the pace of improvement as traditional hard-edged tools of incentives and penalties. Systems need people, and the more organisations invest in the motivation and attitudes of people within their systems, the more effective they will be.

“88% said that if senior management emphasise the value of a system, then employees and partners will be more likely to abide by it”



International Dimension

Soft factors, unsurprisingly, are highly susceptible to cultural preconceptions.

The greatest believers in the power of leadership endorsement are the Spanish and the Dutch, with a massive 98% and 94% agreement respectively. In Spain, fully 76% of respondents *strongly* believed it would be an effective lever of systems adherence.

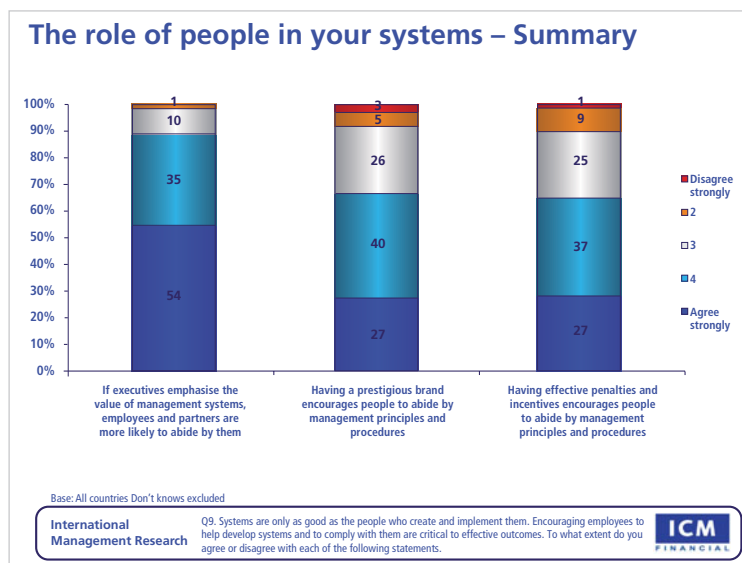
Only two countries significantly question the power of leadership endorsement to any significant degree - the UK, with 76% agreement, and France, with 82%. However, in each case, it's still seen to be by far the most effective lever to make systems 'sticky'.

When it comes to branding, there's strong consensus that it works, but with more variation. The most sceptical countries are the Netherlands and the US, each with only 50% agreement. The Chinese and the Spanish are the greatest believers in branding, with 88% and 80% respectively - a predictable reflection of their export orientation.

Finally, turning to direct incentives and penalties, it's again Northern Europe that's most consistently sceptical. In the UK, a relatively low proportion (44%) of respondents believe that direct measures will work, and France (56%) and the Netherlands (56%) are not far behind in their ambivalence.

The Chinese stand out as committed to direct motivation, with 86% agreement, while the US is not far behind with 74%.

When organisations come to consider the right toolkit to make their systems perform, it's naïve to expect any one approach to work. National cultures give us some clues as to what works and what doesn't, but ultimately an organisation's systems climate is unique to itself. LRQA's day-to-day experience shows us that the most difficult collaborative problems of all occur not when systems conflict, but when cultures collide.



SETTING THE AGENDA FOR CHANGE

THE FINDINGS

THE ROLE OF MANAGEMENT SYSTEMS PROFESSIONALS

Overview

Finally, the research sought to understand senior managers' views on the systems management profession as a whole, and the individuals within it - quality managers, health and safety managers, risk managers and environmental managers to name a few.

The overall findings were positive. When it was suggested that the image of management systems professionals was poor, 52% disagreed and 19% strongly disagreed. However, this finding may be small comfort for some in the industry. This still leaves 48% who did not stand up for the credibility of management systems professionals.

More worrying than this rather modest industry image perception, only 52% felt that management systems professionals were valued in their own organisation.

These findings do leave a significant gap to be crossed in both external respect and internal influence. But it's one that must be crossed, given that the large majority (63%) of managers believe that the importance of management systems is increasing. This rising importance cannot be relied upon to drag its practitioners with it.

One way to start to address this image gap, tested by the research, is through stronger industry co-ordination, competency development and promotion - but the evidence suggests this will not be sufficient. A significant proportion (42%) agreed that a stronger industry body, like those of accountants and lawyers, would be helpful, and just 17% disagreed, but this is far from a ringing endorsement. Clearly this response alone will not suffice.

The answer to fixing industry image is perhaps less likely to lie with cosmetic gestures, and more likely to come from making a substantive contribution to corporate performance.

If management systems strive to contribute to shareholder value, and begin to deliver on that aspiration, the image of the industry's professionals should move of its own accord.

International Dimension

The research is clear: management systems are becoming more important to business. In the mature systems markets of Northern Europe, around half of respondents (between 46% and 54%) believe that systems are becoming more important, while other nations are even more convinced, from Japan (with 60% commitment), to the US (66%), Spain (76%) and China (84%).

However, when the focus shifts to questions of image and value, respondents did give highly varied responses. Asked about the image of practitioners, the most positive countries are China and the Netherlands. The Chinese (70%) and the Dutch (62%) rejected the allegation that the practitioners' image is poor.

But other nations accepted that the profession has an image problem. In France, just 36% rejected the image problem statement, and in Spain, just 40%. Interestingly, given their enthusiasm for systems overall, there's also a significant minority of Spanish (30%) who actively agree that the practitioners have an image problem.

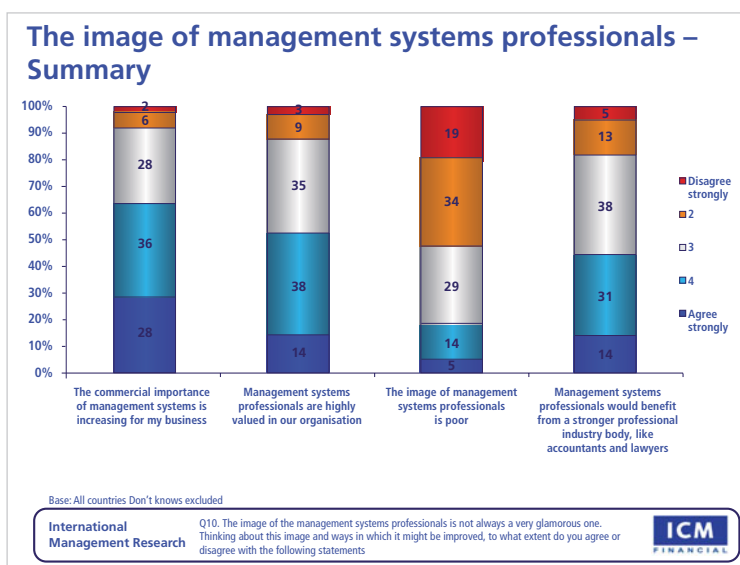
Looking at how this image problem translates into their own organisational culture, the Japanese believe their management systems professionals are the least respected. Less than one in three (28%) believes that these professionals are valued in their organisation. The Chinese, by contrast, are by far the most positive - with 84% saying they are valued.

In all other nations the respondents are ambivalent. Around half of respondents believe management systems professionals are valued - from the lowest level in Spain (44%) to the highest in the US (58%).

Turning to solutions, it's worth noting that the Chinese were most inclined to see value in an industry association. A full 72% believe this would be of benefit.

The only significant naysayer is Japan, where just 30% believe a stronger industry body would be helpful, and 26% actively disagree.

Clearly, this general endorsement (outside Japan) presents an opportunity for those who manage such industry bodies to make sure practitioners' work is relevant to senior management, and makes a substantive contribution to business. The appetite is there.



BIOGRAPHIES

Andrew Kakabadse (BSc MA PhD AAPSW FBPS FIAM FBAM)

Professor of International
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Andrew Kakabadse is Professor of International Management Development, Cranfield University, School of Management.

Andrew is Visiting Professor at the University of Ulster, Visiting Scholar in Residence at Thunderbird, The Garvin School of International Management, USA, and Visiting Professor at Macquarie Graduate School of Management, Australia, and was recently the H. Smith Richardson Visiting Fellow at the Centre for Creative Leadership, North Carolina, USA.

Ian Hodgkinson Managing Director

Ian is a qualified metallurgist who has held a number of senior positions in related industries for over 15 years. Ian was first involved in quality assurance through the UK Nuclear Energy Programme. He was a member of the small team who set up LRQA in 1985, and after undertaking many assessments moved into the development of LRQA services.

As a member of the Lloyd's Register senior management team and Managing Director of LRQA, Ian has played a major role in the development and application of LRQA's own management systems that have enabled the company to grow into a major global organisation.

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Based on field research conducted by ICM in August 2006.

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