

## Outside the box

**Over the last 20 years, management systems have established themselves as the key tools by which managers change behaviour – not just within their organisations, but across supply chain networks and, ultimately, across society as a whole. Ian Hodgkinson unveils new research which reveals exactly what organisations think of these ever-evolving systems.**

Given the significant proliferation of management systems, it is clear that the time has come to ask just how well they are working, and what their future might hold. New research from Lloyd's Register Quality Assurance (LRQA) has critically reappraised management systems and investigated them not just as operational control systems or a mode of legal compliance, but as a strategic business discipline in their own right. More broadly, the report challenges management systems professionals to play a more strategic role within their organisations – to work to enable organizational change, rather than simply to achieve compliance.

### Motivation to improve

The research sought to establish, first and foremost, what organisations are actually expecting to achieve when they invest in management systems. The primary motivation, cited by 82 per cent of senior management, is a desire to improve customer satisfaction. Also scoring highly is reputation, reflecting organisations' increasing dependence on stakeholder goodwill.

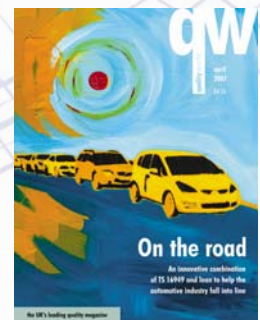
It appears that senior managers perceive management systems as a core part of their business improvement arsenal. Nevertheless, management systems are not yet seen as an engine for growth. Only 48 per cent of respondents see systems as a tool to gain access to new markets, and just 33 per cent see them as a tool to shorten time to market for new products.

The consequence of this restricted view is that only a narrow majority of participants, 60 per cent, say they are 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.

### Social role of systems

Clearly, the impact of management systems extends beyond organisations' internal agendas. The research also sought to understand whether systems managers have confidence in these external dimensions of systems effectiveness.

Environmental systems and social management systems, including health and safety and labour standards, are both seen to be effective by those who are responsible for them. However, respondents are far less



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convinced about the existing measures in place to improve governance, with just 53 per cent believing that existing governance systems, like non-executive boards and policies, actually protect shareholders' interests.

It is in this area of operational governance that management systems could make a great future contribution, and it is a territory that is largely unexplored. By embedding themselves in the fabric of the organisations in which they work, by making sure that values and principles are put into action consistently, management-systems professionals could make a dramatic difference to shareholder accountability and value. The report authors argue that this style of dynamic governance, rather than static rule based governance, is an area that management systems professionals should explore.

### **Quality of reporting**

The research suggests that non-financial reporting is not yet producing robust, useful and relevant data that is valued by shareholders. Just one in three companies believe that they are focusing reporting on their most important business risks. Until organisations adopt a rigorous and transparent process for determining their priorities, stakeholders will have good reason to be sceptical of reporting. As things stand, a third of organisations still lack appropriate processes. It is clear, then, that reporting is still treated as a public relations tool, rather than a means of substantive engagement and honest disclosure. A third of organisations again admit that they do not report equally on good and bad news. Similarly, organisations are highly uncertain about how broadly and how deeply to report.

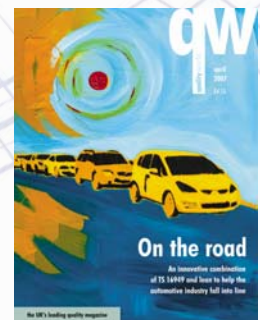
### **Management systems in emerging markets**

The research uncovers a widespread perception that ethical, environmental and quality standards are lower in emerging markets. In fact, over half of respondents agreed that environmental standards are lower in these markets, for example. This scepticism is certainly having an effect. It is manifested most clearly in the demand for certification. Sixty-five per cent of companies now seek evidence of strong systems, typically through certification, when choosing companies to work with in emerging markets.

Despite this, any reliance on 'assured' companies must be viewed in light of respondents' concerns over the standards of certification that prevail in emerging economies. Forty-one per cent of them believe that assessment in emerging markets is less rigorous than in the developed world.

### **Improving business performance**

Management systems outcomes are notoriously difficult to evaluate. One objective of the research was to understand how well management systems metrics are being related to wider thinking and practice within organisations. A substantial majority of respondents are committed to measuring performance improvements. Those who see measurement as offering an insight into underlying changes in their risk profile or competitive position are particularly dedicated to measurement and evaluation.



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Only just over half of the respondents claim they can measure the business impact of their systems, but a desire remains for better and more strategic metrics. Additionally, two thirds of respondents said they would like to understand the effect of systems on risk. Seventy per cent said they would like to make an open comparison with their peers.

It is clear that the more strategic the metrics become, the more appealing they are to business leaders. Across each of the three elements, the number of respondents strongly agreeing also increases substantially. So, while just 20 per cent of respondents are strongly confident that they can measure the business impact of their systems, 25 per cent strongly agree that they would like to evaluate their ongoing reduction of risks, and 37 per cent strongly agree that they would like to benchmark their systems effectiveness with their competitors.

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

### **Systems integration**

It is becoming increasingly difficult to tackle business risks on an individual basis. Employee safety, for example, can be directly affected by poor environmental practice and both social and environmental impact can be intensified by poor governance.

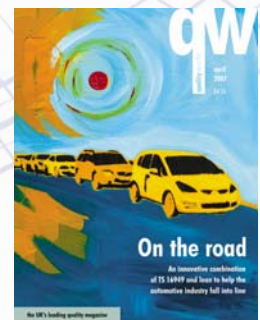
Research found that 76 per cent of respondents believe that integrated management systems would help them manage their risks better with two thirds of senior management claiming to be implementing integration. This commitment to integration implies a recognition of the difficulty of targeting individual risks. While the drive to integration is an acknowledgement that having single processes targeting single risks is no longer a valid response to risk management, it is clear that problems still remain. Most alarmingly, 37 per cent of respondents say that they have no management processes in place to help deal with their key risks.

### **Value of assessment**

Researchers asked two questions about the use of assessment in order to establish whether it was used to ratifying past performance and support planning for the future. Seventy-three per cent of respondents use assessment, whether internal or external, as a forward-facing activity to identify improvement priorities; 68 per cent use it as a backward-facing exercise, 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.

### **People and systems**

What motivates people to adhere to and contribute to management systems? Respondents were clear that the process of persuasion starts with leadership. Eighty eight per cent said that if senior management emphasize the value of a system, then employees and partners will be



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more likely to use it. Other soft incentives also prove successful, with two thirds of respondents believing that prestigious brands motivate systems compliance. This is likely to be the result of at least two factors: first, representing a powerful brand tends to instil additional pride in performance; second, employees and partners have a greater sensitivity to risk, recognizing that the higher the brand reputation premium, the greater the potential loss in the event of systems failure.

The research suggests that more direct, pragmatic measures, such as specific incentives and penalties, are not as effective as leadership endorsement. Nevertheless, almost two thirds of respondents thought incentives and penalties would encourage compliance. Clearly 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 incentives and penalties. Systems need people, and the more organisations invest in the motivation and attitudes of people, the more effective they will be.

### **Agenda for change**

On the basis of the research results, LROA has identified the key lessons that emerge for the management systems industry. These ten broad recommendations reflect the views of the directors and managers interviewed offering a global picture of the current state of systems.

### **Broader focus**

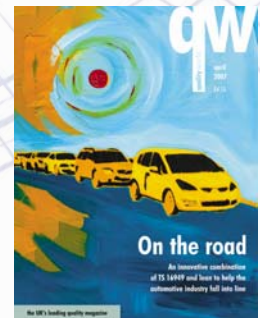
Management systems need to move away from their narrow focus on service recipients to a much broader remit. At the same time they must take into account the interests of all stakeholders, particularly those holding a financial stake. According to the survey data, 80 per cent of senior managers still believe that customer satisfaction and product quality should remain the focus of systems.

### **Strategy reflected in action**

Organisations should use management systems data to guide internal governance, ensuring that strategy is reflected in action, and that values and principles are upheld in operations. Currently, more than 80 per cent of senior managers believe systems improve environmental and social performance, but only 25 per cent see clear links with governance and protection of shareholder value.

### **Adopt materiality processes**

At present, while 80 per cent believe their non-financial information is accurate, only 33 per cent of senior managers are confident that it reflects current risks. The report advocates the universal adoption of materiality processes, which guide reporting and ensure that all risks, whether financial or non financial, are captured from management systems and reported to stakeholders.



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### Share understanding

Research also highlights a lack of confidence in the universality of management systems. While 66 per cent of senior managers currently see their management systems as a key corporate asset, 60 per cent of these do not require their suppliers and partners to adopt these systems. The report suggests that senior managers should actively seek to share their understanding of management systems with their business partners.

### Mistrust of emerging markets

At present, 41 per cent of senior managers distrust the quality of assurance in emerging markets, yet up to 65 per cent rely on this assurance when selecting their partners. This reflects a lack of confidence in management systems in emerging markets.

### Evaluate performance of systems

Additionally, the report argues that the performance of management systems should be evaluated for its contribution to risk reduction and business impact. The potential for using management systems to deal effectively with business risks is great, but there is a lack of confidence in ability to measure them effectively. While up to 88 per cent of senior managers want to use systems to reduce business risks, only 55 per cent believe they can actually measure their business impact.

### Pursue integration

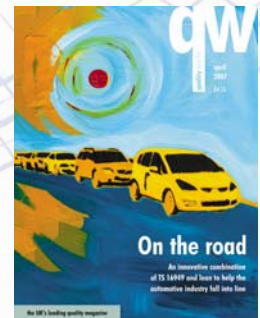
The research confirms that management systems are already employed to manage a broad range of strategic management imperatives, and that management systems integration drives business process improvement. At present, 66 per cent of senior managers are pursuing management systems integration, and the report authors believe that this should go further.

### Add value to assessments

The report argues that management system assessments should 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 per cent of senior managers say they expect assessments to focus on business issues and to evaluate the effectiveness of actions taken.

### Managers on side

The report authors advocate that every senior manager should understand the value of the management system in delivering sustainable business, and that they should ensure that systems receive both financial investment and personal commitment. At present, 89 per cent of senior managers believe that the support of leadership makes employees more likely to adhere to a system.



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### Clear business outcomes

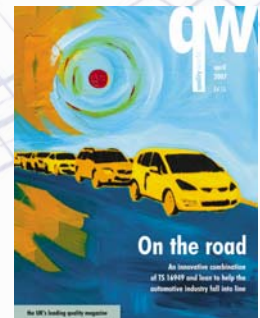
Currently, only 52 per cent of senior managers believe that systems professionals are highly valued by their organisations. The report suggests that they will achieve greater recognition by contributing to clear business outcomes.

It is evident that managers must develop a better understanding of systems. However, this will only come about if management systems professionals deliver tangible results for the business.

They can work to reduce risk by integrating and sharing disparate management systems, connecting them to core financial and HR systems, and by improving their evaluation and reporting methods. This is crucial to the future of the management systems community and, while more change is certainly required, there is no doubt it is already underway.

Author bio - Ian Hodgkinson is MD of LRQA, and is responsible for managing the development and implementation of LRQA's global strategy LRQA is a member of the Lloyd's Register Group and provides verification, certification and training services to a wide range of organisations around the world. It has recently launched BusinessAssurance.com, the world's first online management systems community.

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