

A strategy that finally measures up

With the recent explosion of ground breaking standardised ICT protocols we are witnessing the ever increasing development of wealth producing technologies and business models. These business models exploit easily accessible and interoperable global networks, information and knowledge.

Underlying these technologies and business models is the ubiquitous and somewhat ephemeral world of standards. Standards support wealth creation by enabling the development of global production networks characterised by outsourcing, the de-verticalisation of corporate structure, and new forms of "technological fusion" in which disparate technologies are brought together to achieve new products that exhibit novel performance characteristics and functionality. The nature of this global techno-economic system places a premium on interoperability and creates a new level of demand for acceptable standards.

Standards have also become increasingly important for the international economy and according to the World Trade Organisation underlie 80% of world trade in the exchange of goods and services. Standards also form a fundamental part of bi-lateral and multi-lateral trade agreements.

But what are standards? Standards are developed by buyers, sellers and sometimes other stakeholders such as regulators. They ensure market efficiency and prevent market failure. They dictate the authoritative rules and specifications by which a market operates. They often establish a model or pattern for guidance, by comparison with which the safety, quantity, excellence, correctness, etc., of other things may be determined and validated. Standards ensure inter-working, portability and re-usability.

Some notable standards include DVD formats, SMTP, HTML, XML, MP3, MPEG and specifications for product components from computers to sky scrapers. There are also standards related to services such as outsourcing and certain activities such as security, risk management and business continuity.

It has often been said those who dictate the standards dominate the market. And to some degree it is true. As standards provide the rules by which a market operates, those who have a say in the development of those rules are in a good position to ensure that they are not disadvantaged by the rules. Standards setters also deeply understand the rules and can use them to their strategic advantage. Conversely those who are not involved in the development of the rules may find their products and services suffering and becoming rapidly redundant and obsolete. It then follows that the better organisations, industries and nations are at strategically using standards the more competitive and successful they will be.

Australia has well in excess of 7000 formal standards and probably close to 100,000 informal standards. There are approximately 34,000 formal international standards. Australia is considered a leader in the development of national and international standards through our national standards body, Standards Australia. It makes good sense to utilise this important institution and tap into its wealth creating potential.

A recent Australian study conducted by the Centre for International Economics (CIE) found that: Standards potentially have a variety of economic effects including increasing the scope for gains from trade, underpinning innovation and knowledge dissemination, reducing costs of production and increasing productivity, helping provide safety outcomes and assisting with risk management.

In quantitative terms CIE suggested that if standards are specified as contributing to the stock of knowledge jointly with R&D expenditure, then a 1 per cent increase in this joint stock of knowledge leads to a 0.12 per cent increase in economy-wide productivity. A recent Productivity Commission enquiry had similar findings.

While it is widely acknowledged that standards are important to organisational competitiveness, risk management, efficiency and profitability few organisations actually invest the time to become strategic in their use of standards. Many organisations think of standards as purely technical devices. Such firms are easy prey for organisations that take a more strategic approach to standards and use them as competitive weapons. The European Union is an excellent example of a trade block and constituency who know how to use standards to benefit their stakeholders and facilitate better internal trade.

There are many reasons why organisations don't take a strategic approach to standards activities such as the pressure to deal with day-to-day emergencies and a lack of a clear framework defining how to use standards to reduce risk, generate value, efficiency and profitability. Not much can be done about managers who like to invest their time dealing with emergencies rather than preventing them. In regards to a simple framework help is at hand.

Mark Bezzina is Managing Director of StanCert and the creator of Strategic Standards Framework (SSF). Contact him at bezzina@stancert.com.