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Maggie Eibisch
Study into Standards Setting and Accreditation
Productivity Commission
PO Box 80
Belconnen ACT 2616

Dear Maggie

SUBMISSION TO THE PRODUCTIVITY COMMISSION

1 Background

You have invited me to make a submission as part of the current review of the Australian Government's Relationship with Standards Australia.

My credentials for making this submission are that I am Chair of Standards Australia (and Standards New Zealand) Committee OB 7 – Risk Management. My committee is responsible for the writing and custodianship of AS/NZS4360:2004, Australia and New Zealand's Risk Management Standard and the associated handbooks. The standard is one of Standards Australia's 'best sellers; it and the associated handbooks achieved over \$1m in sales in the 6 months after its last re-issue in 2004.

AS/NZS 4360:2004 is used and referenced by many other Australian and industry standards that are based on the risk management process. For example, my members and I have been involved in advising on new standards for Fire Protection, Gas Pipeline Safety and Lifts and Escalators over the last few months. The standard is also widely referenced by many organisations in the private and public sector that both use it as the basis of their own approaches to risk management and often impose it as a contractual condition on those that contract or supply to them.

Internationally, AS/NZS4360:2004 is the most widely used and referenced risk management standard. It has been translated and is used extensively in China and Japan. It is also used by many government agencies in Canada and Europe. For example, the British National Health Service bases its approach to risk management on the Standard and only last month Emergency Management Ontario published its "Emergency Management Workbook – a tool for Emergency Management Practitioners" based solely on AS/NZS 4360:2004.

The International Standards Organisation (ISO) is currently writing an ISO Risk Management Standard and the working draft is based on AS/NZS4360:2004. The ISO Committee is

chaired by Kevin Knight, one of the long standing members of OB7 and I represent Australia on that committee.

2 The Risk Management Committee, OB7

In addition to the Standard, OB7 is very active in writing handbooks of best practice that Standards Australia publishes. The currently available Handbooks can be seen at www.riskmanagement.com.au. We have a significant work plan that involves publishing handbooks this year on:

- Environmental Risk Management;
- Security Risk Management;
- Internal Audit and Risk Management (in association with the Institute of Internal Auditors);
- Motor Sport Risk Management;
- Legal Risk Management.

We are also engaged in writing handbooks for:

- Education Sector Risk Management;
- Risk Based Communication;
- Risk Management in Agriculture;
- SMEs and Risk Management;
- Business Continuity Management.

We contribute to many other committees and working groups and we have just started working with Standards Australia on their SME initiative – providing an input to their guides to business practices for SMEs.

As you will see, my committee is very industrious. Through Standards and Handbook writing it contributes significantly to:

- Standards Australia's income and standing in the Australian business community;
- Improving the take up and performance in the management of risk in all sectors in Australia (and New Zealand);
- Reducing barriers to trade for Australian services and products sold overseas;
- Enhancing Australia's reputation internationally as the home of best quality risk management – which nowadays is strongly correlated with Good Corporate Governance;
- Good Corporate Governance within Australian companies – the Standard is specifically linked to and referenced by the ASX Governance Council Recommendations on Corporate Governance and by the AS8000 series of Standards.

As a demonstration of all this, I represent the Minerals Council of Australia (MCA) on the Committee. The MCA represents most of the major mining companies in Australia including Rio Tinto and BHP Billiton. Until 6 months ago I was Manager of Risk Management at BHP Billiton and I, like my colleagues in all other Australian Mining companies, used AS/NZS4360: 2004 as the basis of our risk management systems, applied to all our assets and activities throughout the world. Certainly in BHP Billiton, wherever possible we also required our contractors and joint venture partners to adopt the Standard.

The members of my committee (OB7) do all this for no remuneration whatsoever and with the exception of the fairly meagre lunches served at meetings, receive no other expenses or benefits. They, their employer or sponsor have to pay travel and accommodation expenses. We hold three or more 2 day meetings of the committee a year and currently, one is held in Sydney, one in Melbourne and one in New Zealand. Working Groups can meet much more often than this and again there is no assistance for travel costs or other expenses available for Standards Australia.

We enjoy a very wide degree of representation on the committee of 27 members. These include:

- State and Federal Government;
- Water Industry;
- Minerals and Mining Industry;
- Insurance Industry;
- Academic Institutions;
- The Law Society of NSW;
- Emergency Management Australia;
- The Institute of Internal Auditors;
- Treasury and Finance Association;
- The RMA – the lead body for Risk Management, etc.

Because of the nature of our work, all members are also practicing risk management specialists within their sector, normally at the height of their profession. This means that they have demanding and critical jobs in their normal employment. Many of the members therefore devote much of their personal time to OB7 work and in some cases even fund travel and accommodation expenses out of their own pockets.

Given that most members of OB7 donate at least 20 days a year to this work (and many give much more), at current professional charge out rates of \$3,000 a day, our 20 or so members donate at least \$1.2m a year of free time together with many tens of thousands of dollars of travel and accommodation costs etc. This, of course, in no way covers the vast amount of intellectual capital that we generate and give to Standards Australia and its publications.

The returns to OB7 members for their ‘donations’ is difficult to quantify. Undoubtedly being a member of OB7 is good for one’s career and improves one’s status among your peers. However, the primary motivation for the donation in most cases it that it is for the good of Australia (and New Zealand) and for the benefit of its industries and Government. This may seem quaint, but most committee members not only believe in the benefits that a strong and well written set of standards bring to their nation, but they also want to be part of the nation and trade enhancing process.

3 Standards Australia's Business Model

With the hiving off of all Standards Australia's fee generating activities (training, consulting, certification etc) to SAI Global some 2 years ago, I and my committee have become much more aware of the precarious nature of Standards Australia's revenue stream.

John Tucker the CEO of Standards Australia recently informed a public meeting that the entity exists on a tangible income of \$15m or so a year. This is comprised of Government grants, some of the sales income from publications and returns from investments. In addition, he acknowledged an additional equivalent 'income' of \$50m or more a year received in terms of the free time and intellectual property gifted to Standards Australia by committee and working group members like those of OB7. From this Standards Australia publishes many hundreds of standards and handbooks each year to assist Australian industry and Government organisations.

As shown above, my committee and its members gift at least \$1.2m a year of their time and also donate travel expenses and all their intellectual property of incalculable value.

There are two major risks here:

1. That committee members will get 'donor fatigue';
2. That committee member will just 'die off'.

The former is a real risk in that my committee on several occasions over the last few years has debated whether to resign, en mass. This has normally been caused by mal-administration at Standards Australia or SAIG, in all cases due to insufficient project management support and attention. The members are already de-motivated, working so hard for no reward. If the output of our labours is then neglected or poorly handled, committee member get very upset.

The root of these problems always seem the same: Standards Australia has insufficient income to employ enough project managers and support staff of sufficient calibre to provide high quality management of the output from its committees.

The second risk is real as well. While the age of most of OB7 Committee member is late 40's and 50's, there are no young recruits. Some of our members have already retired – but still work in their profession. We are also aware that many other Committees largely comprise retirees who while they have time of their hands, have difficulty remaining in touch with their industry and current best practice. Producing standards that are irrelevant or which reflect out of date concepts and practices quickly brings Standards Australia and its products into disrepute.

There is a real danger here – reflected in what happens a great deal in other countries – that as independent 'experts' withdraw from the committees and working groups, their places are taken by representatives of certain companies who steer the standards to suit and tacitly endorse their own products and services. As an example in the area of Risk Management, Standards Australia did fall into such a trap in the past when it allowed Arthur Andersen to write certain handbooks without adequate peer review. These then exclusively endorsed the Andersen approach and models and disadvantaged their competitors.

The bottom line is that Standards Australia's current business model where the majority of its 'income' is substantially provided by donations from an aging community of retired professionals is completely un-sustainable. This situation is exacerbated with the poor project support that is offered and the lack of any remuneration or even travel expenses for committee members that inevitably leads to 'donor fatigue'.

There is a very real risk that the many tactical and strategic advantages gained by Australian Industry and by Australia more generally from having a productive and world-beating standards making body will disappear in a matter of years. Certainly, unless there is some improvement I can assure you that the members of OB7 will continue to drift away and find more lucrative and motivational uses for their time.

4 Solutions

It is clear that Standards Australia cannot continue to function without a sustainable business model. Under its contract with SAIG it is not possible to supplement its income in the conventional model of Standards Authorities, by consulting training and certification. On the other hand, increasing income on the narrow business model and market to which it is now confined is very difficult.

Certainly Standard Australia can create standards – and could be paid to create them for other organisations - but this requires a skill base which is not currently present. Committees prepare draft standards and handbooks; they write them, format them and pass them over to Standards Australia for final formatting and publication. Fundamentally there is a 'Catch 22' here in that Standards Australia cannot grow and diversify its business and income streams until it can attract enough of the right type of staff. And it cannot attract those staff until it has sufficient income and caché.

Undoubtedly Standards Australia cannot be expected to boost its income off the back of 'donor fatigued' committees that currently provide all its intellectual property and much of its sales promotion for no reward.

The Federal Government, on behalf of the industries and people of Australia, should recognise that Standards Australia now has no commercial component and should accept its obligations to support and sustain our primary standards making body for the nation. While it could be absorbed into a Commonwealth Government Department (e.g. Trade and Industry) as occurs elsewhere, it seems eminently preferable that Standards Australia remains an independent organisation that receives Government funds to an extent that recognises:

- the significant contribution it makes to Australian commerce and international standing;
- the need to 'prime the pump' for the creation of further income streams and a more diverse business model;
- the need to be able recruit and maintain sufficient and high enough calibre staff;
- the need to at least stimulate, motivate and invigorate continued support from its committees by the payment of attendance fees and expenses.

In respect of the latter, there is no doubt that committee members would be willing to continue create and gift intellectual property to Standards Australia for the national benefit providing there was some token level of remuneration. The alternative process of contracting out

standard writing as occurs in other countries does not achieve the balance and ownership that occurs in Australia. Also while contracting out is efficient, it is also very costly.

I do not suggest that Standards Australia needs to pay professional fees to committee members but that they should offer a simple attendance allowance together with the payment of travel and accommodation expenses for interstate meetings. Even just the latter would make a very important gesture to the individuals concerned and their employers.

5 Conclusions

AS/NZS 4360:2004 is one of Standard's Australia's most important standards. The sale of the standard and its handbooks generates more income than any other. It is also the only Australian Standard that is adopted and recognised internationally.

The committee, OB7, which wrote that standard, generates many new publications for Standards Australia to sell each year. Currently the members donate their time, travel and accommodation costs and their intellectual property to Standards Australia for the good of the nation and its economy and with not other form of compensation.

The current Standards Australia business model is unsustainable. It requires further Government funding to ensure that it can move to become self sustaining and so that it can partially recompense the members of its committees on which it wholly relies for intellectual capital. At least it must start to pay, at the least travel and accommodation expenses.

I would be delighted to support this submission with further written or verbal evidence if required.

Yours faithfully

[sent by email]

Grant Purdy

Associate Director

BROADLEAF CAPITAL INTERNATIONAL PTY LTD

Chair

STANDARDS AUSTRALIA AND NEW ZEALAND COMMITTEE, OB7 – RISK
MANAGEMENT