

QUALITY MANAGEMENT AND EXPORT STRATEGY DESIGN

BACKGROUND PAPER FOR CONSULTATIVE MEETING

KUALA LUMPUR, 1 TO 3 DECEMBER 2009

1 BACKGROUND

In the present environment of increased globalization, evidence (survey and empirical) suggests that standardization and its conformity assessment companions have a very important role to play in technological progress, productivity and trade. Increasingly, global purchasers demand products and services that meet rigorous and advanced standards of quality, not only to ensure that such products and services integrate flawlessly with others in the supply chain, but also to enable such products and services to compete in foreign markets by satisfying customer demands and/or expectations and complying with a maze of technical regulations.

Hence, in order to compete successfully in developed markets, a developing country's firms face a formidable array of challenges and SMEs may find it most difficult to deal with these. They include logistics, management and financial issues, and the attainment of demonstrable product and/or service quality. In order to fully exploit the possibilities of such markets and to estimate the potential profitability, industry therefore needs to understand the scope and nature of market and regulatory requirements, and to find resources to meet specific standards and conformity assessment requirements.

This means that the influence and responsibilities of the National Standards Body (NSB) and the Trade Promotion Organization (TPO) of a country are on the increase, namely as two of the institutions most likely to be able to support industry and the national authorities in their overall quest for keeping and expanding existing markets, or accessing new ones for the ultimate benefit of business and the country. Although good cooperation exists between the two structures in some countries, it is also a fact that in many countries these two have not coordinated their efforts for a variety of reasons, or the thought has not really occurred to them to do so, i.e. they operate independently of each other.

The challenge for NSBs and TPOs is to identify the needs of their firms, and find the best approach to develop and strengthen their cooperation to support the international competitiveness of their industry to meet those needs, given the limited resources and constraints in developing countries. To explore these challenges, ITC jointly with ISO, is organizing an expert meeting as a forum for senior officials from NSBs and TPOs to share experiences and lessons learnt, to consider common challenges with regard to strengthening their inter-linkages, and to discuss and debate best practice cases. The final output of the exercise will be a publication that could help NSBs and TPOs to identify the needs, solutions and constraints through a guided, practical thematic approach.

This background paper endeavours to set the landscape for the debate, provides an indication of the type of issues that need to be discussed, considers some themes that few think about or are uncomfortable to discuss and hence sets challenges for the forum to consider.

2 PRIMARY REQUIREMENTS OF THE EXPORTERS

The needs of a current, potential or aspiring exporter in the context of the forum discussions are basically the same, and can be listed under three main headings. These are –

- Information;
- Capacity building and advisory services; and
- Obtaining and demonstrating compliance.

The first of these requirements is shared to some extent by TPOs and NSBs, probably with the TPOs in a better position to elicit customer need and to provide information on market requirements, and the NSB more involved in standards and technical regulation. The last of the requirements is clearly the domain of the NSB. The second need listed however, is a major issue for most developing economies. Neither the NSBs nor the TPOs are usually in a very strong position to satisfy the demands, yet they should to be able to facilitate it if need be and there is an increasing trend for TPOs to be involved in helping firms to get “export-ready”.

CHALLENGES

- a) How do countries ensure a proper and seamless division of labour between the TPO and the NSB in providing exporters and authorities with the information and support necessary to facilitate exports? Are success stories available that can be considered by others?*
- b) Should the division of labour be clarified by the Government, i.e. the Ministry responsible for trade and industry or should the relevant organizations do whatever they think is required?*
- c) Do we have examples of Export Policies and/or Quality Policies that create a proper division of labour?*

2.1 INFORMATION

Information regarding product or service quality is enormously important, because without it, exporters will not know if their offering can compete. The extent of the information can be quite formidable.

In the first instance, there are regulatory requirements that have to be met. These include technical regulations, compulsory standards and in some cases even compulsory certification. It is common practice in many countries that technical regulations are developed and implemented by many Ministries and/or their Agencies. Frequently these overlap, and the exporter has to satisfy more than one regulatory agency, deal with more than one set of specifications, conformity assessment requirements and pre-shipment or import inspection regimes.

Secondly, consumers have expectations or requirements, major purchasers such as retail chains may have requirements additional to those set by the authorities. In addition, in many developed economies pressure groups impose their own demands such as non-genetically modified, organic or

environmental friendly requirements. Lastly, private certification bodies (e.g. BRC, Globalgap, UL, TÜV, CSA, etc.) have gained such a market acceptance in some countries that without their certification, exporters have little chance to break into such markets.

CHALLENGES

- a) *Where in a developing economy can the exporter, potential or current, obtain this information? Are the TPOs and the NSBs in a position to provide this information? Are needs being met in other ways?*
- b) *How well does the National TBT Enquiry Point that is more often than not placed in the NSB, function? Does it successfully track technical regulation trends as notified to the WTO Secretariat? Does it provide feedback to all stakeholders in the country including the TPO? Does the TPO actively seek such a liaison? Does the TPO use its countries' embassies or (if it has them) its own offices abroad to supply information?*
- c) *How does the exporter know whether this information is complete? How do the TPOs and NSBs ensure that their information is up-to-date and correct?*
- d) *Do the NSBs and TPOs have an "early warning" system that alerts all stakeholders when things change or are about to change in identified target markets?*
- e) *Do the TPOs and the NSBs ensure that they minimise overlap in each other's information systems and data bases?*
- f) *What are the communication constraints in developing economies, and how can they be overcome by the TPOs and NSBs?*

2.2 CAPACITY BUILDING AND ADVISORY SERVICES

Armed with the requirements to be met, companies will need to work out how far their goods and services comply, what would be involved in adapting them, at what cost and whether the prospective gains from additional business make those costs worthwhile. To do this, they may need advice external to their firms and practical help in making the changes.

One would think that the NSB in a developing country, as one of the centres of excellence for technology, would be in the best position to provide such consultative services regarding compliance with standards and technical regulations in the target markets. After all, the NSBs are heavily involved in setting standards themselves, participate in regional and international standardization activities, and inspect and test products on an ongoing basis. Unfortunately this is not possible.

The reality is that the NSB has to gain international recognition for its testing and certification services. Their test reports and certificates need to obtain a "passport" to travel beyond their own national borders, i.e. need to be recognized in the target markets. Nowadays, this means that the NSB has to be accredited to ISO/IEC 17020, ISO/IEC 17021, ISO/IEC 17025 or ISO/IEC 17065 standards depending on the type of conformity assessment service rendered. All of these international stan-

dards however, are quite clear in that the testing and certification body is not allowed to provide consultancy services of any kind, although the provision of general training is tolerated.

The counter argument by developing countries that the border between consultancy and training is not well defined, that the government is demanding that they support local industry in their technological development and that the world must understand this, is not accepted in any of the developed economies. Hence, NSBs have little choice but to decline the invitation to provide consultancy services in this regard if they have to provide conformity assessment services that are to be accepted in world markets. If the NSB cannot provide this service, then where does the exporter in a developing economy go?

CHALLENGES

- a) If the NSB cannot provide consultancy services regarding products and/or management systems because they are the conformity assessment service provider of choice, where would the exporter find such services in a developing economy? Is it good enough for the NSB to just provide a test report indicating compliance or failure?*
- b) How can the TPOs support the exporters in helping to determine whether products meet requirements? Can the TPO augment the testing services of the NSB, and if so, how? Do they provide grants? Are there tax allowances for this expenditure?*
- c) Is there a way out for the NSB, e.g. organizational structure design, which would get them around the accreditation requirements of the ISO/IEC 17000 series of standards?*
- d) Should the NSB relinquish its testing and certification services, i.e. hand them over to private organizations, and then provide consultancy services? Will such consultancy services be able to replace the income derived from testing and certification, income that can be up to 80% of the budget of an NSB?*
- e) Are alternate structures available to provide such consultancy services, and if so, do we have successful examples that can be emulated? How would the TPO or NSB liaise with such alternative services without being biased?*
- f) Do we have successful synergistic alliances in this regard between the NSB and TPO of a specific country that can be utilised as a model for others to contemplate?*

2.3 OBTAINING AND DEMONSTRATING COMPLIANCE

Exporters have to demonstrate conformity to mandatory requirements laid down by regulatory bodies, in many cases through third-party testing and certification. This is also the case for voluntary requirements of major purchasers and consumers, who increasingly demand management system certification from their suppliers. In developing countries, it is frequently only the NSB that has the capacity to provide such conformity assessment services. Sometimes, multinational conformity assessment service providers operate in the country as well, but their fees may be expensive for the SME. The NSB and TPO, on the other hand, because they are national institutions, may have good connections to the SME sector.

Obviously, the first question to be asked is whether the results of the conformity assessment services provided by the NSB will be accepted in the target markets. In this respect, internationally accepted accreditation of the NSB, is a non-negotiable fact. The challenge for many developing economies however, is that the NSBs are frequently a bit slow in gaining such accreditation, it is expensive, and the financial support from government to provide the appropriate infrastructure, i.e. appropriate buildings, reliable electricity and water supply, foreign exchange for equipment maintenance and laboratory supplies, etc. is not forthcoming.

Secondly, conformity assessment services are expensive. These are frequently out of range for the SME sector. Many governments therefore demand that the NSB provide subsidized conformity assessment services. This is not a good call, as they distort the market, and compromise the sustainability of the NSB. In some countries governments have established rebate systems through which SMEs get a large percentage paid back after achieving certification, the more sophisticated ones staggering payment after a few years as long as suppliers maintain their certification.

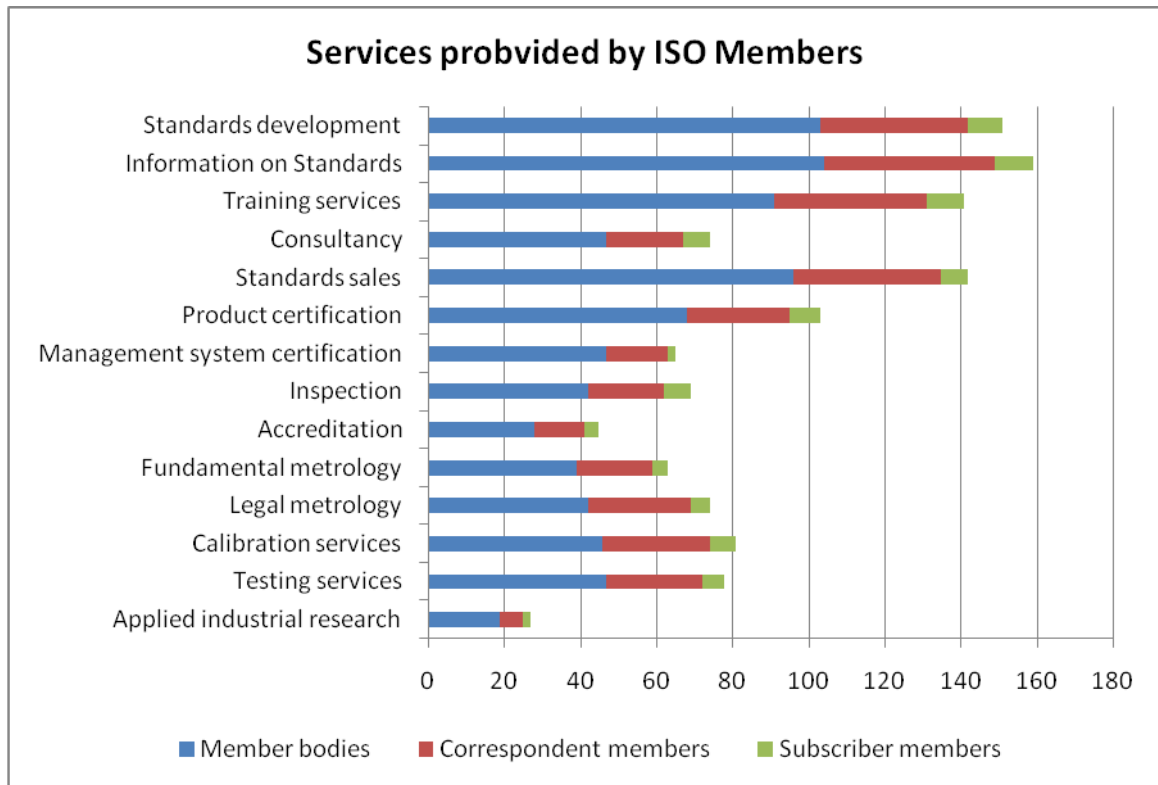
CHALLENGES

- a) Should the NSB be the conformity assessment service provider of choice that the TPO can work with provided that it is shown to be technically competent, or should the TPO have links to the multinationals as well? What has been the experience of successful exporters?*
- b) How can the NSB best ensure that it is properly accredited for all its services?*
- c) How can the TPO and the NSB work together to ensure that the appropriate conformity assessment services are established by the NSB which would most benefit the industry?*
- d) Should the TPO and the NSB work together to ensure that the conformity assessment services provided by the NSB will actually be recognized in the target markets? Or is this an aspect that is the sole responsibility of the NSB?*

3 SERVICES CURRENTLY PROVIDED BY NSBs

3.1 GENERAL

According to the latest information provided by ISO in their publication *ISO Members 2009*, NSBs in developing economies do not only engage in the development and publication of standards, but many also provide conformity assessment services, including metrology and accreditation services. All operate a standards information system. The overall spread of services provided by the ISO Members is shown in the figure below.



CHALLENGES

- a) *Have the appropriate mandates, mission statements and objectives for the NSB been formally articulated, and what role does support for the export sector play in these? Are these mandates part a strategic objective or policy of government?*
- b) *Which services do NSBs provide as specified for in their Law (if they are a statutory organization) or Articles of Association (if they are a private company)? Would they like to increase their mandates to areas that are not currently included? How could that be achieved and what would the stumbling blocks be?*
- c) *Should NSB be accredited or is it acceptable if they just trade on the fact that they are the national standards institution, i.e. their technical competency is “guaranteed” by their standing or by law?*
- d) *Should the NSBs be involved in technical regulation administration at the national level, and if so, how does that impact on their standing as a service provider and support organization to industry?*
- e) *Have the TPOs any influence in the governance of the NSBs, and if not should they?*
- f) *Should the NSB be a government organization (i.e. government department or statutory body) or should it rather be an autonomous private organization (public/private partnership, “not-for-profit” organization) in order to optimally support industry in their export endeavours?*

3.2 STANDARDS DEVELOPMENT

Most developing economies are “standards takers” rather than “standards makers”. The NSBs of many developing countries are therefore not very involved in the technical committees at the regional or international level. Two issues are important in this respect. In the first place, it has been shown by some developing economies that they can influence the development of international standards for the benefit of their industry by attending selected international or regional Technical Committee (TC) meetings of interest to their industry. Examples are India and South Africa that are currently hosting the Secretariats for ISO TCs for leather and coal respectively.

Secondly, by attending these technical committees or working groups, the NSB would gain advance information on trends in international standardization which could give the local industry an additional advantage in developing new products to ensure their markets are protected. By not attending, NSBs deny their industry these two very important sources of information and/or representation.

CHALLENGES

- a) *Does the NSB have a strategy in place to get involved in technical committees at the international and regional level? Is the TPO part of the decision making process for identifying appropriate TCs and the issues to be raised, and if not, why not?*
- b) *How would the NSB and/or the TPO ensure that the national position of industry is appropriately presented and/or defended at such international or regional TCs?*
- c) *How would the NSB and/or the TPO involve regulatory authorities in such standardization activities, the outcome of which would be standards that are more often than not utilised as the basis for technical regulation?*
- d) *Should the NSB gain the TPO’s support in securing funding from whatever sources to be able to represent the country at such international and/or regional TCs?*

4 SERVICES CURRENTLY PROVIDED BY TPOs

In general, a TPO should be finding out what their country's actual and potential exporters require by way of information and support, the extent to which those firms are currently able to satisfy those needs and how they are doing so, before embarking on provision of services from the TPO. Services provided by a TPO institution might be any or a combination of the following in the field of Quality Management. These might be free of charge or be chargeable:

- a) Holding sources of information on standards and quality requirements on the country's main goods and services exported to the main export markets;
- b) Running awareness activities such as workshops and seminars;
- c) An on-demand research service to ascertain comparable information on goods, services or markets not covered under (a);

- d) Information on testing centres for products or accreditation for services, whether located in the home market or in the export market;
- e) Advice on how a company can adapt its products or services to make them tradable in the export market;
- f) Providing training to companies on the procedures to adapt the products or services;
- g) In-company technical assistance to supplement company personnel skills and knowledge;
- h) An alerting service, whether or not tailored to products/services/markets to keep exporters up to date with changes;
- i) A mechanism to exhort companies to participate in or contribute views to international standards-making bodies which are considering changes to rules affecting their products/services;
- j) A lobbying mechanism in export markets to assist individual companies to get acceptance of their products or services;
- k) Maintaining a website to create awareness of the issues, with links to the NSB or other organisations which can assist; and
- l) Advice on any subsidies by way of grants or taxation allowances

A question is whether these services are needed in each country and then adequately covered in individual TPOs and how can their liaison with the NSB, government and industry be further strengthened.

CHALLENGES

- a) *In which way should the gaps in services and possible solutions be met by the TPOs and financed by government interventions, e.g. to what extent should costs be borne by the public purse?*
- b) *How important are standards and technical regulations obstacles to trade in the country's export sectors and should they be fought tooth and nail by the government in the appropriate WTO forums? Do the TPOs and NSBs have enough information on hand to identify key sectors and problems in order to sensitise government?*
- c) *In which way can TPOs themselves satisfy identified gaps within its remit from its stakeholders? What priority should this have in the allocation of staff and finances of the TPO?*
- d) *Should the effort be concentrated on a few companies best able to adapt, or should sectors and/or markets for priority action be amended so more firms can benefit? Or should the approach be much more general, and if so, why?*
- e) *Should the TPO provide a referral service to other agencies (domestic or international) which could assist?*

- f) *How can the TPO in cooperation with the NSB or on their own assist companies to estimate the extra costs of adaptation of products/services in order to secure compliance and to compare that with the benefits (financial or competitive) from gaining access to the markets targeted?*

5 STRATEGIC RESPONSE TO THE QUALITY CHALLENGES

In many countries that are serious about their export performance and integration in the world trading system, specific government policies have been developed and are being implemented to foster appropriate policy environments, ensure the establishment of a National Quality Infrastructure and Trade Promotion Organizations with appropriate mandates and financial support. In many countries this is still to happen, and in the absence of such strategies or policies it is unlikely that a coherent and successful strategy will be established. The involvement of all the stakeholders in the development of such strategies is likewise of utmost importance.

CHALLENGES

- a) *Does the government have an industrial development or export strategy in place, and what does it say about the roles of a TPO and a NSB in the field of Quality Management?*
- b) *If this does not exist, how could the TPOs and the NSBs go about persuading their governments that it is necessary to do so?*
- c) *How far is the support for firms to understand and equip themselves for foreign markets a priority call on the resources of the TPO and NSB?*

6 RÉSUMÉ

Some of the issues discussed above are common sense issues, some may not be. It is hoped however, that they would engender the development of really challenging presentations by all the participants, and that the issues can be honestly debated. The end-result will then be a meaningful publication that would be of benefit to many developing countries, not only those that participated.