
Report prepared for the Ministry of Business, Innovation and Employment

Insights into the operation of New Zealand's conformance system

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Executive summary

This report looks at the system of conformance in New Zealand. In particular, the report considers the effectiveness and sustainability of the conformance system by examining:

- how people use the system;
- what works well in the system and what works less well; and
- future challenges to the system.

The report's findings are based on 30 interviews conducted with a range of stakeholders within the conformance system.

The system appears to be functioning well

The vast majority of interviewees commented that as a whole, the system itself was 'fit for purpose' and responded well to demand.

Moreover, New Zealand was in step with international comparators in terms of the structure of the system and the conduct of players in the system. The conformance system performed well in terms of lowering barriers to international trade.

The involvement of key parties in international bodies meant that technology transfer (i.e. knowledge uptake) was positive and New Zealand maintained a good reputation on the international stage.

The system was easy to use, and there were instances cited of world-class thinking and performance. In addition, there is a high degree of trust in the conformance system.

Issues raised were neither widespread nor conformance infrastructure-related

Interviewees identified two sets of issues with the system. The first set relates to interactions between players in the system, while the second set of issues concern the sustainability of the system and interactions with other systems and regimes.

Sector-specific or idiosyncratic issues

Some interviewees questioned whether certain processes in the system could be altered to be more flexible and hence be of greater value. In other words, processes were deemed to be unnecessarily stringent, repetitive and time consuming.

The result was that a "compliance-based" mentality prevailed, rather than one focussed on "value-adding." Such a view was exacerbated by the rise in the number of service providers who were perceived as cheaper as a result of this approach to conformance.

These observations tended to be sector-specific, rather than widespread.

Issues relating to the standards system or regulatory regime

Other issues raised by interviewees did not relate specifically to the conformance system, but rather concerned the regulatory regime or standards infrastructure. This was particularly the

case for international trade, where regulators' lack of understanding of the conformance system led to misalignment of regulations with conformance, and concomitantly additional costs. Similarly, the lack of a universal world-wide standard meant that assessment against various standards also led to additional costs associated with the conformance system, but is not actually a conformance problem.

On the domestic front, the use of 'light-touch' and/or 'performance-based' regulations meant that conformity assessment was complex, especially in relation to products sourced from overseas. While a feature of the conformance system is the ability to effectively harmonise quality, assurance and safety, there are still cases where conformity is made more difficult by different standards and tests for overseas products used domestically.

Future challenges relate to workforce and ongoing value/quality

Capacity and capability issues across system

In terms of the future challenges faced by the system, a key issue was the capacity and capability of the workforce. An ageing workforce and lack of relevant skills in some (mainly technical or specialist) areas were cited as drivers of the experience and expertise deficits, which often raised costs but also threatened the future sustainability of the conformance system.

More recently, initiatives have been undertaken to improve the pool of available skilled labour, but this process will take time. For some highly specialised skill areas, it is not feasible or efficient for New Zealand to have such resource on hand, so the continued ability to tap into overseas technical experts will remain important.

Concern about a 'race to the bottom' undermining value of conformance

As mentioned above, there are some concerns that a tension exists between market dynamics and (perceptions of) safety and quality. Consumers (end-users) do not always have a good understanding of the quality associated with assurances from the conformance system. For instance, they can assume that the certificates or other forms of assurance from non-accredited providers have the same value as those from accredited providers.

Where such assurances are cheaper than those from an accredited provider, the conformance system may end up with a race to the bottom" in terms of quality, which is a threat to the future sustainability of the system. Normal 'market forces' that would see consumers as best placed to assess where to go to procure services would not operate, given the 'distance' between the consumer and the conformance system.

On balance, our view is positive

Overall, our assessment is that the conformance system appears to be in good health. The balance of views from stakeholders was positive, notwithstanding some 'pockets' of strongly held negative views.

1. Introduction

1.1 Purpose

The Ministry of Business, Innovation and Employment (MBIE) is reviewing New Zealand's conformance system. The goal of the review is to ensure that the system is working well to support a strong economy, people's well-being and Government priorities.

The content of this report fulfils MBIE's requirement to interview relevant stakeholders of the conformance system for their perspectives on the following key research questions:

- (a) How is the system working (i.e. usage and effectiveness of the system)?
- (b) Is the system sustainable (i.e. is the system structured optimally to continue to play its role)?

This report contains evidence on:

- how people use the system;
- what works well in the system and what works less well; and
- future challenges to the system.

The report complements other work being undertaken by MBIE as part of the wider review, which will result in a report to the Minister on the status quo, opportunities for change and next steps.

1.2 What is the conformance system?

Figure 1 illustrates the players in the New Zealand conformance system, as well as relevant international and regional bodies. The conformance system in New Zealand consists of:

- Accreditation Authorities (e.g. IANZ and JAS-ANZ); **who accredit**
- Conformity assessment bodies (CABs); **who certify/mark as compliant**
- Items, materials, products, systems and systems auditors; **which are utilised by**
- Users of the items, materials, products and systems; **which are ultimately provided to**
- Consumers of the end-products.

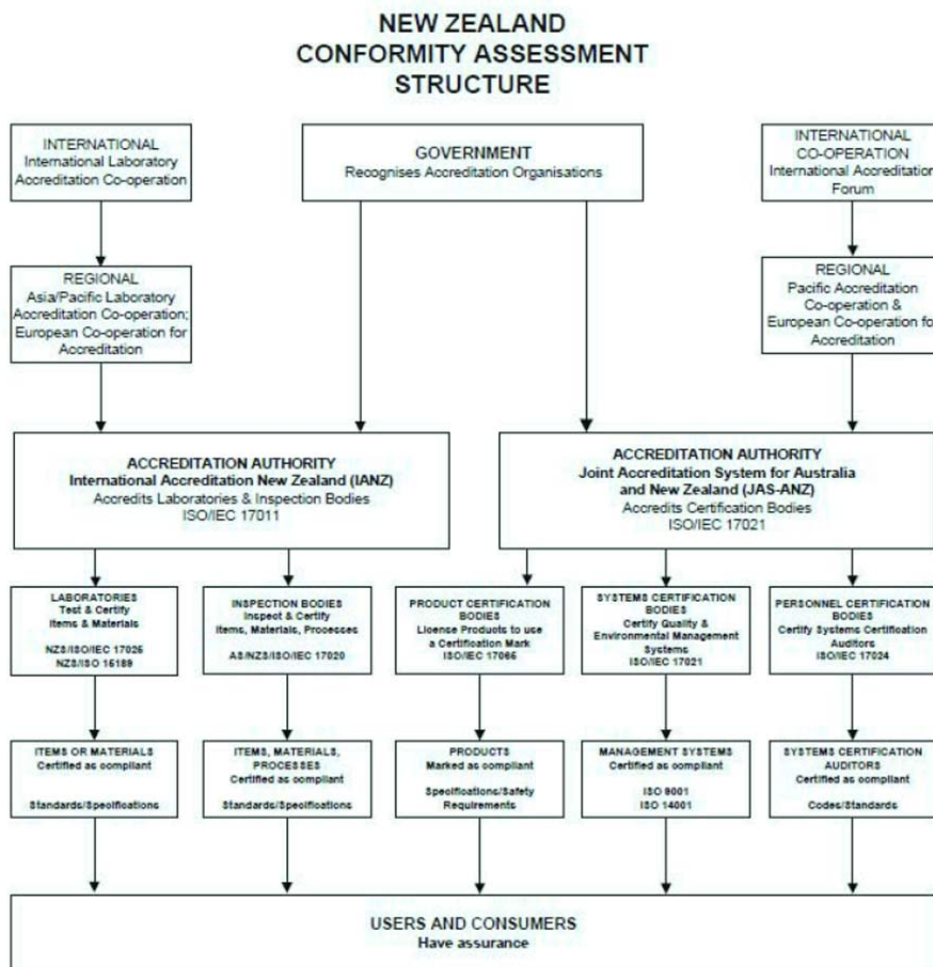
Accreditation ensures competence in conformity assessment. Accreditation authorities (e.g. IANZ and JAS-ANZ) use standards and technical experts to check and formally recognise that a conformity assessment organisation such as a laboratory or certification body is competent to assess conformance. In addition to IANZ and JAS-ANZ, ISQua (the International Society for Quality in Health Care) has a significant presence in New Zealand. ISQua is involved in accrediting national and regional health care facilities and are responsible for assessing the standards of organisations who set the benchmarks in healthcare safety and quality.

Conformance is the process of judging whether a particular product, system or service meets a standard or complies with regulation.

There are four main types of conformity assessment: testing, calibration, inspection and certification:

- Conformity assessment is generally undertaken by private organisations on a commercial basis.
- Specialist laboratories carry out tests or check measurements and issue reports.
- Inspection bodies undertake various types of professional inspections and issue inspection reports.
- Certification bodies license products, audit quality or environmental management systems, and issue certificates of conformity.

Figure 1 Overview of the Conformance System Structure



Source: IANZ

Table 1 shows how the conformance system works in a general sense.¹ The flow of relationships and duties from top-to-bottom indicates the role that parties play in the ultimate goal of providing assurance to consumers around the quality, fitness-for-purpose and safety of products and services.

As can be seen, the conformance system is wide-ranging and its reach pervasive. Reflecting both the need for tractability and specific interests, the elements listed below were out of scope.

- Metrology.
- Standards.
- Individual performance of conformity assessment bodies.
- Assessing problems with regulatory regimes that come into contact with conformance infrastructure.

¹ Note that the diagram does not cover all the roles and responsibilities of the accreditation authorities (eg JAS-ANZ also accredits inspection bodies), nor does it show directly the model used in the health sector. Under the HealthCert scheme JAS-ANZ and ISQua provide accreditation services.

Table 1 Examples of how the conformance system works

Accreditation authority	IANZ	IANZ	IANZ	JAS-ANZ	JAS-ANZ	JAS-ANZ
Relevant category	Laboratory	Laboratory	Inspection body	Product certification	System certification	Personnel certification
Conformity assessment body	Radiology service providers	Chemical laboratories	Drinking water assessors	AsureQuality timber treatment scheme	Multiple providers	CBIP (Certification Board for inspection personnel NZ)
Certified product/system	Radiology services e.g. PET, MRI	Paints and surface coatings	Operational and implementation inspection, design review and alteration	Treated timber	Food Safety management systems scheme	Qualification and certification of non-destructive testing personnel
User	Radiology staff	Road marking services	Drinking water suppliers e.g. territorial authorities	Builders	Any organisation in the food chain	Organisations that require non-destructive testing e.g. weld verification
Consumer	Patients	Public	Public	Building owners	Public	Users of created products

1.3 Method

The project involved a series of interviews with key stakeholders and a rapid review of some background documents (for context). In total we conducted 30 interviews, 25 involving conformity assessment bodies (CABs) and 5 with accreditation authorities (AAs).² Interviews were semi-structured in nature, organised around the interest areas identified above. The roles of the people interviewed spanned the gamut from Technicians, to Quality Managers and Chief Executives. Often the interview was attended by more than one person, and the interviewee had sought the views of others in the organisation, meaning that the number of people spoken to was around double the number of interviews.

In general, the interviews were around an hour in duration, though some took up to 90 minutes. The interviews were conducted on a ‘free and frank’ basis; on the understanding that the notes from the interview would remain confidential to us (i.e. the notes would not be shared). To preserve confidentiality, we have not included a list of the organisations or individuals who were interviewed.

We note that the study has some limitations that are worth keeping in mind. While the interviews covered a range of industry sectors and activity areas, we acknowledge that the sample may not have included some parties who might have held other views. In addition, the interview sample did not include regulators or end-users/consumers.

² Note that JAS-ANZ and IANZ were both interviewed twice.

2. Findings

Our findings are organised around the major areas of interest for MBIE, which we set out in section 1.1 above. We focus on the four dimensions of the conformance system. In particular, the:

- nature, extent and ease of use of the system;
- degree of trust in the system;
- sustainability of the system; and
- nexus between the conformance system and regulations.

Prior to presenting our specific findings relevant to the four dimensions, we set out a few more general findings from the interview work.

2.1 General observations

To follow are two observations that do not relate specifically to any one of the four dimensions of interest.

2.1.1 Stakeholders were very keen to participate

Once contacted, stakeholders demonstrated a strong willingness to be interviewed. None of the contacted stakeholders declined to be interviewed. Moreover, our anticipated interview time of 30-45 minutes was universally exceeded.

This is not our usual experience in projects such as these. Generally, we see some evidence of ‘survey fatigue’ and a reluctance to participate in interviews unless there is an identifiable and tangible benefit to the stakeholder concerned. Typically, between 20%-25% of parties approached would decline to be interviewed.

We suggest there may be two reasons for the enthusiasm witnessed. First, the conformance system is something of an iceberg, in that much of it is out of sight or is considered only implicitly. In contrast, related factors such as regulations and standards are much more visible and tend to garner greater attention, from both the public and government agencies.

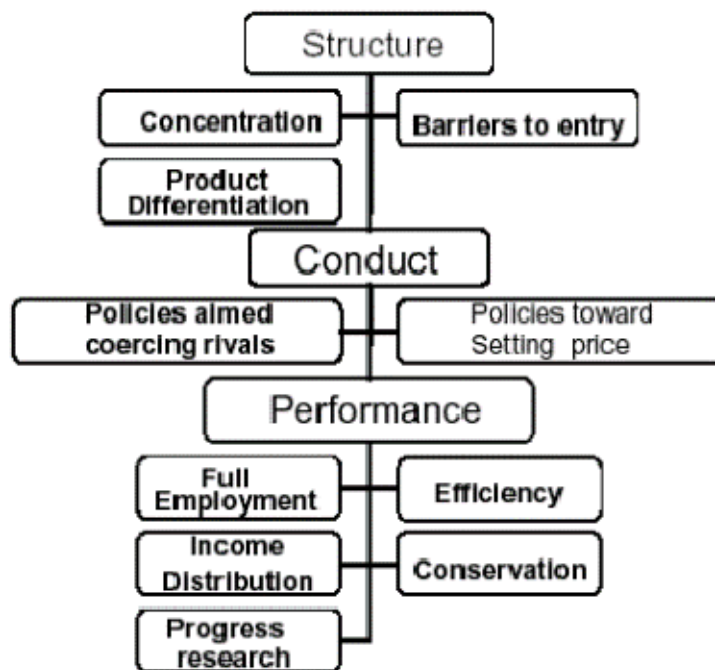
The second reason is that the relevant players seem to be heavily invested in the system and as a consequence the work they undertake. This passion extends to a desire to ‘spread the word’ on the nature and value of activities in the conformance system. From a practical perspective, the interviews gave the stakeholders a chance to have their voices heard outside of normal circles. Our impression is that such opportunities were relatively rare.

We took the willingness to participate as an early and indicative sign of the health of the system. It can often be the case that those most interested in having their views heard come from a position of negativity (i.e. people with complainants are often more motivated than people with compliments). However, our initial contact with stakeholders suggested the opposite may be the case.

2.1.2 Overall, the system is functioning well

In assessing the functioning of the conformance system we took a holistic view. We drew on insights from the industrial organisation literature and considered the system in terms of its structure, conduct and performance. Analogous to assessment of markets and/or industries, the underlying premise is that conformance system performance is determined by the conduct of players within the system, which in turn depends on the structure of the system.

Figure 2 The Structure, Conduct, Performance Paradigm



Source: Scherer and Ross (1990)

Structure is the set of organisational factors that are reasonably constant over time and which could affect the interactions of players in the system. Key elements underpinning structure are the nature of the product or service being supplied and the technology available. *Conduct* is the way that different parties in the system behave, amongst themselves and with each other. *Performance* can be broadly thought of in terms of efficiency, quality and quantity of products and services and resource allocation.

From an overall perspective, the interviews led us to believe that the system was functioning reasonably well. This belief was based on the following findings.

- *Interviewees struggled to identify issues*

The majority of interviewees could not immediately pinpoint issues or concerns of a systemic nature. That is, there did not seem to be pressing issues that participants wanted to 'get off their chest' and we got the impression that issues to do with the conformance system did not consume a lot of time or resources.

A number of interviewees operate across different industry sectors or activity areas in the economy, particularly for product certification. For these players, the conversation in the interviews tended to concentrate on certain industry sectors or areas of activity where issues were raised, as the other areas were free from issues or concerns.

Interviewees acknowledged the tendency to speak more about issues of concern than issues that did not overly worry them, or that were functioning well. That is, most interviewees were aware of the predisposition in human nature to focus on negative factors rather than positive factors. One interviewee summed up this observation by reference to news bulletins and newspapers, which tend to be dominated by bad news, as that what exercises most people.

When pressed, respondents did suggest some areas that could be improved, but they were not what we would consider systemic in nature (see below). The one exception to this finding relates to capability and capacity, where widespread concerns were pinpointed across the range of interviewees. We discuss this further in terms of sustainability below.

- *Concerns were idiosyncratic and not necessarily conformance-specific*

Unprompted issues identified tended to be vertical (sector-specific) rather than horizontal (system-wide) in nature. The areas of the economy where issues were identified include building and construction, food safety, and parts of the health sector. The concerns raised differed across sectors.

Furthermore, some of the issues did not necessarily relate to the conformance system. Rather, they concerned the conduct of and intersection with, regulators. We acknowledge that the boundary between conformance and regulatory systems is somewhat porous and this could give rise to possible inefficiency. We stress however, that clarity is needed in terms of where problems actually sit, and consequently what policy actions (if any) are needed and who should have responsibility for undertaking such actions.

- *Positive reactions prevalent*

While overall we received as many positive responses about the conformance system as we did negative, the key difference was that the positive comments were largely unprompted. This is important given the natural human tendency to be exercised by negativity than positivity.

We have found in previous work that interviewees often struggle to articulate positive factors or to be complimentary about systems or policies under review, relative to finding negative aspects to talk about. Thus, we caution against drawing the conclusion that the volume of negative feedback is indicative of a system in trouble and note the distinction between reporting what we hear and the supporting evidence or analysis of such claims.

Positive comments were as follows:

- The system architecture made sense and was ‘fit for purpose’ given New Zealand’s market size. The system was seen as responsive to market demand (as opposed to creating demand artificially) and the mix of voluntary versus mandated use of accreditation was largely accepted.
- New Zealand seems to be in step with international comparators in terms of structure and conduct of players in the conformance system.
- Notwithstanding some concerns in a particular area (discussed further below), the conformance system in New Zealand was reported to do a good job supporting international trade. It was well-respected and accepted in overseas jurisdictions, mainly because of its exposure to and interactions with international bodies and related standards, but also due to New Zealand’s wider reputation.

- In the health sector, there is evidence that New Zealand is forward-thinking in terms of accreditation, conformance and continuous improvement relative to other countries. This positivity seems to relate as much to the actions of the regulator (i.e. the Ministry of Health) as much as the conformity assessment bodies.³

2.2 Use of the system

As shown in Figure 1 there is a range of users in the overall conformance system. Given the preponderance of CABs in our interview frame we focus mainly on users of CABs and the use by CABs of AAs. To reiterate, the study did not include any end-users/consumers.

2.2.1 Users of CABs

CABs were asked how parties accessed their services, what factors were important in the decision to use CAB services and how CABs went about sourcing customers. That is, we sought to understand both the supply and demand sides of the market for conformity assessment services, but note that some CABs are effective monopolies and clients have very limited choice around use. The observations that follow were from interviews with the CABs themselves rather than their clients; hence they are essentially reported client views rather than direct views.

Motivations for system use vary, but compulsion seems to dominate

Some interviewees suggested a range of reasons for people using their service, but in essence it is either because:

- they have to meet certain requirements to sell into relevant markets (i.e. their customers want assurance); and/or
- regulations mandate some kind of conformity assessment/assurance (either from an accredited body or a non-accredited body); and/or
- the client sees the process as providing opportunities for continuous improvement; and/or
- the client sees the process as offering a market advantage.

Similarly, interviewees reported a distribution of proactivity and reactivity among clients. Some were using the conformance system to actively drive them towards improved performance and higher goals, while others were merely being pulled along in the system. Bigger and/or more sophisticated businesses were more likely to seek services as a result of investor demands based on risk (i.e. Boards looking to manage risks to business environment approach CABs for external assurance purposes).

The majority however, were using the system because they had to. That is, taking a more compliance-based approach, described by one interviewee as seeing assurance/certification as a “ticket to do business” rather than in a value-adding manner. There was some sense

³ Specific issues associated with the interaction of conformity assessment bodies (in this case Designated Audit Agencies (DAAs) are discussed further in following sections.

from interviewees with knowledge of overseas practice that New Zealand was not unique in this move towards commodification and that the same phenomenon seems to be prevalent overseas as well.

A small number of interviewees expressed the view that some differentiation was still possible from using third-party conformance services, but the advantage of moving first will naturally disappear.

When asked their opinion of whether client would continue to use their services if they did not have to (i.e. to what extent is their inertia in the system?) almost all interviewees commented that they do not believe it likely that many clients would continue to use the system at all.⁴

Main sources of demand are passive rather than advertising

Most interviewees claimed that business is derived through more passive means such as word-of-mouth, repeat business, relationships and referrals from other clients rather than actively seeking new business. IANZ and JAS-ANZ also maintain CAB registers which clients can refer to, meaning no advertising is needed.

In addition, some CABs get clients because the clients perceive them as the only or main provider of services. This is usually the case where specialised expertise is historically tied to manufacturing processes (e.g. marine surveying). These so-called legacy-based clients are relatively rare.

More typically, especially in relation to certification services, potential clients will ring first for advice (generally to clarify what is required by them to sell into a particular market or meet regulatory requirements). Following this, they then do a 'ring around' for prices and often make their decision based on price.

System is easy to use; churn exists but is not significant

In terms of barriers to use of the system, cost was the single most cited cause for concern. This is particularly so for smaller businesses requiring accredited certification. Bigger companies tend to use bigger CABs.

The degree of client churn experienced by CABs is dependent on the type of service offered (certification, inspections, testing), with certification likely to experience more 'market testing' by clients than other services. To a large extent, this reflects the degree of competition in the market, as the numbers of providers grows for a reasonably static demand. It may also reflect the relative sophistication of the client, according to some CABs.

However, this customer restlessness is not uniform (and is not universally considered a bad thing). For instance a client satisfaction survey undertaken by one CAB providing certification and verification services found over half of their clients had been with them for over seven years. A lot of these businesses and individuals don't remember how they came to be clients of the CAB, but word of mouth was considered as important by the CAB. A CAB in an unrelated industry claimed a 98% client retention rate, with most clients with the

⁴ We discuss this element further in the section on sustainability.

CAB for at least five years and some up to 15 years, repeating certification every year. They cite a churn rate of between 4% and 8% with those clients who leave not continuing to seek certification, rather than getting certified by a competitor.

Another CAB reported that history plays a big role in client use of their services. With an older demographic, they become used to the process and continue to use the CAB services even when they are not mandated to do so.

2.2.2 CABs views of Accreditation Authorities

For some CABs, their view of AAs reflected a general view on accreditation itself- that it was a “necessary evil” and to be endured rather than enjoyed. On the other hand, some CABs were more positive of both the ‘value’ of accreditation and the role that AAs play in the system. A small number of CABs focussed more on their interactions with individuals in AAs, rather than the AA itself, and this feedback tended to be negative. On the whole, the feedback was positive, with most people expressed positive views in a somewhat relaxed manner, with a smaller group expressing negative views with much more force and vigour. Some CABs had a foot in both camps.

AAs provide valuable services

CABs generally thought that AAs promote impartiality and that such impartiality is a good thing in a small market like New Zealand, where “everyone knows everyone” and the potential for conflicts of interests is high. In addition, accreditation was seen as a useful signalling device in terms of sorting out “cowboys” and “fly-by-nighters.”

In this regard, the ‘badge’ gained by accreditation is valued not just for the direct effect of knowing that CABs are qualified to assess against relevant standards (i.e. internal assurance) but also as a way of distinguishing between those with a focus on quality and those with other focus areas, such as expediency.

In addition, most CABs appreciated the international reputation and recognition that AAs had through ILAC and APLAC, for instance. A CAB that operates internationally as well as domestically commented that AAs in New Zealand are world-recognised by peers and could be considered as world-leading in terms of responsiveness, reducing the bureaucracy often associated with communications and non-technical interactions.

Away from direct interactions, AAs were seen by some CABs as providing an indirect wider market assurance that everyone is being audited by someone with similar competence. AAs are a form of “check and balance” that make is valued by market participants.

Relationships are developing well in some areas

While there were a number of interviewees who did not have comments on the relationship with AAs, there were also some who spoke of good relationships and a continuing evolution of positivity. This is most prevalent where the respective parties develop mutual understanding and recognition of each other’s roles and the context of the operations under study.

For instance, one CAB decided approximately 15 years ago to increase quality to get a competitive advantage. They involved the AA in that change process and sought to drive the

altered requirements into relevant standards. When a major sectoral crisis occurred subsequently, the CAB was around five years “ahead of the game” in terms of preparedness.

A further positive is that AAs develop an understanding of the complaints process and over time know that complaints may be a normal part of business, but need not negatively affect the AAs review of the CAB. It is how complaints are managed that the auditor looks at as part of the accreditation process and that is viewed positively by the CAB.

In addition, to the need for mutual understanding to underpin the relationship between the AA and the CAB, some self-interest was reported by one interviewee. The interviewee claimed that if they were paying “good money” to be part of the accreditation process then it makes sense to put effort into the relationship and better understand the landscape and focusses of the AA, so that CAB can prepare. Also, if you are serious about the accreditation process, then it is commercially astute to seek value from the process. A good relationship with the AA will assist that.

Contrasting views in some areas

In one particular sector, concerns were raised around the inflexibility of AAs is their assessment approach. There were two strands to this inflexibility. The first was process-driven, whereby the assessor stuck rigidly to a “checklist approach” in almost a robotic fashion, resulting in what the CAB saw as wasted time, given previous audits had revealed no issues. The second strand was capability-driven, where the assessor was trained in a specific discipline and was unable to apply that training to the specific sector in which the audit was taking place. In that sense, there was something of a mismatch of auditor skillsets and the idiosyncrasies of the sector being assessed.

The interviewee went on to say that an approach of strict adherence to standards has the advantage of consistency in any audit/review process, but the big disadvantage is in terms of innovation and alternative ways to meet the standard and generally raise the bar. This is especially problematic in the health sector where it is not just about machinery, but also people. Relationships are important to the functioning of a quality health system and this is different to other sectors.

Further feedback reflected historical experiences that were still felt today. Relationships with AAs tended to be more directive than consultative, making the experience unpleasant from the CAB perspective. Things were more black and white, especially when interpreting ISO standards where words can have different meanings to different people. Now, however, things have improved significantly and it is now more of a risk audit than a compliance audit, with acknowledgement that grey areas exist. The relationship with the AA has improved to the point now that the DAA is actively seeking AA attendance at meetings and discussions that they would have previously sought to exclude the AA.

Other CABs talked warmly about the relationship with AAs and the evolution of understanding between the parties. When asked, very few CABs had any comments in terms of improvements that could be made by AAs, but most expressed a view to meet more frequently and develop the relationship more fully in future.

Staff capability issues cause concern also

The issue of ill-suited staff mentioned above is not the only AA capability issue raised by CABs. Non-responsiveness of some AA staff in the past was mentioned by a CAB. The lack

of communication skills led to the entire experience dealing with the AA being ruined. This was not a process issue as much as a person issue.

In other sectors some gaps in AA capability were also identified. Unlike the above examples where AA reviewers were ill-suited to the task, CABs mentioned the lack of technical capability in AAs as an issue. While the CABs acknowledged that New Zealand is a small market and the relevant industry sectors are relatively specialised, some frustration was expressed at the need for the CAB to get international expertise at some cost to them.

System structure not an issue for CABs

Only one CAB raised the issue of structure in their interview. The particular concern raised was the potential for conflict of interest between IANZ and Telarc due to the ownership arrangements. When pressed, the interviewee was unable to cite examples of behaviour that could give rise to actual conflicts, and conceded it was just “not a good look” rather than manifesting in anything untoward or harmful.

All of those interviewed who offered an opinion on New Zealand having two major AAs (with some, minor overlap) understood the historical context and relevant specialisations that led to the establishment of the joint AA structure. On the whole, the structure of the conformance system was not an issue for CABs. One raised it as strength, in terms of allowing for auditors to be audited. That is, if there were not two AAs then the level of trust that comes from independent accreditation of AAs themselves would be diminished, flowing down the chain to CABs and other system participants.

Case study: Designated Auditing Agencies for Ministry of Health (mandated by legislation)

How the scheme works

Regulator: This accreditation regime has distinct features. The Ministry of Health is responsible for issuing certification to Aged Residential Care (ARC) facilities which it does on the basis of audit reports received from one of five Designated Auditing Agencies (DAAs). DAAs are designated under section 32 of the Health and Disability Services (Safety) Act 2001 to audit health care services such as aged residential care facilities and hospital care services. DAAs are required to hold third party accreditation with a Ministry-approved body. The certifying bodies are accredited by one of two accreditation authorities namely ISQua or JAS-ANZ.

The Ministry of Health also oversees the legislation enacting the requirement for audit. There is particular interest in this audit activity. The population being served by ARC facilities is highly vulnerable and there is close attention to their ongoing safety and quality of service.

Overall

Interviewees felt the system was working. The Ministry of Health, as the regulator, was felt to be responsive and effective. There is no shortage of auditors although there is a need to plan for workforce attrition given training takes one year. Over time, both third party accreditors have made concessions to standard procedures and in particular have implemented midpoint reviews.

Issues

A review of third party accreditation of DAAs noted a number of issues in 2015⁵ as follows:

- There was a lack of clarity and understanding across the sector of the respective roles of third party bodies, DAAs and the Ministry of Health.
- The Ministry of Health was responsible for regulatory enforcement but had a limited range of enforcement tools.
- The role of accreditation was not explicit and the particular configuration of third party bodies was unprecedented.
- There was a query whether there was an imbalance by the Ministry of Health on administrative performance rather than matters of substance such as quality of audit.
- The focus on process level matters was resource intensive. The Ministry of Health was intending to review its performance indicators to reduce compliance cost, at that time.
- There were relationship issues and a need for greater role clarity in several directions.

Current interviews suggest that expectations of the system are high and pressures for continuous improvements will be multi-directional (i.e. CABs exert pressure on AAs in terms of their hopes for system improvements as well as AAs continuing to request CABs demonstrate competence):

- Competition may not be helping according to one third party accreditor. One third party accreditor indicated it was considering reducing its standards so it was able to charge the same as its competitor – or withdraw.
- The accreditation processes are felt not to add value to the DAAs.
- Duplication of audit by multiple agencies adds a substantial compliance cost to health providers. “Duplication of audit is occurring. It is completely wasteful and ineffective, non-productive, inefficient.”
- Standards don’t stifle innovation but don’t promote it either. A DAA prompted a third party accreditor to pre-approve a change and there was no response. There is little development of the standard thus holding back innovation in the sector. Technology such as medicines management can overtake the standard.
- The playing field is not necessarily level, as some DHB-owned shared service agencies sometimes provide free audits in areas where for-profit organisations operate.

⁵ Review of third party accreditation of Designated Auditing Agencies, 12 March 2015, authored by David Moore, Jo Esplin and Joanne Smith of Sapere Research Group.

- There is a substantial entry barrier for any new DAA with an 18 month compliance timeframe.
- Some important issues such as information security are under-cooked.

2.2.3 Accreditation Authorities' views

New Zealand not unique in having two AAs

One AA saw New Zealand as somewhat unusual, but not unique in having two major domestic AAs. The relevant specialisations across the two AAs provided a 'natural separation' and the potential for overlapping (potentially duplicating) service provision is limited. Both AAs in New Zealand were of the view that they work together well when required. There are some areas where they speak as a single voice (e.g. ISO 17020 for Wine management) as it is efficient for them to do so.

Parties understand the history surrounding the creation of JAS-ANZ (to avoid a potential conflict of interest) and acceptance of current arrangements is now high, despite one or two wrinkles in the past in respect of territorial boundaries and competitive tensions.

AAs differ in focus, but both see value in their role

The domestic AAs see themselves as having slightly different roles. The primary focus of one AA is to help markets and business grow and being constantly on the lookout for trade and commercial gains more generally (not necessarily for the AA itself). The AA is focussed on making sure what they do is aligned to this goal, and done with integrity to provide confidence. This AA reports they are used to provide efficiency gains for their clients.

The other AA seems to concentrate more on ensuring technical competence and adherence to quality standards. The link to market and economic growth is much less direct for this AA, though they commissioned work estimating the economic value of the services they provide and this seems to underpin the way they view themselves in terms of their place in the system. This AA alludes to more quality and assurance-based reasons for why people use them.

Compliance mindset in some CABs as well

An AA identified conservatism as the biggest issue they see in their networks. This conservatism manifests in a compliance mentality, rather than an improvement one. Furthermore, there is a failure to take a big picture view and some CABs lack maturity in terms of being able to assess how chains link together.

Taking a big picture view can identify things that aren't evident taking a micro view. For example, an organisation might have 10 schemes, with 10 people looking at each one is isolation. If someone is able to go in and follow the process over the top, then some of the overarching processes are likely to be the same.

This approach allows additional (business-wide) insights to be made as opposed to a check-box approach that is isolated to particular units or parts of an organisation rather than the organisation as a whole. If all parts of a business are working well individually, but acting

against one another in terms of resource use, timeliness and interoperability, then gains can potentially be made through a coordinating mechanism.

This involves auditors taking a business analyst view (as opposed to a technical/specialist view) and engaging with Managers who have a strategic role in order to look for innovation and value-added rather than process efficiency. There has been positive feedback from clients in relation to this more dynamic and changeable assessment method.

AAs respond to, rather than create need

When asked about efforts to extend the reach of the conformance system and proactively stimulate demand for accreditation, both AAs expressed some misgivings about taking that approach. In particular, they reacted negatively to the prospect of creating schemes for the sake of it. The approach is to assess and respond to need. Rather than fabricate situations that will justify the creation of a scheme, more restraint is used.

AAs see themselves as helping people discover need, not creating that need to suit their own business goals. In that sense, AAs are not the same as a traditional business. Instances were cited where organisations thought they wanted a scheme, but after talking with them, and perhaps providing technical support, it was discovered that they don't actually need accreditation for what they want to do, and the AA will tell them so.

One AA was very forthright on not being seen to chase clients and being choosy about whom they have as clients. This is taken very seriously. Filters are used to identify potential poor performers and those with motives that are not aligned with the AA's view.

Use of accreditation could be higher with greater knowledge

Three issues were identified in terms of the use of accreditation.

- Many regulators do not use accreditation but should, as the AAs could offer a more rigorous process, especially in the inspection body arena where there is some competition between AAs. In such a situation, the regulator does not always know which AA they should choose and so chooses to do testing and assessments themselves. Given the regulator's focus is not necessarily conformance-focussed the level of testing and assessment may be lower than that which would take place were accreditation was mandated, reducing the key gains around trust and lower costs that accreditation supplies to participants.
- Lack of awareness of accreditation among regulators. Agencies developing regulations should be pointed in the direction of AAs early, rather than having to retrospectively change regulations. This situation seems to arise because of ignorance/lack of awareness rather than any inherent objection to consulting AAs. Again this issue seems to relate to the different focus of regulators and AAs/CABs, but more consultation would, in AAs view, allow for better alignment between regulations and assessment against standards, lowering the risk of duplication and additional costs from misalignment and/or ambiguity.
- There are some informal interactions between AAs and parties wanting advice and expertise where those parties have been referred to the AAs by agencies and regulators. By virtue of reputation, the AA is seen as the "fount of all knowledge" in technical matters. An AA is often leant on when nobody else knows (e.g. importation of racing bikes, steel import or prefabricated houses), when this is not necessarily their role and

the advice is provided *pro bono*. Implicitly, for products coming into New Zealand, the view of some bodies is that “if the AA says it is Ok, then it’s alright by us.” The AA is not a regulator and shouldn’t be in this position, but do not like to turn people away.

Some years ago a workshop was held by MBIE for regulators on how to use accreditation. The workshop went down very well and further workshops were requested, but to date have not been followed up. The possibility of increasing understanding and sharing knowledge seems to have been missed.

Overall view is that system is functioning ok

AAs considered that the whole system (including AAs) is working quite well. This issues they raised in interviews were considered relatively small in the wider scheme of things. It meets both international trade and domestic commerce needs. Client surveys indicate satisfaction with AAs on the whole. The system is not something that is broken as such.

With specific reference to issues raised by CABs concerning AAs, the following feedback was received:

- *Capability and capacity*- AAs acknowledged concerns as valid, and had recently taken steps to address this. The issue of technical capability is vexed. It is not efficient for New Zealand to have highly specialised skills “on tap” and it is often difficult and costly to secure such services, but both AAs strongly believe in the approach of using the best person for the job, regardless of their location.
- *Lack of flexibility in assessment*- AAs accept this as a criticism and have heard it mentioned previously. The point was made that for assessments in a regulatory context there is little scope for flexibility, as a clause-by-clause approach is needed. In addition, where the standard hasn’t changed, then the process for assessing against the standard should also remain the same, in order to get an objective and ‘standalone’ assessment. Furthermore, some clients expressed the view to AAs that regardless of whether or not people and/or test methods have changed, they value the AA acting as a ‘check’ that the relevant factors in the organisation (e.g. systems, personnel, equipment, controls) are still performing as they should.
- *Cost effectiveness*- again, AAs see the point that CABs make in terms of wanting to pay less. However, they counter by indicating that for some parties where accreditation is mandatory, accreditation is a normal cost of production and is a very small fraction of such total costs. In addition, AAs state that the credentialisation function provided by accreditation has a value far in excess of the cost of assessment. Nevertheless, AAs indicate that they are working to reduce the volume of time/cost associated but that process will take time.

2.2.4 How technology change is affecting use of system and CAB operations

Across the board, interviewees spoke of the major role that technology is playing and will continue to play in the work they do. International connections and interactions provide exposure to the latest developments. In addition technical experts are often used by AAs and some CABs, providing technology transfer and insight. This allows assessors to effectively keep up with the play in relation to how technology affects conformance to a standard or other requirements.

Standards and regulations are often slow to change

One issue identified by AAs is that although they use technical experts in their work and see themselves as dynamic in their learning, standards and regulations can lag behind technology. This can create a tension in assessing against standards or regulations. It can also result in wasted resources where ‘new tech’ may be at odds with ‘old tech.’

There is also an international dimension in that New Zealand can change its accreditation criteria for given events (e.g. for drinking water standards) but international standards lag behind. The AA ends up accrediting to a higher standard than that which applies internationally. This may not necessarily be a bad thing, but does have the potential to frustrate through inconsistency.

One CAB also mentioned the possibility that if the standard has not picked up on technology change, then this could create laggards and standards end up becoming inhibitory where the standard precludes parties from using something. One example cited in the interviews related to motorcycle helmets. Previously helmets were a hard plastic box around the head, but a Swedish company has developed a helmet that is essentially a collar that detects changes in speed (associated with crashes) and deploy an airbag that creates a bubble around the head. According to the interviewee this will never comply with local standards and hence is unlikely to make it to market despite fantastic test results.

While a standards issue rather than a conformance one, it illustrates the extent to which impacts of technology can vary across functions relevant to, but not necessarily a key part of, the conformance system.

Further examples cited related to the Internet of Things and the costly conformance processes that might be barriers to creating products such as smart coffee cups in overseas markets.

Technology altering way people work

Interviewees reported that technology change is constant and comes with challenges as well as opportunities. Where technology results in new products being used then assessing conformance becomes more difficult and time-consuming as assessors need new knowledge. In addition, according to one CAB software tools developed for clients in order to be as efficient as possible can cause contention in relation to accreditation, which does not recognise automation in all settings, possibly due to privacy and information security concerns. According to this CAB, the arrival and uptake of blockchain will bring about change in how software is viewed by AAs.

On the other hand, technology has meant a substantial reduction in the use of paper-based methods. For instance, a Building Consent Authority stated that around 70% of submitted plans are now online, which has massively reduced the piles of paper (and the need for delivery, preparation and storage of such). In addition, building information modelling technology is excellent, allowing for virtual walk-throughs including plumbing and drainage elements, which was not possible previously.

Many people raised the prospect of virtual audits being possible due to technology. This would significantly streamline the process, but take-up is reported as mixed, particularly in relation to AAs, where significant time seems to be taken up onsite doing paperwork that could have been done ‘at distance’ and then the value of time onsite would be improved

considerably. As mentioned earlier, AAs are working towards fuller digitisation (as are CABs, particularly BCAs) and we note that improvements have been made in this area.

In one instance, the CAB reported using the precautionary principle with respect to particular technology changes. When faced with novel materials, they first look to relevant codes and then to other trading partners usage of such material. Finally, the CAB looks onshore to see what is being used in New Zealand and filters on that basis. If novel materials were being developed for New Zealand, then the industry has proposed an external panel working group of experts, accredited bodies, retailers and consumers to examine the merits. This approach is used overseas.

One CAB referred, with mixed feelings, to the increasing availability of self-assessment tools online. The CAB acknowledges the potential for online tools to be helpful in collating all proof of completion of employees (e.g. working at heights, etc) in one place and the use of data collection to better measure industry conformance. However, online self-assessment tools are also limited, and in the view of the CAB should be supported by human intervention, as humans are able to make observations and deeper interactions.

The prospect of technology eventually superseding auditors was raised by two CABs. While this may be some way off, in theory at least, the view was proffered that machine learning, artificial intelligence and other automation might not only improve the way people in the conformance system work, it may be that they replace those people. One CAB saw this as a risk, the other more an opportunity.

An example of technology bringing benefits to all in the value chain

A CAB told us of technology that improves the confidence likely to be felt in relation to the conformance system. It involves a product (item of clothing) that when sold overseas the customer can get data from the clothing label that reports on the quality of the materials it is made from, traceability back to the original location where the material was procured, certification and other information around source. The CAB said it was beneficial for it to signal its involvement in the provision of certification, good for the manufacturer of the garment and especially good for the customer. In essence, technology provided transparency to a system that is often hidden or not thought about explicitly at the consumer end.

2.3 Intersection with regulation

Throughout the interviews, the nexus between the regulatory system (and regulators) and the conformance system was consistently brought up as a concern. Often the systems appeared to be being conflated (i.e. regulatory issues were couched as conformance system issues).

2.3.1 Regulators' use of the system

Regulators lack awareness and understanding of conformance system

Both CABs and AAs raised the issue of regulators' apparent lack of understanding, or regard for the conformance system. In one case the regulators were defined by the relevant Act, but according to a major player "... have a complete lack of understanding of the system." The issue was characterised as legislation (and subsequently regulations) being developed essentially in ignorance of the role that accreditation, conformance and assessment plays in the ability of producers to sell their goods.

The result is that costs multiply due to duplication (see below) but also time and resources involved in educating regulators what the AA does, and what the conformance system is. In the view of this interviewee, this is stuff the regulator should already know. The interviewee was clear, it was not a lack of confidence in the conformance system but more a lack of understanding of respective roles in terms of providing key assurances that are necessary for the goods to be supplied to market.

This player is happy to continue disseminating information, but feels some assistance from central government (MBIE in particular) would be helpful. Other areas where a lack of understanding was mentioned include physical industry standards, lab testing and environmental certification.

A couple of CABs suggested that high staff turnover in regulatory agencies as a possible source of the issues identified.

Regulatory regime makes life more difficult

New Zealand's regulatory regime was seen by many interviewees to be a source of concern. There were two dimensions to this view: light-touch regulations and performance-based regulations.

Some CABs indicated that more thought could be given to mandating third-party conformance assessment. Light-touch regulation opens the door further to non-accredited services (the regulation/legislation may not require certification by an accredited body). In the view of some CABs you get 'cowboys' offering certificates which won't be as good as accredited body certificates, but will be cheaper.

While understanding the need for markets to function and to minimise re-tape, the general 'hands-off' approach to regulations makes New Zealand stand out compared to countries we normally compare ourselves to.

For instance, interviewees claimed that in the United Kingdom the pendulum has swung back towards tougher and more 'hands on' regulation in the building and construction sector as well as more industrial activities. Australia was often cited as an example where the regulatory approach was much more rigorous and 'had teeth.' The concern is that economic reasons are trumping safety and environmental goals. In the minds of some interviewees this approach is neglecting a basic duty of care and regard for standards. An example was given of non-compliant industrial assets being brought into New Zealand that were given dispensation due to their important role in production (i.e. an economic reason). The dispensation was however, never followed up as the regulatory regime does not go far enough to encompass regular and rigorous inspection.

Similarly, non-prescriptive, performance-based regulation raised concerns in a number of sectors. The use of "all practicable steps" and "use of a competent test" without clear definition of what that means and delineation of what would meet the requirements creates uncertainty and this makes it difficult to assess, audit and certify. One CAB suggested that such uncertainty could manifest in problems in areas such as infrastructure, building and construction, and has already shown up in the case of the Rena grounding and oil spill in the Bay of Plenty.

Building products were most frequently mentioned as a challenge. Rather than discrete product standards which are well documented specifications, the building code is the

specification to be used. The code has performance requirements as opposed to discrete standards. At times, the regulator will issue alternative solutions (i.e. ways in which compliance to the code can be achieved), but this is not always the case. The problem is the possibility of variation between bodies in how to assess.

A popular view was that the ideal is a simple, unambiguous statement to assess against. Performance-based regulations come with many qualifiers, which are challenging when the market is full of highly motivated and often self-serving suppliers. This can create pressures which lead to the use of products or systems where there is some doubt around their fitness for purpose, or accusations of time-wasting and bureaucracy when the certification body has to develop an evaluation process for novel products and systems.

While there is a good degree of support for the possibility that performance-based regulation can encourage innovation, there is also concern that it is significantly more difficult to certify against performance-based regulation.

The major reason interviewees were concerned was the environmental and human safety risks that are being taken (perhaps unwittingly) at present. In their view, a change in regulatory regime would minimise or manage than risk better than it is at present. The prevalent attitude in New Zealand is not to worry until things go wrong and this does not help the situation.

Regulators can often have a myopic view

A small number of interviewees indicated that regulators take a view that is not always conducive to smooth, well-functioning interactions with the conformance system. Two interviewees mentioned that regulators seemed to be too narrowly focussed on domestic issues and gave little regard to the international environment. This myopia contributes to some difficulties for parties that need to meet international standards and regulations and for assessors in choosing which standard to assess against. It was also thought that such a domestic focus might mean regulations are too slow to change in the face of technology and preference changes.

In addition, one interviewee lamented the fact that regulators seem to take a risk minimisation view in their activities, rather than a view focussed on growth and improvement.

Both these views were contradicted somewhat by other interviewees, who suggested that regulations should be focussed first and foremost on New Zealand as there are factors idiosyncratic to New Zealand (such as weather conditions and geography) which require specific consideration. In addition, as mentioned earlier, some interviewees thought that regulators did not give sufficient weight to risk in the development of regulations or their broader activities.

2.3.2 Misalignment of regs with conformance

The issue of misalignment between regulations and conformance centres mainly on the potential for duplication as a result of requirements in regulations either requiring parties to effectively double-up on testing and/or assessment or differing standards contained in regulations and used by assessment bodies.

Additional costs do not always produce additional benefits

In the case mentioned previously, a divergence existed in relation to the standard set by the sector and that contained in the relevant Act. Suppliers of products have to meet both standards but the industry standard is higher than that contained in the Act. This means that costs increase but there is no payoff in terms of increased product safety or quality as a result of the additional compliance.

Further, the Act requires suppliers to be registered with regulators, but given the lack of knowledge of the regulators, questions were raised as to the utility of such a requirement. Suppliers would rather compliance be managed through a single entity and there is some tension felt by suppliers in relation to the industry (private) standard and regulations. The industry standard was set with reference to international standards (which has a high bar) but regulators “came to the party 15 years too late and it shows.”

A similar issue was raised by a CAB which operates in a trans-Tasman environment (i.e. products registered in Australia are listed in New Zealand) and sees the biggest issue is aligning regulations with standards. Australia has regulators who are strong and hands-on with respect to performance standards. They have evolved around standards, and moved away from ISO standard, whereas New Zealand seems to be still lagging somewhat.

A final issue was raised by an AA in terms of alternative accreditation opportunities being available and recognised by the regulator. The AA sees that the alternative offering is weak in some areas but is at something of a disadvantage because if they call to account a CAB, the CAB could “jump ship” to the other scheme. Moral hazard is present. The AA is considering ‘dumbing down’ to the lower performance standard to ensure that they maintain competitive. In their words, “...if the regulator has determined that something less is acceptable, we would be fools not to respond.” Another alternative to the AA is to lower the number of schemes offered (i.e. reduce choice).

Risks arise due to inconsistent treatment of similar equipment

A further issue raised by a single, though major CAB was that the regulatory regime is often cluttered and full of “historical accidents” that endure to this day. A specific example was given concerning one aspect of similar industrial equipment, some of which is governed by regulations that mandate codes of practice and inspection and compliance, including the need for accreditation. Other (related) equipment has moved from one regulator to another over time and now there is no requirement for an inspection body to be in place.

The regulator relies on some form of verification, but does not require it to be from a third-party (i.e. an employee could provide verification of structural integrity). The absence of inspection body involvement means there is effectively little control over the structural integrity of the equipment. Consequently, huge risks are created in terms of environmental and human safety. In this case the CAB claims that asset owners manage assets to minimise costs rather than to minimise risk of harm. That is the essential tension that is compounded by lack of alignment between regulations and the conformance system.

What makes this example stand out is that pieces of equipment with largely the same function are treated differently as they are under different regulations. This is an example of things “falling through the regulatory cracks” and of permissive regimes creating risks that the conformance system is tasked with minimising.

2.4 Sustainability

Sustainability relates to the ability of the system to maintain its ability to provide the kind of assurance needed to underpin the economic and other activities it supports.

2.4.1 Establishing the ‘value’ of the system

Some work IANZ commissioned estimated the economic value that is provided to users of IANZ accreditation, including a premium for exporters on top of what they might otherwise have received without accreditation. This ‘macro’ analysis does not directly look at the value to users at various levels within the conformance system, but this was raised as an important issue by the majority of interviewees.

Perceptions of diminishing returns to accreditation

Some CABs questioned the extent to which the fees for the accreditation process represent value for money. A specific issue raised was the repetitive, standardised nature of the process, whereby assessors go through the same routines every time as if it is the first time. That is, there is no consideration given to past performance and no exercise of the equivalent of ‘experience rating’ CABs.

The associated dollar costs are high, as are the time costs for preparation and participation in the audit. These costs have remained high, despite the return to the CAB lowering each time. CABs have suggested either a leaner approach be taken, or AAs look more to add value and extend beyond the immediate checklist. As mentioned earlier in this report, regulatory requirements often do not allow for leaner approaches or recognition of past performance. In addition, AAs have indicated willingness to adapt some practices, while still ensuring that the essential functions of accreditation remain. This is not a simple or rapid process.

Changes needed to remain relevant

Two CABs were clear in their view that the way they provide services could be refreshed and updated in order to remain relevant and demonstrate value. This is not solely a question of using technology and/or automation to streamline processes. It also relates to practices and attitudes in the face of falling global demand for ISO certification, where the value of global ISO certification was \$11bn (USD) in 2017, but was forecast to be \$2.8 bn (USD) in 2025. This change might result from changes in prices, but also seems to reflect lowered demand for certification more generally, which will place pressures on suppliers of such services if it plays out to that extent.

One of the CABs pinpointed demographics as one reason why there may have been little by way of change in terms of auditing practice. Most of the assessors are older and come from similar backgrounds where previously the environment might have been more mandated, meaning that there is some resistance to change and what could be described as an attitude of entitlement (i.e. an expectation that what they are doing has value that is self-evident rather than needing to be demonstrated at every opportunity).

A change to relationship management as opposed to transactions-based interactions is also seen as beneficial. Underlying such a change would be an acceptance of the need for relationships based on mutual respect, as opposed to a linear and hierarchical approach. In addition, the opportunity to collaborate and aggregate data to improve the offering to clients

is worthwhile. It has started but could and should be advanced further, according to this CAB. The CAB acknowledged that these problems are not unique to New Zealand.

2.4.2 Workforce

Workforce concerns were widespread. Virtually all interviewees brought up staffing issues unprompted and those that were prompted proceeded to talk at length.

Finding staff difficult

A range of CABs operating across all sectors of the economy reported difficulties recruiting staff, especially auditors. No single reason for this difficulty was identified. Rather, a variety of related factors were seen to contribute to the problem, the major ones being:

- demographics – the auditing workforce tends to be older and have been in place for some time, meaning that opportunities for progression and indeed openings are limited;
- the pool of potential future staff is shallow;
- capability is hard to source, as much of the useful skill is acquired on the job;
- suitability – auditors need to have more than just experience and capability, aptitude is also important but not readily available.

One BCA stated that in the last 10 or so years, there has never been a fully staffed team on board. Given such labour and skill shortages, poaching across CABs is rife. Training is lengthy and costly and the possibility of poaching acts against using training as a means of filling gaps.

Not just about capacity, some specialised gaps as well

In addition to shortages of bodies, there are also some expertise gaps. CABs identified these missing capabilities in some AAs around specialised machinery and other industrial areas. An AA mentioned that it is simply not possible for New Zealand to have the expertise that they do overseas. Part of that is due to education/training availability but it is also about the volume of specialised work available in a small country. Whatever the reason, the fact that there is missing expertise not only adds costs (to the extent that overseas technical experts can be found) but raises questions about the value of accreditation and the overall system for those demanding particular services.

2.4.3 Level playing field needed

This issue essentially involves a tension between market dynamics and (perceptions of) safety and quality. It concerns the availability of services by both accredited and non-accredited bodies as well as both accredited and non-accredited services offered by the same body.

Avoiding a race to the bottom

Interviewees often reported a proliferation of low-cost providers of conformity assessment services. The providers could either be non-accredited in areas where accreditation is not mandated or the providers could be accredited but offer services in areas where accreditation is not required.

CABs indicated they understand market dynamics and that competition is usually a positive thing for consumers. However, CABs suggested that there are unique aspects are at play in

the conformance system that mean consumers may not always make the right choice. End-users/consumers:

- don't always understand accreditation and the value it provides, as they are too far removed from the system.
- assume all certificates (i.e. those from accredited and non-accredited providers) are of equal quality;
- assume that all certificates issued by accredited bodies are for accredited service areas.

CABs indicated that the combination of this lack of knowledge and/or confusion in end-users/consumer and the “cheap is best” attitude sees demand for services of lower quality rise, on the basis that consumers think they are getting something they are not, in terms of assurance.

One CAB talked of the slick marketing of a non-accredited scheme that gave the impression that it was accredited, which is also likely to confuse consumers. They characterised this as a “race to the bottom” which has implications for the sustainability of the system over time. This issue was particularly relevant for CABs who offer services across a range of industry sectors.

Costs could be prohibitive

This issue concerned the costs associated with participating in the system, which could result in smaller CABs being priced out of the market and a concentration of only larger players. It was not a major or widespread issue in interviews, and seems to run counter to the concern above, but we report it here for completeness.

Regulators/government agencies might have role to play in ensuring sustainability

A common suggestion in relation to sustainability was for regulators and/or relevant government agencies (e.g. MPI, MBIE) to provide additional information and guidance on the system. Such material could cover the requirements of regulation, the interaction between regulations and conformance, the role of conformance and the costs and benefits associated with conformance.

As alluded to above, a relatively small number of interviewees commented that they were taking on the role of educator and information provider when their role was something else (e.g. to certify). Often this information dissemination related to the functions of players in the conformance system and even how conformance works. In the eyes of these interviewees it would be good for operators, suppliers, etc to have a greater understanding

Interviewees stressed that their preference is for people to make decisions based on choice, but that choice needs to be informed and it is not clear that there is sufficient information around to support informed choice.

A wider issue voiced by a few interviewees is that nobody seems to have an overarching view across all of the relevant areas influencing the system, in particular the nexus between regulation and conformance. In their view, this creates some of the confusion and inconsistency witnessed.

Clarity around mandated versus non-mandated involvement of accredited third party verifiers would assist the sustainability of the system as well as the quality of the services

provided, according to some interviewees. They say this is an area where more thought is needed, though concede that it is a delicate balancing act between economic stimulation and over-regulation.

2.5 Trust

In general, the degree of trust in the system is high, though the foundations of that trust may be questioned. Trust in the system is crucially reliant on understanding of the system. We have summarised users' understanding of the system in previous sections (e.g. system use, sustainability), but three insights from interviews are worth covering separately.

Trust and understanding related to attitudes

In general, interviewees suggested that the bigger the firm the greater the understanding and trust in the system. To a large degree this is related to the attitude taken to conformance. Smaller companies tend to take a 'compliance' view, whereby the conformance system is a necessary evil (like insurance) that is to be used only when necessary.

Larger organisations have a different attitude (and resources), often driven by Boards or other governors, and look to the system to either provide opportunities to improve, or to manage or minimise risks.

There is also a question of 'voluntary' versus 'enforced' trust. Companies involved in international trade are often required to demonstrate conformance with a standard (or range of standards) by their trading partners. Those trading partners are seeking trust and thus the domestic company must ensure they have sufficient trust in the system, especially when trading partners might undertake random inspections and/or audits. In other words, domestic companies must trust that they are able to demonstrate conformance rather than just looking to "get the stamp." Voluntary trust is developed by users who also take more than a 'compliance' attitude and who ultimately test the *bona fides* of products, services and claims.

Trust in system revealed by demand

Two interviewees reported that demand for their services was rising swiftly. In addition, there was a general observation of the increasing numbers of firms providing services. This was suggested as evidence of trust in the system. That is, if people had low levels of trust, they would not be using the system.

We note that this is a further example of somewhat conflicting views across interviewees (which is not uncommon or necessarily a problem). It is difficult to take rising demand for services and larger numbers of service providers as a signal of trust, when there are also reports of information and understanding gaps, and compliance-based attitudes (i.e. people only use the system because they have to).

Public awareness changes likely to affect trust happening

Almost all of the interviewees suggested that the level of trust by the general public was taken as a given, but not based on any particular interest or testing as such. The public trusts the system implicitly but with the exception of food and increasingly the environment, awareness of the role of conformance is quite low. In general, issues of trust in the general public are not visible until something untoward happens.

One or two interviewees did suggest that the level of awareness of the public is rising, mainly due to quicker and more ubiquitous sources of information, such as the internet. The behaviour of companies/brands in terms of ethics comes under more scrutiny and breaches are more likely to become public more quickly and with greater diffusion. In future, it may be that public trust in the system assumes far more importance than at present.

2.6 Markets

We consider responses from interviews in terms of the international market and the domestic market. Previous sections have touched on issues relevant to both markets so this section concentrates on specific points that are useful to consider on a stand-alone basis.

2.6.1 The export market

Overwhelmingly, interviewees expressed the view that the conformance system (and the activities of CABs) is helpful to international trade. The quality of assessments, adherence to standards and degree of international awareness and connection were cited as reasons.

The international reputation of the AAs, through their involvement with international bodies was also mentioned. Similarly, CABs often had accreditation from overseas authorities and thus, recognition was widespread and positive. In summary, New Zealand's strong reputation as a country was mirrored in terms of the conformance system (see case study below).

Case study: Reducing barriers to trade

This case study draws on the comments of a range of interviewees, across different industry sectors.

Overall context

The conformance system builds exports through publicly available, verifiable assurances around the characteristics of goods (and some services) traded across borders. In addition, AAs work with offshore accreditors to facilitate easier access to markets for these exports. In economic terms, conformity reduces the costs of doing business (i.e. transactions costs) and of discovery (i.e. search costs) in relation to trust, reliability and reputation.

New Zealand's external trade has traditionally focussed on primary products. Given these products are consumed by humans the requirements for safety are often more stringent than other goods, meaning that a system of verification and testing is important not only to gaining access to markets but also to maintaining the ability to sell into markets over time.

The conformance system provides a reasonably straightforward method of demonstrating safety in a consistent and rigorous manner. Moreover, it provides benefits for both parties to the trade. On the demand side (i.e. the receiving country) the system is an independent mechanism for trust in the reliability of claims about the characteristics of the products. On the supply side (i.e. the sending country) the requirements of the system increases market robustness and trust in the counterparty. That is, the system provides an expression of a similar and shared set of values and concerns for quality across countries.

Methods by which international trade is enhanced

Interviewees identified the following ways that the conformance system builds exports:

- Exporters are able to meet requirements of counterparties (both governments and customers themselves) in a universally recognised way. That is, the conformance system assists in harmonisation across borders.
- While the predominant concern is about quality and safety, the conformance system also provides verification of claims around ethics, environmental aspects and health and safety issues associated with products
- The system is a type of insurance, in that it protects exporters against possible challenges around particular characteristics or qualities of products, even if no such claims actually get made (i.e. it acts as a protective shield, without necessarily being a sword). The system effectively provides a “hedge” against market disruptions which can affect prices- demand for higher quality products is not necessarily predicated on price
- The system assists traceability, which is particularly important for primary products, as it is a transparent verification tool. It also contributes to a reduction in perceptions of corruption, which can result in the ability to gain a price premium or other preferential access advantage
- The conformance system allows exporters to demonstrate technical expertise to undertake work off-shore in non-merchandise trade
- Through their interactions with international bodies, AAs are able to leverage contacts to assist with trade facilitation (i.e. bureaucratic delays and “red tape” issues at the border) not just market access

Major insight

Without the conformance system and IANZ and JAS-ANZ in particular, many firms would not be able to export as accreditation is a non-discretionary part of much of the international trade landscape.

Only one issue was identified in relation to international trade and it is not directly related to conformance as such. A number of interviewees cited the plethora of standards as making their job much more time-consuming and difficult. According to one CAB, in theory the standards are equivalent and thus, should represent a menu to choose from. However, customers often indicate they want or require a specific standard, not all of which the CAB has benchmarked to. For some customers, the CAB audits against three standards, even though they are largely the same in nature.

In addition, the issue of differences in standards across countries, where New Zealand is either stronger or weaker than other countries makes life difficult for exporters and assessment bodies alike. The ideal would be a global standard, but history, incumbency and familiarity dictate that consumer choice and entrenched positions mean it is unlikely to emerge. As such, costs will remain relatively high.

2.6.2 The New Zealand market

Three issues were raised in the interviews.

- Regulations (e.g. the Health and Safety at Work Act) seem to be driving more of a compliance attitude, which in turn alters the way assessments might be conducted.
- The New Zealand market has a reactive bias- people don't see a problem or take an interest until things go wrong (see case study below).
- New Zealand is a small economy where the impacts of competition are likely to be felt more acutely (see case study below).

Case study: Adventure Activities (mandated by legislation)

Overall context

A series of accidents and a death in the sector led to the creation of safety standards. The death raised the interest of politicians (the Prime Minister) and this reaction galvanised interested stakeholders. Prior to that interest, accreditation and risk management were not necessarily prevalent in the sector.

The sector is full of relatively modest operators who do not necessarily give much thought to issues of conformance or regulations. They are reported as passionate about their business (and associated activities) but small and often lean. Operators are innovative and often develop new ideas for tourist activities, which conformance bodies may not have thought about or have relevant expertise in.

Issues

The main issue identified was cost. The smaller operators were more likely to be the ones that would require more attention, but were the ones least able to afford the cost of the audit. Concentration is occurring as smaller operators get bought out by larger ones as compliance costs too much.

As operators had not thought a lot about conformance and regulation in the past and do everything at the last minute, the introduction of a standard, while generally accepted as necessary, elicited negative reactions initially.

Cost is also an issue for conformity assessment bodies in terms of maintaining accreditation (i.e. cost pressures are passed up the chain).

The more intensive involvement in relation to regulations and standards was also new. Knowledge of what to expect of audits and auditors was low as there was a lack of experience. Operators complained at lack of consistency among other transition issues.

The biggest issue is the lack of guidance from the regulator. According to interviewees, there are many bureaucratic cogs that need to turn in order to get decisions and clarity from the regulator. Operators do not know if they are included or not and it is a big expense if operators find they are outside the net and did not need to do the audit.

There is strong sense that 'goalposts keep moving' on operators and it is not clear why. A roadshow indicating enhanced regulations audit standards and scheme was well received and

the assessment body indicated that things worked seamlessly when there was clear decision-making and good communication with operators from regulator.

There is some suggestion that while the scheme developed is clear it is nearing overkill for the size of the sector. The scheme sets good rules and guidance but there is a lack of flexibility in a sector that is inherently adventurous and adaptable. To a certain extent, this reflects a 'natural' disjoint between risk-seeking adventure operators and regulatory and conformance systems with a goal of better risk management.

Insights

- A perception that New Zealand tends to react to events (rather than anticipate them) and the response may be viewed as over the top
- Interplay between regulations/regulator and conformity assessment bodies can be tricky when there is not a long history of involvement in the sector
- Regulators that are unable to make decisions quickly or provide clarity around scope can result in frustration and the adoption of a 'compliance mentality'
- Communication is important between regulators and operators, conformity assessors and regulators and all other permutations
- New Zealand can lead the world, as following the development of the scheme an international standard was developed.

Appendix 1 Interview questions

IANZ and JAS-ANZ

Background questions

1. Describe your organisation, and the current services you provide.

Use of the conformity assessment system

2. Can you please provide an overview of how people use the system?
 - How do they choose who to go to?
 - What works well?
 - Any blockages or inefficiencies you see?
3. What is the level of understanding and confidence among regulators, firms and consumers about the role of accreditation and conformity assessment, including the voluntary use of third party conformity assessment?
4. Where is third party accreditation currently being used in regulation?
 - When and how should regulators be using third party accreditation?

The conformity assessment bodies

5. Does New Zealand have sufficient quality, breadth and depth of conformity assessment bodies?
6. How well equipped are our accreditation bodies to proactively identify opportunities for accreditation and conformity assessment to deliver additional value to the economy?

Trade and markets

7. How effective is conformance policy in reducing barriers to trade?
8. How valid are the conformance system's underlying assumptions about the desirability of third party accreditation and the small size of the New Zealand market requiring the present infrastructure?
 - For JAS-ANZ only - comparison between, and coherence of, Australia and NZ infrastructure
9. How may new and emerging technologies impact on the conformance system?
10. How does the growth in New Zealand's trade in services impact on the conformance system?

Working with other accreditation authorities in New Zealand

11. How is the relationship between you and the other accreditation authority in New Zealand (i.e. IANZ or JAS-ANZ)?

12. What are the overlapping functions?

- Are there any advantages and disadvantages in this?

International expectations

13. Tell me about your international outreach activity?

- looking for extent and effectiveness. Interested in the value proposition and status of NZ's accreditation authorities.

14. What are the international expectations in the conformity assessment area?

Case studies

15. As part of this project, we are seeking to identify a limited number of sectors in which conduct in-depth research interviews. These will enable us to build case studies with the appropriate breadth and depth in the conformity assessment space.

- Are you able to identify 2-3 sectors in your area that you think will provide us with a good overview of how the conformity assessment process works?

Conformity Assessment Bodies

Background

1. Describe your organisation, and the current services you provide.

Use of the system

2. Can you please provide an overview of how people use the system?

- How do they choose who to go to?
- What works well?
- Any blockages or inefficiencies you see?

3. What is the level of understanding and confidence among regulators, firms and consumers about the role of accreditation and conformity assessment?

- What works well?
- What doesn't/Any blockages or inefficiencies you see?

4. Do you have any thoughts on how regulators are currently using third party accreditation?

- What works well?
- What doesn't/Any blockages or inefficiencies you see?

Trade and markets

5. With the small size of the New Zealand market:

- is the present infrastructure appropriate/proportionate?
 - what are the costs and benefits of formal accreditation in the NZ context?
6. How effective are our conformance/accreditation arrangements in reducing barriers to trade for exporters?
 7. How do trends such as growth in trade in services and the digital economy impact on the conformance system?
 8. How do you proactively identify opportunities for accreditation and conformity assessment to deliver additional value to the economy, increase trust, or protect consumers?
 9. How do/may new and emerging technologies impact on the conformance system and your practice?

Case studies

10. As part of this project, we are seeking to identify a limited number of sectors in which conduct in-depth research interviews. These will enable us to build case studies with the appropriate breadth and depth in the conformity assessment space. Are you able to identify 1-2 examples in your area that you think will provide us with a good overview of how the conformity assessment process works?