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A STUDY ON THE IMPACT OF ISO 9001 ON THE FINANCIAL PERFORMANCE OF COMPANIES ININDIA

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ABSTRACT

The study proceeds with the comparison of financial performance of 13 ISO 9001 certified companies and8 non-ISO 9001 certified companies taking into consideration some of the prominent financial indicators such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM).

The study finds that ISO 9001 certified Consumer Goods Manufacturing Companies of the Nifty 500 have not shown a significant difference in the ROA, ROE, NPM as compared to non-certifiedcompanies of the same category. The topic could be of relevance if it can be used for a comprehensive study covering different categories and in different sectors. The results can be an indicator as to the performance of the companies and an aid to the companies themselves and investors for decision making in their respective areas of interest.

1.1 Introduction

With the advent of more liberal international trade regulations, increasing number of companies are striving hard to spread their operations wider so as to cater to the needs and expectations of the ever competitive markets. In this perspective, quality in delivery of good and providing services seeks utmost importance. For meeting the requirement of the customers, it has become an imperative to see that companies reach up to the standards set by the international quality organizations. The significance of Quality Certification emerges in this context and therefore the widely sought after and appreciated certification is the ISO series of Certifications.

It could be perceived that since certified companies comply with the regulations of the standards that certify them and therefore are more quality specific. Consequently, it is trusted that their systematic and transparent ways of functioning makes the certified companies much distinct from their non-certified counterparts. Companies go for quality certification for want of enhancing marketing benefits, cost reduction (Santos & Leal Millan, 2013), effective control and better order in production (Nordenskjold, 2012). ISO Certification aids in continuous improvement, customer satisfaction and avoidance of non-conformities (Psomas, Pantouvakis, & Kafetzopoulos, 2013), improves possibilities of foresight and widens the scope of business opportunities(Nordenskjold, 2012). It could therefore be considered that companies that are certified perform better than their non-certified companies in various aspects.

Though studies have identified benefits of quality certification, some other studies have also stated that ISO certification in itself will not aid in making better performance. It requires a quality management culture and use of other quality implementation techniques(Karim & Bingi, August 2015). ISO is a qualifying criterion which helps to maintain profitability ((Karim A. , June 2016)). This means that some studies have not been in favour of the statement that quality certifications improve performance of companies. The effect of ISO 9001 effectiveness and product / service quality on financial performance is found to be indirect(Psomas, Pantouvakis, & Kafetzopoulos, 2013). The performance of ISO 9001 certified companies and uncertified companies is understood to be no different(Lima, Resende, & Clever, 2000).

The study is an attempt to study if ISO Certification has a better influence on financial performance of companies in comparison with non-certified companies. For the purpose of the study, consumer goods manufacturing companies of Nifty 500 companies were selected. The financial indicators selected for the study were ROA, ROE (Lima, Resende, & Clever, 2000)(Muda & Mokhtar, 2012).

and NPM. The study aims to study if ISO 9001 certification has created an influence on the financial performance of the certified companies or not. Only ISO 9001 (Quality Management System) Certification was considered as criteria for certification for the study.

2.1 Literature Review

Studies have identified that Quality Certifications improve productivity, operational and technical aspects of a concern(Goedhuys & Sleuwaegen, 2011), the sales increase(Kawthar & Raja Vinesh, 2011), market and customer base widens, company can remain competitive, it brings in customer loyalty and confidence (Kawthar & Raja Vinesh, 2011). Business performance improves and facilitates customer satisfaction(Abbas Al-Refaie, 2012),helps exhibiting better average economic profitability(Heras, Casdesus, & Ochoa, 2001).

While such studies reflected the significance of ISO Certification, few others mentioned that certifications did not show a significant effect on performance. (Xiao, 2010)average customers did not depend much on certification.

The present study aims at analysing if there is an influence of ISO 9001 certification on the conveniently selected samples from Consumer Goods Manufacturing Companies in India.

3.1 Objective

The objective of the study is

1. To determine if the ISO Certification has shown an impact on the Return on Assets of Certified companies.
2. To study if the ISO Certification reflects an influence on the Return of Equity of Certified companies.
3. To analyse if the ISO Certification has shown an influence on the Net Profit Margin of Certified companies.

4.1 Hypothesis

H_1: Return on Assets is not influenced by ISO 9001Certification

H_2: There is no significant impact of ISO 9001Certification on Return on Equity

H_3: There is no significant influence of ISO 9001Certification on Net Profit Margin

5.1 Methodology

The data collected for study were taken from www.moneycontrol.com. Consumer Goods Manufacturing Companies from Nifty 500 (67 companies) were sorted and 21 companies (30%)

were randomly selected from the list. The list of 21 companies were later distinguished as follows – 13 ISO 9001 certified companies and 8 non-certified companies. The period of study is 5 years ranging from 2012 – 2016.

In order to examine if the financial performance – ROA, ROE and NPM has been influenced by ISO Certification, linear regression has been used.

6.1 Limitations of the study

1. The study is centered around only Consumer Goods Manufacturing companies in India
2. The period of study is limited to 5 years 2012 – 2016
3. The sample taken from the two groups is limited to 21 companies
4. Financial performance indicators were restricted to ROA, ROE and NPM

7.1 Analysis and Interpretation

Analysis with Independent t-test on each financial indicator for each year from 2010 -2014 was conducted.

7.1.1 Influence of ISO 9001 Certification on Return on Assets (ROA)

Return on Assets is a measure of profitability where the relationship between net profits after tax and assets are measured; showing how well the assets are utilized.

Table-1 Influence of ISO 9001 Certification on Return on Assets (ROA)

Descriptive Statistics

	Mean	Std. Deviation	N
Return on Assets	12.8233	8.05118	21
ISO Certification Status	1.3810	.49761	21

Correlations

		Return on Assets	ISO Certification Status
Pearson Correlation	Return on Assets	1.000	-.211
	ISO Certification Status	-.211	1.000

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.211[a]	.044	-.006	8.07482

Descriptive Statistics			
	Mean	Std. Deviation	N
Return on Assets	12.8233	8.05118	21
a. Predictors: (Constant), ISO Certification Status			

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.580	1	57.580	.883	.359[a]
	Residual	1238.850	19	65.203		
	Total	1296.431	20			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	17.532	5.312		3.301	.004	6.415	28.649
	ISO Certification Status	-3.410	3.628	-.211	-.940	.359	-11.004	4.185

The analysis indicates that the adjusted R Square that reflects how ROA is influenced by ISO Certification is insignificant.

The ROA of consumer goods manufacturing companies would be 17.532 without ISO 9001 Certification and by the introduction of ISO certification, it declines the ROA by 3.410 with $p > 0.05$ at 0.359. Therefore the null hypothesis is not rejected.

7.1.2 Return on Equity (ROE)

Return on Equity is indicated as a percentage of net profits after tax on shareholders' equity. ROE that indicates the percentage of profit that has been generated from the shareholders' fund is a measure of company's earnings performance.

Table-2Influence of ISO 9001 Certification on Return on Equity (ROE)

Descriptive Statistics

	Mean	Std. Deviation	N
Return on Equity	19.8381	13.16550	21
ISO Certification Status	1.3810	.49761	21

Correlations

		Return on Equity	ISO Certification Status
Pearson Correlation	Return on Equity	1.000	-.079
	ISO Certification Status	-.079	1.000

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.079[a]	.006	-.046	13.46487

a. Predictors: (Constant), ISO Certification Status

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.860	1	21.860	.121	.732[a]
	Residual	3444.750	19	181.303		
	Total	3466.610	20			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	22.739	8.857		2.567	.019	4.201	41.278

	ISO Certification Status	-2.101	6.051	-.079	-.347	.732	-14.765	10.563

The analysis indicates that the adjusted R Square that reflects how far ROE is influenced by ISO Certification is also insignificant.

The ROE of consumer goods manufacturing companies would be 22.739 without ISO 9001 Certification and by the introduction of ISO certification, it declines the ROE by 2.101 with $p > 0.05$ at 0.732. Therefore the null hypothesis is not rejected.

7.1.3 Net Profit Margin (NPM)

Net Profit Margin is the percentage of Net Profit over Net Sales.

Table-3Influence of ISO 9001 Certification on Return on Equity (ROE)

Descriptive Statistics			
	Mean	Std. Deviation	N
Net Profit Margin	9.8143	9.83205	21
ISO Certification Status	1.3810	.49761	21

Correlations			
		Net Profit Margin	ISO Certification Status
Pearson Correlation	Net Profit Margin	1.000	.205
	ISO Certification Status	.205	1.000

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.205[a]	.042	-.008	9.87267
a. Predictors: (Constant), ISO Certification Status				

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	81.463	1	81.463	.836	.372[a]
	Residual	1851.923	19	97.470		
	Total	1933.386	20			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	4.213	6.494		.649	.524	-9.379	17.806
	ISO Certification Status	4.056	4.436	.205	.914	.372	-5.230	13.341
a. Dependent Variable: Net Profit Margin								

The analysis indicates that the adjusted R Square that reflects how far NPM is influenced by ISO Certification is also found to be insignificant.

The NPM of consumer goods manufacturing companies would be 6.494 without ISO 9001 Certification and by the introduction of ISO certification, it enhances the NPM by 4.436 but with $p > 0.05$ at 0.914. Therefore the null hypothesis is not rejected.

Conclusion

The study is conducted on 21 Consumer Goods Manufacturing Companies taken randomly from Nifty 500 out of the 67 in the group. The aim of the study was to identify if ISO 9001 certification has helped the companies in enhancing their ROE, ROA and NPM as compared to the non-certified companies in the group. Data was taken from www. Moneycontrol.com for the period 2012 – 2016. The study found that the certified group of companies could not display a significantly better ROA, ROE and NPM.

As the indications do not favour certification, it is relevant in the current context to determine in detail as why there are no significant changes in the financial performance indicators. This would be of greater help to the companies going for certification and those who have already got the certifications. ISO certification in itself will not aid in making better performance. It requires a quality management culture and use of other quality implementation techniques; this concept gains more importance in this context.

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