Does ISO Certification Improve Financial Performance? A Meta-analysis of Greece

Ahmad Karim, Professor, University of Wisconsin, Whitewater, WI, USA
Prasad Bingi, Associate Professor, Indiana-Purdue University, Fort Wayne, IN, USA

ABSTRACT

ISO certification is widely implemented across the globe. Achieving ISO certification is time consuming, very cumbersome and expensive. The impetuses behind pursuing ISO certification are purportedly improved firm’s internal processes, reduced costs, increased market share etc. which ultimately result in overall improved firm performance. This study undertakes meta-analyses of the current ISO literature to understand the relationship between ISO certification and firm performance especially in the context of Greece. It is interesting to note that there is a wide disagreement between the scholars from Greece about the relationship between the ISO certification and the firm’s financial performance. We suggest ideas and modified measures to contain the influence of exogenous variables that would result in accurately measuring the impact of ISO certification on firm performance.

Keywords: ISO Certification, financial performance, benefits, international study, Greece.

INTRODUCTION

Despite ISO propagation across many countries, the key issue is measuring the impact of ISO certification so that companies can evaluate whether or not such expenditures were beneficial. The Literature varies in terms of establishing a framework and method to measure the impact of the certification. While some researchers use only financial criteria others include many other operational metrics. While some scholars use subjective date based on surveys others use secondary date stored in public domains. While some studies only deal with time-series data others use cross-sectional. In this study, the latest approach (measuring only financial impact) is used because it restricts the amount of research undertaken, narrows the criteria, used comparable measurable variables, diminishes subjective intangible factors and allows for better material and discussion.

The matrices used to evaluate ISO certification and financial performance must be addressed in the context of the material presented. The articles used in the literature review section were selected because they had similar methodology and assessment of how financial performance should be measured; creating a standardized field that facilitates the analysis and discussion. These studies measured financial performance either directly (through financial data manipulation) or indirectly (through secondary factors such as: market share, customer satisfaction, productivity, and others). In either case, the dependent variable "financial performance" was always addressed in terms of quantitative, measurable positive or negative results. The most popular measurements included by scholars were the directional changes in: sales, Operating Income, Return on Assets (ROA), Return on Sales (ROS), and stock market valuation of the firm’s intangible assets. Nevertheless, most scholars who studied the relationship between ISO certification and financial performance agreed that either ISO improves firm’s internal processes which consequently boosts performance through cost reductions; or ISO certification may help companies retain or increase market share which improves performance through sales increase.
MEASURING THE IMPACT OF ISO IN GREECE

Despite the current Greek economic downturn due to inappropriate government debt management policies that affected the structural deficit in the country, Greece is still a good starting point for ISO studies because many Greek researchers have been actively involved in studying the relationship between ISO certification and its relevant impact in financial performance.

One important study advocates that ISO certification leads to improved financial performance. According to Chatzoglou, Chatzoudes, and Kiprasios (2015), positive financial benefits will be obtained if studies use a holistic overview to include all the components that have a relationship with how financial performance is achieved. While showing that current empirical research about ISO is contradictory since these studies look at different organizational dimensions separately; Chazoglou et al. argued that a new, more comprehensive conceptual framework should be used to indirectly measure the impact of ISO certification on financial performance. The authors presented a framework based on collection of previous publications of various factors representing organizational processes. This framework was then tested based on the responses of quality managers’ surveys on a sample of Greek ISO 9000 certified companies on many different sectors. The survey results were measured based on the five-point Likert scale method and the authors concluded, based on statistical analysis that there is a strong evidence that ISO adoption has a positive impact on financial performance. Nevertheless, the research measured the impact of ISO on financial performance indirectly. In other words, the conceptual framework built measured how the certification influenced operation and market efficiency which then collectively influenced the financial performance.

On the other hand, some Greek studies have pointed out that ISO 9000 does not lead to improved financial performance. Posmas, Pantouvakis and Kefetzopoulos (2013) study showed that the degree of certification effectiveness (based on the level of achievement of the standard’s objectives) determines the impact of its success. The research used a survey methodology where a sample of 100 ISO 9001 certified service companies were tested using a 7-point Likert scale. The authors found that the certification directly improved operational performance which in turn directly increased financial performance, but no direct relationship was found between ISO and financial performance.

The research by Ismyrlis and Moschidis (2015) shows that the most important benefits of certification are from external perspectives. Their study was based on a questionnaire created to address the impact of ISO implementation by evaluating which benefits (quality-operational or business-financial) were the most important after ISO certification. The quality manager’s evaluations showed that the most important benefits were external in nature and higher in operational performance (improved quality systems, corporate image and customer satisfaction). On the other hand, the internal benefits of business financial performance (market share, profits and unit cost received lower scores and their benefits were perceived to be least important. The research pointed out that companies with more than 250 employees, who possess more years of certification and use complementary quality management systems achieved better financial performance. While the authors tried to differentiate between operational and financial performance metrics, they treated both independently of each other. The findings still point out that in the end, quality managers’ overall opinion show that these companies did not have a financial gain from certification.

It is interesting to note that all the three studies have similar methodologies, but they showed different results. It is important that the nature of these studies were subjective since they used input from quality managers from certified companies and these studies were selected purposefully to facilitate
comparison. Nevertheless, given the fact that all the three studies targeted quality managers’ responses, it would be expected that the results would be similar and most likely towards an agreement that the ISO certification influences financial performance. However, not only the results were different, they showed a difference in opinion about ISO usefulness.

**DISCUSSION**

It is interesting to note that many published research that associate ISO implementation with higher financial performance state that despite the positive relationship, ISO in itself will not automatically help companies achieve higher performance. Instead they argue that firms need to go beyond the standards and create a culture that embraces quality management through the use of other quality management tools. It is the secondary quality tools created after ISO implementation that will enhance financial performance. Therefore, if ISO certification is the starting point and it is the secondary factors or lack of them that will dictate the outcome of company financial performance. Even though some researchers show evidence linking certification with financial performance, there are too many limitations and differences among studies. First, each research measures different components of performance that are sometimes debated and contradicted. While some studies use pure financial indicators (like sales, COGS, ROA), others devise survey questions that try to capture the economic condition of the organization. Regardless of the variables used, we would still expect some level of similarity in the results indicating evidence towards whether or not ISO certification leads to improved financial performance.

In the end we must read between the lines to understand the real impact of ISO certification. The financial performance of an organization should not be centered on the certification itself, but to the extent of subsequent practices (quality management systems, quality training, methodologies and others) that are implemented before and after the certification. It is through the development of more complex capabilities and not simply the result of the practice adoption that will generate benefits. Scholars who associate certification with abnormal financial performance admit that ISO certification alone is not the answer to a firms’ quality quest. Corbett, et al (2005) explains that ISO 9000 is a qualifying rather than a complete criterion. ISO helps maintain rather than increasing profitability because it is hard to see how firms would derive competitive advantage from such a generic, public standard such as ISO. It is somewhat logical that certification will produce different types of benefits to an organization because it requires a specific level of quality compliance, otherwise the auditing committee would not grant certification.

As we have seen in the literature review, scholars who attempted to determine whether or not ISO certification will impact a firm’s financial performance cannot agree because there are many exogenous variables impacting companies’ financial outcome making the task extremely difficult. Also, different methodologies ignore the cost component associated with certification which distorts the actual impact of ISO. Thus, a more practical approach that treats ISO certification as an investment project must be used to evaluate its true impact. The merits of ISO certification are not in its acquisition, but in the subsequent components created to sustain the standards in the quality management system.
REFERENCES


