

The Reasons for Decertification of ISO 9001: Financial Aspects

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ABSTRACT

Purpose: The purpose of this paper is to analyse the financial performance of organizations that give up their QMS (Quality Management System) according to ISO 9001 certification. Different reasons found for the cancellation of ISO 9001 certification were taken into consideration. The decrease in certification of ISO 9001 standard is, during the past few years, noticeable in many countries. Therefore, there is a need to analyze the phenomena.

Methodology/Approach: The study analyses financial performance of organizations and reasons of ISO 9001 certificates cancellation based on 99 Polish organizations, which gave up certification in years 2012 and 2013. The reasons of certificate cancelation were obtained from the quality managers of studied organizations. Financial performance was estimated on the basis of the ROA indicator value.

Findings: The results show that in the studied organizations, there is a big group of companies that had financial problems. There were 28.8% of organizations that did not have profits at all, and 32.9% with a financial performance, calculated according to ROA indicator value, lower than the average for the industry in which studied organizations were operating. Surprisingly, there is no evident correlation between the reasons of ISO 9001 decertification and financial performance of these organizations.

Research Limitation/implication: The data cover Polish organizations that give up ISO 9001 certification, and they were obtained only from one certification body. Survey data concerning the decision of decertification cover only a two-year period of time.

Originality/Value of paper: The findings of our study might be helpful for the managers of organizations and certification bodies as well as for the researchers

to describe the effectiveness of activities related to QMS implementation, certification and cancellation.

Category: Research paper

Keywords: ISO 9001; ROA; financial performance; decertification; reasons for decertification

1 INTRODUCTION

The implementation of management systems and the certification to their corresponding standards has experienced an enormous success in the management area in the past few years. Quality management systems according to ISO 9001 are the most recognised management systems worldwide. The last ISO survey available (ISO, 2014) shows the importance of this standard worldwide. From 2004 to 2010 there was an increase of ISO 9001 certificates. In 2011 and for the first time in history, there were fewer certificates worldwide than in the previous year. Afterwards, the evolution goes back to a positive trend but with a clear slowdown and even stagnation in the certification of the standard. This seems to indicate that the financial crisis, has had a significant impact in the certification of ISO 9001.

Despite the growth of ISO 9001 certificates during the past few years, recently an opposite trend seems to be emerging (ISO, 2014). There are some studies that suggest and analysed a slowdown in ISO 9001 implementation and certification in some countries (Casadesus and Karapetrovic, 2005; Marimon, Heras and Casadesús, 2009; Franceschini, et al., 2008; Sampaio, Saraiva and Guimarães, 2009; Bernardo and Simon, 2014). There are also studies about the QMS decertification, that analyse global data about the number of new certifications, which analyse trends by country, region, industrial sector and other classifications (Corbett and Kirsch, 2001; Franceschini, et al., 2008; Marimon, Heras and Casadesús, 2009; Llach, Marimon and Bernardo, 2011).

Among the studies that explore the motives of giving up QMS, we found diverse results pointing at different motivations such as the failure of audits (Marimon, Heras and Casadesús, 2009) or the lack of government support (Delmas, 2002; Casadesus, Giménez and Heras, 2001). There are also empirical studies that have analysed in detail the reasons for decertification (Alcalà, 2013; Kafel and Nowicki, 2014; Alič, 2014).

However, decertification is not synonymous with giving up the QMS. According to Kafel and Nowicki (2014), after decertification studied companies still had a functioning QMS. The last paper by Alič (2014), analyses financial performance of Slovenian organizations that give up ISO 9001 certification. According to that research, the cancelation of ISO 9001 certificates is related to a decline in business performance of the organizations measured by ROA indicator. A decline in business performance of the organizations is related to the time passed

after cancellation of their ISO 9001 certificates. The survey did not investigate the reasons for the certificate cancellation but strongly supports that financial problems are one of the important motives to give up ISO 9001 certification.

Taking into account the results of the studies mentioned above, the main objective of this paper is to explore whether there is a relationship between the cancellation of ISO 9001 certificate and financial performance. Due to the lack of studies in this area, we firstly reviewed the literature on the relationship between the certification to ISO 9001 and financial performance as well as on the decertification phenomenon. Then, we used an explorative methodology in order to address this research gap empirically. Our results are presented by classifying the companies that have given up the certificate along with the reasons for decertification and the relationship with financial performance according to the ROA indicator is shown. Finally, some concluding remarks and implications of the study are presented.

2 LITERATURE REVIEW

The effect of certification on the financial performance of the companies is not evident. Some researchers are indicating towards a little relevance of certification to financial performance. Wayhan et al. Points out that ISO 9001 certification does have a very limited impact on financial performance when measured by ROA (Wayhan, Kirche and Khumawala, 2002). On the other hand, there are studies that indicate a positive correlation between ISO 9001 certification and financial performance e.g., Sharma or Santos et al. (Sharma, 2005; Santos, Costa and Leal, 2012). According to Sampaio et al., it is not unanimous that certified companies would be less profitable if they had not implemented their quality management systems (Sampaio, Saraiva and Monteiro, 2012).

The lack of consensus on the relationship between ISO 9001 certification and financial performance is partly due to the fact that there are some concerns and limitations in the measurement of financial performance of companies that certify ISO 9001. The first one is related to the fact that third party certification provides only the information that a company meets the minimum system requirements specified by a quality management system. Thus, it is not a perfect indicator of the real value of the management system. In the same line, there is an ongoing discussion concerning the credibility of the certification bodies (Konefal and Hatanaka, 2011; Djekic, Tomasevic and Radovanovic, 2011).

Moreover according to Aba et al. there is a significant improvement in financial performance over time when implementing a QMS certification (Aba, Badar and Hayden, 2016). Hence, most of the organizations that implement and certify ISO 9001 are in a good financial shape and certification is not a cause of good financial performance after the certification.

Also, the economic cycles may have an impact on the relationship between the implementation of ISO 9001 and the financial performance of companies.

According to Psomas and Kafetzopoulos, ISO 9001 certified companies significantly outperform the non-certified with regard to product quality, customer satisfaction, operational, market and financial performance during the financial crisis (Psomas and Kafetzopoulos, 2014).

Finally, it is important to indicate, that only companies which are early adopters of management systems experience performance gains because of QMS implementation. According to Corredor and Goñi (2011), the greatest impact on performance takes place a one year after receiving external recognition such as third party certificate for implementing the system.

Research on ISO 9001 has typically addressed topics such as motivations for certification, benefits and challenges of certification, net benefits, success factors, barriers to implementation, management practices, etc. However, more recently, a new topic has emerged based on the stagnation of ISO 9001 certification expansion in recent years (ISO, 2014). Thus, the issue of ISO 9001 withdrawal or decertification phenomenon, remains under researched and the impact of decertification on financial performance needs to be further investigated (Cândido, Coelho and Peixinho, 2016).

The decertification phenomenon emerges due to the fact that many companies raise doubts about the future and costs of certification and they mainly continue certification due to external reasons such as improving their external image or due to customer requirements (Bernardo and Simon, 2014).

Several authors (e.g., Alič, 2014; Bernardo and Simon, 2014; Kafel and Nowicki, 2014) present several motivations for which companies decide to abandon the ISO 9001 certificate. The most cited causes include financial problems of the company, high costs of the certificate and the audit, lack of administration support, having already implemented a functioning QMS that does not need to be certified or the remission of the requirement by the customers.

Taking into account these ISO 9001 withdrawal reasons, it is important to analyse the effect that these may have on the financial performance of companies which decide to undertake the decertification process.

3 METHODOLOGY

The aims of this study are to explore the impact on financial performance that motivates organizations to abandon ISO 9001 certification as well as to contribute to the understanding of the new trends emerging in this field, given the decrease of the expansion of ISO 9001 certificates and even the negative evolution in some countries or sectors.

The data concerning the reasons of decertification were gathered from one of the biggest Polish certification bodies. They were obtained from the companies by an employee of the certification body from the customer retention department. The data cover years 2012 and 2013 and were gathered during that period of time.

We have had data considering the reasons, that 168 companies shared information to certification body on the motives of not renewing ISO 9001 certification. Out of the total number of firms, 38 of them decided to change the certification body. Thus, they cannot be considered as decertifying companies. Therefore, we focused on the financial performance of the other 130 companies and their motives for abandoning the standard.

The data concerning financial performance had been selected based on the ISI Emerging Markets database, comprising sources such as Monitor Polski B, HBI – Hoppenstedt Bonnier – Company Database, Dun & Bradstreet Company Database and Corporate Database. According to Polish law, organizations should publish financial statements, but in practice, there is a delay associated with the fulfilment of this obligation. For that reason, not all the data were collected. There were also 12 organizations operating in a public sector (e.g., primary schools), which were excluded from the financial analysis. Availability of financial data was verified for financial years of 2010 till 2013. As a result, there were 73 organizations chosen with available financial data represented by the assets and a net profit in at least one of the financial years. These values enabled the calculation of the financial indicator Return on Assets (ROA). The ROA indicator was calculated according to the formula: $ROA = \text{net income}/\text{assets}$ with the use of annual financial data.

For each individual organization, information about their main 7 competitors was also available in the database. The competitors were chosen taking into account similarities of different factors such as type of activity, number of employees and amount of assets. On the basis of the main competitors' financial values, the median ROA value was calculated. That value was used afterwards to compare financial performance of the studied organizations with the average values of the industry.

4 RESULTS AND DISCUSSION

4.1 Why Do Companies Decide to Give Up ISO 9001?

Based on the data of 130 Polish organizations certified to the ISO 9001 standard which decided to abandon it, the main reasons of decertification were identified and are presented in Tab. 1. For detailed data on this classification with the reasons associated to each category and the number of firms see Simon and Kafel (in press).

Table 1 – Classification of Decertification Reasons (based on Simon and Kafel, in press)

Reason's classification	Number of firms	Number of firms with financial data
Internal		
Financial/costs	57	30
Restructuring of processes/efficiency	21	13
Changes in the MSs/certificates	8	6
Top management decision/business termination	6	2
External		
Customer driven	9	2
Corporate group decision	2	2
Changes in the certification body	1	1
Other	26	17
Total	130	73

4.2 Financial Drivers for Seeking Decertification

Studied organizations were divided into 3 main groups according to the value of their ROA indicator. In first one, ROA value is below zero, which means that organizations have net losses. The second category includes firms for which their ROA value is above zero but below the average value of ROA for similar organizations operating in the same industry. The last group of organizations had a ROA indicator higher than the average for the industry. In Tab. 2, data with the number of organizations in those groups and main reasons of decertification are presented. The ROA indicator was calculated as an average value from the year of decertification and the two previous years.

Table 2 – Classification of Decertification Reasons according to ROA Indicator (Authors' elaboration)

Reason's of decertification	ROA indicator		
	Below zero	Between zero and average for industry	Above average for industry
Internal	15	16	20
Financial/costs	11	8	11
Restructuring of processes/efficiency	3	5	5
Changes in the MSs/certificates	1	3	2

Reason's of decertification	ROA indicator		
	Below zero	Between zero and average for industry	Above average for industry
Top management decision/business termination	0	0	2
External	6	8	8
Customer driven	1	1	0
Corporate group decision	0	1	1
Changes in the certification body	1	0	0
Other	4	6	7
Total	21	24	28

The results presented in Tab. 2 confirm that there is a big group of companies that had financial problems. There were 28.8% of the organizations that did not have profits and 32.9% with a ROA value above zero but lower than average for the industry. In total, there were only 38.3% of the organizations that showed a good financial performance. This means that, in general, companies which give up ISO 9001 certification usually have problems with financial performance during that period of time. On the other hand, there is quite a big group of organizations (38.3%), which have good financial performance. It is surprising that it is hard to find a clear correlation between the reasons of decertification and financial performance. For almost all reasons for decertification, there is the same amount of organizations belonging to one of three considered groups.

There is showed data comparing the change of ROA indicator in the year of decision of decertification with the previous year in Tab. 3.

Table 3 – Tendency of ROA indicator before giving up certification (Authors' elaboration)

Reasons of decertification	Value of ROA	
	Deterioration	Improvement
Internal	14	20
Financial/costs	11	11
Restructuring of processes/efficiency	3	4
Changes in the MSs/certificates	1	3
Top management decision/business termination	0	2
External	7	9

Reasons of decertification	Value of ROA	
	Deterioration	Improvement
Customer driven	1	0
Corporate group decision	1	1
Changes in the certification body	0	1
Other	5	7
No data	23	
Total	21	29

According to the data obtained, there are more organizations (58.0%), that improved their financial performance in the year of ISO 9001 decertification than organizations that deteriorated their financial performance (42.0%) in that time. Surprisingly, out of the group of companies that claimed financial problems as the most important reason for giving up certification, 58.8% of companies improve their financial performance. For almost all reasons for decertification, there is the same amount of organizations belonging to one of two considered groups. There are also no statistically significant differences in a financial performance of the studied organizations divided by the internal and external reasons to give up ISO 9001 certification.

5 CONCLUSION

For the most diffused Management System standard worldwide, there seems to be a stagnation in the certification renewals due to different causes. In this paper, there have been undertaken a study of the reasons of ISO 9001 standard decertification with the emphasis on financial performance of the studied companies.

The results show that in the studied organizations there is a big group of companies that had financial problems. There were 28.8% of organizations that didn't have profits at all and 32.9% with financial performance, calculated according to ROA indicator value, lower than the average for the industry in which studied organizations were operating. Those results are similar to other studies, e.g., Alič (2014). Surprisingly there is no evident correlation between the reasons of ISO 9001 decertification and the financial performance of these organizations.

However, one of the surprising results of the study is that there were more companies abandoning the standard with a ROA value above the industry value than companies with a ROA below the industry value or with a negative ROA.

Similarly, there were more decertifying companies with a positive tendency for the ROA over the years of study than companies showing a negative trend.

This conclusion seems to indicate that the best performing companies that had previously been the first adopters of ISO 9001 do not need the recertificate in order to continue operating in the market. This is in line with recent studies that suggest that certification to ISO 9001 was useful in the beginning for many companies to “force” them to implement a QMS. Once the benefits of having an operating QMS in place have been reaped out, bearing the costs of the certification does no longer make sense. Thus, companies that have internalised their QMS, do not need the certificate anymore and may decide to abandon it, keeping the QMS in place (Bernardo and Simon, 2014; Allur, Heras-Saizarbitoria and Casadesús, 2014).

There are some limitations of the study that should be indicated. The data does not cover all Polish organizations that give up ISO 9001 certification and they were obtained only from one certification body. Survey data concerning the decision of decertification cover only a two-year period of time. It is a time when Polish organizations struggled to overcome the effects of the financial crisis. That economic situation could have affected the studied companies. Moreover, the analysis of ROA value as an indicator of financial performance is a simplification of real financial performance.

For future research, it would be interesting to analyse the relation between motives to implement and certify QMS and reasons of giving up certification afterwards. Another possible line of research is to analyse the relationship between the phenomena of decertification and companies’ performance taking into account the further functioning of QMS in those organizations after decertification.

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