

DOES ISO 9001 CERTIFICATION MATTER FOR FIRM PERFORMANCE?

A GROUP ANALYSIS OF MALAYSIA LISTED COMPANIES

HO CUO KEI

The thesis is submitted in partial fulfilment of the requirements for the award of

Bachelor of Technopreneurship with Honours (4 BTEC)

Faculty of Technology Management and Technopreneurship

Universiti Teknikal Malaysia Melaka

JUNE 2019

SUPERVISOR'S APPROVAL

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DECLARATION

‘I do hereby to declare that this research is the result of my own research except as cited in the references. The research has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.’

Signature :

Name : Ho Cuo Kei

Date : 27th May 2019

DEDICATION

First of all, thank you to my family members which supported and giving unconditional love to me during the whole research. Secondly, I would like to express my sincere gratitude to my supervisor, Dr Siti Norbaya Binti Yahaya, who guided me throughout the whole final year project. Last but not least, thank you to my friends and everyone who has helping me directly or indirectly in order to complete this research.

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ABSTRACT

Most commercial entities in a quest to improve their service delivery and profitability have adopted several management improvement programs which have been developed over the years. Several standards which include but not limited to ISO have been adopted by organizations in order to improve product or service quality which in turn is expected to lead to overall improvement of organizational performance. The objective of this study was to examine the impact ISO 9001 certification on financial performance of the listed food and beverage companies in Malaysia.

The sample of the research are included all the listed food and beverage companies in Malaysia. Most of the audited annual reports were obtained from the official website of the listed companies. In order to analyse the impact of ISO 9001 certification on financial performance, the collected data were analysed using descriptive statistics that is use of mean and standard deviation. Then, data were being analysed using Pearson Correlation and Simple Linear Regression.

The study concluded that ISO 9001 certification will not led to improvement of the return on asset of listed companies. The study concluded that ISO 9001 certification had no impact on the net profit margin of the listed companies. In conclusion, the ISO 9001 certification will not bring any improvement to the companies' financial performance.

Keywords: ISO 9001, financial performance

ABSTRAK

Kebanyakan entiti komersil dalam usaha untuk meningkatkan penyampaian perkhidmatan dan keuntungan mereka telah mengadopsi beberapa program peningkatan pengurusan yang telah dibangunkan selama bertahun-tahun. Beberapa piawaian yang termasuk tetapi tidak terhad kepada ISO telah diterima pakai oleh organisasi untuk meningkatkan kualiti produk atau perkhidmatan yang pada gilirannya dijangka membawa kepada peningkatan keseluruhan prestasi organisasi. Objektif kajian ini adalah untuk mengkaji kesan pensijilan ISO 9001 terhadap prestasi kewangan syarikat makanan dan minuman yang tersenarai di Malaysia.

Sampel kajian termasuk semua syarikat makanan dan minuman yang tersenarai di Malaysia. Kebanyakan laporan tahunan yang telah diaudit diperoleh daripada laman web rasmi syarikat tersenarai. Untuk menganalisis kesan pensijilan ISO 9001 ke atas prestasi kewangan, data yang dikumpul dianalisis dengan menggunakan statistik deskriptif yang menggunakan min dan sisihan piawai. Kemudian, data dianalisis menggunakan Korelasi Pearson dan Regresi Linear Mudah.

Kajian itu menyimpulkan bahawa pensijilan ISO 9001 tidak akan membawa kepada peningkatan pulangan aset syarikat tersenarai. Kajian itu menyimpulkan bahawa pensijilan ISO 9001 tidak mempunyai kesan ke atas margin keuntungan bersih syarikat tersenarai. Sebagai kesimpulan, pensijilan ISO 9001 tidak akan membawa peningkatan kepada prestasi kewangan syarikat.

Kata kunci: ISO 9001, prestasi kewangan

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Quality management system is a system that included documents processes, procedures and responsibilities needs to follow by the organisation so that the organisation able to produce and maintain the high quality of the products or services. The main advantages of the quality management system is to maintain the quality of the product from time to time so that it able to meet the customer and regulatory requirements. Besides that, by applying the quality management system, organization also able to discover the challenges that will happen in the future and discover the solutions to solve the problems (Weckenmann, Akkasoglu, & Werner, 2015).

There are various types of the quality management practices or system using by the organization all over the world. For example, Total Quality Management (TQM), Continuous Improvement (CI), Six Sigma, Total Productive Maintenance (TPM), Toyota Production System (TPS), Lean Manufacturing, Theory of Constraints (TOC), and ISO 9001 Quality Management System standards. All of the organization will adopted to these quality management system so that their can have high level of commitment to quality achievement and improve organization's overall performance and financial performance. (Maiti, Gunasekaran, & Kumar, 2018)

Nowadays, the stakeholders of a company are mainly focusing on the improvement of the firm's financial performance. Hence, most of the companies from different industries will pursue the International Organization for Standardization (ISO) to maintain in this competitive phenomenon. ISO is a global federation which formed from the various worldwide standard organizations. The main purpose of the ISO is to make sure all of the products or services are out of harm, able to be trusted and good in quality. There are various type of ISO such as ISO 9000 series, ISO 14000 Series, ISO 31000 and ISO 50001

Furthermore, the most popular ISO in all of the industries is ISO 9000 families. ISO 9000 is a family which related to the quality management system of a company. ISO 9000 consist of five guideline standards such as ISO 9000, ISO 9001, ISO 9002 and ISO 9003 and ISO 9004. Only ISO 9001, ISO 9002 and ISO 9003 are certification standard while ISO 9000 and ISO 9004 are the guiding principles as stated by (Kirchner, n.d.) ISO 9000 is an international standards that help company to ensure their effectiveness in quality assurance and quality management so that their able to meet customer and stakeholders' requirement. (Chatzoglou, Chatzoudes, & Kipraios, 2015) mentioned that only companies that qualified the minimum requirement of the ISO 9000 standard will be certified.

ISO 9001 is a standard within the ISO 9000 families. ISO 9001: 1987 was the first edition of the ISO 9001 standard. Then, first minor revision had be done in 1994 and the ISO 9001 continues to undergo first major revision in 2000. In 2008, this ISO 9001 was under second minor revision and the latest version of ISO 9001 was launched in September 2015. All of the companies that have ISO 9001: 2008 standard will have three-year duration to make adjustment to fulfil the requirement of ISO 9001:2015. Hence, all the ISO 9001: 2008 certificates will expired when the conversion period ends in September 2018 as mentioned by (WHAT IS ISO 9001:2015 – QUALITY MANAGEMENT SYSTEMS?, n.d.)

1.1.1 Importance of ISO certification

At this moment, the competition between the organizations are extremely competitive and aggressive. Hence, these organization will find ways to stay competitive with other companies. They will try to improve their productivity, effectiveness and operations so that they able to achieve a long-term success and remain competitive. Therefore, the number of firms adopting to the ISO certification are increasing constantly. According to the (Charlet, 2017), the number of the ISO 9001 certification are increasing constantly from 387,543 in 2013 to 513,742 in 2017.

ISO certification also give positive impacts towards the levels of satisfaction staff in the documentation, process and communication of work duties. (Babakian, Agoush, Foshtamy, & Rajabi, 2015). ISO certifications will helps in improving operational and financial performance with its particular focus on quality management, it also will avoid unfulfilled outcome. Besides that, it also will help organization in term of internal and external improvement such as market share, sales growth, profitability, competitive advantage, efficiency, improved quality, company's image, customer satisfaction and relationships with authorities and other stakeholders. (Dos Santos, Costa, & Leal, 2014)

1.1.2 Financial Performance

Financial performance is very important in a firm because it is to evaluate the productivity and efficacious on how effectively a firm utilization its resources at maximizing the income of an organization (Clive, Makokha, & Siminyu, 2016). Moreover, it is necessary to use Return on Equity which is an accounting ratio that able to calculate the amount of organization's yield received by comparing the summation amount of the shareholder equity invested. (Esokomi & Mutua, 2018). A company's financial performance can be evaluated by using cash flow, return on asset, return on equity, profitability as well as market reaction as mentioned by (Che

Mahmood, Yunus, & Aris, 2014). Moreover, (Samiloglu, Oztop, & Kahraman, 2017) stated that a firm's financial performance also will influence by the growth in sales, earnings per share and costs to revenue ratio.

1.1.3 Food and Beverage Industry

Nowadays, the international market for food and beverage manufacturing industry are very aggressive and challenging. The packaged food sales across the world are increasing significantly. According to the (Packaged food sales worldwide from 2014 to 2019 (in billion U.S. dollars), 2018), the global sales of the packaged food shown 2.34 trillion U.S dollars in 2014 and increased to 2.57 trillion U.S dollars in 2018.

Hence, Malaysia as a developing country should stay strong and make improvement so that able to compete with the food and beverage industry from other countries. Hence, Malaysia has become a member of the World Trade Organization (WTO) and able to enjoy the advantages such as the fair and anticipated trading environment arranged by the WTO which bring positive impact to Malaysia's economic growth and development as reported by (Arjunan, 2016). According to The Malaysian Investment Development Authority (MIDA), Malaysia had exported the processed foods to around 200 countries all over the world which including Singapore, United States of America, Indonesia, Thailand, Australia, Japan and China. (Industri Pemrosesan Makanan, 2018). The total of the Malaysia processed food exported are approximately RM 18 billion in the year 2015 and RM 19.9 billion in the year 2016. Malaysia is the biggest manufacturing processed cocoa in the Asia and ranked number five manufacturing processed cocoa worldwide.

1.1.4 Listed Company in Malaysia

Bursa Malaysia is a local stock exchange association which consented under Section 15 of the Capital Markets and Services Act 2007. EMIS Database are main sources of data for financial ratio. All of the listed firm in Bursa Malaysia are required in order to comply with Bursa Malaysia Listing Requirements that contain some provisions relating to financial accounting and reporting. Investors are able to get the listed companies' annual report from Bursa Malaysia website.

According to the Bursa Malaysia, there are 801 listed companies in the Main Market, 120 listed companies in ACE market and 13 listed companies in LEAP market. Main Market is a platform for a company to trade its share to the public shareholders. Companies in the Main Market must spread 25 percent of the total shares to the public shareholders (Fortune, 2015). While, ACE Market formerly known as MESDAQ market, ACE market is a platform for new companies to raise funds but they are not strong enough to compete with the companies in Main Market. Then, LEAP Market as known as Leading Entrepreneur Accelerator Platform Market. Small and Medium Enterprises will raise their investment and get exposed through Leading Entrepreneur Accelerator Platform Market (Cheah, 2017). This is because SMEs companies do not meet the requirement to enter the Main market or ACE market.

In this research, the researcher will be focus on the effectiveness of the ISO 9001 towards financial performance of the listed companies in Malaysia. This research will be examining the differences in financial performance between the ISO 9001 certified and non-certified companies.

1.2 Problem Statement

Quality of the system are very important in any sector so that they able to produce a product with standardized quality and to constantly reach expectations even though the conditions are changing. Hence, ISO 9001 will ensure all of these companies have a complete set of procedures for quality management. ISO 9001 is an international standard of quality management that well capable for all of the organizations including food and beverage industry. (Dusharme, 2018). There are significant increasing number of the ISO 9001 certified companies around the world. According to the (Charlet, 2017), there are 513742 companies had obtained ISO 9001 certification compared to year 2016, there are only 480445 companies in the Asia.

Food and beverage are the basic needs for human being to continue survival. The food and beverages industry is a grow rapidly field which having a huge trade marketplace. Hence, government is very concerned about the food safety and quality of the foods and beverage being produced by the food manufacturer. According to the (Bernama, 2018), government will be focused on the food safety so that the quality of the foods and beverages will be in the satisfactory level. Therefore, the number of the food and beverage companies registered the ISO 9001 certification are continuously increasing. Thus, the amount of the export value of food in Malaysia shown increasing since 2014 and the export worth are around RM 30.2 billion in 2016 as stated by (Export value of food from Malaysia from 2012 to 2016, 2018). However, Malaysia also facing a lot of food poisoning cases.

The foodborne illness is usually happen when someone consumed contaminated food. These contaminated food will contains many bacteria, viruses, parasites or other substance that might causing food poisoning. Food poisoning not only happened in developing countries but also happening in developed countries such as China. According to the (xia, 2016), there are 121 people died in a food poisoning case in 2015. Malaysia as a developing countries also facing the food poisoning problem. As stated by (Kei, 2016), the incidence rate of food poisoning in 2015 was at the tiptop point which is at 47.3 per 100,000 Malaysia citizens. According to (Eight Malaysian athletes down with food poisoning, 2018), there are eight Malaysian athletes involved in food poisoning in Kemayoran. Hence, Malaysia food

manufacturers shall adopt and always follow the law and regulation of the government. Food manufacturers also can apply for the international (ISO). This is to ensure the Malaysia food product are always accepted by other countries and reducing the chance of food contamination.

1.3 Research Objective

Therefore, the objectives for this research are:

1. To investigate the necessities of the ISO 9001 certification towards listed companies.
2. To identify the impact of ISO 9001 certification towards listed companies in Malaysia in terms of financial performance.
3. To analyse the relationship between ISO 9001 certification and financial performance

1.4 Research Question

The following were the research questions which were important in this study:

1. Does every listed companies in Malaysia are necessary to implement the ISO 9001 certification?
2. Does the ISO 9001 certification affect the financial performance of the firm?
3. What is the relationship of the ISO 9001 certification and financial performance?

1.5 Scope of Study

The field of the study for this research will be focused on the impact of ISO 9001 certification on the listed companies in term of their financial performance. This research mainly focused on the ISO 9001: 2008 and ISO 9001:2015. The sample of this research are the food and beverage listed companies which they entered Malaysia Stock Exchange during the research period which is from 2013 until 2017. Malaysia is selected as the location to be conducted in this research due to the number of ISO 9001 certified firms are decreasing. According to (Charlet, 2017), the number of ISO 9001 certified firms was 11963 in 2015 but is decreasing to 10380 during 2016. The financial performance of the certified and non-certified firm will be included in this research. The period for this research are from 2013 to 2017. The researcher will use secondary data to collect all the information regarding to the financial performance of the listed companies.

1.6 Limitation of Study

This research mainly using secondary data. Hence, the data might be not available and the data from official statistic might change over time or outdated. Moreover, the small sample size of the research also might influenced all the data obtained. The researcher had to read more literature review to ensure the reliability of the data obtained.