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ISO 9001 Provides Substantial Financial Rewards

Companies traded on the NYSE that receive certification to the ISO 9001 quality system standard show significant improvement in financial performance compared to those companies that have not pursued conformity to the standard, according to researchers. In analyzing the impact of ISO 9001 conformity on publicly traded firms, researchers from UCLA, the University of Maryland and the Universidad Carlos III in Madrid, found that there is a direct correlation with a firm's return on assets (ROA).

"When we began this research in 1997, **we were very skeptical** and we were shocked by the magnitude of the effects," says David Kirsch of the University of Maryland R.H. Smith School of Business. "The differences are significant." Not only did the firms that receive ISO 9001 certification improve their performance, the firms that failed to seek certification "experienced substantial deterioration in return on assets, productivity and sales," says the research team. Certified companies avoided such declines. "Firms that received certification see their relative performance improve substantially compared to their uncertified peers."

The three-member research team combined databases of all certifications awarded prior to 1998 with financial information provided to the SEC from 1988 to 1997. The manual effort combining the databases took from 1999 to 2001 and generated a study group of **7,598 public firms that received one or more ISO 9001 certificates** prior to 1998. It was important for the researchers to analyze the period two years prior to a company's receipt of a certification, since it normally takes about 18 months to go through the implementation process.

Chemical companies that received ISO 9001 certification started with a return on asset rate that stayed steady at 17.9% for the two years prior to certification. However, non-certified firms saw their ROA drop over the same period. The difference between the two groups two years prior to certification was an increase in ROA of 5%. But three years after certification, the certified firms improved the ROA by 12%. "Immediately after deciding to seek certification, firms experience a productivity improvement, while non-certified firms see no such improvement and eventually experience a gradual productivity decline, as witnessed by the drop in cost of goods sold versus sales (COGS/SALES)," say the researchers. "It is clear that firms' ISO 9001 certification did lead to relative improvements in ROA, primarily through increased productivity." Other industrial sectors showed even more pronounced improvements. In industrial machinery and computers, the ROA of certified firms after three years had increased by 37%.

"Non-certified firms experience substantial loss of productivity and sales compared to certified firms," the researchers note. Non-certified firms in the electronics and electrical equipment sector suffered a 55% drop in ROA from the two years prior to certification to three years afterwards.

The researchers make a direct correlation between the ISO 9001 certification and improved performance because the control groups started with the same ROA prior to the certification decision, "so something changed specifically at the certified firms in the year prior to the actual certification," they say. "Given the magnitude of the performance improvements, it seems likely that other effects than ISO 9001 contributed. However, due to the use of performance matched groups and the persistent nature of the relative improvements, our findings do strongly suggest that the preparation for the first ISO 9001 certification also contributed to superior performance. The good news, clearly, is that, in all analyses we conducted, **we found significant improvements in ROA**. From that perspective, we can answer the original question of 'Does it pay to seek ISO 9001 certification?' with a resounding 'YES!' "

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