DETERMINANTS OF ISO 9000 ACCREDITATION AND VALUE RELEVANCE IN MALAYSIAN PROPERTY SECTOR

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The purpose of this paper is to examine the determinants of the ISO 9000 accreditation and value relevance in the Malaysian Property Sector. Using the property sector as the sample, an analysis is done on the characteristics of firms awarded with ISO 9000 accreditation and those with no accreditation from the same sector. Firms are categorized into two; ISO accredited and non ISO accredited, to gauge whether there are differences in the characteristics of firms in both categorized samples. Four characteristics; firm's size, leverage, performance and maturity of firm are examined using the Logit analysis on data taken from 2009 annual reports. This paper is also to examine the factors that affect the value relevance of the company. Five variables; size, leverage performance, ISO 9000 accreditation and maturity of firm are examined using ordinary least square analysis on the same data.

Keywords: ISO 9000, property sector, value relevance

1. Introduction

Globalization and internationalization have significantly and rapidly changed the business comp etition around the world. In order to maintain the competitive atmosphere in the global market, there are many actions taken into consideration by the organizations. One of the ways to obtain competitive advantage in the market is by obtaining ISO 9000 accreditations. ISO 9000 certification is frequently used in both private and public sectors to increase confidence in the products and services provided between partners in business-to-business relations, in the selection of suppliers in supply chains and in the right to tender for procurement contracts. The ISO 9000 standard is proved to be extremely useful in establishing guidelines for standardizing processes. Meeting the ISO standard provides assurance that the products or services produced are based on certain specifications and that any potential errors have been detected and eliminated [Viadiu, 2005]. Therefore this standard becomes one of the ways to obtain sustainable competitive advantages and to enter global marketplace.

Even though there are many researches on the effects of ISO 9000 certification on business performance generally, there is still not much theoretically grounded empirical research that has been conducted to investigate if the financial characteristics like profitability, EPS and leverage actually drive or cause firms to strive for ISO 9000

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certification. In addition, this paper also tries to find the relationship between ISO 9000 accreditation and the share price of the public listed firms.

Thus, the purpose of this research is two-fold. First, it attempts to look into the determinants of ISO accreditation i.e. to ascertain characteristics that could possibly be considered by firms when they seek ISO 9000 certification while others do not. Second, the results of this study could be the evidence if there is any relationship between the performances of firm's that shares the price with the ISO 9000 accreditation, size, leverage, performance, and maturity.

What are characteristic of firm contributes ISO accreditation? Previous research by Che Mahmood et. al indicates that ISO accreditation is positively related to firm's capital structure and performance. However, firm's size and maturity are found not to be significant. While study by Adams finds that ISO accreditation is a positively related to large firm, entities with high growth opportunities and manufacturers operating across several market sectors but not to profitability.

On the other hands, research conduct by Naser et. al (2004), found that return on sales and economic value added determine the company performance, while free cash flow and lender security do not determine the company performance. In this research, characteristic of firm that are going to be studied are firm's size, leverage, earning per share (EPS), share price and age.

In addition, this study will also reveal if there is any relationship between the market value with ISO accreditation, size, leverage, performance, and maturity. Two questions have been developed regarding the problem statement occurred:

1.1 Are size, leverage, performance, and age of the firms determined the accreditation of the ISO 9000 certification?
1.2 Are ISO accreditation of the firms, size, leverage, performance, and age have any relationship with market value of the firms?

2. Literature Review

ISO 9000 is a series of international standards which sets out requirements and recommendations for the design and assessment of management systems. ISO 9000 is grounded on the "conformance to specification" definition of quality. The standards specify how management operations shall be conducted. ISO 9000's purpose is to ensure that suppliers design, create and deliver products and services which meet predetermined standards; in other words, its goal is to prevent non-conformity. [Buttle, 1996]

There are many studies and literatures that have been completed by other researchers which are related to ISO 9000. Different methods, perspectives, and view are used. Nowadays, as numbers of ISO 9000 accredited firms have grown rapidly, there is a widespread belief in motives and benefits of ISO accreditation. According to Buttle (1996), companies pursue ISO 9000 certification in order to enjoy both operational and

marketing benefits which impact on costs, revenues, and, by inference, profit. The most important benefit sought from certification is profit improvement. Ranked second and third most important are process improvements and marketing benefits. In other study, Arauz and Suzuki [2004] explained that promoting corporate image is the main implementation motivator. Therefore it can be understood that the motives of the firms to obtained and implemented ISO 9000 are divided into two, which are internal reasons (such as improve quality of products and services) and external reasons (such as competitive advantages, customer expectation).

From the previous research, ISO 9000 implementation improved the financial performance of the companies. According to Chua et. al [2003], ISO 9000 certification leads to better financial performance. While Buttle [1996] finds that, return on sales (ROS), lender security (LS), free cash flow (FCF) and economic value added (EVA), to examine the relation with company performance. It is found that ROS and EVA determine the performance of the Malaysian listed companies. However, different result obtained from study by Heras et. al [2002] using a longitudinal analysis of performance before and after accreditation has found no improvement in profitability in years following registration. The researcher concluded that superior performance of certified firms is due to be having a greater propensity to pursue ISO 9000.

In terms on quality improvement, Magd [2006] stated that ISO 9000 implementation improved the efficiency of the quality system; better documentation procedures; and increased quality awareness in the firms. In addition, Mallak et. al [1997] agreed that the implementation helped to achieve and sustain the quality of the product or service; to ensure the management that the quality is met; and to give the customer satisfied with the consistency in the product or service. Arauz and Suzuki [2004] found that performance benefits are highly correlated with reducing process variance, improving reliability, morale and skills, and increasing customer satisfaction. The same result provided by Buttle [1996], which found that ISO 9000 improved efficiency, awareness of potential problem, better management control; increasing customer satisfaction, improving staff motivation, keeping existing customers and gaining new customers.

According to Chua et. al [2003], non-listed firms with ISO 9000 certification have experienced better documentation procedures, higher perceived quality of products or services, and more effective communication among employees than listed firms with ISO 9000 certification. ISO 9000 certification allows a firms to experience better internal processes through clearer working instructions or procedures, better bottom line through greater profitability, and stronger export through expansion into international markets. ISO 9000 implementation also exposes the employees to be expert in influenced development – they were trained in the concept and methodology of implementing quality systems and technical and specialized training were imparted to build up competence in their primary functions, such as marketing, design, purchasing, process, and product engineering. It also reduced their reliance on superiors for recurrent guidance on repeatable operations [Kunnanatt, 2007].

While Feng *et al* (2007) research found out that company size is associated with organizational performance when the relationship is adjusted for the effect on

implementing ISO 9000 certification. Larger and medium-size companies were found to perform better than small firms in both operational and business performance. This result may be due to the tendency of the large and medium-size companies to place stronger emphasis on having a strategic plan than small firms. The implication, therefore, is that large and medium-sized companies commit more resources and achieve greater advantages from the ISO 9000 certification process, than the small companies.

Previous studies and literature have proven that ISO 9000 implementation did not only perceived as positive, but also negative impact to the organizational. ISO was described as being costly and time-consuming. Money and time would be the major obstacle that need to over-come in order to convince the top management to introduce ISO into the organization [Mallak et. al, 1997]. The same result found by McLachlan [1996] that ISO was being too expensive; it did not address the needs of small businesses; biased towards manufacturing; irrelevant; and rubbish were still being made and sold. According to Chua et. al (2003) deficient supplier management, unclear lines of authorization non-conformance to procedures, lack of management review and in consistent in bound practices also become the barriers to the excellence implementation of ISO 9000.

2.1 Value Relevance

Previous studies have shown that financial reporting proved to have the information that is useful and important for other users especially to the investors. According to Shamy and Kayed [2005], the objective of financial accounting and reporting is to provide users of financial statements with information that is useful for efficient decisions making. Ifekthar and Anandarajan (2003) state that value relevance is defined as the power of specific accounting number in financial statement to explain the changes in equity values. The greater the explanatory power of accounting number is, the greater the value relevance will be. In their research, they examine how value relevance is influenced by mandated level of accounting disclosure and source of accounting standards. They also examine how country specific characteristics such as legal environment, level of foreign competition, nature of economic environment, level of competition (as measured by 5 firm concentration ratio) and extent of freedom influence the value relevance. They then further examine how institution specific characteristics such as size, risk level and extent of multinational activity impacts value relevance.

Previous study by Suwardi [2009] investigates the nature of the relationship between accounting numbers and share prices of firms listed on the Jakarta Stock Exchange for the period 1992-2001. It is found that the book value of net assets seems to have a stronger relationship with market value compare to similar model estimates using US data.

In another study done by Rahman and Salleh [2004], the objective is to assess the value relevance of earnings and book value and the effect of agency problem caused by FCF, on the value relevance of earnings and book value. Result shows that earnings

and book value are value relevance and FCF reduced the value relevance of earnings and book value.

Graham and King [2000] examined the correlation between stock prices and accounting earnings and book values in six Asian countries: Indonesia, South Korea, Malaysia, the Philippines, Taiwan, and Thailand using residual earnings model that expresses the value of the firm in terms of book value and residual income. They compute incremental explanatory power for residual earnings (the appropriate value under the residual earnings model) rather than for earnings as in prior studies. It is found that residual earnings have little correlation with book value and allow a better separation of the explanatory power of book value and earnings.

Besides those studies, there are numerous studies that have been done which investigated the empirical relation between stock market values and particular accounting numbers over the last decade.

3. Research Methodology

The sampling frame used in this study consisted of 78 property firms or firms which portfolios are related to the property development. Initially, 96 samples are considered for the study but 18 firms were then omitted due to insufficient information in some of the variable values. Out of the 78, 29 firms are ISO certified while the other 49 are not.

To test the hypotheses, the ISO accreditation equation is estimated using measurement of firm's size, leverage, profitability and the age of firms as independent variables. In this study, the dependent variable (ISO accreditation) is derived from a dichotomous measure whereby this variable takes a value of 1 if the firms are ISO accredited; otherwise it is assigned a value of 0.

For this study we employ the use of Logit regression where the independent variable is dichotomous. The subsequent Logit regression model is used in this study:

ISO = α_0 + α_1***In SIZE** + α_2***LEVERAGE** + α_3 ***PERF** + α_4 ***MATURITY** + ε

Where ε is the error

ISO is the dependent variable, which is a binomial variable taking the value 1 if a company is ISO accredited and 0 if otherwise. It is defined as the Logit regression variable $\ln(p/(1-p))$ with probability (ISO = 1/values of the independent variables) = p.

The first independent variable is **In SIZE** where net asset value is used as a proxy value. A logarithmic transformation is applied in order to normalize the data and reducing the existence of extreme outliers. The second independent variable is **LEVERAGE** which is substituted by the ratio of total assets to total liabilities. **PERF** is a firm's performance in terms of earnings per share as a proxy value and represents firms' profitability. The researchers expect that the coefficients of the three independent

variables i.e. α_1, α_3 and α_4 should indicate positive and significant, while α_2 should result in negative and significant.

3.1 ISO 9000 Determinants

For this part, we employ the use of regression analysis to analyze the relationship between size, leverage, performance, age and ISO accreditation with firm's market value (share price). The market valuation model is estimated for the year 2009. This market valuation model is first developed by Landsman (1986). The model is based on balance sheet identity that permits assets and liabilities to have separate regression coefficient. The book value of equity is written as Shareholders' Equity (Net Assets) = Total Assets – Total Liabilities. Denoting these as book value of equity (BVE), assets (BVA) and liabilities (BVL) for company f in year t,

$$BVE_{ft} \quad = \quad BVA_{ft} - BVL_{ft} \qquad\qquad [1]$$

From the market perspective, there are difference between the market value of the equity and the book value. The market value is based on its share price multiplied by the number of shares outstanding, which is determined by the market demand of investors. Therefore, it is written as:

$$MVE_{ft} \quad = \quad MVA_{ft} - MVL_{ft} \qquad\qquad [2]$$

Where MVE is the market value of shareholders' equity, MVA represents the market value of the firm's asset, and MVL is the market value of the firm's liabilities. This perspective assumes that the market value of assets and liabilities are linearly and addictively related to equity value. According to Landsman, the market value of shareholders' equity given by equation 2 may be restated as:

$$MVE_{ft} \quad = \quad \beta_0 + \beta_1 (MVA_{ft} - MVL_{ft}) + \varepsilon_{ft} \qquad [3]$$

Landsman (1986) uses the model in equation (3) to test the market's perception of firm's pension assets and liabilities. If the theoretical model is correct, then the empirical value of β_0 should be zero. While the market value of shareholder's equity is defined as the number of shares outstanding as of December 2009, multiplied by share price, the book value of assets and liabilities are used as proxy for the respective market value MVA and MVL, as latter is not observable. In theory, according to Miller's (1977) model, the pricing mechanism would ensure that the coefficient of MVA and MVL are +1 and -1 respectively. Relatively, ε will be treated as an approximation error (Olson, 1995). Therefore:

$$MVE_{ft} \quad = \quad \beta_0 + \beta_1 (BVA_{ft} - BVL_{ft}) + \varepsilon_{ft} \qquad [4]$$

In addition, we added size of the firms, leverage and ISO Accreditation as the variable in this equation. As result, the equation 3 can now be written as follows:

MVE$= \beta_0 + \beta_1$ **ISO* $+ \beta_2$* **SIZE** $+ \beta_3$***LEVERAGE** $+ \beta_4$ **PERF* $+ \beta_5$ **MATURITY* $+ \varepsilon$ [5]

Where ε is the error

MVE is the independent variable; while the dependent variables are **SIZE, LEVERAGE, PERF, MATURITY** and **ISO**. **SIZE** is net asset book value and **LEVERAGE** is proxy by the ratio of total assets to total liabilities. **PERF** is firm's performance in terms of earnings per share which represent company's profitability. **MATURITY** is based on the establishment date of the firms involved in the study and **ISO** is the firm's ISO accreditation. The researchers expect that the coefficients of the three independent variables i.e. β_1**,** β_3 **and** β_4 should indicate positive and significant, while β_2 **and** β_5 should result in negative and significant.

Based on the objectives, the following hypotheses are developed:

H_1 Large companies will tend to have ISO accreditation than small companies. There is a positive association between the firm's size and the ISO accreditation.

H_2 Low leveraged companies will tend to have ISO accreditation than the high leveraged companies. One might expect a negative relationship between leverage and ISO accreditation.

H_3 The high performance companies will tend to have ISO accreditation than low performance companies. There is a positive association between the performances with ISO accreditation.

H_4 The longer firms' ages of incorporations are more likely to have ISO accreditation than the emerging companies. There is a positive association between firm's age and the ISO accreditation.

3.2 Value Relevance

Based on the objectives, the following hypotheses are developed:

H_1 Large size companies are more likely value relevance than small companies. There is a positive association between the firm's size and the ISO accreditation.

H_2 Low leveraged companies are more likely value relevance than the high leveraged companies. One might expect a negative relationship between leverage and value relevance.

H_3 The high performance companies are more likely value relevance than low performance companies. There is a positive association between the performances with value relevance.

H_4 The longer firms' ages of incorporations are more likely value relevance than the emerging companies. There is a positive association between firm's age and the value relevance.

H$_5$ The ISO accredited firms are more likely value relevance than the non-ISO accredited firms. There is a positive association between firm's ISO accreditation and the value relevance.

4. Data Analysis & Discussion

Table 1 reports the result of the Logit regression model. The resulted model has goodness of fit of 0.67949, which means that this model has an acceptable Peng et. al [2003] estimated predictive power of 67.949%. In other words, the values predicted by this model as compared to actual values are 67.949% accurate. The estimated value of Pesaran-Timmermann test statistic is found significant at $p < 0.001$. This indicates that the model has successfully identified at least one of the independent variables significant in predicting the dependent variable [Pesaran and Timmermann, 1992].

The result of Pseudo-R-Squared calculation is relatively small (0.10697) which reveals that the independent variables found to be significant in the model contribute relatively small effects on the dependent variable. They represent only 10.69% variance in the dependent variable [Peng et. al, 2003]. This indicates that there are other independent variables (yet to be identified in the future research) that could explain the variance in the dependent variable better. However, literature acknowledges the low value of Pseudo-R-Squared as common in any Logit regression as compared to R-Squared in Ordinary Least Squares (OLS) regression. Thus, based on parameter estimated for goodness-of-fit and Pesaran-Timmermann test statistic, it is evidently sufficient to conclude that this model is acceptably valid and applicable in predicting ISO accreditation.

TABLE 1

DETERMINANTS OF ISO ACCREDITATION IN THE MALAYSIAN PROPERTY SECTOR: LOGIT REGRESSION ANALYSIS

ISO $= \alpha_0 + \alpha_1$*ln SIZE $+ \alpha_2$*LEVERAGE $+ \alpha_3$ *PERF $+ \alpha_4$ *MATURITY $+ \varepsilon$

Independent Variables	Predicted sign (+ / -)	Coefficient	Standard Error	T-ratio	Significa nt Level
ln SIZE	+	0.264	0.294	0. 897	0.373
LEVERAGE	-	0.597	2.072	-0.288	0.774
PERF	+	2.484	1.819	2.072	0.176
MATURITY	+	-0.030	0.016	-1.936	0.057*
CONSTANT		-3.485	3.869	- 0.901	0.371

Goodness of fit =   0.67949

Pesaran-Timmermann test statistic =   2.4109 [$p < 0.001$]

Pseudo-R-Squared =   0.10697

- Coefficient is significant at 10% level

As shown in **Table 1**, results unexpectedly reveal that two independent variables, **ln SIZE** (p = 0.373), and **PERF** (p = 0.176) are not significantly associated with ISO accrediatation although the coefficient estimates have correct signs as predicted. As such, researchers do not have enough evidence to conclude that firms with high net assets value and profitability are expected to invest in ISO certification.

Inconsistent with what was hypothesized, the **LEVERAGE** (p = 0.774) result is found to have no significant association with ISO accreditation and its prediction sign is not consistent. This finding suggests that firms' low leverage ratio do not have any relationship with the firm's investment in ISO certification.

Unexpected result also reveals in **MATURITY** (p = 0.057) as it shown that the prediction sign is not consistent (negative) and have significant association with ISO accreditation. This finding suggests that firms newly established have more probability to pursue ISO accreditation compare to firms that have been well estalished for long period. It appears that years of establishment reflect firms' reputation, which means that the longer that

firm has been established, the higher its reputation perceived. Therefore only new firms are needed ISO to enhance the reputation and public confidence.

4. 1 Value Relevance

4.1.1 Empirical Result

TABLE 2

BASIC MODEL REGRESSION SUMMARY STATISTICS

MVE= $\beta_0 + \beta_1$ ***ISO** + β_2* **SIZE** + β_3***LEVERAGE** + β_4 ***PERF** + β_5 ***MATURITY** + ε

Independent Variables	Predicted sign (+ / -)	Coefficient	Standard Error	T-ratio	Significant Level
ISO	+	-0.0525	0.1373	-0.3822	0.703
SIZE	+	0.2660	0.6704	3.9678	0.000*
LEVERAGE	-	0.185	0.5044	0.3679	0.971
PERF	+	2.0998	0.4073	5.1550	0.000*
MATURITY	+	0.005	0.003	1.654	0.067***
CONSTANT		0.2544	0.1685	1.5095	0.136
R^2 = 0.5690					
N = 78					
*significant at 1% level of confidence					
***significant at 10% level of confidence					

Table 2 summaries the statistics from the basic regression models that have defined the market value of shareholders' equity (MVE) as shares price at year end times the number of shares outstanding.

As mentioned $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 are the slopes coefficient for **ISO Accreditation**, **Net Asset Value, Leverage, Earning per Share, and Maturity** of the firms in this study. If investor places value on the ISO accreditation, Net Asset Value, Leverage, Earning per Share, and Maturity of the firms, then $\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 should be positively or negatively related to a firm's market value.

In solving the heteroscedasticity problem, White's heteroscedasticity-corrected standard errors test is adopted using the **MICROFIT** software package as standard output. So it is possible to compare the result from the original OLS with the adjusted one.

Table 3 summaries the statictics from Basic Model Regression using the White's heteroscedasticity-corrected standard errors.

TABLE 3

BASIC MODEL REGRESSION SUMMARY STATISTICS

Based on White's Heteroscedasticity adjusted Standard Errors.

Independent Variables	Predicted sign (+ / -)	Coefficient	Standard Error	T-ratio	Significant Level
ISO	+	-0.0525	0.1197	-0.4386	0.662
SIZE	+	-0.2660	0.7192	3.6987	0.001*
LEVERAGE	-	0.0185	0.4691	0.0395	0.969
PERF	+	2.0998	0.6597	3.1829	0.002**
MATURITY	+	0.0061	0.0044	1.3650	0.176
CONSTANT		0.2544	0.1491	1.7057	0.092
$R^2 = 0.5690$ N = 78 *significant at 1% level of confidence **significant at 5% level of confidence					

Basic Model result table (Table 3 – based on White's Test) indicates that for the year of 2009 **NAV** and **Earning per Share** of Malaysian Property Sector is value relevance. This is shown by their high t-value (NAV = 3.6987; EPS = 3.1829) at 1% and 5% significant level of confident. The model is also good whereby the the R^2 is 0.5690, indicates that the independent variables explain 56.90% of the variation surrounding the market value of the firms.

Based on the statistic results obtained from both tables (Table 4.4 and Table 4.5), it is proven that White's Heteroscedasticity adjusted Standard Errors for NAV (Size) and EPS (Performance) are considerably larger than OLS Standard Errors. While for variables that are not significant; ISO and Leverage, the White's Heteroscedasticity adjusted Standard Errors are considerably smaller than OLS Standard Errors.

Therefore the estimated t-values are much smaller than those obtained by the OLS in most cases. However, although the t-values are smaller, the overall results are consistent with the result reported earlier in table.

This finding supports some of the hypothesis that the market takes into consideration the book value in determines a property firm's market values. In other word, there is a significant relationship between net asset value and earnings per share with market value of firm. The implication of the result is the net asset value and earnings per share in the balance sheet of property industry contain information that has been valued by the equity investors.

Therefore after taking into consideration the Heteroscedasticity problems in the model, it can be concluded net asset value and earnings per share of property industry have content value for investors.

5. Summary

In this study, the first objective is to examine the relation of ISO accreditation with four characteristics namely; firm's **SIZE**, **LEVERAGE**, **PERF**, and firm's **MATURITY**. It is found that **MATURITY** have negative and significant relationship with the ISO accreditation. However, inconsistent with what is hypothesized; ISO accreditation does not appear to be related to the net asset value (**SIZE**), **LEVERAGE** and earnings per share (**PERF).** This finding suggests that firms newly established have more probability to pursue ISO accreditation compare to firms that have been well estalished for long period. It appears that years of establishment reflect firms' reputation, which means that the longer that firm has been established, the higher its reputation perceived. This study, being a single period research, has its own limitations. Various current external issues, either from industry regulators or from political bodies can affect the results reported here. However the result obtained in this study could provide further evidence to existing findings about ISO determinants (in case from Malaysia).

Secondly, this paper also examined whether investors take into consideration the ISO accreditation and key balance sheet numbers of property industry when determining the market value of property firms. It is found that there is a significant relationship between net asset value and earnings per share with market value of firm. In other words, net asset value and earnings per share in the balance sheet of property industry contain information that has been valued by the equity investors. This finding also has limitation since it is only studied on property sector and it is only a single period research. Further research in other sector by other researchers in the future is encouraged.

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