



# Understanding firms' selection of their ISO 9000 third-party certifiers



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## ABSTRACT

Non-financial auditing and third-party certification of management systems (such as the ISO 9000 quality management system) is becoming a pervasive activity amongst an increasing number of firms and their supply chains. Though the literature has paid substantial attention to adopting firms, there has been little focus on the interrelationship between third-party certifiers and adopting firms. Building on voluntary standards literature and the attitude theory, we investigate how do firms choose from a competing set of certification bodies and how does such a decision impact their satisfaction with certification. We use a sample of 539 firms in Australia and New Zealand certified against ISO 9000 standard. We demonstrate that the selection of third-party certifiers is influenced by firms' auditing orientation and that firms oriented to continuous improvement auditing (as opposed to mere compliance with the standard) focus on choosing reputable auditing firms. We have also determined that reputable certifiers deliver more insightful audits, which contribute to overall satisfaction with the certification. The findings have implications for managers and for certification bodies. Managers should understand that cost savings from certification services have negative impact on the satisfaction from certification. For certification bodies, the paper provides an insight how firms select their certifiers.

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## 1. Introduction

Managers are increasingly forced to monitor, audit and be accountable for management practices that are adopted in their firms. More auditing and monitoring is required mainly due to new regulation, new customer demands, and new NGO and community pressures on firms (Klassen and Vereecke, 2012) and covers various management practices inclusive of quality practices (Martinez-Costa et al., 2008), environmental practices (Lee et al., 2014; Lo et al., 2012), social responsibility issues (Castka and Balzarova, 2008c; Cruz and Wakolbinger, 2008; Klassen and Vereecke, 2012) and safety (Fan et al., 2014; Trienekens and Zuurbier, 2008). Firms are also forced to expand the scope of their auditing and monitoring activities. Typically, the focus has been on their upstream and core partners (suppliers) yet nowadays the emphasis is also on their downstream partners inclusive of distributors, wholesalers, retailers and customers (Klassen and Vereecke, 2012).

Due to the diversity of management practices (quality, environment, social responsibility) and due to the scope of monitoring and auditing, firms often turn to third-party certification bodies to outsource the

monitoring and auditing functions. Certification bodies provide a wide range of certification services for managers; e.g. ISO 9000 for quality, ISO 14000 for environment and SA 8000 for social issues in supply chains. These certifications use “filters” (or “pass/fail”) type of assessment (Busch, 2011) with firms either passing through the filter and meeting the standard's requirements or failing to do so. This ‘filtering’ is performed by external auditors and certification bodies who assess a firm's compliance with the requirements of any given certification. In recent years, there has been a rapid growth of certification bodies – coupled with increased commercialisation of third-party certification. It has also been reported that managers find it increasingly difficult to navigate through the myriad of certification bodies and their offerings (Lal, 2004).

Academic literature has paid considerable attention to the various facets of ISO 9000 and other certifiable standards (Castka and Balzarova, 2008b; King et al., 2005; Singh, 2008). The literature largely takes a firm-level viewpoint (motives for certification, implementation of the standard, and benefits of certification), yet comparatively less attention has been paid to the third-party certification bodies – despite the calls from practitioners (Lal, 2004). This issue has been in particular highlighted by a comprehensive literature review on ISO 9000 and ISO 14000 standards by Heras-Saizarbitoria and Boiral (2013). They assert that “research should focus on studying audits by third parties – one of the processes that characterise the phenomenon

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of meta-standards and one which has not received much attention from researchers in recent years. It would be interesting to analyse the consistency of external auditing services rigorously, limited as they are by the fact that they are contracted and paid for by the company that wishes to become certified.” (Heras-Saizarbitoria and Boiral, 2013; p. 59)

The call by Heras-Saizarbitoria and Boiral (2013) mirrors the anecdotal evidence from the industry (Lal, 2004) and suggests that firms are themselves in the driving seat to make choices about which certification body to choose. At the same time, the above quote also implies that the commercial nature of certification might have a negative effect on the consistency of auditing and certification. Past empirical research has only partially addressed this call, i.e. determining the selection criteria used by firms in choosing certification bodies (Poksinska et al., 2006a) and has also reported that the certification services are not always consistent (Dogui et al., 2013). However, past research has so far failed to explain the more nuanced nature of firms' selection of certification bodies. In this paper, we investigate how firms select their certification bodies and also determine how such selection impacts the quality of auditing and the overall satisfaction with the certification. We study this problem in the context of ISO 9000 certification and discuss how our findings are applicable to other contexts, recognising the similar nature of other certifications.

We anchor our study to the most consistent finding in the ISO 9000 literature: namely that how firms approach certification impacts various facets of certification (Aravind and Christmann, 2011; Naveh and Marcus, 2005). The literature has demonstrated that firms can implement a management system in 'substance' or in a 'ceremonial' fashion (Boiral, 2003; Yeung et al., 2011). More importantly, the literature suggests that firms which implement ISO 9000 in substance outperform the ones that do so in a ceremonial way (Naveh and Marcus, 2005). How firms approach certification is therefore a manifestation of choice: just as firms have a choice to select the way they approach certification, they also have a choice from a myriad of certification bodies offering their services. Using this theoretical underpinning, we assume that firms that choose to implement a standard in substance use a similar approach whilst choosing their certification body. In other words, these firms are more likely to choose a reputable certification body. Conversely, we assume that ceremonial firms tend to use less reputable certification bodies. Apart from studying the selection itself, we also study how such choice impacts on quality of auditing and firm's satisfaction with the certification. We use the attitude theory (Bagozzi, 1992), which suggests the link between desire, intention, behaviour, and outcomes. Specifically, the theory suggests that the decisions made by individuals to engage in certain activities are driven by their desire to achieve certain outcomes. Furthermore, the theory also suggests the “desire-outcome fit” where the individuals who make decisions out of their desire will exercise an appraisal if the activities they engage fulfil their desired outcomes. The fit between desire and outcome will produce satisfaction while the mismatch will lead to dissatisfaction. In the context of this study, we will examine firms' desire to attain certification which is reflected in their auditing orientation whether it is more toward improvement or just compliance. This auditing orientation will lead firms to choose different (even perhaps contrasting) kinds of auditors or certification bodies which could serve their desire. Therefore, we postulate two different paths where firms want to engage in the auditing process according to their desire (i.e. auditing orientation). We will then examine if the two paths which are reflected in different kinds of selection criteria for CBs will serve their purpose of being certified to ISO 9000, hence, leads to satisfaction with ISO 9000 certification.

This research is important for several reasons. Firstly, there is a clear need to pay attention to the role of certification bodies and the role of auditors in quality management system certification

(Heras-Saizarbitoria and Boiral, 2013). The role of certification bodies remains somewhat overlooked in the literature despite their evident impact on certification (Lal, 2004) – compared to other factors, such as the implementation process itself. Secondly, the few studies that have investigated the role of certification bodies and auditors within ISO 9000 certification (Gyani, 2008; Power and Terziovski, 2007) tend to treat the certified firms as a homogeneous cohort. This simplification, though useful whilst assessing the certification itself, has been challenged recently. For instance, (Ivanova et al., 2014; Sandholtz, 2012) suggested that researchers need to embrace the heterogeneity amongst adopters to better explain the impact of certification on adopting firms (Aravind and Christmann, 2011; Darnall et al., 2009). Third, the existent studies which covered the link between ISO 9000 and satisfaction with the certification have ignored so far the role of certification bodies. Moreover, such studies do not use any theoretical underpinning and therefore the literature has not evolved in a cohesive manner. We build our study on the attitude theory and aim to introduce a relevant theoretical underpinning for this study and other future studies in this area.

The remainder of this paper is organised as follows. First, we introduce the context of our study and describe how third-party certification is operationalized to deliver monitoring and auditing functions. Next, we formulate a set of hypotheses and introduce our research model. We then present our data set and discuss the measures that we have used in the study. This is followed by Section 5. Finally, we discuss our findings and present the contributions of our study to theory and practice.

## 2. Literature review

The literature on ISO 9000 does not directly address the topic of our research to a great depth. Nevertheless, a significant part of this literature provides an important theoretical underpinning for our study. In this section of the paper, we briefly review the context of our research and the relevant literature in order to establish a basis for the development of our hypotheses.

### 2.1. The context – ISO 9000 certification

ISO 9000 certification is a multi-tier governance system involving multiple players. There are typically four groups of players: participating firms, certification bodies and their auditors, accreditation bodies and standard setters. The main role of the *participating firms* is to comply with the requirements of a standard. This often means that firms perform a gap analysis between their current practices and the requirements of the standards. This is followed by the adoption of the necessary standard and addressing the non-complying requirements. Once the implementation of the standard is complete, firms choose a *certification body* that is accredited to perform such non-financial audits. The certification body, through its non-financial auditor, verifies the firms' compliance against the standard (Pivka, 2004). If the firm passes the audit, the certification body issues a certificate of compliance. The main role of *accreditation bodies* is to 'control' the certification bodies and to determine whether they are capable of performing the audits. Finally, *standard setters* are responsible for establishing the standard and its requirements and are also responsible for revisions of standards. Standard Setters operate independently from certification and accreditation bodies. In the case of ISO 9000, the International Organisation for Standardisation (ISO) is the standard setter and also responsible for any amendments to be adopted. In our study, we limit our scope to adopting firms and their certification bodies. However, our study has implications for accreditation bodies as well as for ISO itself. The above discussion

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