

The Importance of ISO 9001 on Developing Countries with Reference to International Trade: A Review

Hoowuntee Sepaul^{1*} and Abheenaye Chauhan Gokhool²

¹University Technology Mauritius, Port Louis, Republic of Mauritius; sepaulhoowuntee@gmail.com

²Open University Mauritius, Moka, Republic of Mauritius; a.gokhool@open.ac.mu

Abstract

Objective: Increasingly fierce competition in international trade has left firms in developing nations in “do or die” situations. Amongst the various reasons developing countries face business setbacks in the global village, the ability to affirm quality products/services stands out. However, considering that ISO 9001 standard has been developed in order to enhance international trade, this paper aims to provide a quick holistic glance on empirical research related to ISO 9001 and international trade of developing countries. **Methodology:** Empirical studies from the year 2000 till date, related to ISO 9001 and International trade were considered. Findings from these studies were summarized. **Findings:** The review discerned scarce up to date empirical papers on the subject matter. Findings from 11 empirical studies from the year 2003 to 2015 were summarized and the latter were concentrated in the direction that ISO 9001 certification enhances bilateral trade, mostly exports, especially for developing countries. ISO 9001 acting as a trade barrier was found to hold true for the minority. Given that worldwide trade is an ever evolving and dynamic sphere, future studies have to continuously revolve on the impact of ISO 9001 on international trade of developing countries specifically. **Applications:** The study presented in this paper can be used to analyze the impact of ISO 9001 standard worldwide.

Keywords: International Trade, ISO 9001, Standards

1. Introduction

In today's era, economic growth cannot survive without bilateral trade. The phenomenon of international trade has been present for several decades and is now affecting all countries and an increasing number of developing countries are projecting their business in the global market which has contributed towards many organizations in these countries to adopt ISO 9001.

ISO 9001 is a generic management standard developed in 1987 by the International Organization for Standardization¹. Since then, the former's ability to positively influence organizational performance and expectations of customers has been acclaimed.

Given the worldwide popularity and scope of ISO 9001, the standard has the ability to allow for a common

ground regarding requirements and specifications, thus generating a trade facilitating effect. Several studies have investigated the influence that ISO 9001 standard adoption can prelude on cross border trade and the findings brought forward hitherto are ambiguous.

On the other hand, with the rapid growth of international trade, many developing countries are adopting the ISO 9001 standard. The requirements on the international market have forced developing countries to review their processes and focus more on quality. With the above in mind, we aim to gather findings of empirical investigations related to the impact of ISO 9001 international standard on bilateral trade in developing countries. Henceforth, bringing forward gaps and prospective research, as well as providing a summarized insight on the topic.

*Author for correspondence

2. International Trade and Developing Countries

Since the past few years, developing countries are engaging themselves more and more in international trade which has had positive impacts on their economies. One of the main positive impacts is in terms of economic growth.

International trade and economic growth are closely linked and several authors agree that international trade increases economic growth. In² explained that international trade can affect economic growth of developing countries in a positive way by upgrading industrial structures, facilitating capital accumulation and helping in technological progress and institutional advancement. Economic growth can have several effects such as increase of domestic competition and expansion in terms of efficiency³. Since domestic firms become more competitive, they tend to be more efficient which leads to higher productivity and increase of domestic products. For authors in⁴ this type of situation gives rise to employment and also an improvement in the standard of living. Furthermore, international trade can also allow domestic firms in budding countries to adopt new technologies in order to increase their production scale⁵. This allows firms to enjoy the economies of scale which become available. In⁶ authors adds that the adoption of new technologies make domestic companies to become more innovative in terms of products and export them to foreign countries. And this is also supported by⁷, who states that new technologies make domestic businesses become more efficient. As mentioned earlier, international trade leads to an improvement in the standard of living of the developing countries.

3. International Trade and ISO 9001

Over the years, increasing inter-state trade has unearthed the necessitation for common standards, having as objective and facilitating integration between firms. With customers leaning on signals depicting quality in view of diminishing search costs, potential competitors especially from developing countries face issues to be visible in the global market.

The ISO 9001 standard was conceived to cater for an effective means in improving organizational performance

and hence inspiring trust in the latter's goods and services with the aim that meeting customer expectations will increase trade¹. Studies conducted by various authors on the subject matter converged towards ISO 9001 certification positively influencing worldwide trade^{8,9}. The World Trade Organization is of opinion that the International Organization for Standardization walks their path in the journey of facilitating international trade¹⁰. Owing to common-language elements, ISO 9001 allows for inter-firm and inter-country exchange facilitation¹¹. For instance, Volvo's components suppliers have to comply to ISO 9001 in order to even be considered to initiate an alliance¹². This serves as an example to demonstrate that ISO 9001 quality management standard enhances activity of cross border companies with multinational enterprises.

Furthermore, developing nations not having well organized institutional frameworks can expect ISO 9001 certification to contribute in facilitating trade⁷. In other words, distorted information and transaction costs are alleviated owing to ISO 9001^{8,13,14}. These are possible through documentation flow and organizational procedures being standardized which contribute to signal a firm's quality commitment. Hence, transparency and clarity undoubtedly create export/import favorable environment and opportunities for firms.

Nonetheless amidst empirical findings, mixed observations with ISO 9001 at times enhancing and at times impeding international trade has also sprouted. This can be explained by the fact that with a view to raise cross-border competition cost, ISO 9001 standard might be considered as a barrier to international trade¹⁵⁻¹⁷.

In addition, compliance costs arising from standard diffusion from foreign producers can also negatively affect firms from developing countries¹⁸. For example, these costs can take the form of adapting manufacturing design and/or reorganizing production systems¹⁹. In turn, middle to smaller sized firms especially from developing countries can experience the compliance costs to be not negligible²⁰⁻²².

4. Summary of Findings

Several studies, reviews and implementation has been proposed by researchers worldwide relating to International Trade, ISO 9000, foreign policy, standards, ISO 14000³²⁻⁴⁵.

Ref.	Author	Year/Journal	Finding
23	1. Neumayer, Eric 2. Perkins, Richard	2005/Economic Geography	Countries exporting to EU member states face high pressures to comply with ISO 9000 standard.
24	1. Joseph A. Clougherty 2. Michal Grajek	2014/International Journal of Industrial Organization	1. Developed nations trading with ISO 9000 certified host-nations have increased exports. 2. Higher levels of worldwide ISO 9000 diffusion cause export gains of developing states to be lower than developed countries
9	1. John Hudson 2. Philip Jones	2003/Journal of International Development	1. ISO 9001 has a significant impact on international trade, both imports and exports.
25	1. German Arana Landin 2. Erlantz Allur 3. Inaki Heras Saizarbitoria	2014/Internal Journal for Quality Research	1. The non relevance of ISO 9001 uptake in Africa can be indicative of its trade marginalization.
26	1. Michal Grajek	2004/Social Science Research Centre Berlin	1. ISO 9001 standard promote exports and hamper imports. 2. Certification to ISO 9001 spur both exports and imports for OECD countries.
27	1. Knut Blind 2. Axel Mangelsdorf 3. John S. Wilson	2013/Frontiers of Economics and Globalization	ISO 9001 has a trade enhancing effect for the food, beverage and tobacco industry, irrespective of developed or developing countries.
28	1. Xun Cao 2. Aseem Prakash	2010/Association for Public Policy Analysis and Management	ISO 9001 certification has a more pronounced effect on export of developing countries as compared to developed countries.
8	1. Joseph A. Clougherty 2. Michal Grajek	2008/Governance and the Efficiency of Economic Systems	1. Trade is not enhanced by the adoption of ISO 9001 in developed nations. 2. Trade is enhanced by the adoption of ISO 9001 in developing nations.
29	1. Matthew Potoski 2. Aseem Prakash	2009/Journal of Policy Analysis and Management	ISO 9001 certification contributes for developing countries to know growing exports.
30	1. Arman Kalani 2. C.A Malarvizhi 3. Dr. Sreenivasan Jayashree 4. Masoomah Hashemi Nabi 5. Nima Morad Et al	2013/Australian Journal of Basic and Applied Sciences	ISO 9001 has a significant export promoting effect on exports of manufactured goods in Malaysia.
31	Toktam Mohtashami	2015/Advances in Business-Related Scientific Research Conference, Rome, Italy	ISO 9001 has a positive impact on trade in Iran.

5. Discussion and Conclusion

From the summarized empirical findings, it can be observed that ISO 9001 does induce a positive influence on global trade, mainly in terms of export for developing countries. Quality perceptions are growingly allied with the economic state of a country, following which making it more difficult for developing countries to signal quality. Henceforth, developing country firms with hope to

initiate or sustain a place in the global market are signaling their product quality to potential customers through the adoption of ISO 9001 standard. Also, ISO 9001 standard depicts a common language property which enables inter-firm and inter-state communication gaps to be substantially reduced.

Although being ISO 9001 certified is a voluntary activity, many organizations are abiding to it, thus enhancing the image of the developing countries in which they

operate on the international market. It is not only a question of image, but also forms part of the requirements by developed countries mainly European ones. For example, European countries expect their business partners that are developing countries to be certified so as to ensure, they are dealing with high quality products. Developing countries mostly from Asia and Africa are required to be ISO 9001 certified to be considered as suppliers. This can to some extent be demonstrated by the ability of EU firms to ignore companies not complying with ISO 9001 standard. This choice has been enabled by the European Commission in 1989⁴⁶.

Alongside with the EU, developed countries lay a lot of emphasis on quality, mainly due to high level of competition and a developing country has concerns of not only to demarcate itself from other developing countries, but to merely open a pathway in the direction of the global market. Therefore, being ISO 9001 certified is a definitely to be considered approach for developing countries to trade internationally with the rest of the world.

6. Future Studies

Although some studies have been undertaken on ISO 9001 and international trade, further studies on specific developing country/region, for example, the African region could be conducted. This will add on to the existing literature. On the other hand, it would also be interesting to gather data on firms indulging in international trade without being ISO 9001 certified. And finally, owing to the dynamic global market, there is need to keep updated information of ISO 9001 and international trade of developing countries.

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