

ISSN e2311-7575

International Journal of  
**Management and  
Leadership Studies**  
**(IJMLS)**



---

Volume 3, Issue II, October, 2021

---



**INTERNATIONAL JOURNAL OF MANAGEMENT  
AND LEADERSHIP STUDIES**

# International Journal of Management and Leadership Studies (IJLMS)

## Editorial Board

1. Prof. Washington Okeyo – Chief Editor
2. Dr. John Cheluget – Corresponding Editor
3. Dr. Thomas Ngui – Director, Research Development & Innovation
4. Prof. Peter K’Obonyo – Member (School of Business, University of Nairobi, Kenya)
5. Prof. Richard Miller – Member (Osaka Jogakuin University, Japan)
6. Prof. Zane Ritchie – Member (Josai University, Japan)
7. Prof. Michael Parrish – Member (Kwansei Gakuin University - Japan)
8. Prof. Kalyan Sahoo – Member (Ghana)
9. Dr. Michael Greisamer – Member (Kobe City University of Foreign Studies, Japan)
10. Prof. Peter Paul Kithae – Member (Management University of Africa, Kenya)
11. Prof. Emmanuel Awuor – Member (Management University of Africa, Kenya)
12. Dr. Paul Machoka – Member (Management University of Africa, Kenya)
13. Prof. Padma C. Mishra – Member (Biju Patnaik University of Technology, India)
14. Prof. Subhankar Das – Member (Duy Tan University, Vietnam)
15. Mr. Francis Macharia – Member (Management University of Africa, Kenya)
16. Dr. Domeniter Naomi Kathula – Member (Management University of Africa, Kenya)

## Editorial Advisory Committee

1. Prof. Peter K’Obonyo – School of Business, University of Nairobi, Kenya)
2. Prof. Richard Miller – (Full professor - Osaka Jogakuin University, Japan)
3. Prof. Zane Ritchie – (Associate professor - Josai University, Japan)

## Corresponding Editor

Dr. John Cheluget

Email: [jcheluget@mua.ac.ke](mailto:jcheluget@mua.ac.ke)

## Publisher

The Management University of Africa

P. O. Box 29677 - 00100, Nairobi, Kenya.

Bellevue, Popo Road, off Mombasa Road, South C.

[Tel:+254 20 2361161](tel:+254202361161)

**Mobile:** +254 722 224193, +254 706 035299

Copyright © 2021 Management University of Africa  
All Rights Reserved

No part of this book may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopy or otherwise without prior permission from the authors except as provided by copyright law.

## **EFFECT OF ISO 9001 QUALITY MANAGEMENT SYSTEM ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN KENYA: A SURVEY OF TOP 100 SMES IN KENYA**

**Otieno, Walter Ochieng**  
*Management University of Africa, Kenya*

**Prof. Peter Kithae**  
*Management University of Africa, Kenya*

### **ABSTRACT**

*Small and Medium Enterprises are increasingly under pressure to implement quality improvement initiatives to improve their competitiveness and financial performance as a result of globalization of markets. Studies that have been conducted to determine the effect of quality improvement initiatives on financial performance of organizations in different sectors of Kenyan economy are limited and their outcomes are inconclusive. This study investigated the effect of implementation of ISO 9001 quality management system on the financial performance of SMEs in Kenya. Financial performance was measured by growth in revenue, Return on Assets, Return on Investment, Profit and reduction in unit cost of production. The sample for the study were the Top 100 SMEs in Kenya in 2019 according to the survey carried out by the consulting group KPMG and Nation Media Group. Descriptive research survey was applied in this study. A census approach was adopted for data collection. The primary data was collected from each enterprise using a questionnaire which was administered online. The descriptive statistics were analyzed using Statistical Package for Social Scientist (SPSS). The study found that 30% of SMEs in Kenya have adopted ISO 9001 quality management system to improve quality of their products and services. The study also established that implementation of ISO 9001 QMS has statistically no significant effect on financial performance of SMEs in Kenya. However, implementation of ISO 9001 QMS has a potential to explain 2% of financial performance of SMEs in Kenya. From the findings of the study, it can be concluded that the financial performance of SMEs in Kenya is explained by other factors other than implementation of ISO 9001 QMS. Due to its potential to contribute to the financial performance of SMEs, the study recommends that SMEs in Kenya should implement ISO 9001*

*QMS in conjunction with other initiatives to improve their financial performance in the long term.*

**Keywords:** ISO 9001 quality management system, Financial performance, SMEs, Quality improvement initiatives

## INTRODUCTION

Worldwide, Small and Medium Enterprises (SMEs) constitute a critical segment which plays a huge role in job creation and economic development of any country. They represent about 90% of all businesses and more than 50% of employment worldwide (World Bank, 2016). In Japan, SMEs constitute more than 99% of all businesses and employ the majority of the working population and also account for a larger proportion of the economic output (Economist Intelligence Unit, 2010). SMEs in China constitute 99% of total enterprises and contribute 60% of the Gross Domestic Product (GDP) and account for 60% of industrial output volume (Ngui, 2014). In South Africa, it is estimated that over 90% of the formal business entities are SMEs that contribute about 34% of the Country's GDP (International Finance Corporation, 2017). According to Banwo (2016), SMEs contribute about 47% of the GDP of Nigeria. In Kenya, a survey conducted by the Kenya National Bureau of Statistics (KNBS) in 2016 indicated that Micro, Small and Medium Enterprises (MSMEs) collectively contributed 28.5% of the Total Economy of Kenya and had employed 14.9 million people (KNBS, 2016).

Notwithstanding the important roles SMEs play in socio-economic development in many countries, they face a myriad of problems that impede their growth. The constraints include lack of capital, poor infrastructure, lack of access to appropriate technology, poor quality, unfavorable regulatory environment and weak institutional capacity among others. In Kenya, 46% (about 500,000) of these enterprises close within the first year of establishment, and only about 10% survive beyond five years (KNBS,2016).

Globalization of markets provides opportunities to SMEs in Kenya to compete and trade both locally and internationally. Several studies show that quality has increasingly become an essential driver for demand for products and services and hence financial performance of the enterprises. McMahon (2001), established that lack of focus on quality by SMEs causes between 5%-15% loss of sales revenue. As a result, the SMEs are increasingly under pressure to implement quality improvement initiatives to meet requirements of customers in domestic and international markets to remain competitive. The objectives of adopting quality

improvement initiatives are to improve the products and services and processes to consistently meet the ever changing customer requirements. The outcome ought to be improved financial performance through reduction of defects, increased operational efficiency and customer satisfaction. The Government of Kenya has identified strengthening of SMEs to become the key industries of tomorrow as a cross-cutting strategy towards a robust, diversified and competitive manufacturing in the Kenya Vision 2030 (GOK, 2007). The strategy is aimed at improving productivity and innovation in the sector.

SabancıOzer, (2012) defines performance as the achievement of defined business objectives and goals measured against known cost, standards and completeness. While financial performance emphasizes on the general measurement regarding the current financial position of a firm, it can also be termed as measurement of proper utilization of the assets in a firm based on its mode of operation and how revenues are generated. Codjia, (2010) terms financial performance as an analysis of financial statements which includes the account summary and it relates to revenues and expenses, profit / loss, and changes into assets and liabilities. On the other hand, Sarangarajan et al. (2013) defines financial performance in terms of how efficient a firm utilizes its assets in providing products or services and ultimately generates incomes. Kenya's Top 100 SMEs Survey (Top 100 Survey) ranks SMEs in terms of profit growth, returns to shareholders and liquidity (KPMG, 2018). This study used growth in revenue, Return on Assets, Return on Investment, Profit and reduction in unit cost of production to measure financial performance of SMEs in Kenya.

Implementation of ISO 9001 quality management system is a quality improvement strategy aimed at enhancing customer satisfaction and ensuring a consistent production and delivery of products and services that meet customer and statutory and regulatory requirements. ISO 9001 quality management system is founded on the principles of customer focus, good leadership, engagement of people, process approach, decision making backed by accurate and reliable data, relationship management and on-going improvement activities. The International standard ISO 9001:2015 provides a set of requirements to be fulfilled by an organization to achieve the objectives of a QMS. These requirements are structured to ensure effective planning of actions and resources to address risks, opportunities and achieve quality objectives (PLAN); implementation of the plans (DO); monitoring and performance evaluation against the plans (CHECK) and taking action to improve performance of the system (ACT). Nigel et al. (2010) opines that an effective quality management system leads to increased productivity, reduced operating costs and improved customer satisfaction resulting in increased revenue and profitability. According to Salaheldin (2010), adoption of quality management practices by

companies is on the rise, thus increasing their non-financial and financial results. Smith (2012) opines that quality management is a key factor in business growth and sustainability in the 21<sup>st</sup> century. In this context, focus on quality management is key to growth in sales and revenue, creation of new jobs and sustainable business expansion. According to ASQ- Forbes Insights (2018), many successful organizations exploit the economic potential of quality management to attain leadership in their respective markets.

SMEs are a major source of entrepreneurial skills, innovation, employment opportunities and social integration in Kenya. It is essential to assess the quality improvement practices that can have positive impact on their financial performance to provide information for decision making by owners and other stakeholders of SME sector. Studies on the effect of the wide range of quality initiatives on financial performance of organizations in different sectors in Kenya is not exhaustive. Furthermore, the findings on the impact of quality initiatives on performance of the organizations in different sectors and regions is unclear or contradictory, thus lending itself for more scrutiny. This study was conducted to determine the effect of ISO 9001 QMS implementation on financial performance of SMEs in Kenya. To evaluate the effects of ISO 9001 QMS implementation on the financial performance of SMEs in Kenya, the following null hypothesis was tested.

**H<sub>1</sub>:** Implementation of ISO 9001 QMS has no effect on financial performance of SMEs in Kenya

## **LITERATURE REVIEW**

### **Theoretical literature review**

Scholars have developed various contemporary theories that link quality improvement initiatives and organizational performance. Three important theories, namely, Deming's Theory of Profound Knowledge and PDCA Cycle (the anchor theory), Quality Trilogy and Dynamic capabilities are relevant to this study.

### **Theory of Profound Knowledge and PDCA Cycle**

Edwards Deming is recognized as the architect of quality improvement in the Japanese manufacturing industry that transformed Japan into a modern leader of technology and innovation after the Second World War. Deming developed the system of profound knowledge to underpin transformation of organizations. Deming's system of profound knowledge consists of four components: Appreciation of the System - an understanding of the way the company's processes interact and work as a system; Knowledge about variation - an understanding of the

variation occurring and their causes; Theory of Knowledge - the understanding of what is known, and Knowledge of Psychology - the understanding of interaction between work systems and people. Deming believed that application of the system of profound knowledge would help to transform individuals within their organizations and create a better leadership culture. This would in turn lead to effective quality improvement efforts.

Deming further developed fourteen points of management as application of the philosophy of profound knowledge. According to the fourteen management principles, the focus for SMEs should be a long term plan for quality with the aim of continually getting better and better. To this end, SMEs should adapt to the changing environment to respond to the changing customer expectations by providing the necessary resources, build capacity of employees to adopt new technologies and continually improve the processes to improve quality, reduce waste and reduce cost of operations. SMEs should build relationships with suppliers and adopt modern methods of people management that promote teamwork, accountability and empowerment of employees. Further, SMEs should promote effective communication at all levels and manage feedback objectively to enable employees make decisions and exploit their potential without fear.

Deming also promoted the model of Plan-Do-Check-Act (PDCA) cycle as a framework for continuous improvement starting by establishing objectives, resources and actions to achieve them (Plan), implementing the actions as planned (Do), checking quality results against the objectives (Check) and taking action on the outcome (Act) before starting to plan for next improvement. According to the PDCA model, SMEs should identify what improvement is needed, provide the required resources and facilitate teams to execute the project, monitor and measure the progress of the project at suitable intervals, and finally evaluate, communicate and recognize the outcome of the project.

Deming's theory provides a rich perspective on management principles and a model that can be applied by SMEs to implement quality improvement projects to achieve better performance.

### **Quality Trilogy theory**

This theory was proposed by Joseph-Juran in 1986. The three elements of quality trilogy theory are quality planning, quality control and quality improvement. These three components should work together in order to make any quality improvement effort succeed. Through quality planning, the SME identifies its customers and their needs and then designs and develops a product or service that meet the customer's needs. Quality planning ensures that quality is designed into goods and services and processes by the SME by carefully listening to the voice

of the customer. Quality planning eliminates the risk of the quality improvement effort not achieving customer satisfaction or the desired objective.

Quality control involves developing and maintaining operational methods to ensure that the targeted levels of performance are being achieved. Therefore, the SME should clearly define quality, establish the expected performance or targets, evaluate the actual operating performance, compare the actual performance to goals or targets and finally take action on the difference between actual and expected performances. Quality control helps SME to prevent faulty goods and services getting out to the customer, hence improved reputation for quality and this may increase sales.

Quality improvement is a systematic approach to improve the level of performance of the processes and quality of the product or service. The improvements can be achieved through new innovations (breakthrough improvement) or by continually improving the existing processes and products to get better performance levels through setting higher objectives and corrective action processes. The gains made are then sustained using quality control mechanisms as the organization plans and implements a new phase of improvement.

Scudder (2013) emphasizes that quality improvement actions must be carefully planned and controlled in order to achieve the objectives. Joseph Juran developed Ten quality improvement steps (Mokamba et al., 2013). In applying these Ten steps, the SME should instill a culture of continual improvement in the organization, prioritize improvement projects and clearly define the problem to be solved and the objectives to be achieved for each project. Project Teams should be identified, trained and facilitated to carry out the projects. The planned milestones should be monitored and the results communicated within the organization to encourage the team, and once the project is complete, the team should be recognized for their efforts.

This theory provides knowledge on the interaction of quality management processes and the steps that can be applied by SMEs to effectively plan, execute and sustain quality improvement.

### **Dynamic Capabilities Theory**

The business environment is ever changing. According to Teece et al. (1997), Dynamic Capabilities emphasizes two critical aspects: The agility with which firms can build new internal and external competencies and the strategic management required to apply these competencies to match the rapidly changing business environment. According to Helfat et al. (2007), the Dynamic capability of a firm is how well it can create, extend, or modify its current resource base to match the requirements of the business environment. Teece (2012) grouped dynamic capabilities into three categories: capabilities to identify and assess opportunities and

threats (sensing); capabilities to mobilize resources to address an opportunity (seizing) and capabilities for continued renewal or combination of assets to meet external demands (transforming). Fernandes et al. (2017) opines that when dealing with dynamic capabilities, it must be considered that external conditions are present and affect all organizations. However, not all organizations can understand and take advantage of opportunities or even change to minimize the risks present in the environment.

The dynamic capabilities of SMEs will determine how well they can implement quality improvement opportunities. Quality improvement initiatives are change projects that require employees to learn quickly and build and integrate new capabilities into the company's processes in order to transform the existing assets to respond appropriately to the dynamic business environment. SMEs need capability to leverage on knowledge and skills to perceive and sense changes in its competitive environment and identify opportunities for improvement of its quality performance. These changes may be technological, market or regulatory. Seizing quality improvement opportunities requires SMEs capability to enhance, combine or reconfigure its resources to implement quality improvement projects, thus transforming the opportunity into reality within the organization. Transformation capabilities enable SMEs to leverage on existing assets to maintain or gain advantage over competition.

SMEs should invest in staff training and development as a means of developing their capabilities to make transition to new technologies, products and processes and comply with regulatory and standards requirements. Human resource management initiatives such as empowerment of employees, flexible structures, performance based rewards, and recognition for new initiatives, can inculcate such an entrepreneurial and dynamic culture within the firm. Dynamic Capabilities theory helps SMEs to understand the capabilities that are required to identify and implement quality improvement initiatives that can lead to better financial performance.

### **Empirical Literature Review**

Several studies have been conducted to evaluate the effect of ISO 9001 quality management system on operational and financial performance across the world. Ngumo (2017) studied the effect of QMS on the financial performance of manufacturing firms in the Industrial Area, Nairobi and found that there is non-significant relationship between quality practices and profitability of manufacturing firms in Nairobi County. The study limited to manufacturing firms in Nairobi and the scope encompassed from small to large firms, thus presenting a

contextual gap in terms of the sample for the study. The current study focused on SMEs and considered in both manufacturing and service sectors.

Neyestani (2016) conducted a literature review of scholarly published studies on the impact of ISO 9001 on financial and no-financial performance in the organization on different sectors. The results established that ISO 9001 QMS significantly affected the production process (internal business process), but the effect on financial performance was unclear and contradictory. The study exhibited a methodological gap since it used empirical review while the current study employed a descriptive design.

Muturi et al. (2015) in their study on the impact of ISO 9001 implementation on Organizational Performance in Kenya found that ISO 9001 certification has a positive influence on the organizations' return on assets. This study targeted organizations listed on the Nairobi Securities Exchange (NSE) and data was collected from web content analysis from the organizations' websites. The study presented a methodological and contextual gaps since data was based on web content and the target sample were the large firms listed in NSE as opposed to SMEs.

Psomas et al. (2013) conducted an empirical study on the impact of ISO 9001 QMS certification on the performance of service companies. The study that targeted service companies certified to ISO 9001:2008 standard revealed that ISO 9001 QMS certification has a significant positive effect on their performance. However, the contribution to financial performance is indirect through significant correlation with operational performance. There exists a contextual and methodological gaps: The current study focuses on SMEs in Kenya (both service and manufacturing)

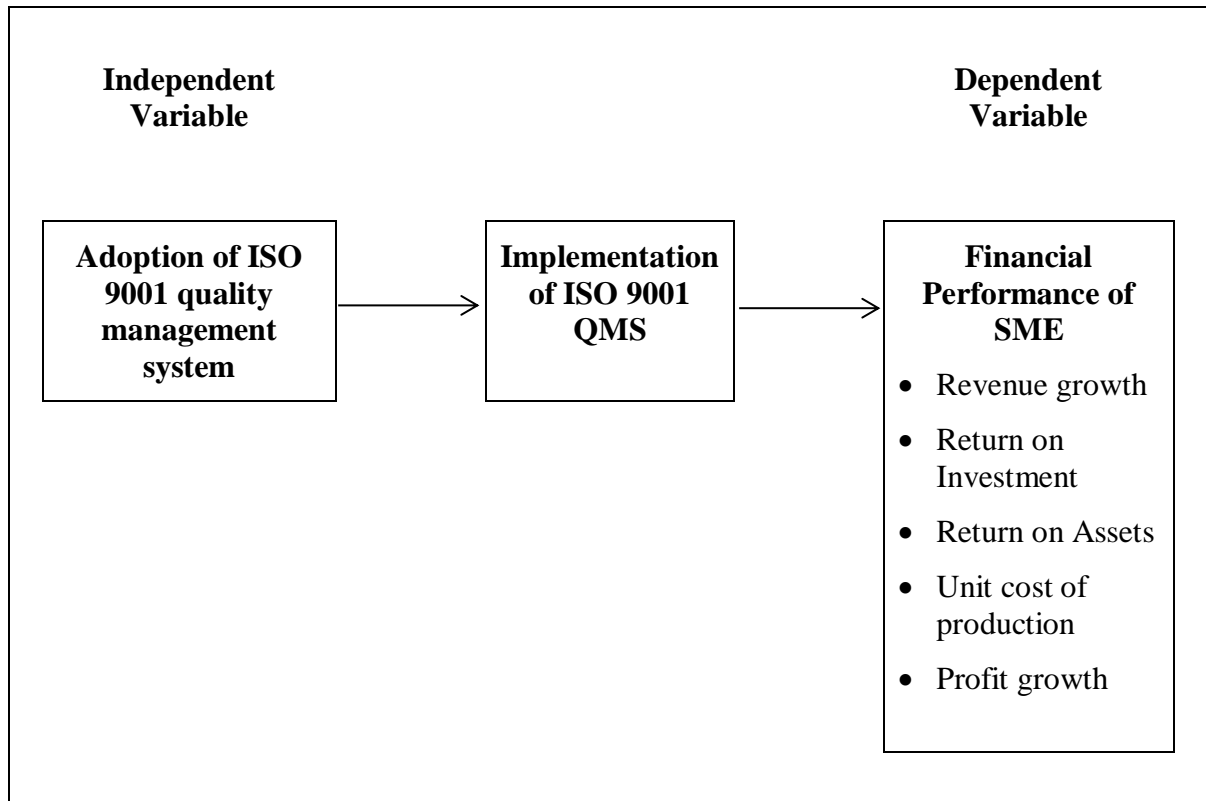
### **Summary and Research Gaps**

The review of literature above identified several knowledge gaps in the relationship between implementation of ISO 9001 QMS and financial performance of SMEs. The gaps are methodological and contextual in nature. The methodological gaps relate to the target population of study, sample size, and methods for data collection. The contextual gaps relate to the relatively few studies that have been conducted in Kenya on the effects ISO 9001 QMS on the financial performance of SMEs.

### **Conceptual Framework**

The study adopted the conceptual framework that postulates that adoption of quality improvement initiatives (independent variable) affects the financial performance of SMEs

(dependent variable). However, this relationship is influenced by the type of quality improvement initiative implemented by the organization. Fig.1 depicts this relationship with respect to the effects of implementation of ISO 9001 QMS. The framework conceptualizes the total effect of the full implementation of ISO 9001 QMS and not its constructs.



**Figure 1: Conceptual Framework**

## **RESEARCH METHODOLOGY**

The main objective of this research was to determine the effect of implementation of ISO 9001 quality management system on the financial performance of SMEs in Kenya.

This study adopted descriptive survey design. Descriptive studies involve measurement, classification, analysis, comparison and interpretation of data (Kothari & Garg, 2014). Detailed information can be gathered by subjecting the respondents to a series of items in a questionnaire or interview schedule. Descriptive survey is also useful in the collection of original data from a large population.

For this study, the top 100 SMEs in Kenya selected and ranked by NMG and KPMG in the year 2019 were the target population. One questionnaire was sent to each enterprise to fill online. The targeted respondents to the questionnaire were the Directors or senior managers who are conversant with quality initiatives that are implemented in their companies and the relationship, if any, with financial performance of their enterprises.

The target population being well defined, small and manageable, a census approach was adopted to cover the entire population of top 100 SMEs in Kenya in 2019. The census approach enabled equal representation of all the Top 100 SMEs without any information being left out for complete generalization of the study's findings. As argued by Kothari and Garg (2014), a census approach enhances the generalizability of the research findings. This is because the method eliminates both sampling error and sampling bias.

A questionnaire was used to collect the primary data. According to Collis & Hussey (2013), a questionnaire comprises a set of questions for gathering data from the respondents. Mugenda & Mugenda (2003) opines that a questionnaire is an efficient tool for collecting a lot of data within a short period of time with minimal interruption to the respondents' activities. The questionnaire was converted into an online google form and sent by e-mail to the respondents. The responses were automatically captured and presented by Google in the form of Excel tables, pie charts and bar graphs. The descriptive statistics were analyzed using SPSS. Simple Linear regression model  $y = a + \beta_1 X_1 + e$ ; as used to evaluate the effect of use of standards on financial performance of SMEs in Kenya, where;  $Y =$  is Financial performance of SMEs in Kenya;  $\beta_1 =$  regression coefficient;  $X_1 =$  the use of standards (independent variable) and  $e =$  Constant error.

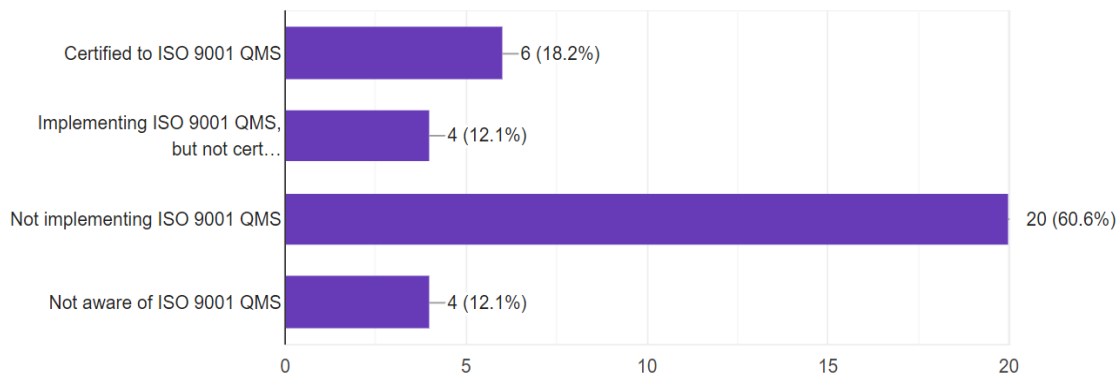
## **FINDINGS AND DISCUSSIONS**

### **Current status of implementation of ISO 9001 quality management system**

Figure 2 shows that 30% of the respondents were implementing ISO 9001 QMS, out of which 18% are already certified to the International Standard and 12% are implementing the standard but are not certified. Majority of the firms (60%) are not implementing ISO 9001 QMS while 12% were not aware of ISO 9001 QMS.

Which of the following statements describe the current status of implementation of ISO 9001 quality management system of your company?

33 responses



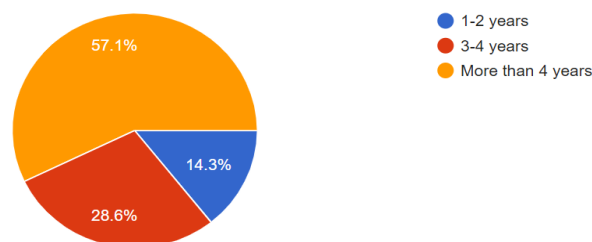
**Figure 2: Implementation of ISO 9001 quality management system**

### How long firm is certified to ISO 9001 QMS

Figure 3 shows that for firms that have been certified to ISO 9001 QMS, 57.1% of the respondents have maintained the certification for more than 4 years; 28.6% for 3-4 years and 14.3% for 1-2 years.

If certified, how long (Years) have you maintained the certificate?

7 responses



**Figure 3: Duration of maintaining ISO 9001 QMS certification**

### Mean Scores of effect of implementation of ISO 9001 quality management system on financial performance of SMEs in Kenya

Table 1 shows the mean scores (MS) and Standard Deviations (SD) of each of the statements. The closer the mean score to '1' the poorer the score and the closer the mean score is to '5' the better the score. The mean scores generally show that there is agreement that implementation of QMS has a positive effect on financial performance of SMEs in Kenya.

**Table 1: Mean Scores of Effect of Implementation of ISO 9001 Quality Management System on Financial Performance of SMEs in Kenya**

Statement	N	Mean	Std. Deviation
Implementation of ISO 9001 QMS has led to improved growth in revenue	6	4.67	.516
Implementation of ISO 9001 QMS has led to improved Return on Assets	6	4.00	.632
Implementation of ISO 9001 QMS has led to reduction in unit cost of production	6	3.83	1.472
Implementation of ISO 9001 QMS has led to growth in return of Investment	6	3.83	.753
Implementation of ISO 9001 QMS has led to improved profits to our company	14	3.50	1.506

**Correlation of effect of implementation of ISO 9001 quality management system on financial performance of SMEs in Kenya**

Table 2 shows a significant positive correlation between implementing ISO 9001 QMS and revenue growth ( $r=0.623$ ), Return on Assets ( $r=0.608$ ), but a weak correlation with reduction in unit cost of production ( $r= -0.405$ ), Return on Investment ( $r=0.33$ ) and profitability ( $r=0.271$ ).

**Table 2: Correlation between Firms Implementing ISO 9001 QMS and financial performance of SMEs in Kenya**

Statement	Financial performance (r )	Sig. (2-tailed)	N
Implementation of ISO 9001 QMS has led to growth in revenue growth	.623	.186	6
Implementation of ISO 9001 QMS has improved our Return on Assets	.608	.200	6

Statement	Financial performance (r )	Sig. (2-tailed)	N
Implementation of ISO 9001 QMS has led to reduction in unit -cost of production	-.405	.426	6
Implementation of ISO 9001 QMS has led to growth in return of Investment	.330	.523	6
Implementation of ISO 9001 QMS has led to improved profits to our company	.271	.349	14

\*. Correlation is significant at the 0.05 level (2-tailed).

### Inferential analysis of effect of implementation of ISO 9001 quality management system on financial performance of SMEs in Kenya

Table 3 shows the results of simple linear regression analysis of the effect of ISO 9001 QMS on financial performance of SMEs in Kenya. The null hypothesis was accepted (P Value =0.629>0.05): Implementation of ISO 9001 quality management system has no significant effect on financial performance of SMEs in Kenya. However,  $r = 0.142$ ,  $R^2 = 0.020$  which implies that implementation of ISO 9001 quality management system can explain 2% of financial performance of SMEs in Kenya.

**Table 3: Regression Analysis of Effect of Implementation of ISO 9001 Quality Management System on Financial Performance of SMEs in Kenya**

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	T	
(Constant)	3.748	.465		8.061	.000
Implementing ISO 9001 QMS	-.084	.170	-.142	-.495	.629

R=0.142; R Square =0.020 F=0.246 P Value =0.629>0.05

### Discussion

The study established that implementation of ISO 9001 quality management system has statistically no significant effect on financial performance of SMEs in Kenya (P Value =0.629>0.05). However, the study also shows that implementing ISO 9001 QMS can potentially contribute 2% of financial performance of SMEs in Kenya. This suggests that adoption of ISO 9001 standard has the potential to improve the financial performance of SMEs in Kenya. The study generally agrees with Ngumo (2017) who studied the effect of QMS on financial performance of manufacturing firms in Industrial Area, Nairobi and found that there is non-significant relationship between quality practices and profitability of manufacturing firms in Nairobi County. Psomas et al. (2013) also found that financial performance of service companies was not directly influenced by implementation of ISO 9001 QMS. Neyestani (2016) also concluded that ISO 9001 QMS significantly affected production process (internal business process), but the effect on financial performance were unclear and contradictory.

On the other hand, the potential positive effect of implementation of ISO 9001 QMS on financial performance of SMEs in Kenya found in this study generally agrees with other empirical studies which have examined the relationship between ISO 9001 QMS and performance of organizations. For example, Muturi et al. (2015) noted that ISO 9001 certification has a positive influence on the organizations' return on assets. Wachira (2013) also established that quality management practices have a positive significance on performance of Supermarkets in Nairobi. Onyango (2016) did a study on quality and performance of

commercial banks in Kenya and established that quality management increased the profitability of banks in Kenya.

The objectives of ISO 9001 quality management system are to ensure consistency in operations, provide products and services that meet requirements of customers and the legal obligations, and enhance customer satisfaction. This can be expressed in other words as “Doing things right”. Customers’ perception of consistently high quality products and services from an organization potentially leads to customer loyalty and increased market share. ISO 9001 standard provides a systematic approach to manage quality in the organization based on seven principles of quality management. However, establishment of a quality management system in an organization does not lead to automatic improvement of work processes or products and services. A quality culture is necessary if the organization is to achieve its quality objectives which in turn would lead to improved financial performance.

Adoption of a quality management system is a strategic decision to be made by owners of SMEs. This means integrating quality in the strategy of the organization by building internal capability to achieve consistency in product and service performance that meets customer needs and expectations. The aim should be to drive continual improvement for better products and services in the long term and not necessarily for certification purposes. Eventually, the firm can use quality as a strategy to attain competitive advantage in the market. ISO 9001 standard, which gives requirements for a quality management system, is one of the most widely used international standards in the world by small and large enterprises in all sectors of the economy. Empirical studies have shown that firms that have implemented ISO 9001 quality management systems have benefited from increased confidence in their products and services by the customers, resulting in improved financial returns and business sustainability. Many organizations that have adopted ISO 9001 QMS have not realized the full potential benefits of a QMS due to lack of a quality culture and a poor alignment of the QMS to the strategy of the organization. In such organizations, a quality management system may be seen as an end, and not a means to achieve higher performance. This may partially explain the relatively low or unclear impact of implementation of ISO 9001 QMS on financial performance in a number of firms.

## CONCLUSIONS & RECOMMENDATIONS

### Conclusions

Implementation of ISO 9001 QMS has statistically no significant effect on financial performance of SMEs in Kenya. However, the study also shows that ISO 9001 QMS has the potential to improve financial performance of SMEs in Kenya. This implies that SMEs can leverage on implementation of ISO 9001 QMS in conjunction with other quality improvement initiatives to improve their financial performance.

### Recommendations

The implementation of ISO 9001 quality improvement initiative has the potential to contribute on the financial performance of SMEs in Kenya. SMEs in Kenya should implement ISO 9001 QMS in conjunction with other initiatives to improve their financial performance in the long term. The study also shows that the majority of SMEs in Kenya (60%) have not adopted ISO 9001 QMS as a framework to manage the quality of their products and services. The low uptake of ISO 9001 QMS underscores the challenges of lack of resources, high costs and lack of competencies to understand and apply requirements of the standard that commonly faces SMEs in their journey to establish a quality management system. The stakeholders in the SME sector should promote the adoption of ISO 9001 QMS in the SME sector by providing the required resources. Government agencies such as Kenya Bureau of Standards that have a vast knowledge base on quality should be roped in to provide the necessary support for implementation of ISO 9001 QMS by SMEs.

## REFERENCES

- American Society for Quality. (2019). *The rising economic power of Quality -White Paper How quality ensures growth and enhances profitability*. Retrieved May 20, 2020, from ASQ-Forbes Insight: <https://asq.org/quality-resources/research/economics-of-quality/whitepaper#mid>
- Codjia, M. (2010, Definition of a statement of financial performance. From). Retrieved from definition of a statement of financial performance.: [http://www.ehow.com/about\\_6627481](http://www.ehow.com/about_6627481)
- Collis, J., & Hussey, R. (2013). *Business research: A practical guide for undergraduate and postgraduate students*. Palgrave Macmillan.

- DeFeo, Joseph, A., Juran, & Joseph, M. (2010). *Juran's Quality Handbook: The Complete Guide to Performance Excellence (6th ed.)*. McGraw Hill.
- Economist Intelligence Unit. (2010). *SMEs in Japan. A new growth drive?* Retrieved March 14, 2021, from <https://eiuperspectives.economist.com/economic-development/smes-japan>
- Fernandes, B., Ferreira, M. J., & Rese, N. (2017). The inception of Dynamic capabilities in SMEs. *International Journal of Entrepreneurship*. Retrieved from <https://www.abacademies.org/articles/the-inception-of-dynamic-capabilities-in-smes-6661.html>
- Government of Kenya. (2007). *Kenya Vision 2030. A Globally Competitive and Prosperous Kenya. Ministry of Planning & National Development and Vision 2030*. Government Printer, Nairobi.
- Government of Kenya. (2012). *Micro-and-Small-Enterprises-Authority MSEA ACT 2012*. Government printer. Nairobi.
- Harrington, J. H. (1996). *The Complete Benchmarking Implementation Guide – Total Benchmarking Management*. New York: McGraw Hill.
- International Finance Corporation. (2017). *A Report On The MSME Landscape In South Africa*. Retrieved May 20, 2020, from <https://doi.org/10.1596/26058> on
- International Organization for Standardization. (2014). *10 good things for SMEs*. Retrieved March 17, 2020, from <http://www.iso.org/>.
- Kagumba, M. A., & Gongera, G. E. (2013). Quality Assurance Strategy on Organizational Performance: Case of Kenyatta University. *European Journal of Business and Management, Vol. 5 No. 2*, 265-270.
- Karthi, S., Devadasan, R. S., Muruges, R., Screenvasa, G. C., & Sivaram, M. N. (2012). Global views on integrating six sigma and ISO certification. *Total Quality Management, Vol.107 No.1*, 103-24.
- Kenya National Bureau of Statistics. (2016). *The National MSME survey Basic Report*. Retrieved June 10, 2020, from <https://www.knbs.or.ke/?p=2704>.
- Kothari, R. C., & Garg, G. (2014). *Research Methodology methods and techniques (3rd ed.)*. India: New Age International Limited.

- KPMG. (2019). Top 100 SMEs in Kenya 2019. Retrieved from June 15,2020, from <https://www.businessdailyafrica.com/bd/news/stage-set-for-12th-edition-of-top-100-smes-competition-2258374>
- Magutu, O. P. (2010). Quality Management Practices in Kenyan Educational Institutions: The Case of the University of Nairobi. *African Journal of Business & Management AJBUMA*, 14, 28.
- Marczyk, R. G., DeMatteo, D., & Festinger, D. (2005). *Essentials of Research Design and Methodology*. Hoboken: John Wiley & Sons.
- Mburugu, M. B. (2018). Strategic quality management practices and operational performance of cement manufacturing firms in Kenya. Nairobi. University of Nairobi.
- McMahon, P. R. (2001). Deriving empirical development taxonomy for manufacturing SMEs using data from Australia's Business Longitudinal Survey. *Small Business Economics*, 17(3), 197-212.
- Mokamba, J. (2015). *Influence of quality management system on the relationship between internal factors and performance of Kenyan Public Universities*. Nairobi. Jomo Kenyatta University of Agriculture and Technology.
- Mugenda, M., & Mugenda. (2003). *Research Methods: Qualitative and Quantitative approaches*. Nairobi: ACt press.
- Muturi, D., Ochieng, J., & Njihia, S. (2015). Impact of ISO 9001 Implementation on Organizational Performance in Kenya. *19-ICIT*, 1- 6.
- Neyastani, B. (2016). *Effects of ISO 9001 on Non-Financial and Financial Performance in the organization: A Review*. Retrieved September 28, 2020, from <https://mpr.ub.uni-muenchen.de/76799>
- Ngui, K. T. (2014). Role of SMEs in Employment Creation and Economic Development in selected Countries. *International Journal of Education and Research*, Vol. 2 No. 12, 461-471.
- Onyango, B. A. (2016). Quality Management and Performance of Commercial Banks in Kenya. Nairobi. University of Nairobi.
- Pandya, V. (2012). Comparative analysis of development of SMEs in developed and developing countries. *International Conference on Business and Management* (pp. 6-

7). Research gate. Retrieved January 15, 2021, from [https:// www.reserach gate .net/publication/266594413](https://www.researchgate.net/publication/266594413)

Pantouvakis A., Kafetzopoulos, D., & Psomas, L. E. (2013). The impact of ISO 9001 effectiveness on the performance of service companies. *Managing Service Quality: An International Journal*, Vol. 23 Issue 2, 149 – 164.

Pilkienė, M., Nedzinkas, S., & Pundziene, A. (2013). The impact of dynamic capabilities on SME performance in a volatile environment as moderated by organizational inertia. *Baltic Journal of Management*, Vol. 8 Issue: 4, 376.

Sabancı-Ozer, H. (2012). The Role of Family Control on Financial Performance of Family Business in Gebze. *International Review of Management and Marketing* 2(2)., 2.

Salaheldin, S. I. (2010). Critical success factors for TQM implementation and their impact on performance of SMEs. *International Journal of Productivity and Performance Management* 58 (3), 215-237.

World Bank. (2016). *SMEs Finance. Improving SMEs access to finance and finding innovative solutions to unlock sources of capital*. Retrieved January 15 2021, from [www.worldbank.org](http://www.worldbank.org)

