CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Total Quality Management (TQM) is a frequently used term in manufacturing and service industries, as it is considered to be an important management philosophy, which sustains the organizations in their efforts to obtain satisfied customers. Rao et al. (2004) studied the issue of TQM implementation and noted that through successful implementation of TQM, product returns, rework and losses are reduced and customer base, sales and profits are increased. The main factors that led to the evolution of TQM are globalization of economies, intense competition, customer’s awareness and knowledge about quality and liberalization of economies. In the present industrial scenario, industries are facing a lot of challenges from the multinational companies. It is imperative that companies have to maintain sustained growth for becoming globally competitive and hence industries have been forced to adopt new strategies like TQM for achieving world class standards.

Quality management Gurus have suggested various steps to improve quality, Crosby (1979) recommended fourteen steps for quality improvement. Ishikawa (1985) developed six fundamental principles for quality control. Deming (1986) advocated fourteen principles for effective implementation of quality management program in the organization. Juran (1988) proposed ten steps for development of quality in the organization.
Feigenbaum (1993) showed the ways for effective implementation of TQM and proposed the concept of Total Quality Control (TQC). Thus all of them are interested in enhancing quality and customer satisfaction.

The successful implementation of TQM can lead to improvements in the quality of products and services, reductions in the waste of resources, and overall increase in efficiency and productivity. Such improvements contribute to good customer relations, growth in market share and sustained competitive advantage. Quality alone has a major impact on manufacturers, service providers and consumers (Kondo 2000). However, the introduction of a quality strategy is a major strategic change which requires considerable research and planning and it is important to combine the "hard edge" of quality (its tools and techniques) with the "soft" side of cultural change. TQM involves everyone in the organization and needs to become a way of life, if it is to be successful. Silvestro (1997) noted that the core principles of TQM are highly relevant to services although concepts are developing and evolving in different ways in the service literature. TQM is a style of managing which gives everyone in the organization responsibility for delivering quality to the final customer, quality being described as 'fitness for purpose' or as 'delighting the customer'. TQM views each task in the organization as fundamentally a process which is in a customer/supplier relationship with the next process. The aim at each stage is to define and meet the customer's requirements in order to maximize the satisfaction of the final consumer at the lowest possible cost.

The development of quality management can be defined in four stages (Dale and Plunkett 1990):

(1) Quality inspection stage,
(2) Quality control stage,
(3) Quality assurance stage and
(4) Total quality management stage.
1.1.1 Quality Inspection Stage

Quality management started with simple inspection-based systems. Under such a system, one or more characteristics of a product are examined, measured or tested and compared with specified requirements to assess its conformity (Kanji and Asher 1993). This system is used to appraise incoming products, manufactured components and assemblies at appropriate points in the production process. It is undertaken mainly by staff employed specifically for this purpose. Products which do not conform to specification may be scrapped, reworked or sold as lower quality items. In some cases, inspection is used to grade the finished products. The system is an after-the-fact screening process with no prevention content other than, perhaps, the identification of suppliers, operations or workers manufacturing non-conforming products. Simple inspection-based systems are usually wholly in-house and do not directly involve suppliers or customers.

1.1.2 Quality Control Stage

Under a system of quality control, product testing and documentation control became the ways to ensure greater process control and reduced non-conformance. Typical characteristics of such systems were performance-data collection, feedback to earlier stages in the process, and self-inspection. While screening inspection was again the main mechanism for preventing products which were outside the specification from being shipped to customers, quality control measures led to greater process control and a lower incidence of non-conformance.
1.1.3  **Quality Assurance Stage**

The quality assurance stage came with the change away from product quality towards system quality. In this stage, an organization sets up a system for controlling what is being done and the system is audited to ensure that it is adequate both in design and use. A major part of this change is the use of both second-party and third-party audits to assess the efficiency of the system. The major characteristics of this stage are the use of quality manuals, procedures, work instructions, quality planning, quality audits, etc. The fundamental difference is that quality assurance is prevention-based while quality control is inspection-based.

1.1.4  **Total Quality Management Stage**

Total quality management stage is the highest level, involving the application of quality management principles to all aspects of the business. TQM requires that the principles of quality management be applied in every branch and at every level in an organization. Typical of an organization going through a total quality process would be a clear and unambiguous vision, few interdepartmental barriers, time spent on training, excellent supplier and customer relations and the realization that quality is not just product quality but also the quality of the whole organization, including sales, finance, personnel and other non-manufacturing functions.

1.1.5  **Core values of TQM**

In recent years some TQM definitions based on a system view have been proposed. According to Shiba et al (1993), Dean and Bowen (1994) and Hellsten and Klefsjo (2000), TQM can be defined as a management system,
which consists of three independent units, namely core values, techniques and tools. The idea is that core values must be supported by techniques and tools.

The core values should establish the quality culture. Although the number of core values, and even the exact formulations, differ somewhat between different authors, the following can be chosen according to Hellsten and Klefsjo (2000), Bergman and Klefsjo (2002):

- Top Management Commitment
- Everybody’s commitment
- Focus on customers
- Focus on processes
- Base decision on facts
- Continuous Improvement

The following techniques can be chosen to support core values of TQM:

- Policy deployment
- Design of experiment
- Supplier partnership
- Employee development
- Self-assessment
- Process management
- Quality function deployment
- Quality circles
The following tools can be chosen to support core values of TQM:

- Relation diagram
- Control charts
- Factorial design
- Ishikawa diagram
- Tree diagram
- Process maps
- Criteria of Malcolm Baldrige National Quality Award (MBNQA)
- ISO 2000

To achieve a successful TQM implementation it is necessary that the executives and managers discuss and motivate why the TQM way of working is better than the present one (Sandberg 1994). The new way of working in the organization has to be implemented by means of systematic procedures based on properly chosen methodologies that are understood and accepted by all parties involved (Targama and Sandberg 1998 and Ljungstrom 2000). Therefore, studying the process of implementation includes the setting of goals toward which the implementation is directed. Senge (1990) discusses one important quality of leadership, the ability of building a shared vision in the organization. Kotter (1996) also emphasizes the importance of a shared vision among individuals. There are many different descriptions and recommendations concerning how to accomplish and manage a change process during TQM implementation.
Juran (1995) described seven steps for change process as follows:

- Breakthrough in attitude concerning the necessary change.
- The prospect of carrying out the change analyzed.
- The creation of steering part and an analyzing part in order to obtain new and required knowledge.
- The creation of sufficient knowledge resulting in a breakthrough in knowledge.
- Introduction of a social change in beliefs, habits, etc.
- The previous steps bring a possibility to attain a breakthrough in results.
- The process is controlled in order to keep the change.

Newall and Dale (1991) describe the results of a study performed in one financial service sector. Despite different interpretations and descriptions, it is evident that the organization passes through the same basic stages of implementation of TQM, although under different names and in somewhat different sequences.

Many quality management models have been developed in order to measure the level of quality implementation and carry out self-evaluations of the quality practices. The main models are the Malcolm Baldrige National Quality Award Model (MBNQA Model 1997), the European Foundation for Quality Management Model (EFQM Model 2000) and Deming Application Prize Model.

Dale et al. (2001) describes TQM as an umbrella of concepts and ideas in various contexts related to the quality field. As the definitions of
TQM vary, so does the interpretation of the fundamental constituents. The authors within the TQM area consider values to be elemental for the concept. The number of values as well as the formulation differ slightly between different authors. Sila and Ebrahimpour (2002) found in their extensive theoretical investigation that the following factors were the most frequently addressed within TQM definitions: a) Customer Focus and satisfaction. b) Employee training. c) Top Management Commitment and leadership. d) Team work. e) Employee involvement. f) Continuous Improvement and innovation, and g) Performance measures and quality information.

1.2 TOTAL QUALITY SERVICE

TQM was first introduced with a set of generic core principles not limited to manufacturing industries. This point forms the basis for application of TQM in service industries also. Silvestro (1997) noted that the core principles of TQM are highly relevant to services, although the concepts are developing and evolving in different ways in the service literature. Woon (2000) noted that several service sectors have operations similar to that of manufacturing and hence they are termed “manufacturing oriented services”.

The service sector also faces problems similar to manufacturing industries and hence researchers have started to address the issues faced by the service sector. Therefore service industry management has to be given wide attention (Shugan 1994). The academia has started to explore Total Quality Service (TQM in the service sector) and the researchers have attempted to measure the level of quality management practices in service organizations like hospitals, hotels, banks, colleges, etc. and they found that TQS improves the business performance and customer satisfaction (Fitzsimmons 2001). TQS helps service industries develop competitive ability and financial stability (Heskett et al. 1994).
In the current global scenario of stiff competition, the banks and financial institutions have been reviewing the Systems and Processes of service delivery. One of the major reasons for tremendous improvement in delivery of services is the use of Information and Communication Technology (ICT), which proved effective in terms of costs, performance, customer satisfaction, customer retention and customer addition.

Coyne (1989) noted that the service industries have to identify the critical dimensions of service quality for investment and improvement of the organization. The development of conceptual models for measuring implementation of TQM has assumed significant importance since they contribute to understand the dimensions associated with them and provide directions for improvement. A conceptual model attempts to show the relationships between salient variables and explains the application of the theoretical concepts. Nitin Seth et al. (2005) stated that the conceptual models in service quality implementation help in planning quality improvement program thereby improving efficiency, overall performance and profitability. Further they suggested that while developing models for implementation of service quality management, the vital issues to be concentrated upon are: identification of factors affecting service quality, suitability of developed factors in various service settings, flexibility of the factors to adapt for modern times like automation, computerization, ability of the factors to give directions for planning for future and improvement, and suitability of the factors for measuring customer satisfaction.

1.3 NEED FOR THE STUDY

Even though sufficient conceptual and case studies were available about TQM implementation there is an insufficiency of empirical studies
(Ahire et al. 1996). The national and international competitive environment is in a process of constant change by globalization of markets and the increased interdependence of economy. This process of constant change has brought increased demands on the industries’ competitiveness and the customers have gained a central role in the industries’ focus. Increased customer demands, generated by competitive environment have affected service industries that are experiencing increased quality demands on their products and services (Huxtable 1995).

The implementation of TQM can be considered as a substantial organizational change (McAdam and Bannister 2001). Failed TQM implementation initiatives result in financial losses and potential resistance towards change among those involved in implementation. It is therefore important that the implementation strategies are well adapted. (Shin et al. 1998). The intangible aspects such as everybody’s understanding and involvement are crucial (Ford and Ford 1995). The issue regarding the relationship between successful TQM implementation and business excellence and ultimately survival in a competitive environment is significant. The service industry, regardless of size and financial status are involved in the quality revolution.

Successful TQM implementation requires a thorough understanding of critical success factors for TQM implementation, barriers to achieving these factors, and managerial tools and techniques to overcome these barriers. Research in developed countries listed Top Management Commitment to TQM (Clinton et al 1994 and Vermeulen and Crous 2000), Customer Focus and Continuous Improvement (Evans and Lindsay 1993) and a focus on Employee involvement and Empowerment (Deming 1986, Juran 1989, Pulat 1994) as the key determinants of successful TQM implementation. TQM implementation failure has been attributed to two main barriers (Black and
The barrier is organizational context such as rigid organizational culture (e.g. Sohal 1998) and highly bureaucratic Organizational Structure (Tata and Prasad 1998, Tata et al 1999) and authoritarian management style (Whalen and Rahim 1994). That is, the failures of TQM implementations are not due to external factors but in the failure of management to establish the proper system for its implementation (Shin et al. 1998, Wilkinson and Dale 1999). This perspective argues that often managers are not fully aware, or perhaps ignore, what it takes to implement TQM successfully and achieve high performance. The second is the cultural barrier, because TQM implementation involves a paradigm shift in management values and attitudes (Bound et al. 1994, Tata et al. 1999).

The reports of both the Banking and Finance Ombudsmen indicated a rising level of complaints from members of the general public, during 1980-1990. This posed the question of what is happening to 'quality' within the banks and financial services sector. The results obtained by studying banks and financial institutions who have successfully implemented TQM showed that they perform better than the general mass of service industries who have not implemented TQM.

It is clear that in the rapidly changing financial environment in which commercial banks and financial institutions are operating, it is only desirable that every player of this sector attempts to ensure both its short-term competitive and long-term strategic presence. Financial institutions like any other firms will need to be continually innovative and create new ideas and new products (Kelly and Storey 2000).

The issue of relationship between successful TQM implementation and increase in customer base, customer satisfaction, employee satisfaction,
increase in business turnover of institution, increase in profitability of institution, etc. is important. Most institutions start TQM implementation efforts in order to respond to changes in the competitive context that surrounds them, e.g., as a consequence of a discovered need to develop or as a reaction in order to survive.

Considering an increasing emphasis and preoccupation of large organizations with TQM, banks and financial institutions in this context become important, in as much as TQM has been provoking a veritable change of paradigms in management. Most of the TQM models and implementation strategies need improvement to address key characteristics of banks and financial institutions and customers’ demands on them. In order to overcome the difficulties in implementation of TQM in the service sector banks and financial institutions, the present research work attempts to identify and validate critical dimensions of TQM and propose an implementation framework by empirical analysis.

1.4 OBJECTIVES OF THE RESEARCH WORK

The main aim of this research work is to analyze the existing quality level in the financial institutions by constructing an idealized model for TQM implementation in the financial institutions, compatible with reality of banks and financial institutions in India. In order to achieve this primary purpose of the research, the following objectives are proposed for the present study.

- To identify the critical success factors of TQM relating to financial institutions through an exhaustive literature survey.
• To construct a TQM model, based on the critical success factors identified in the study.

• To develop a measurement instrument based on the model developed in the study.

• To validate the measurement instrument through data obtained from the executives of Banks and financial institutions.

• To validate the model for successful implementation of TQM in the financial institutions through testing of various hypotheses developed for that purpose.

• To investigate the success of TQM implementation and issues relating to successful implementation for the achievement of better performance of banks and financial institutions in India.

1.5 METHODOLOGY

As a first step, an exhaustive literature review relating to TQM implementation was made and the critical success factors were identified. The study was conducted in the financial institutions, including banks of Tamilnadu. Therefore, the total population considered for the realization of the research comprises executives of 60 banks and 12 financial institutions in Tamilnadu. Data were collected from the executives of banks and financial institutions using the structured questionnaire. The questionnaire developed in the study is given in Appendix 2.

The study consists of two phases. In the first phase, a preliminary study was conducted and the questionnaire was validated for further use. In the second phase, a final study was conducted and the model developed for the purpose of investigating the quality performance at the financial
institutions of India was validated by testing the various hypotheses developed in the study. Data for both the preliminary study and final study were collected from the executives of the banks and financial institutions by following the stratified random sampling procedure. The details of banks and financial institutions used for the study are given in Appendix 1.

Responses were elicited from the executives in the seven point Likert’s scale of strongly disagree to strongly agree for all the 94 propositions, except 11 performance variables. The level of the quality (Performance measures) is the perceived quality level of the respondents. This level was recorded using five point Likert’s scale of very low to very high. During the pilot study, data were collected and analyzed using SPSS, version 9.0 for validating the instrument. The results of various validation tests conducted in the study are discussed in detail in chapter 4. After validating the instrument, data for the main study were collected following the stratified random sampling procedure. Hypotheses were developed and tested the model for making proper inferences in the study. For this purpose, all the directional hypotheses were converted into null and alternate hypotheses for testing. Regression analysis, two samples t-test, One-way ANOVA, Factorial ANOVA and Discriminant analysis were used to test the proposed hypotheses. SPSS version 9.0 was used for all the computations. Results and discussions with regard to the final analysis are presented in chapters 5 and 6. Based on the results and discussions, practical implications of the study and the scope for future research are discussed in the final chapter.