CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

TQM represents a formidable challenge for marketers of banks and financial institutions, seeking to understand what makes their banks and financial institutions shine in the eyes of their customers. As banks and financial institutions move from the realm of quality service into the domain of TQM, they are asking themselves some serious questions about the way they do business. The drive toward better service is fueled by the understanding that happy employees and efficient operations lead to satisfied customers, which translates into improved profits. Those who have launched TQM programs say that they have learned that all operations within the banks and financial institutions are inter-related and inter-dependent. Strategic planning of quality in banks and financial institutions (Bilich 1994) and management of quality in banking services (Affonso Neto 1993) can only yield success in operations and results.

Their probing extends beyond sales and service to include the total management philosophy. Banks and financial institutions are opening up their definition of quality management and considering what their customers expect and experience, rather than just what the banks and financial institutions provide. Implementing a TQM program is an ongoing process consisting of many different components. Banks that have begun such a journey say it is an intense learning process that spans a lifetime.
TQM attracts renewed attention, whether it is re-examining procedures, redesigning a quality assurance program or re-vamping training programs, banks and financial institutions are paying more attention to TQM.

2.2 TQM IN FINANCIAL INSTITUTIONS

A developing nation cannot exist without the financial services industry; market-driven, consumer-oriented and relatively affluent societies require a host of sophisticated financial services. The essential role of commercial banks still remains that of financial intermediaries. TQM in the banks and financial institutions is particularly important because competition between companies is increasingly based on the delivery of quality service to customers. The industry covers myriad discrete services used at one time or another by almost every individual. They include routine financial transactions, provision of long-term loans for capital investment and consumer credit, savings, equity transactions, etc. Banks and financial institutions have a relatively static customer base. They have realized the new power of the customer. As a result they launched a series of customer care programs which included staff training, an attempt to remove error, complete remodeling of many customer contact branches and a determined attack on queuing issues.

The common standard dictionary definition of the term implementation is “to put into effect according to some definite plan or procedure”. Based on this definition, implementation can be considered as a deliberate and sequential set of activities directed toward putting a strategy or policy into effect, making it occur. Wheelen and Hunger (1992) define implementation as “the process by which strategies and policies are put into action”. As a consequence, one could view implementation as a process of interaction between settings of goals and actions geared to achieve them. This
means that implementation can also be considered as a form of organizational change. The above descriptions discuss implementation as a set of activities or a process. Financial institutions have made substantial progress in improving customer service and customer care. There is also tremendous interest in TQM, from banks and financial institutions.

With some notable exceptions most initiatives under general quality initiatives in the financial service companies fall short of the greater objective. Thus

- most lack an executive-driven service improvement vision or strategy;
- the initiatives are delegated to lower levels and rarely involve senior management;
- organizational and internal business objectives take precedence over customer needs;
- most are short-term programs rather than an ongoing process of improvement;
- quality is not seen as an integral part of overall business improvement.

There are exceptions. Several companies in the financial sector do provide evidence of a greater and deeper commitment to Continuous Improvement.

TQM implementation is a thorough management system that includes all parts of the organization, and consequently is a process of activities needed. According to Thomsen et al. (1994), one important experience from the accomplishment of TQM is that there is a need for an
increasing awareness that TQM implementation is also a question of organizational development. According to Grieves (2000), a series of transitional initiatives had emerged by the end of the twentieth century. These include TQM, the Excellence movement, culture management. Implementation of TQM is a complex process since all employees, starting with top management, need to accept a fundamental organizational change (McAdam and Bannister 2001).

2.3 STUDIES RELATING TO TQM IMPLEMENTATION IN FINANCIAL INSTITUTIONS

Several studies have attempted to identify critical success factors for TQM implementation in developed countries (Ahire et al. 1996, Balck and Porter 1996, Quazi and Padibjo 1998, Saraph et al. 1989, Sohal and Terziovski 2000, and Tamimi and Gershon 1995). Much of the literature on TQM in developing countries to date has concentrated on problems and barriers to TQM implementation rather than successful cases (Djerdjour and Patel 2000 and Singh 1994). Successful cases not only help similar organizations in developing countries to learn from them, but also build the confidence and belief that the paradigm of TQM is achievable and rewarding. To date, all available instruments aimed at examining critical success factors for TQM implementation are designed for western organizations, and therefore are western biased.
The issue of management commitment is stated as a critical factor for success of TQM implementation (Macleod and Baxter 2001). TQM implementation across Europe and USA reveal that the tangible aspects such as technology, structure and strategy have a relatively small impact on TQM effectiveness compared to a largely hidden and intangible aspects such as values, attitudes and perceptions, (Samson and Terziovski 1999 and Saad and Sinha 2000). TQM implementation involves a paradigm shift in management values and attitudes (Bound et al. 1994, Tata et al. 1999) and it should fit the national culture of the firm if it is to be implemented successfully.

TQM implementation demands total commitment of the management (Reed et al. 2000). The management of banks and financial institutions must initiate planning for implementation and participate in the work including evaluation of processes and results. All senior officers in the institutions must create a customer orientation and set clear and visible quality values. The senior officers as leaders must serve as role models throughout the organization, thus reinforcing the quality values at all levels in the organization by choosing and applying appropriate techniques and tools.

In the light of the above discussion, 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. The strategic planning by the institutions has to incorporate several aspects as follows:

- Involve the employees in strategic planning process and develop strategies, goals, and mission.
- Major implementation plans, with overarching policies are to be developed while implementing TQM in the institutions.

- TQM programs in the technology-dependent banking industry will need to include IT supported service and product quality improvements (Goodman and Lawless 1994).

Planning of the implementation by the institutions has to incorporate several aspects:

- A long-term approach, team building, employee participation and use of cross functional teams for planning and implementing TQM promoted involvement throughout the organization.

- Delegating responsibility and empowering those employees involved in the changes brought about by TQM.

Monitoring and measuring of performance by the institution has to incorporate several aspects:

- Simple tools for quick feedback are to be used for monitoring progress of TQM implementation and customer satisfaction.

- The performance results are to be analyzed during TQM implementation by teams with regard to achievement of goals and aims.

Financial institutions like any other firms will need to be continually innovative and create new ideas and new products (Kelly and Storey 2000). Product development is an important area in which banks and financial institutions will need to focus its resources. The way that lies ahead
is to lead the industry towards a concentrated approach to developing new and unique products and improve the existing ones in terms of reduced costs and efficiency in delivery (Iqbal 2001).

If the quality strategy of an institution has to succeed, all its employees should be engaged in the work of improving and satisfying the customer with a quality service. The work is based on the skills and participation of all employees and their understanding of requirements. Everybody’s commitment is required and it means that Continuous Improvement should be practiced everywhere in the processes and that involvement of all employees at every level should be facilitated. Educating and training of all employees provides the knowledge needed for the mission, vision, direction, and strategy of the organization (Wruck and Jensen 1998). Ghobadian and Gallear (1997) recommended the following in TQM implementation:

- Recognize the need for the introduction of TQM.
- Develop understanding among management and supervisors.
- Establish goals and objectives of the quality improvement process.
- Plan the TQM implementation.
- Educate and train all employees.
- Create a systematic procedure.
- Align organization and develop team spirit and team work.
- Implement the TQM concepts.
- Monitor the implementation of the TQM concepts.
- Engage in Continuous Improvement.
Research on the culture barrier argues that management values differ significantly across national cultures (Adler 1991, Hofstede 1980, Ronen and Shenkar 1985, Trompenaars 1994). TQM implementation is culture-specific (Bartlett and Goshal 1992, Hodgetts and Luthans 1991). Therefore Managerial practices such as TQM must be tailored to fit local culture (Levitt 1983, Ricks 1983). Tata and Prasad (1998) noted that power distance and uncertainty avoidance are two key factors that have strong influence on TQM implementation. Power distance refers to the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally (Hofstede 1980). Accordingly, this acceptance of unequal distribution of power results in the acceptance of substituting the decisions of management for the decisions of employees.

Organizations in a high power distance society exhibit higher authority either through the formalization and/or centralization of decision-making. Therefore, TQM implementation in higher power distance cultures faces higher barriers than in lower power distance cultures. Uncertainty avoidance dimension of culture represents the extent to which members of a society feel threatened by uncertainty. Managers usually reduce uncertainty in a high uncertainty avoidance society through the exercise of authority and through the greater use of rules and regulations that clearly define the work roles of employees within clearly defined positions (Hofstede 1980). In addition, in high uncertainty avoidance cultures, people are sceptical about novel and new ideas such as TQM and often resist change. Tata and Prasad (1998) argue that high uncertainty avoidance cultures result in firms with control-oriented value systems and mechanistic structures that are less likely to implement TQM effectively. Changes in managerial values are a function of economic development, driven by technology and education (Harbison and

Training and education of employees have to incorporate several aspects:

- Coordinate training and education efforts as employees tend to forget what they learnt and some employees are also replaced and added.

- Training should focus on addition of knowledge, confidence and overcoming of fear in employees.

Communication and information by the institution has to incorporate the following aspects:

- Communication without restraint in an open atmosphere would facilitate detection of any obscurity or misunderstanding during the TQM implementation process.

- Informal meetings of the management and union representatives to discuss TQM implementation are needed to complement formal communications, to generate increased interest and acceptance.

Even though culture changes very slowly, there has been a radical change in the past two decades. A prerequisite for successful change is the willingness and ability of individual managers to adapt and transform (Kotter 1996). This needs to be considered by affecting the behaviors, feelings and attitudes among the involved actors. The more different the new strategy is from the old, the greater the resistance to implementing it. According to
Strebel (1996), problems with change resistance could be due to the fact that senior managers consistently misjudge the effect of the gap on their relationships with subordinates and on the effort required to win acceptance of change. The willingness to change among the involved actors, i.e., managers and employees, sets the outcomes of the change process. Different areas may be considered to instill willingness to change: communication (Eisenstat 1993), empowerment (Pascale et al 1997), rewards and recognition (Pettigrew 1995), results and early wins (Beer et al 1990) and leadership skills (Tichy 1983).

An important core value in TQM implementation is to make decisions based on facts that are well founded and not to allow random factors to be of decisive importance. The importance of the processes is to be based on facts related to the customer’s experiences plus customer’s present and future needs (Bergman and Klefsjo 2003). The different measurements required to obtain these facts can be classified as measurements of customer satisfaction, including employee satisfaction, operating measurements.

Much of the work within an organization can be looked upon as a process, which means a repetitive sequence of activities. The goal of the process is to produce quality services. The corollary of focusing on processes is that the focus is not on results. Instead the result comes from whatever process is followed, as result is a dependent variable. Process drives the result, i.e., quality service. It is not enough for banks and financial institutions to do better than they did previously. The external demands they face are continuously increasing. Consequently, they need to continually improve the quality of their processes and services. The Continuous Improvement of the process leads to customer satisfaction, customer retention and increase in customer base.
Another core value in TQM is that all products and processes should always have a Customer Focus and the institution needs to be dedicated to satisfying customers. Quality should be valued by the customers and should always be put in relation to their needs and their expectations (Tenner and Deloro 1992). To focus on the customer means, one tries to find out the customers’ needs and values by conducting market analysis and then trying to fulfill the market expectations while systematically developing product and service. Johnston (1995) examined, by using the critical incident technique, banking customer’s perceptions about the service quality they received and found 18 service quality attributes. They are:

4. Availability  5. Care  6. Cleanliness/tidiness
13. Friendliness  14. Functionality  15. Integrity

Bahia and Nantel (2000) added the following attributes:

1. Effectiveness  2. Assurance
3. Tangibles  4. Service portfolio

Vriens (2000) added one more attribute:

1. Accuracy

Joseph et al. (1999) investigated the influence of technology such as the ATM, telephone and Internet on the delivery of banking service. Their
study identified six underlying dimensions of electronic banking service quality. They are:

1. Convenience/accuracy  
2. Feedback/complaint management  
3. Efficiency  
4. Queue management  
5. Accessibility  
6. Customization  

Doll and Torkzadeh (1988) proposed five quality dimensions that influence end user satisfaction in online service:

1. Content  
2. Accuracy  
3. Format  
4. Ease of Use  
5. Timeliness  

Liu and Arnett (2000) considered the following four factors as major ingredients for the success of a website:

1. System use  
2. System design quality  
3. Information quality  
4. Playfulness  

Jayawardhena and Foley (2000) suggested critical features of internet banking websites to enhance customer satisfaction. They are:

1. The speed to download  
2. Content  
3. Design  
4. Interactivity  
5. Navigation  
6. Security
In order to maintain a high level of the overall banking service quality, the key dimensions focused are:

1. Customer service quality
   - Responsiveness
   - Reliability
   - Access

2. Online systems quality
   - Ease of Use
   - Accuracy

3. Banking service product quality
   - Product variety/diverse features

Customer Focus does not only apply to the external customers. Employees within the organization are internal customers and their needs also have to be fulfilled. In order to satisfy external customers, the internal customers also need to be satisfied (Dahlgaard et al. 1994). Quality awards have been established in order to stimulate TQM work and one level of TQM adoption is quality award winners (Lascelles and Dale 1991). Many institutions choose to work towards TQM by means of the award criteria, for instance, by taking part in quality process. The criteria in quality awards conform to the major constituents of TQM and an organization must undergo an effective quality improvement program in order to receive such an award (Hendricks and Singhal 1996). Quality awards are commonly accepted as proxies for successful TQM implementations (Gallear 2001). Performance is a multifaceted concept, which can be measured at a firm or system level. The
long term performance of firms that implemented TQM has improved as per findings of Easton and Jarrell (1998).

2.4 CONCLUSION

The review of literature relating to successful implementation of TQM in financial institutions reveals that there are several critical success factors that are considered for effective implementation of TQM. It is found that Policy and Strategy, Top Management Commitment, Organizational Structure, Human Resources, Tangibles, Systems and Processes, Continuous Improvement and Customer Focus are the key success factors to be given utmost care in implementing the TQM in the financial sector. Hence, the studies relating these eight factors are taken up for discussion separately and given in the next chapter.