"Application of TQM to Financial Services"

By

Ali H. Al Mansour
ID# 230315

For

Dr. Abdulaziz Bubsait
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Introduction

Providing a higher quality service has become a strategic imperative for senior managements around the world. Several quality tools and techniques have been used to achieve this management objective and Total Quality Management (TQM) proved to be among the most effective quality techniques that have been applied. TQM has added a significant dimension to management practice around the world since its introduction in early 1980's. It became a source of competitive advantage and very few companies can afford to ignore it. Empirical studies have shown that the way organizations implement TQM can significantly affect the results and business impact, hence organizations need to take proper measure in implementing TQM into their organizations. TQM has been defined in a variety of ways. It generally means a quest for excellence, creating the right attitudes and controls to make prevention of defects/errors possible and optimize customer satisfaction by increased efficiency and effectiveness.

The literature has suggested that TQM has advanced beyond capturing tools and systems, and its focus has shifted to conceptual rather than practical aspects. Therefore, TQM is now accepted and adopted by many firms around the world as a management philosophy that embodies a set of generic core principles which are unconstrained by industry unique considerations (Dean and Brown, 1994; Grant et al., 1994). The recent arguments concerning TQM have supported the contingency model of the application of TQM core principles into different environments (Sitkin et al. 1994). These arguments suggest that TQM is applicable to service firms but should not applied in its entirety and only compatible tools and techniques are applied to reap the utmost benefit of its use. Additionally, "soft" aspects of TQM that emphasize behaviors and attitudes, such as leadership, customer focus, empowerment, involvement and cultural elements of TQM has facilitated a more successful and beneficial implementation of TQM in the service industry.

Due to emerging need of quality management implementation in financial service industry now is the time for us to move about “paradigm shift.” Banks and financial service firms must pay attention to this shift and start developing strategies for providing high quality products and services to customers. Banks need to determine where improvement is needed, how services can be improved and where business process interruptions occur, why they occur and how they can be avoided. This paper will explore how TQM tools and techniques have evolved in the service industry with primary focus on its implementation in the financial service industry.

Difference between Service and Manufacturing Systems

There are several key characteristics that differentiate service firms from manufacturing firms and these would affect TQM principles, tools and techniques transfer to service environments. The most significant and notable characteristic is the intangibility of a service as compared to a tangible or sensible product in manufacturing environments. Tangible products are more measurable and standardized in their specifications. In contrast, intangible products are less homogenous and difficult to measure. For example the concept of SERVQUAL, developed by Zeithaml et al. (1990) to measure quality of services, was dominated by non-physical elements such as responsiveness, courtesy and accessibility. Another significant difference is that the operation systems in service firms are different whereby the consumption and delivery of a product takes place simultaneously. As such, it is difficult to control the quality of the product before delivery to a customer. On the other hand, the quality of manufactured products can be tested and controlled before delivery. This is also supported by the fact that a defective product can be replaced but a defective service may create a permanent damage.

Several studies have examined the difference in TQM implementation between manufacturing and service firms. Among the pioneering studies, a study conducted by Beamount et al (1997) on 261 manufacturing firms and 85 service firms which indicated that service firms use fewer quality management tools, especially statistical process control. Another study was conducted by Woon (2000) using a sample of 240

Singaporean companies. The study found that the service organizations generally showed a lower level of TQM implementation than the manufacturing organizations, particularly in terms of the elements of information and analysis, process management, and quality performance. On the other hand, there was no significant different with respect to the elements of leadership, human resources, and customer focus. These two studies support the argument that the "soft" elements of TQM are more applicable in service firms than are the other statistical and process control techniques. Another interesting study was carried out by Huq and Stolen (1998). They examined the difference of TQM implementation between 18 manufacturing and 18 service companies based on 19 TQM dimensions. They found that the service companies apply TQM practices selectively as opposed to the manufacturing firms, which apply the full range of TQM practices.

In a recent study conducted by Daniel I. Prajogo, Monash University, Australia, the relationship between TQM and quality performance in the manufacturing and service firms was examined using a sample of 194 managers of Australian firms with approximately the same proportion of manufacturing and service firms. The study used the following variables as shown in the table below to examine this relationship.

	Manufacturing (n = 102)		Service (n = 92)		
Variables	**Mean**	**SD**	**Mean**	**SD**	**Mean difference**
Leadership	3.69	0.76	3.82	0.89	-0.13
Strategic planning	3.55	0.88	3.59	0.93	-0.04
Customer focus	3.87	0.72	3.97	0.65	-0.10
Information and analysis	3.55	0.84	3.53	0.92	-0.02
People management	3.31	0.79	3.57	0.80	-0.26*
Process management	3.63	0.71	3.56	0.70	0.07
Product quality	4.22	0.51	4.17	0.59	0.05

*Note: *Significant at p < 0.05*

Source: *Daniel I. Prajogo, International Journal of Service Industry Management*

The finding of this study indicates that the level of TQM practices and quality performance are not significantly different between these two sectors except for people management in which service firms show a significantly higher score. The finding of this study, again, supports the positive argument concerning the applicability of TQM principles and practices in the service firms.

Service Quality Systems

Following the success of TQM in manufacturing, academics have begun to study the potential to transfer and apply TQM principles to service organizations. Taking such a wind can be challenging since TQM was born and developed in the manufacturing areas. TQM proponents or gurus developed TQM based on their experiences with manufacturing firms. Albeit the fact that those individuals have suggested that TQM can be applicable in services industries, obstacles can rise if the TQM philosophy is not adjusted enough to suit the nature of service industries.

According to Stanton, services are those separately identified, and essentially intangible, activities that provide want satisfaction and that are not necessarily tied to the sale of a product or another service. Service system therefore is an integration of all the components involving a large number of individual employees working with the purpose to satisfy the varying needs of customers.

Service systems cover a wide range of differentiated organizations such as health care, education, banking, insurance, hotels, transport, restaurant, etc. Such systems involve a very large variety of business processes and a large scale interaction with variety of customers. To meet the multiple needs and conflicting priorities of such a wide base of customers can be a challenge in service industries. Demand on service quality increases as the society becomes more advanced economically, matured culturally and knowledgeable educationally.

Service systems have many characteristics that distinguish them. First, service systems normally produce services which maybe tangible or intangible and sells directly to users. Service systems establish multiple contacts with its users who provide an opportunity for either good or bad quality of service. Service systems need to be available to provide its service when the customer needs it. Customers consider that timely availability of service and responsiveness in providing service are the basic purposes of the system although with an optimum price. The service system has also to meet the customer expectations in regard to time of completion.

HR Management and Service Quality

Application of TQM in the service industry has emphasized the human factor which is regarded to be the major determinant of the implementation success in a service organization. Human factors such as teamwork, cooperation and motivation have been accorded greater attention and can not be taken for granted for a successful TQM implementation. A growing body of evidence from the U.S. indicates that there is a strong positive relationship between the favorability with which employees describe key aspects of their working environment and customer satisfaction. There is then a strong case for service organizations taking a keen interest in the attitudes of their employees and promoting employment that lead to satisfied and well-motivated staff. Ulrich et al., for example recommended that HR professionals need to become more involved in customer service, embrace measures of their own work and they relate customers and business performance and spend time with customers.

Application of TQM in Financial Services Systems

Financial institutions have been facing an unprecedented competition creating a survival of the fittest environment. Banks and any other type of financial service provider are now interested more than ever before in adopting TQM techniques and tools to survive and excel in such a fierce rivalry environment. In financial service industry the word quality means customers' expressed and implied requirements are met fully. Customers are more sensitive to service quality and service delivery than in manufacturing because they are always in contact with front-line service personnel as opposed to the case of factory workers.

Banks benefit tremendously from TQM implementation for the mere fact that their success and thrive depends on customer satisfaction and loyalty. High quality service in banks starts with understanding customers' needs and using these needs to drive the good service or new product development process. Instead of solely depending on marketing research organizations to define these needs, members of the bank including management and personnel need to meet customers and gain a first-hand understanding of their needs.

Banks should look upon their customers as their best salespeople because they are users of the products and their desire to recommend them to their friends and family comes from the sincere delight and surprise. Customers play a major role in the marking of services and products of a given organization whereby they have more creditability to attract new customers than salesmen. Salesmen are usually perceived with less creditability by customers because they want to meet certain quotas and earn commissions. To create such a customer appeal and endorsement of product and services, banks ought to create a life-long strategy to continuously delight and surprise their customers ahead of competitors. Banks need to ensure that their customers not only buy their products but also recommend it to others because if they are only buying it they could shift at any moment to try competitors' products and services.

A first approach to TQM implementation is a skillfully designed training program to continuously improve professional skills of the employees. Several training techniques can be employed to ensure the effectiveness of the program which include on the job training, industry level seminars and workshops. Another important element in implementing TQM is looking out for new technology to modify the process or what is known as reengineering it. Management should be committed to process innovation to evaluate how thing are being done and the need to change them. Through process innovation, lower layers of the organizational chart can communicate to top level management how things really should be done to reflect on better satisfaction of customers.

Generally, the key banking services that need to be regularly evaluated for quality improvement are:

1. Processing time of key products and services e.g. loans, new accounts, ATM cards, credit cards, cheque encashment.
2. Waiting times like down time and queuing time
3. Customer complaints, written or verbal
4. Friendliness and efficiency
5. Accuracy and timeliness of statements of accounts and records
6. Effective interest rates, inclusive of all service and hidden charges
7. Promptness in responding to customer inquires such as in answering the phone, the number of rings before phone is picked up, the number of transfers before the caller talks to the right person
8. Lost customers and accounts.

There are several techniques that need to be implemented to ensure that TQM implementation is being effective. One of which is expanding the role of bank internal auditors to evaluate performance in term of quality, service, cleanliness and value rather than limiting their function to only checking cash flows, transactions and balances. Second, quality models could be employed such as "value analysis" which evaluates processes based on value addition to the bank through method studies, work measurement, and job evaluation. Third, banks can ensure proper quality system implementation by using the well-known manufacturing methodology Cycle Time Reduction (CTR) coupled with identifying defects using ISO guidelines.

In order to implement TQM in an environment, new changes have to take place and people of the organization have to commit to those changes. In a survey of 160 branch managers of banks in England, interviewed managers regarded communication and management style to be the two most significant issues to be changed to enable an effective TQM implementation. In words, managers ought to be able to communicate their message throughout the organization effectively. The survey was on a scale from 1 to 5 where 5 was of major importance and 1 of minor importance. The table below shows the changes needed and how the managers rated each based on their priority:

Change	μ	σ
Communication	3.837	1.812
Management Style	3.558	1.919
Educational program	3.182	1.821
Leadership	2.909	1.927
Design of product/service	2.907	1.950
Measurement procedures	2.524	1.916
Branch design	2.273	1.619
Customer’s segmentation	2.024	1.351

Source: *C.R.J Longo & MAA Cox, TQM in the UK financial Services*

The question is often asked, what effect could TQM implementation have on the performance of financial institutions? Many studies answered this question with consensus that TQM raises quality awareness among organizations members including management and staff. In turn this awareness reflects positively on customer satisfaction with the quality of financial product introduced and the way it’s delivered by the individual employees. Findings of several studies on TQM implementation within the financial service organizations indicated a positive link between quality, profitability, cost-effectiveness and teamwork.

Barriers to Implementing TQM in Service Industry

Implementation of TQM in the service industry can be difficult due to the fact that quality of services cannot be defined objectively. Additionally, service industry by nature has less control over factors which affect quality. In service settings, there is much higher level of external uncertainty compared to manufacturing settings because services cannot be stored for later use and because of the participation by the customer in the process. Another difficulty is the fact that services are intangible which makes it difficult to set standards to conform to them and to measure them. High quality services are subject to the individual customer expectations which may be unknown or unstated, and may vary from customer to customer and also from time to time.

On the same survey of the branch managers in the UK banks mentioned above, managers considered lack of resources, short-term goals, internal environment and communication as the major barriers to TQM implementation. Results were as follows:

Barriers	μ	σ
Lack of resources	3.458	1.611
Short-term goals	3.255	1.700
Internal environment	3.043	1.712
Communication	3.000	1.865
Lack of training	2.958	1.774
Skill of employees	2.830	1.810
Cost constraints	2.792	1.713
Measuring quality	2.702	1.718
External environment	2.348	1.402

Source: *C.R.J Longo & MAA Cox, TQM in the UK financial Services*

It can be evident from these findings that organizations implement TQM to raise customers' emergent needs, cutting costs and achieving short term results, rather than as a program embedded in the companies' business strategy.

How to Overcome Barriers to TQM Implementation

To overcome those barriers, top management must be committed to quality programs through effective communication, well designed training programs and long term focused strategies. In other words, TQM must be promoted as a strategic direction of the firm rather than a short term cure of a problem. It can not be overemphasized that successful TQM implementation starts from the top. Employees usually look up to their management as the example and to set a tone for them in doing their work. Adopting TQM in a bank means a cultural change which is difficult without a solid commitment from the leadership. Leadership sets the core values of the organization which include commitment to service quality and customer satisfaction and they act on those values to make everyone in the organization follow. Empowerment is essential where employees are able to make decisions on the spot to meet customers' needs and expectations rather than wait for top management to make decisions which can create delay and dissatisfactions of customers.

Conclusion

TQM have been based on the quest for progress and continual improvement in the areas of cost, reliability, quality, innovation, efficiency and business effectiveness. TQM has been an approach for continuously improving the quality of goods and services delivered through the participation at all levels and functions of the organization. Organizations have viewed TQM as the totally integrated efforts or organizational members for gaining competitive advantage by continuously improving every facet of organizational culture.

There could be several reasons to apply TQM, in financial services the major drivers for financial institutions to apply TQM are competitive pressures, customer demand for quality and desire to reduce cost. Financial service organizations are very labor intensive, and their staff come into frequent contact with the public. Teamwork, co-operation and motivation are critical to delivering a quality service. Customer satisfaction can only be a result of a range of factors which in financial services would include friendly and courteous personnel, the quality of financial products, credit facilities, bank charges and user friendly online systems.

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