Ameliorating Financial Performance through Implementing Total Quality Management Practices: A Study of Pakistani Banks

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ABSTRACT

The research is being conducted to overview and emphasize on the comparative study of local banks to identify the effects of total quality management (TQM) in the banks to evaluate the financial performance which they are providing to their customers. Therefore the main objective of this study is to find out impact of TQM practices on the financial performance of the banks. Literature review reveals that the implementation of TQM practice in Pakistani banks is still at rudimentary level. It was also revealed that implementation of TQM practices lead high quality performance. Exploratory research has been used in order to have a better and deeper understanding of the research problem. Furthermore, since the problem could not be articulated with any precision, the research of an exploratory nature was required, also enabling to develop clear objectives. It took the form of literature searches, informal personal interviews with experienced people who are the bank customers or the bank employees as well as formal questionnaire filling by them. Sample size of 150 individuals has been selected in this research. Out of 150 respondents, 122 respondents have been used for data analysis, and 28 respondents whose responses have not been evaluated because of ambiguity. Comparisons of various service offerings provided by local banks have also been considered for the purpose of evaluating the service quality gaps. The outcomes of this study furthermore display that the use of financial performance assesses has a mediator function in the connection between TQM scheme and value performance. The outcomes furthermore show that an enhancement of value performance positively sways financial performance through improvements in enterprise performance. The banks should start a company's wide perception of TQM through seminar and workshop. The content of teaching of bank workers should be such that will enhance the implementation of the TQM. Employees' value perception and engagement through well-developed programmed should be granted broad publicity.

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1. INTRODUCTION

1.1 Background

Total Quality Management (TQM) focuses all types of operations which are performed in an organization. It has got immense importance by the researchers to ameliorate performance of the organization in order to compete in this global world (Ehigie and McAndrew 2005). Implementing TQM practices by manufacturing and service organizations assist them to achieve competitive advantage via driving the innovative solutions and determining the factor that play significant role successful changes along with the cultural development (Douglas and Judge 2001; Sigh and Smith 2004; Irani et al. 2004).

Now days businesses operations are very crucial due to tough competition, dynamic environment and rapidly changing behavior of the customer. It has been mandatory for every organization to maintain its position in the market; it has to cope up itself with innovative and productive practices. That is the reason of inspiration to implement TQM practices in order to flourish as well as survive rather than attaining edge over its competitors (Kaynak 2003). Concept of TQM emerged in 1980, since then it has enriched management concepts and allows researchers to investigate modified and new ways to ameliorate organizational performance in all over the world (Al-Mansour 2007).

The quality management gurus such as Ishikawa, Feigenbaum, Deming, Juran Taguchi, Crosby, Groocock and others bring new ideas to maintain the high quality standards. It has also been noticed that much of contributions have been made by researchers is just theory building. That's why TQM practices within the organizations are still at rudimentary level but vast research has been carried on this topic. (Dale 2003; Taiwo 2001). Furthermore, global market has made quality measures throughout the world that shows the positive attitude towards TQM.

Initially it was considered that TQM works with operations management jointly but now this concept has been obsolete. TQM has taken place as a separate discipline and has been getting importance (Dale 2003). Now days many organizations are involved establishing and implementing different TQM practices to achieve their objectives within their circumstance and cultural situations. It can also be stated in that way, TQM strategy is not uniformed rather than every organization strives to develop it according to its own requirement in order to fulfill its expected results (Motes and Jover 2004; Yasin 2004).

1.2 Justification and Logical Reasoning

In order to meet current business requirements and face the global challenges, all businesses are focusing on quality. Like every business, banks are also striving to adopt quality parameters. Customer's expectations are rising with the passage of time, in order to attract new customers and retain existing one it is mandatory for banks to run their business according to the global requirements (Al-Mansour 2007). That's why it has been observed the banks are adopting TQM practice not only survive in the market but also achieve desired growth in the business. Studies which have been conducted till now on TQM, banks have got little attention. In order to add value in the literature this study is going to find Impact of TQM practice on financial performance of the business in Pakistani banks.

1.3 Research Question

Do the TQM Practices ameliorate financial performance of banks?

1.4 Statement of Problem

Financial performance of banks is ameliorated due to implementation of the TQM practices.

1.5 Objectives of the Study

The research is being conducted to overview and emphasize on the local banks to identify the effects of total quality management practices on financial performance and to evaluate them which they are providing to their customers.

Therefore the main objective of this study is to find out impact of TQM practices on the financial performance of the banks. Apart from that this study will also find out impact of following factors on the financial performance of the banks.

- Development of Strategic planning towards attainment of long term goals
- Impact of Service design to retain existing customers and attract new ones
- Effect of continuous improvement on banks' financial performance
- Benchmarking assists to seek proper direction

1.6 Hypothesis

H_0: Total quality management practices do not ameliorate financial performance of banks.
H_1: Total quality management practices ameliorate financial performance of banks.

1.7 Scope of the Study

This study is conducive for Pakistani banks. Those banks which are trying to implement TQM practices will come to know regarding benefits of TQM and banks which have already implemented TQM practices can further ameliorate their practices by studying this research.

1.8 The Delimitation

There are several limitations that we faced during and completing this research work; these were time constraints, geographical constraints, and financial constraints. This research was aimed to be completed in the limited time frame and consists of different total quality management tools which are being implementing in different banking sector in Pakistan.

1.9 Organization of Paper

Section 1 is about introduction, Section 2 literature review, Section 3 methodology Section 4 results and findings, Section 5 discussion and conclusion and finally section 6 is about recommendation and implications of the paper.

2. LITERATURE REVIEW

Importance of service design cannot be denied. It is strongly focused in the literature of TQM that organizations which pay proper attention while designing good product, can assist them to ameliorate financial performance because it improves its reputation and ultimately customers get satisfied (Lakhe and Mohanty 1995). Another view point gives more clear direction, appropriate service design is helpful to improve work process, to get reduced wasted time, enhance customer satisfaction level and ultimately

higher profits are generated. Continuous improvement is one of the most important TQM strategy, it shows management attitude to concentrate to satisfy their customers by offering continuous improvement at all levels of organization (Benavent et al. 2005). Its importance can be understood from recent analysis that every organization should focus to implement continuous improvement in all processes even in management activities and styles (Benavent et al. 2005). Banks plays a vital role in the development of economy in the country. This role gets proper attention when banks operate in dynamic environment and show their performance (Naeem et al. 2008). That's why, applicability and feasibility of TQM in banks as well as financial institutions has got focused by researchers. Quality conscious customers and dynamic business environment have added more value to this concept. In banking business operations, most of the activities need to be improved. These activities include ATM, credit cards, opening new accounts, service processing time, waiting times, accuracy and timeliness of financial records and loans.

Furthermore, dealing customer queries timely and persuading de-motivated customers are some activities that require continuous improvements. Having detailed analysis of TQM literature, it has come to know that prevailing TQM practices in banking industry are highly focused rather than impact of TQM practices on financial performance of the banks (Al-Marri et al.2007; Al-Mansour 2007; Bilich and Neto 2000; Naeem et al. 2008; Olabode 2003; Peschel 2008).

Naeem et al. (2008) concluded that implementation of TQM practice in Pakistani banks is still at rudimentary level. It was also revealed that implementation of TQM practices lead high quality performance. That's why, it was suggested that bank should initiate to implement TQM practices with the help of top management and develop a culture that help employees to involve themselves properly. Olabode (2003) conducted study on Nigerian banks, conclude that there is positive relationship between TQM practice and performance of the bank. He also added that top management plays a vital role in the implementation.

Al-Marri et al. (2007) conducted research on UAE banks. They concluded that there is positive relationship between TQM practice and performance of the bank. They also added that TQM practices are mandatory for banks as well as other service oriented organizations to sustain competitive advantage. Peschel (2008) conducted study in Los Alamos National Bank; his focus of study was benefits of implementing TQM practices. It is concluded that this bank is more successful as compare to other banks.

2.1 Strategic Planning

Strategic planning also known long term planning is set of activities in which organizations formulate, implement and evaluate rest of the strategies in order to achieve organizational goals (Srinidhi 1998). All other organizational strategies are aligned with TQM in strategic planning. Furthermore, different other areas, such as availability of funds, skilled and trained human resource and availability of time which are helpful to attain organizational objectives and execute strategies, are also focused in TQM strategic planning (Black and Porter 1996). Only motive of Banks is to attract new customers and retain exiting one, so they have no choice except adopting quality strategic planning approach. Over recent years, the contingency-based perspective has been the dominant theoretical framework used in accounting research to investigate the role of TQM in the management of business strategy where the organizations should adopt their structures or processes to performance such as the environment, business strategy and firm size, if they wish to perform well (Naeem et al. 2008).

2.2 Benchmarking

Benchmarking is one of the strategy in which organizations select a role model mostly a leading and successful competitor and compare their performance with it. However, benchmarking strategy should be

used to evaluate and improve products and services offered by an organization within a same industry in order to achieve competitive advantage (Ahire et al. 1996). Savings the cost, improvement in the process, satisfaction of employees, and satisfaction of customers are different areas which can be benchmarked by an organization.

3. RESEARCH METHODOLOGY

There are various methods of sampling used in accordance with the research type and requirements. In my case, Simple Random Sampling was chosen which gave each member of the entire survey population an equal chance of being chosen. A sample size of 150 individuals was selected in this research among which 122 respondents were used for the data analysis and 28 was the respondents whose responses were not included because of ambiguity. A comparison of various service offerings provided by local banks was also considered for the purpose of evaluating the service quality gaps. Exploratory research study has been used to understand the research problem in a systematic manner. The secondary data provided the basis for evaluation of respondents' opinion by formal questionnaire. In order to collect the appropriate data, both Qualitative as well as Quantitative Research methods were employed. Furthermore, residents of Karachi and nearby areas who were the bank customers were selected. Another important criterion to become a part of my survey population was to have been involved in the banking sector either as the bank customers or the bank employees.

4. RESULTS AND FINDINGS

4.1 Correlation among Strategic Planning, Service Design, Continuous Improvement, Benchmarking and Financial Performance

Correlation analysis is among the different tools of TQM and the financial performance. The correlation shows the positive correlation among dependent variable which is financial performance and the independent variable which are Strategic Planning, Service Design, Continuous Improvement, and Benchmarking.

Table 01: Correlation among Strategic Planning, Service Design, Continuous Improvement, Benchmarking and Financial Performance

		Strategic Plan	Service Design	Continuous Improvement	Benchmarking	Financial Performance
Strategic Plan	Pearson Correlation	1	.825**	.868**	.720**	.811**
	N	122	122	122	122	122
Service Design	Pearson Correlation	.825**	1	.854**	.796**	.785**
	N	122	122	122	122	122
Continuous Improvement	Pearson Correlation	.868**	.854**	1	.774**	.894**
	N	122	122	122	122	122
Benchmarking	Pearson Correlation	.720**	.796**	.774**	1	.844**
	N	122	122	122	122	122
Financial Performance	Pearson Correlation	.811**	.785**	. 894**	.844**	1
	N	122	122	122	122	122

However the table illustrates that continues improvement in the organization is highly correlated with the financial performance which shows 0.894. After that strategic plan are also highly correlate with financial performance, and benchmarking show the same scale. Further the independent variables are also interrelated with each other.

4.2 Regression Analysis among Strategic Planning, Service Design, Continuous Improvement, Benchmarking and Financial Performance

The regression equation between dependent variable (financial performance) and independent variable (Strategic Planning, Service Design, Continuous Improvement and Benchmarking) is:

Financial performance (y) = f (Strategic Plan, Service Design, Continuous Improvement Benchmarking)

$$y = b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + Error$$

Where b_1x_1 represents intercept of e Strategic Plan x, b_2x_2 intercept of Service Design x, b_3x_3 intercept of Continuous Improvement x and b_4x_4 intercept of Benchmarking. The regression results of financial performance and Strategic Planning, Service Design, Continuous Improvement and Benchmarking are elaborated in the following table

Table 02: Regression Analysis among Strategic Planning, Service Design, Continuous Improvement, Benchmarking and Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.929a	.864	.859	.21544

ANOVA

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.471	4	8.618	185.665	.000a
	Residual	5.431	117	.046		
	Total	39.902	121			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Financial Performance)	-.116	.056		-2.085	.039
	Benchmarking	.458	.064	.420	7.102	.000
	Continuous Improvement	.693	.092	.609	7.501	.000
	Service Design	-.207	.093	-.166	-2.212	.029
	Strategic Plan	.143	.088	.118	1.628	.106

The multiple R value on table 0.929 shows the strong relationship between the independent variables likewise Strategic Planning, Service Design, Continuous Improvement and Benchmarking with the dependent variable financial performance for adjusted R Square 0.859. The R square is the co-efficient of simple determination shows that 86.4% of variance in Strategic Planning, Service Design, Continuous Improvement and Benchmarking has been explained by financial performance. The F test statistics shows the good model fitness which is significant <0.05 thus it is proved that there is a significant relationship between Strategic Planning, Service Design, Continuous Improvement and Benchmarking and financial Performance.

4.3 Regression Analysis among Financial Performance and Total Quality Management

The regression equation for financial performance and TQM is similar to the previous one except difference of independent variable. Here in order to support our results we have tried to find the relationship between financial performance and TQM the results are given as under:

Table 03: Regression Analysis among Financial Performance and Total Quality Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.904a	.817	.816	.24646

		ANOVA				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.612	1	32.612	536.882	.000a
	Residual	7.289	120	.061		
	Total	39.902	121			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Financial Performance)	-.202	.062		-3.268	.001
	Total Quality Management	1.143	.049	.904	23.171	.000

However, the TQM increases level of financial performance and create the highly impact on the organizational performance. Here we can observe that the Multiple R is 0.904 which is more strong relation than the above mention regression. However the adjusted R is 81.6% regression relation which is quite high and thus this prove our hypothesis that the significant tool can able to enhance the financial performance of the organization.

5. DISCUSSION AND CONCLUSION

This study highlights that the financial performance of banks shows the strong relationship which is 86.4% with the strategic planning, service design, continuous improvement and benchmarking. Moreover, financial performance and TQM also shows the strong relationship which is 81.6%. The basis outcome of this study relates with the use of financial performance that has a mediator function in connection between TQM scheme and value performance. It also enhance the value performance positively sways financial performance through improvements in enterprise performance. It also revealed that implementation of TQM practices lead high quality performance.

6. RECOMMENDATIONS AND IMPLEMENTATIONS

- The banks should start a companywide perception of TQM through seminar and workshop.
- The content of teaching of bank workers should enhance the implementation of the TQM.
- Employees' value perception and engagement through well-developed program should be granted broad publicity.
- Top administration should be engaged in relentless supervising of the advancement of TQM at distinct department of the banks.
- Review methods should be established in each of the banks.
- Quality enhancement scheme should be developed to cover all the facet of banking transaction.

- International Quality benchmark like the ISO 9000 could be introduced to referee the acceptability of the service of the financial banks.
- External advisors can be engaged on the criteria to be utilized for the worldwide benchmark for assessing the value of service of the banks

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