Quality management practices in Public and Private sector Banks in India-employees’ perspective

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Abstract

Quality management initiatives have gathered momentum in both manufacturing and service industries and have delivered commendable results. Earlier studies carried out by Newman and Cowling (1996) in banks in the UK; Athanassopoulos (1997) in banks across Greece; Saffran, Norbet and Ulrike Vogt. (1999) in Deutsche Bank A G, Li et al, (2001) in banks in Hong Kong; Khalid Al-Marri and others(2007) in UAE, Rawashdeh (2014) in banks of Jordan have indicated that a systematic approach has brought down the costs and enhanced the revenue many fold.

As our country, India has a laid down framework within which firms are required to operate, it is imperative that we strive to excel in our methods and processes. In order to do so, extensive method study is required to identify the loopholes and areas of improvement.

Since the banking industry faces stiff competition, steps have already been adopted by both the public and private sector banks to re-engineer and revamp their processes and tune them with world class facilities and services. It was assumed that in order to bring about higher returns, a holistic approach has to be followed with the commitment of all in the organization. The present study was undertaken to assess the awareness about the quality management practices in the public and private sector banks in India. Data were collected from the leading banks in public and private sector. The parameters of the study were limited to the perception of the employees with regard to the quality initiatives undertaken by these institutions.

Key words: quality management, banks, public sector, private sector, competitive advantage, employees

1. Introduction

Banking and finance industries have been through tumultuous times recently. A record number of loans are defaulting, mortgage foreclosures, loss of investments are causing failure of and sometimes even collapse of financial and banking institutions.

With the introduction of economic reforms, Indian banking sector has opened its doors to private sector and foreign players. These firms with the state of art service systems and high service quality are a real threat to the Government owned public sector banks. In such a situation, organizations need to adopt a more pragmatic approach if they have to succeed in winning and retaining customers. This can be achieved by a careful analysis of the customers’ expectations and designing of systems and processes that add value.

The present study was undertaken to understand the quality management initiatives taken in the public and private sector banks.

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2. Literature Review

2.1 Quality

According to Dr Edward Deming, “quality should be aimed at the needs of the customer, present and future”. In the words of Feigenbaum, “quality is the total composite of product and services characteristics of marketing, engineering, manufacturing and maintenance through which the product and service in use will meet the expectations of the customer”. American Society for Quality define quality as follows “Quality is a subjective term for which each person has his or her own definition. In technical usage quality can have two meanings (1) the characterisitics of a product or service that bear on its ability to satisfy stated or implied needs and (2) a product or service free of deficiencies.”

2.2 Quality Management

Quality management ensures that an organization, product or service is consistent. It has four main components: quality planning, quality assurance, quality control and quality improvement (Rose, 2005).

The main objective of modern operations management approaches is to promote higher efficiency, productivity and resource utilization in the manufacturing and service industries. Providing a higher quality services at a lower cost is a strategy for creating and sustaining competitive position is a strategic approach of many business organizations across the world.

Hence quality has become a strategic mechanism for measuring corporate performance in today's changing environment (Hassan et al, 2012).

In the recent times, many companies have opted to combine the Six Sigma and Lean management techniques into Lean Six Sigma (LSS) to obtain higher quality in services and operations. This technique would help industries to improve processes and thereby enhance industry services and improve industry income.

2.3 Total Quality Management

Feigenbaum defines TQM as “An efficient system that aims to achieve total quality through the combined effort of all the employees within the organization in order to produce a product/service that will meet the needs and expectations of the customer with minimum cost”. The International Standard ISO 8402, Quality Management and Quality Assurance-Terminology has defined TQM as the —management approach of an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, and benefits to all members of the organization and to society (Ljungstrom & Klefsjo, 2002). TQM is also a systems approach to management that aims to enhance value to customers by designing and continually improving organizational processes and systems (Kartha, 2004). The emphasis is on employee involvement and empowerment along with customers and customer satisfaction as the focal point.

The tenets of TQM are continuous improvement, top management leadership commitment to the goal of customer satisfaction, employee empowerment, and customer focus (Ugboro & Obeng, 2000). TQM means that the organization’s culture is defined by and supports the constant attainment of customer satisfaction through an integrated system of tools, techniques and training (Sashkin & Kiser, 1993).

2.4 Total Quality Management applications

Developed during the era of manufacturing, both the US and Japanese TQM gurus focused and addressed their work primarily to manufacturing. Due to the large success of TQM in manufacturing companies, service organizations have started to follow in their footsteps and consider the application of TQM.
Still many researchers worked for TQM application in service industry (Sureshchandra et al., 2002; Sit et al., 2009). This has given an impetus to the concept of total quality management in the service sector (Saravanan and Rao, 2006).

Studies carried out across the world have concluded that there exists positive association between TQM practices and various performance measures. Performance measurement is considered as the process of quantifying the effectiveness and efficiency of action (Alaa & James, 1996). It is extremely important for the effective management in firms, and it refers to how well firms can carry out their financial objectives and market oriented objectives as well (Li et al., 2006). Different indicators used for measuring organizational performance have been proposed. Fuentes et al. (2006) measured firm performance from operational performance, market and financial performance, and employee performance. Zakuan et al. (2010) have used employee satisfaction, customer's satisfaction, and business results. Stock et al. (2000) have adopted return on investment (RIO), market share, and sales. Sang (2005) suggests employee efficiency, employee turnover, employee performance, operational performance, financial performance, economic performance, customer satisfaction level, market share, profitability, and so forth.

In other words, achieving better organizational performance requires successful efficient and effective use of firm resources and competencies with the aim of creating and sustaining competitive advantage locally and globally. Competitive advantage can be defined as a status that organization achieved when it outperforms its competitors in such marketplace (Kleiman, 2000). It implies the creation of a system that has a unique advantage over competitors. The idea is to create customer value in an efficient and sustainable way (Heizer et al., 2009).

2.5 Development of TQM Culture in the Organization

The founders of TQM and many other researchers have described TQM as a universal philosophy that can fit anywhere (Dale et al., 2007; Oakland, 2003). However, another group of researchers argue that national culture, business environment and organizational behavior have a great influence on effective TQM implementation (Abraham et al., 1999; Adebanjo and Kehoe, 1998; Ho et al., 1999; Zeitz et al., 1997; Dellana and Hauser, 1999; Prajogo and McDermott, 2005; Zu et al., 2009). These researchers strongly emphasize that the effective implementation of TQM requires effective change in an organization’s culture. In a broad sense, culture includes beliefs, values and premises which underline and govern personal behavior. Since it has a strong influence on people’s behavior, these researchers have greatly emphasized the impact of culture on TQM implementation.

Among several factors which have been attributed as key determinants of TQM success, organizational culture is often among those listed at the top (Prajogo and McDermott, 2005). Many a times TQM implementations have failed, preventing companies from realizing its potential benefits because of ignorance of the cultural factors (Becker, 1993; Dale and Cooper, 1992; Oakland, 1995; Thomas, 1994; Van Donk and Sanders, 1993; Wilkinson et al., 1998). McNabb and Sepic (1995) have placed extreme importance on the influence of corporate culture on the effective implementation of TQM. In their conclusion of a study on cultural effects on TQM implementation, Sousa-Poza et al., (2001) reported that TQM implementation is a complex programme that has a strong relationship with the organization’s corporate culture. Furthermore, the studies indicate that culture influences the understanding of TQM in a country and it also affects the operationalisation of TQM in a country (Kumar, 2006; Tan et al., 2003). In his ground breaking research, Powell (1995) argued that for real success, TQM practices need to be implemented within a suitable environment (i.e. culture).

The few studies that have attempted to examine the TQM-culture relationship, such as those by Chang and Wiebe (1996), Zeitz et al. (1997) and Dellana and Hauser (1999) have placed organizational culture as the antecedent of TQM practices. Their arguments infer that an appropriate strategy for TQM implementation is one in which TQM needs to be moulded to the organization’s culture before any attempts are made to re-shape the organization culture to fit TQM (Klein et al., 1995).

The successful implementation of TQM, requires a change in organizational culture to create the quality culture. The adaptation of TQM principle in the organization begins with an effort by
management to make the culture supportive since management is capable of changing and creating a culture for successful TQM implementation. Studies carried out have concluded that this can be brought about by practicing teamwork at all levels organization, involving all employees at all stages of the improvement process, educating and training the employees to change their attitudes and behaviors, and improve their skills. In short, absolute transparency and unambiguous communication is a pre-requisite for the success of all quality initiatives.

2.6 Quality Management in the Banking Sector

The banking sector is one of the important pillars of any economy. Banks play a significant role in any economic system. They regulate transfers and flow of funds within and outside the country. These institutions have been subject to intense competition and customer expectations.

Li, Zhao, and Lee, in their 2001 journal article, cite survey results that show which quality initiatives banks in Hong Kong used to improve their competitive advantage. In 1996, Knights and McCabe, reported the relationship between rationale of quality initiatives and management action.

Researchers such as Lewis (1990), Anderson et al. (1994), Neyer (2000), Ahmed (2002) and Sureshchandar et al. (2002) have carried out work in banks the developing countries to examine the best practices to be implemented to improve the financial performance and greater customer satisfaction.

TQM can improve performance of a bank by lowering costs, increasing revenues, delighting customers, and empowering employees (Juran, 2001). Total quality management is essential to the banking sector to sustain competitive advantage (Al-Marri et al., 2007). Al-marri et al. (2007) in his empirical study of the UAE banking sector identified sixteen factors critical to TQM implementation and success. The factors identified were top management support, strategy, continuous improvement, benchmarking, customer focus, quality department, quality system, human resource management, recognition and reward, problem analysis, quality service technologies, service design, employees, services capes and service culture. He also summarized total quality management was essential to the banking sector in particular and other service-oriented organizations in general to sustain competitive advantage.

Selvaraj (2009) in his study TQM in the Indian banking sector found that there is significant differences between the three groups of banks in respect of these factors have been investigated in all its dimensions. The public sector banks fare better in employee satisfaction whereas the private sector banks are good in service culture and Human Resource Management. The foreign banks perform better in top management commitment, customers focus and services capes. The important discriminant TQM factors among the three groups of banks are customer focus and top management commitment.

Schneider et al. (1980) concluded that the perception of managers can be a reliable proxy of the actual perception of the customers. Purnendu et al. (2011) carried out a study on commercial banks in India and concluded that there was a link between progress in TQM and bank performance. They also concluded that there was appositive link between TQM and perceived service quality by customers.

Several quality experts have stressed the importance of ISO certification in the banking and financial services industry. American quality consultant and author Robert Bowen, supported by contributions from York Federal Savings & Loan, Citibank, Deutsche Bank, and certification bodies KPMG and presents a very positive endorsement of the value of ISO 9000 implementation in the banking and financial services sector. Prime focus of his article is York Federal, which is described as being “on track to become the first credit institution in the US to achieve ISO 9000 success”.

Anthony Galliano, head of Citibank’s securities services in Asia-Pacific, views its ISO 9000 certification across the region as part of a growth strategy “which will differentiate us as a financial services company and will yield significant benefits to our business and our customers”.

Brian Hettrick, of KPMG, reports that the Royal Bank of Canada and the Bank of Nova Scotia have seen “a positive impact on efficiency and, most unexpectedly, a measurable, positive impact on employees as a direct result of ISO 9000 implementation”. 
2.7 The Indian Banking Sector

According to the projections of BCG, FICCI and Indian Bankers’ Association, at the current rate, the Indian banking industry will be the world’s third–largest by 2025, as shown in the following Exhibit.

Exhibit1. Indian Banking: Sound health and balanced performance

The Reserve Bank of India (RBI) has been widely acclaimed for steering Indian banks clear of the crisis that engulfed so many countries as a result of economic crisis which affected the world during 2007-2008. According to their analysis, such acclaim is well–deserved. Displaying a positive outcome on almost all performance metrics in the last decade, the Indian banking industry stands out for its relatively robust balance sheet and sound performance. As shown in Exhibit 2 , Indian banks’ profitability leans towards the higher end of the spectrum while its cost–to–income ratio leans towards the lower end. In addition, bad debt charged to P&L remains moderate and valuation is sound. On the quality and soundness of the financial services sector, India has edge over other emerging markets (Tripathi & Poddar,2011).

Exhibit2. Indian Banking will be world’s 3rd largest by 2025
2.8 Quality Management in the Indian Banking Sector

It is well known that the rapid growth in the various sectors of the economy can be brought through efficient, effective, disciplined banking system (RBI report (2010)). Now in Indian economy the banking sector is considered to be the nerve system with the modern technological advancements (Shanmugan and Das (2004), Srinivasan (2002)).

Today, the Indian customers have a wide choice of service providers in the market. With the opening up of the economy, the spectrum of offerings has widened. The more knowledgeable and discerning customers tend to opt for the best in terms of quality and reliability that are at par with international standard. At this juncture, the quality of service will be the dominant factor in ensuring the survival of the service provider in the global market. The customer-centric services have the paradigm shift in the service industries. This has given an impetus to the concept of total quality management in the service sector (Saravanan and Rao, 2006). Zeithaml (2000) summarized about the relation between TQM and profit.

Award-based framework is meant mainly for organizations seeking to be recognized as leaders in the quality management field, and it assumes that an organization has reached a mature level of TQM implementation (Yusof & Aspinwall, 2000).

According to Botorff (2006), from the economics of quality, we know it is much cheaper to prevent failure than to let it happen, catch it, and then try to fix it. If organizations would practice ethics as the logic based discipline and quality problem it is, they would achieve higher levels of accuracy, repeatability, and performance. This, in turn, would result in better moral and economic outcomes for all involved, including themselves.

Selvaraj (2009) researched about Indian banking industry and found that top management commitment, human resource management, technical and important systems, customer focus, employee satisfaction, service culture, social responsibility and services capes are important commercial factors in commercial bank. His research showed that TQM is most successfully implemented in foreign banks followed by private and public sector banks. The important discriminant TQM factors among the three groups of banks were found to be customer focus and top management commitment.

In a study carried out by Purendu et.al (2011), on 220 banks in India found that leadership & strategy and internal & external processes increase bank’s performance, indicating the efficiency, and to a higher perceived service quality by customers indicating efficiency.

3. Gaps found

Against the backdrop of quality initiatives around the world having borne fruitful results, a need was felt to examine the ground realities in the Indian perspective. Further, as projected, an assessment was necessary to find out the current situation as devise suitable measures to ensure attainment of objectives.

There is a distinction between the internal (employee) side of processes and external (customer) side of processes, suggesting that the traditional categorization into technical quality (processes and procedures) and functional quality (perceived quality) as introduced by Gronroos (1984) might be valid in banks. Broadly speaking, internal process management relates to technical knowledge and ability of machines and materials, facilities and technologies. External processes relate to service minded behavior, employee availability, appearance and accessibility. Both these processes need to continuously improve to enhance the performance of the bank. In other words, kaizen or continuous improvement needs to be a part of the organizational culture. The onus of improving these lies with the employees with the direction of the top management and the focal point being the customers.

Hence a need was felt to analyze the current situation from the employees’ point of view. As little work has been done to compare the quality initiatives undertaken in the Public and Private sector banks, by taking the inputs from the employees, the present study was undertaken to fill this gap.
4. Proposed work

With the background of the studies carried out by different researchers around the world, it was realized that quality management practices with the active involvement of the top management and a shared vision among all employees alone could help organizations build and sustain competitive advantage. In this regard, study by Naeem et.al. (2008) indicate that:

- Success of TQM program in financial sector is associated with strong leadership emphasizing strategic and tactical planning.
- Implementing TQM results into higher level of service quality
- The top-down training programs need to be started in order to attain desired quality level in banking industry.
- TQM is a long term cultural commitment requiring a strong leadership commitment
- Top management support is a key factor in quality implementation.

Hence the need of the hour was to assess the current practices in the Indian banking scenario and formulate suitable strategic plans. The present study was undertaken on a small scale to compare the status of the quality management practices in the public sector and private sector banks in India.

5. Objectives of Study:

1. To find whether top management gives priority to quality management and whether it is translated & communicated to all employees.
2. To find whether drivers for good work are intrinsic or extrinsic in the two categories of banks.
3. To find whether employees aware that correlation exists between emphasis on quality & number of customers.
4. To find whether a formal structure exists in the banks to ensure adherence to quality parameters & employees’ awareness about it.

6. Research Methodology

6.1 Research Design & Instrument

A systematic and organized methodology was used for the research study. The research design was descriptive. Based on an in-depth discussion and exhaustive literature review, the objectives of study were chalked out. Focus group discussions were then conducted with the employees in the different managerial strata to gain insight into banks overall attitude towards quality management. Questionnaire was intricately designed to tap not only the demographic variables but also about the employees’ view point on the quality management practices in the different banks.

6.2 Sampling

After successful pretest of questionnaires, stage was prepared for the main study. For the main study, random sampling and stratified sampling were used. The stratified sample consisted of 5 top performing banks from the public sector and the private sectors were taken. From each of these banks, the employees were randomly selected.

7. Results and analysis

Quality is a major concern in both the sectors and given top priority in the meetings. Analysis showed that 88% in public sector banks while 80% in private sector banks agreed regarding the same. This is a positive sign that indicates that learning is taking place in case of public sector banks. In case of private sector banks, probably other issues pertaining to types of policies/products offered were given top priority in the meetings.
Motivation plays an important role when it comes to productivity enhancement. Interesting facts were brought out regarding employee motivation wherein both scored high on being motivated. In this regard, about 19% of private sector strongly believed about being self motivated while the figures for extrinsically motivated stood at 27%. In case of the public sector banks, respondents who strongly believed that they were self motivated to extrinsically motivated were 50% is to 39%. These responses further corroborate the fact that i). Private banks offer incentives and rewards for good quality work by the employees ii). Extrinsic motivators do play a significant role in enhancing productivity/quality.

Regarding the perception of employees that involvement of all employees is essential for ensuring quality, 79% of public sector banks and 73% of private sector banks responding in the affirmative. However a wide gap existed in case of public sector banks regarding the involvement of all employees with 24% strongly agreeing and 55% agreeing, though to a lesser degree.

Both the sectors were found to be very close with approximately 58% (private sector) and 54% (public sector) strongly believing in their opinion that high quality services would attract more customers. In both the sectors, more than 90% believed that customers sought quality in the product and service offered as a complete package.

Regarding existence of a framework for maintaining quality, about 85% agreed mechanism exists for checking for deviations and maintain quality in private banks. In case of public banks, this figure stood at about 76%. This indicates that the checks and balances are more prominent in case of private banks. This is a necessity and therefore, public banks need to put in more efforts for streamlining the whole process. In the private sector, 84% believed that their bank was ISO certified while the figure stood at 90% for public sector banks. These figures bring out an interesting fact that there is less awareness about the ISO certification being awarded to the banks. Also there is little awareness about the parameters being considered by the certification agencies.

7. Conclusions

As the players in the Indian banking industry are subject to intense competition, it is imperative that they become more involved in implementing TQM and service quality concepts. In this regard, the top management commitment and active involvement of all employees with the aim of meeting customer expectations is the need of the hour. These would help the banks to achieve desired outcome of customer satisfaction, improved financial performance, and providing better competitiveness.

From the review of literature it was found that several dimensions were critical for success of TQM in the banking sector. In order to ensure a successful implementation of TQM in the banks, there was a need to motivate employees to improve the level of services provided by them. Also, appointment of qualified and competent managers would successfully contribute to the management of the banks along with imparting enough training and education to the employees so that they may be able to comprehend specific quality policy and TQM strategy. Lastly, monitoring the customer satisfaction was important in order to continuously improve the products and services being offered in order to sustain a competitive advantage in the vibrant market.

The following model is proposed which would serve as a road map for Indian banks to become a benchmark in the world.
Quality initiatives need to be viewed from three key areas:

1. Leadership and Top management
   - The type of leadership
   - The management style
   - Focus towards achievement of goals
   - Effectiveness in promoting team work
   - Astuteness in identifying key issues
   - Ability to inspire and motivate
   - Deftness in handling conflicts

2. Employee involvement and contribution
   - Organizational culture
   - Employees motivation
   - Employee satisfaction
   - Rewards and recognition

3. Customer Focus
   - Market research
   - Customer feedback
   - Effective handling of customer grievances

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