A STRATEGIC PERSPECTIVE
ON
TOTAL QUALITY MANAGEMENT

by

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It is today generally accepted that to survive in the present global economy, business organisations must strive to manage the change that occurs in both their internal and external environments, and turn constraint into advantage. 

The traditional view of management of the external environment, which requires that products/services are competitive in the marketplace and preferably exceed customer expectations, cannot be separated from management of the internal environment, where the focus is on managing all aspects of the organisation that add value in delivering a product/service to fit the need of the target market.

In order to achieve a successful balance between management of the external and internal environments, strategic managers need to decide what business they are in, the basis for their "competitive advantage" in that industry, as well as the structures and processes that are needed within the organisation to ensure that customer satisfaction is guaranteed.

Since the advent of democracy in South Africa, which is aptly displayed by the new government of national unity, South Africa has agreed to and signed the General Agreement On Tariffs and Trade (GATT) (Anon., 1995:3). Now more than ever South African companies are finding themselves not only competing against each other but increasingly competing against foreign competition. A sense of urgency is detectable as local industries become acutely aware of the shortcomings they face when compared to global competitors. It thus comes as no surprise that this awakening has stimulated local organisations to critically review their management options.
Total Quality Management (TQM) is one approach which is now finding popular acceptance as a means, not only of ensuring survival, but of obtaining and maintaining a competitive edge in the global marketplace (Harber et al., 1993:17).

Total Quality Management is a way of running an organisation in a fashion that focuses its efforts in a systematic, disciplined way towards continually improving the quality of every aspect of its operations and across all organisational boundaries viz quality of systems, operational activities as well as quality in how service is delivered both to the internal and external customer. According to Main (1994:10) TQM is not a management tool to be added to others, but an overall way of managing, that does not provide the cure - all for all business problems, but provides competitive advantage by the levels of quality it achieves.

From his book on quality, Main (1994:10) comments: "The means for achieving quality are quite simple and commonsensical, but using them successfully is enormously difficult because they require fundamental change in the way we work. New quality demands painstaking, even fanatical attention to improving all the time every activity in the organisation. It demands patience and endurance because the effort never ends and sometimes the obstacles seem overwhelming. It requires workers with both the incentive and the training to examine everything they do and everything done around them to see whether it can be done better. It requires managers willing to break with the autocratic traditions of American management and encourage the will and ideas of their people to flow upward. It requires leaders who are willing, even eager, to let their organisations change, who pay more attention to production and process, less to finance and staff, more to long term and less to short term. Above all, the new quality demands devotion to the needs of the customer. A fanatic attention to wants of the customer mark a true TQM effort."

Total Quality Management today faces criticism as if it were just another management technique facing decline. The early 80's euphoria has been replaced by a degree of scepticism, perhaps due to the fact that TQM does not guarantee immediate and
everlasting success, as is evidenced by the subsequent failure of companies in the nineties that won the highest accolade for quality viz. the Malcolm Baldrige National Quality Award in the eighties, for example IBM and General Motors.

This perception has forced those who invested in it without success into a powerless position in search of the next panacea. This erroneous perception is however flawed as the need to delight customers and produce high quality products and services cannot be disputed. As an organisational philosophy, TQM is even more critical now than what it was 10 years ago due to the rapid increase in global competitiveness.

Since the increase in awareness of TQM during the mid eighties, widespread consensus has been reached that TQM is a way of managing organisations to improve their overall effectiveness. There is however less agreement as to what the key elements to TQM are as well as what the critical factors are that influence the implementation process thereof. This stems from the diversity of organisations that have adopted TQM with various degrees of success. Perhaps the secret does not lie in the recipe but in the end result, "as there are many ways to make a good trifle".

The following words describing a commitment on quality were carved in a block of stone at the Newport News Shipyard in 1917:

We shall build good ships here,
At a profit if we can,
At a loss, if we must,
But always good ships

(Main, 1994:16)

1.2 PROBLEM STATEMENT

Defining TQM has proved to be extremely difficult. Most writers are in agreement that TQM is a organisation wide philosophy of management which emphasises the need to
meet customer needs precisely and to get things "right first time" (Bright & Cary, 1993:21). According to Chase and Aquilano (1992:187) TQM may be defined as managing the entire organisation so that it excels in all dimensions of products and services that are important to customers (Customer - Driven Quality Standards). Here the organisation is depicted as consisting of a series of interrelated processes, where increasing customer satisfaction is dependant on how well internal chains of employees operate.

Within the TQM vision, quality becomes an omnipresent doctrine, not to be delegated to some department within the organisation, but to be absorbed within all the activities of the organisation. The quality of design and quality of conformance should both meet the customer's objectives for the type of product or service. This "fitness for use" can only be attained if the dimensions of quality that the customer wants is determined and incorporated into the product or service by means of a quality program that ensures the dimensions are met.

Quality is often erroneously considered to be a measurement of accuracy only. While accuracy in the absence of defects is important, other dimensions of quality which includes aspects like performance, features, reliability, completeness, durability & serviceability, innovation, class and reputation, are important when designing a product/service to meet customer expectations. In an attempt to standardise quality, certain international norms of quality have come to exist, each with elaborate detail of conformance standards viz. Baldrige Criteria and ISO 9000 series, as well as various other sets of standards named after their inventors viz. Deming, Juran, Feigenbaum, Ohno, and Ishikawa.

Currently in South Africa various companies are investigating internationally popular strategies to improve competitiveness in the global market. Of these strategies, the drive towards establishing an organisational culture committed to quality, seems the most prominent (Swanepoel, 1993:13). A potential problem however exists for local organisations that hope to embark on quality improvement strategies due to the fact that circumstances here are so different than in most other countries that have successfully
employed TQM. Unlike America and Britain, South Africa is plagued by political instability and uncertainty, suffers from a lack of a skilled and educated population, combined with a high level of unemployment, as well as a skewed distribution of wealth. This in conjunction with a history of Apartheid has over the years contributed towards establishing a culture of distrust between management and labour, resulting in the emergence of prominent trade unions.

It is within this context that TQM has to be evaluated when applied to the South African situation, which requires that a commitment is established between management and workers from which the problem of distrust can be overcome. It is this fundamental link between employees' needs and organisational needs that is often overlooked when trying to implement TQM, and it seems that many organisations in South Africa may fail at TQM simply because they do not start right (Swanepoel, 1993:13).

In the United States Of America (USA) and The United Kingdom (UK) the commitment to TQM emerged after a period of complacency during the sixties and seventies when organisations in these countries were able to sell everything they produced. Due to there being limited foreign competition during these decades, little concern was shown about quality and customer satisfaction (Pryor & Cullen, 1993:10).

In this period skilled workers were neglected as the focus was on short term profits and not long-term investments in people and capital. As Autocratic Management and Theory X was outmoded, organisations turned to Participate Management using Management By Objectives (MBO) and performance appraisals, which resulted in changing people from being innovators, to procrastinators who were at best unable to make decisions (Bateman & Zeithaml, 1993:45).

As the failure to practise positive leadership regarding the importance of quality continued in the West, organisations in Japan that were increasingly incorporating quality in all spheres of their business emerged to become the giants they are today.
In the nineties it has become obvious that a commitment to quality has to become a national, individual and organisational imperative if South African organisations were to survive, let alone be competitive in the global arena.

Not only is South Africa facing increased foreign competition but it's essentially conservative management style of reluctance to allow employee involvement or participation programmes seriously hampers those organisations hoping to employ TQM.

1.3 OBJECTIVE OF THE STUDY

Achieving quality in products and services requires that TQM be viewed as "a journey to a destiny" in which many routes can be taken, rather than a destiny in itself. Organisations that wish to implement TQM have to study the map carefully before embarking on this "journey" as the Latin phrase "salutas in media via" or "safety lies in the middle route" is unfortunately not a guarantee to reaching the TQM destiny.

The main aim of this study is to provide an understanding into the concerns, problems and challenges as well as advantages associated with TQM in modern financial services organisations, which can lead to a false sense of security if not managed correctly.

The objectives of the study are therefore

1. To gain insight on how and why TQM developed, placing an emphasis on the change in markets and organisations as well as the management thereof over time

2. To review current TQM trends and obstacles that modern organisations face within the South African financial services industry; and
3. To develop and arrive at a workable model for TQM implementation within the financial services industry.

Specifically the study wishes to provide the reader with a broad understanding of TQM, as well as the necessary stimulation to further probe and exploit this management technique.

1.4 RESEARCH METHOD

The research will consist of a theoretical study supplemented by the synthesis of primary data obtained from leading South African financial institutions by means of personal interviews.

Information will be sourced from applicable articles and handbooks, relevant research papers as well as management journals and other articles relating to the topic. In an endeavour to keep the study relevant, only up to date sources and accurate information will be used. The data utilised will be evaluated, compared and critically discussed and presented in a format meaningful to giving insight to the various issues surrounding TQM.

1.5 THE COURSE OF THE STUDY

Chapter two will review the historical development of management theory towards TQM to provide an overview as to how TQM has developed as an internationally accepted organisational strategy.

Chapter three examines past and current TQM trends and developments as well as obstacles that may be encountered with TQM within the financial services industry.
In Chapter four a model for implementing TQM within the financial services industry will be presented and discussed. This model will be used as a topic of critical discussion during personal interviews held with leaders of TQM within prominent South African financial services organisations. Criticism of the model will subsequently be discussed together with the postulation of a revised model.

Finally chapter five will conclude the study by summarising all the chapters, drawing conclusions and making recommendations regarding the insight gained in TQM.
CHAPTER TWO
A HISTORICAL VIEW ON THE EVOLUTION OF MANAGEMENT THEORY TOWARDS TQM

2.1 INTRODUCTION

The proverb says: "In order to know where you are, and where you are heading to, you need to know from where you came". Nowhere is this more applicable than to TQM, which has developed along a evolutionary path with its genes firmly embedded in the management theories that preceded it.

The first part of this chapter gives a historical perspective on how management theory has developed throughout the ages. It serves as a background against which a clearer perspective on TQM can be gained. The second part looks at the approaches to and proponents of TQM, discussing their origin and historical development.

2.2 THE EVOLUTION OF MANAGEMENT THEORY

The origin of management theory is perhaps as old as mankind itself. As far back as 1100 BC, the Chinese are reported to have used the four management functions of planning, organising and staffing, leading and controlling (Bateman & Zeithaml, 1993:32).

The Greeks are known to have recognised management as a separate discipline and applied a scientific ideology to how they arranged the workplace. The Romans used techniques such as decentralisation of authority to cope with an empire that had become too large to control centrally. Equally innovative, the Venetians resorted to assembly lines and inventory management during medieval times (Bateman & Zeithaml,
As man learned from his mistakes, so management has developed over time, based on trial and error.

Figure 2.1: The Evolution of Management Thought

<table>
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<tr>
<th>Classical Approaches</th>
<th>Contemporary Approaches</th>
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<tbody>
<tr>
<td>1890</td>
<td>1950</td>
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<tr>
<td>1900</td>
<td>1960</td>
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<td>1930</td>
<td>1990</td>
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<td>1940</td>
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- Systematic Management
- Administrative Management
- Scientific Management
- Bureaucracy
- Human Relations
- Organisational Behaviour
- Quantitative Management
- Systems Theory
- Contingency Theory

Source: Bateman & Zeithaml (1993:34)

Figure 2.1 shows the chronological evolution of management thought, which can be divided into two distinct epochs viz. an earlier Classical Approach and a later Contemporary Approach. Although distinct in their nature, many of the approaches to management developed simultaneously by need, as the deficiencies of the one gave birth to the next. The management issues all have one common denominator: they all originated as solutions that faced organisations of that particular era.


The proponent of Systematic Management, Adam Smith (circa 1850), believed that organisations were managed in a haphazard fashion, and proposed that tasks be grouped and performed by specialised labour. This approach to management signalled
the beginning of formal management in the USA by an attempting to build procedures and processes into operations thereby standardising them. Although Systematic Management emphasised that the operations of an organisation be economical, adequately staffed, and run in an organised and controlled fashion, this was not always achieved. definite limitations to this approach was evident is the lack of co-ordination among workers and management, and that it ignored the intricate relationship between an organisation and the environment within which it operates.

**Scientific Management** was pioneered by Frederick Taylor, an engineer by profession, in 1878. Taylor proposed four principles of Scientific Management:

- A scientific approach should be developed for each job, and not just guidelines.
- Management must scientifically select, train and develop workers, making sure that they are suited to the job at hand.
- Management should co-operate with workers to ensure that their perception of their jobs, fits the plans and principles of the organisation.
- There should be an equal division of work and responsibility between managers and workers.

In the implementation of his approach, Taylor used techniques such as time-and-motion studies to determine the best way to complete a task. These best practises were subsequently documented, and workers trained accordingly - Taylor believed that workers were motivated by pay and implemented a pay system (piece-rate system) whereby workers were rewarded if they exceeded a standardised level of output.

How well Scientific Management was accepted is evidenced by Ford Motor Company who built a continuous production line factory at Ford Highland Park, using Scientific Management principles, which gave birth to the Model - T, and enabled them by 1914 to dominate the industry for many years (Bateman & Zeithaml, 1993:37).
Despite the increases in productivity and efficiency that was brought about by Scientific Management, the method was criticised for:

- Ignoring social and psychological job related factors as motivators.

- Ignoring the fact that the routine associated with specialisation of tasks may lead to boredom and consequent deterioration in quality.

- The premonition of trade unions that that the piece rate incentive will lead to abuse of the work force by setting unrealistic standards.

- Not bringing the organisation any closer to the external factors that influence it.

The proponents of Administrative Management, led by Henri Fayol in 1916, identified 5 functions and fourteen principles of management.

The five functions are:

- Planning
- Organising
- Commanding
- Co-ordinating
- Controlling

whereas the fourteen principles are listed as:

- Division of work into specialised tasks
- Delegation of authority with responsibility
- Discipline
- Unity of command; each employee assigned to one supervisor
• Unity of direction: employee's efforts are to be focused on achieving organisational goals
• Subordination of individual interest to the general interest
• Remuneration; systematic rewarding of efforts in line with organisational goals
• Centralisation; determination of the relative importance of superior and subordinate roles
• Scalar chain; the keeping of communication within the chain of command.
• Order; ordering of jobs and material in a fashion that supports the organisation's goals
• Equity; fair discipline and order to enhance employee commitment
• Promotion of employee loyalty
• Initiative; the encouragement of employees to act on their own in support of organisational goals
• Esprit de corps; to promote the unity of interests between management and employees.

Within the scope of Administrative Management, management is viewed as a profession that can be trained and developed by means of universal managerial prescriptions. Criticism of this style of management harps on the fact that a one size fits all approach neglects the differences in industries, competitiveness and environments, which hampers the effectiveness of such a prescriptive style of management.

**Human Relations Management** developed during the period 1930 - 1955, and began due to the results of a scientific research project viz. The Hawthorne Studies, which were undertaken by AT&T's Western Electric's Hawthorne Works to investigate the influence of physical working conditions on worker productivity, and which concluded that productivity was affected more by psychological and social factors than by physical. (Bowles and Hammond; 1991:167).

This style of management stressed the importance of employee well-being, motivation and communication. It was further strengthened by workers such as Abraham Maslow (hierarchy of needs) who proposed that humans have five levels of needs; the most
basic being physiological (need for food, water etc.) while the most advanced is a need for self actualisation. Managers need to manage in a way that needs of employees are satisfied, and obstacles removed so that the satisfaction of needs can be aligned with attainment of organisational goals. Limitations of this management technique are that it ignores the formal organisations contribution to productivity (i.e. systems, procedures etc.).

Max Weber proposed in 1947 that the ideal management model is the **Bureaucracy Approach**. He believed that the bureaucratic, structured, formal network of relationships among specialised positions within an organisation can overcome the variability in skills that managers in the same organisation have. According to Weber’s Beauraocratic Approach, rules and regulations standardise behaviour, and authority resides in positions rather than in individuals. Attainment of organisational goals are thus achieved, not by relying on particular individuals, but by following rules and regulations in a routine fashion.

Limitations to this approach to management include limited organisational flexibility and slow decision making, as well as accumulation of power within certain areas of the organisation with resultant autocratic management.

The **Contemporary Approaches (period ± 1945 - 1970)** to management which include: Quantitative Management, Organisational Behaviour, the Systems Theory and Contingency Perspective, developed since World War II, represent the cornerstones of modern management (Bateman & Zeithaml, 1993:43).

**Quantitative Management** developed from attempts during World War II to apply mathematical techniques to solve problems regarding defence and logistics. These mathematical models that aid in problem solving and decision making, were subsequently applied by organisations as early as the mid 1940’s. Today Quantitative Management encompasses techniques such as statistical decision theory, linear programming, queuing theory, simulation, forecasting, inventory modelling, network modelling and break-even analysis.
Limitations to Quantitative management stems from the fact that managers are not trained in these techniques and may therefore not trust or understand the techniques and their results. These techniques are furthermore not suited for non-routine or unpredictable management decisions which cannot be expressed in mathematical format.

Transformation of the Human Relations approach to Organisational Behaviour came about in the 1950's as the increasing importance of the satisfaction of economic/social needs in terms of productivity and organisational success was realised.

Contributors to Organisational Behaviour include Douglas McGregor's Theory X managers, who assume that employees are lazy and irresponsible and therefore require constant supervision and external motivation to achieve organisational goals, and Theory Y managers who assume that employees work out of their own motivation and have the ability to direct and control themselves.

The Key to Organisational Behaviour is that it fosters employee productivity by means of understanding individual, group and organisational processes and how they interact, and uses this to develop human resources. Limitations to this school of thought is the fact that it studies the human element in isolation, and ignores situational factors such as the environment and technology that faces and has an effect on the organisation.

In response to the classical approach in management which focused on one aspect of the organisation at a time while ignoring the effect of the external environment, Systems Theory developed during the 60's where the organisation and the factors that influence it is viewed holistically. The organisation is viewed as being an open system i.e. it interacts with its environment in the form of its dependency on resources (raw materials, labour, capital) as well as its reason for existence viz. providing products/services to customer satisfaction.

Whereas the classical approach focused on the internal efficiency of the organisation by concentrating on improvements of the transformation process, Systems Theory
emphasises effectiveness viz. the degree to which the organisations output corresponds to the needs and wants of the external environment i.e. customers, suppliers, competitors and legislation locally and internationally. Systems Theory also recognises the fact that an organisation forms part of a series of sub-systems which are all components of the whole and interdependent, where the concepts of equifinality viz. that there are many ways to achieve the same outcome, and synergy (the whole is greater than the some of the parts) are emphasised. Criticism of Systems Theory include that this management method does not provide specific guidelines to managers.

During the 1970's the Contingency Perspective developed as management recognised that there was no "one best way" to manage due to the variation in circumstance, but that there were certain groups of situational characteristics that face an organisation at any time viz. contingencies.

The Contingency Perspective compels managers to adapt the organisation to the situation that faces it, and devise the necessary strategies, structures and processes to meet organisational objectives. Major contingencies include: the external environment's rate of change and complexity, internal strengths and weaknesses of the organisation, the values, goals, skills and attitude of management and workers as well as the technology and resources that the organisation uses. Criticism of this management method is that critical contingencies are not always easily identifiable, and usually only become clearer in an ad hoc fashion.

2.3 DEVELOPMENT OF TQM: IT'S PROONENTS AND THEIR STANDARDS

Total Quality Management came to be accepted during the 80's as a natural progression from the management thought that preceded it, driven by the needs of the customer.
The concept of quality and the management thereof is by no means modern, and has been nurtured, developed and promoted by quality gurus for some time. The remainder of this chapter will be devoted to describe the contributions made to TQM by its proponents.

The Malcolm Baldrige National Quality Award

Increased concern by government and industry in the United States of America (USA) about the progressive failing of the nation to increase productivity and compete in world markets in the early 80’s, moved government to mandate a study into quality, which culminated in the signing of the Malcolm Baldrige National Quality Improvement Act by President Ronald Reagan in 1987 (DeCarlo & Sterett:1990). The signing of this act established the Malcolm Baldrige National Quality Award with the objective to recognise TQM in American industry.

As a government incentive, named after Malcolm Baldrige, who served as United States secretary of commerce, the Baldrige Award focuses on an organisation's TQM system, and the improvement that it generates to improve quality and productivity by:

- Stimulating American organisations to improve on quality and productivity for the pride of recognition as well as improved competitiveness by means of lower costs and increased profits.

- Establishing standards and guidelines by which organisations can evaluate their quality improvement efforts

- Rewarding those organisations whose efforts towards quality improvement can be used as a benchmark for others

- Making available detailed information on how winning organisations were able to achieve standards of quality, for the benefit of those wishing to embark on quality initiatives.
The Baldrige criteria are an integrated set of indicators that describe total quality within the organisation that is being assessed. In the Baldrige view, total quality is a value system i.e. a way of life within the organisation that affects every aspect of it. The Baldrige quality criteria focuses on seven areas of the organisation that are dynamically related viz. leadership, information and analysis, strategic quality and planning, human resource utilisation, quality assurance of products and services, quality results and customer satisfaction.

Figure: 2.2 Examination categories, Baldrige Criteria

![Diagram of examination categories, Baldrige Criteria]

Source: Chase & Aquilano: P232

For evaluation purposes a maximum of 1000 points are awarded to the categories delineated in figure 2.2. Leadership, which examines how senior executives create and maintain quality values in the organisation, as well as their involvement in creating quality both internal and external to the company, is assigned 10% of the points. The scope, validity and use of data within the organisation's total quality system, is examined under the category Information and Analysis and accounts for 7% of the points. Strategic Quality Planning accounts for 6% of the score and examines how the organisation integrates quality planning into overall business planning, and then integrates this into strategies for achieving short, medium and long term quality leadership. Human Resource Utilisation is represented by 15% of the score, and examines how effectively the organisation uses and develops the full potential of its workforce for quality improvement. The investigation of the organisations overall quality
control systems is done under the category **Quality Assurance of Products and Services**, to which 14% of points are allocated. The category of **Quality Results** is allocated 18% of the score, and investigates current quality levels, and how well the organisation has improved over the last three-to-five years. The seventh category is that of **Customer Satisfaction**, which accounts for 30% of the final score due to the fact that Baldrige view is that customer satisfaction is the ultimate goal of quality.

The usefulness of the Baldrige Criteria is enhanced by its applicability in different ways to organisations whose needs differ according to the life-cycle of quality programs. The Baldrige Criteria can accordingly be used:

- To help define and design a total quality system within the organisation
- To help evaluate ongoing relationships among all departments within the organisation, towards total quality improvement
- To evaluate and assist quality management between an organisation and its suppliers
- To assess customer satisfaction.

This "practicality" of the Baldrige Criteria can assist newcomers to quality in the form of a blueprint from which overall quality programs can be designed. Organisations that have made some inroads to quality management, can use the Criteria as a road map for guidance, whereas organisations that that have advanced in quality management, can use the Criteria enhance their quality programs, and benchmark them against world leaders.

The value of the Baldrige Criteria and Guidelines lies in the fact that it provides a common medium by which quality can be discussed and compared within organisations, industries and globally.
By establishing a sound platform by which quality can be assessed, the Baldrige Criteria stimulates increased quality management communication, which generates mutual ownership of quality initiatives between workers and management. From this shared focus on quality, the organisation's value system that is customer-focused, quality-driven and central to the culture of the organisation, can be developed.

The Deming Prize for Quality

Edward Deming, one of the early adapters of quality standards, was instrumental in developing Statistical Quality Control (SQC) and Statistical Process Control (SPC) together with other workers of this time viz. W A Shewhart and J M Juran during the 1930's and 1940's. Deming is best known for popularising quality control in Japan in the early 1950's, and ironically was not recognised as an authority on quality standards in his own country, the United States of America for many years, until "discovered" at the age of eighty following the viewing of a television documentary entitled "If Japan Can...... Why Can't We?" (Bowles and Hammond, 1991:203). Today Deming is regarded as a national hero in Japan, and is the father of the world famous Deming Prize for Quality (Ross, 1994:4).

Quality is defined by Deming as a predictable degree of uniformity and dependability at low costs and suited to the market (Ross, 1994:4). According to Deming, 96% of variations have a common cause whilst 4% have a special cause. Deming's quality doctrine views statistics as a management tool and employs SPC as a management tool in managing variations in a process. From his experiences in quality, Deming developed the Deming chain reaction: as quality improves, costs will decrease and productivity will increase, resulting in increased jobs, greater market share, and long term survival( Ross, 1994:4).

Deming stresses the importance of the worker (human element) in achieving quality by postulating that worker pride and satisfaction is paramount in achieving quality rather than the establishment of quantifiable quality goals. Deming continues to propose that
the overall approach to quality should focus on improvement of the process, in that system, rather than the worker, in addressing the cause of process variation.

Demings's universal fourteen points for the management of quality, in summary, are as follows (Ross 1994:5):

- Create consistency of purpose, with a clear plan to improve quality of products/services
- Adopt the new philosophy of quality
- Cease dependence on mass inspection to achieve quality
- End the practice of choosing suppliers based only price alone
- Identify problems and work continuously to improve the system
- Adopt modern methods of training on the job
- Change the focus from production numbers (quantity) to quality
- Drive out fear
- Break down barriers between departments
- Stop requesting improved productivity without providing methods to achieve it
- Eliminate work standards that prescribe numerical quotas
- Remove barriers to pride of workmanship
- Institute a vigorous education and training programme
- Create a structure in top management that will emphasise the preceding thirteen points every day.

Joseph Juran

Like Deming, Juran was invited to Japan in 1954 by the Union of Japanese Scientists and Engineers. The teachings of Juran introduced the managerial dimensions of planning, organising, controlling and goal setting as well as the importance of achieving quality. Quality according to Juran is suitability for use in terms of design, conformance, availability and safety where all measurable dimensions are used to improve quality.
Unlike Deming, Juran focuses on top-down management and technical methods rather than worker pride and satisfaction when addressing quality issues.

In his promotion of quality issues, Juran stresses the importance of a concept known as Managing Business Process Quality, a technique for executing cross functional quality improvement.

Juran's ten steps to quality improvement are (Ross, 1994:6):

- Build awareness of opportunities to improve
- Set goals for improvement
- Organise to reach goals
- Provide training
- Embark on problem solving projects
- Report progress
- Give recognition
- Communicate results
- Keep score
- Maintain momentum by making annual improvement part of the regular systems and processes of the organisation.

Armand Feigenbaum

Feigenbaum received recognition for his work with General Electric, where he was named Manager Of Manufacturing Operations World-wide in 1958, following his successes in statistical quality control of the world's first jet engines (Bowles and Hammond, 1991:204).

Feigenbaum is best known for his use of the concept of Total Quality Control (TQC), by means of a system that integrates efforts at developing, improving and maintaining quality.
According to Feigenbaum, absence of the development and use of a system of (TQC) would result in inspection for, and control of quality after the happening, rather than incorporating it at an earlier stage of the process.

The principles of TQC according to Feigenbaum are (Bowles and Hammond, 1991:205)

- The structure of quality systems to support both the work of the individual and teamwork across departmental boundaries.
- Quality is the perception of the client/customer, not that of the company providing the product/service.
- Quality improvement requires the use of modern technology and methods.
- Quality improvement and innovation are to be utilised with equal importance at the onset of quality initiatives.
- The emphasis on design for quality matched to process.
- The measurement of quality program effectiveness via monitoring acceleration in new product launches.

Philip Crosby

Crosby, who earned his fame in 1962, when as director of the Martin Company he was able to deliver a Pershing missile with “zero discrepancies” (Bowles and Hammond, 1991:201), holds the view that poor quality in the organisation costs it in the region of about 20% of its revenue, much of which can be avoided by adopting good quality practices. Crosby’s absolutes on quality are (Ross, 1994:6)

- Quality is defined as conformance to requirements and not “goodness”.
- The system for achieving quality is prevention not appraisal.
- The performance standard is Zero defects, not "that’s close enough”.
- The measurement of quality is the price of non-conformance, not indexes.
Crosby emphasises the importance of motivation and planning in quality initiatives in contrast to Statistical Process Control (SPC) and the problem solving techniques of Deming and Juran. He maintains that the quality is free because the low costs associated with prevention will always be less than the costs of detection, correction and failure.

The fourteen points to quality according to Crosby are:

(Ross, 1994:6)

- **Management commitment.** Top management need to be convinced of the need for quality, and need emphasise each persons involvement.
- **Quality improvement team.** The formation of a team to oversee quality improvements, consisting of departmental heads.
- **Quality measurement.** The establishment of appropriate measurements to every activity to identify areas for improvement
- **Cost of quality.** The cost of quality needs to be accessed in order to determine where improvements would be profitable
- **Quality awareness.** Employees need to be aware of quality so that they can understand the importance of product conformance versus non-conformance to quality
- **Corrective action.** Corrective action needs to be taken as awareness of quality increases (due to steps mentioned above)
- **Zero defects planning.** Quality planning needs to be done by a committee dedicated in incorporating it in the culture of the company
- **Supervisor training.** All levels of management needs to be trained in quality issues
- **Zero defects day.** The scheduling of a day to signal the arrival of a new standard to the company.
- **Goal setting.** Individuals are to set goals for themselves and their groups
- **Error cause removal.** Employees must inform management of obstructions that prevent them from producing error free work
- **Recognition.** Public, non-financial recognition must be given to those who meet quality goals or perform well
- **Quality councils.** Consisting of quality professionals and quality team leaders need to confer on ideas, problems and solutions to quality issues.

- **Do it all over again.** Repeat all the above steps to delineate the never-ending process of quality improvement.

**Taiichi Ohno**

Due to the humble nature of the Japanese culture, Taiichi Ohno is less famous than other quality gurus. Had this not been the case, Ohno would probably be the most famous of them all, as his work helped shape the quality revolution in Japan over the past four decades, as well as in the US since the 1980's.

Ohno who earned his fame through the work he did for Toyota in the 1940's, is likened to Henry Ford in his contribution to production processes. Ohno (who claims that he got the idea from American supermarkets) conceptualised and initiated Just-in Time (JIT), the most noteworthy innovation in manufacturing and quality control since mass production, today forms the basis of the concepts of Flexible Manufacturing and Lean Production.

The underlying reason behind Ohno's JIT is that all forms of waste, which includes: inventory, defects, time, excess plant capacity and excessive/unnecessary human effort, contributes to higher costs and lower quality and hence needs to be eliminated. The implementation of JIT implies that all raw material and components should arrive at the factory or workstation along the production process at precisely the moment they are needed. To facilitate this he implemented a system of "kanban" (shop sign), a method by which a simple token card is attached to the empty container and sent back to the previous production step (or supplier) who then makes up one more unit of production to be passed on, moving production from "supply push" to "demand pull".

Not only did Ohno father JIT, but he is also accredited with the concept of Quality Circles; getting workers, technical staff and management together in discussions and
suggestions of quality and process improvement. Feigenbaum in 1981 however cautioned the West against simply adopting this technique as he believed that quality circles attributed only 10% to productivity and quality results, and that most of the Japanese achievements in this regard were due to a certain attitude they have towards their work (cultural issue), and the application of that attitude in quality- and productivity-oriented management (Bowles and Hammond, 1991:31).

Further contributions to quality improvement from Ohno is the introduction of *Jidoka* push buttons viz. a mechanism whereby a control switch was incorporated into every workstation, and the workers instructed to bring the entire production process to a halt should they detect a problem, with the whole team then assembling at the point of detection to solve it. In this regard Ohno trained workers to systematically trace problems to their cause through a system he called the "Five Why's", a series of questions which when answered reveals the root cause of the problem, which can then be addressed (Bowles and Hammond, 1991:31).

**Kaoru Ishikawa**

Ishikawa is best known for his contributions to continuous improvement via two concepts: firstly that any product/service should confirm to all aspects of quality to the satisfaction of the customer, and secondly that quality aspects affect all parts of the organisation, and is the responsibility of every employee, and not only quality experts. He thus saw the relationship between quality and customer as early as 1950 compared to it only being highlighted in the 1980's in the west.

The total quality message of Ishikawa reads as follows:

- Commit to continuous improvement throughout the organisation
- Fix the problem not the blame
- Strip down the work process of a product or service to find and eliminate quality inhibitors
- Identify the customer and satisfy his needs
- Eliminate all waste
- Instil pride in performance
- Encourage teamwork
- Create an atmosphere of innovation and continuous quality improvement.

Ishikawa's success in quality achievement is largely due to the fact that he provided methods to empower employees, by merging the work of Deming, Juran, Crosby and Feigenbaum with his own and converting them to techniques that could be used by employees. To this end Ishikawa produced the "Seven Tools" for quality improvement underwritten by the following words:

"From my past experience, as much as 95% of all problems within a company can be solved by means of these tools. Unless a person is trained to use these simple and elementary tools, he cannot expect to master more difficult methods" (Bowles and Hammond, 1991:42)

- Pareto charts - a bar chart in which the bars are arranged in descending order, with the largest to the left. Each bar represents a problem. The chart displays the relative contribution of each sub-problem to the whole problem. The chart based on the Pareto principle points to the "vital few" problems that should be addressed first.

- Cause-and-effect diagrams- represents the relationship between an effect (problem) and its potential causes. The diagram is drawn to sort and relate the interactions among the factors affecting a process.

- Stratification - the separation of data into categories. Its most frequent use is during the diagnostic journey to identify which categories contribute to the problem being solved.

- The check sheet- a list of check-off items that permit data to be collected quickly and easily in a simple standardised format that lends itself to quantitative analysis. It is
frequently used to collect data on numbers of defective items, defect locations and causes.

- The histogram - a graph that displays frequency of data in column form. It helps to identify changes or shifts in processes as changes are made.

- The scatter diagram - diagrams that depict the relationship between two variable factors. Helps lead toward possible causes of problems by determining correlations between the two factors.

- Control charts - a graphic representation of measured actual process performance relative to computed control limits. Used to show the variation on process variables and identify special causes.

**Genichi Tagushi**

Tagushi is credited with revolutionary thinking regarding quality issues. Where other quality experts have addressed production equipment and processes in achieving consistent quality, Tagushi believes in designing the product to be robust enough to achieve high quality despite fluctuations on the production line.

To achieve product robustness, Tagushi uses statistical techniques for conducting experiments which ultimately indicate the best combinations of product and process variables at which the product must be manufactured to arrive at the lowest cost and highest quality uniformity. From his techniques, Tagushi developed the concept of Quality Loss Function (QLF) which relates the cost of quality directly with the variation in a process.

Tagushi’s views on quality can best be explained by the illustrations in figure 2.3a and 2.3b:
Figure 2.3a: A Traditional View of the Cost of Variability

Source: Chase and Aquilano, 1992:213

Figure 2.3b: Tagushi's View of the Cost of Variability

Source: Chase and Aquilano, 1992:213
Figure 2.3a depicts a situation where the incremental cost to variability is zero provided the product is produced within a predetermined limit (upper and lower specification), and that the cost rises drastically should these limits be overstepped. It implies that any product produced within the limit is equally good, whereas a product falling out of the limit is totally unacceptable. Tagushi believes that this reasoning is incorrect for two reasons; firstly, from the customers view there is no practical difference between a product that falls just inside the limit versus one that falls just outside the limit although there is a large difference in quality between a product that conforms to aim specifications and one that is near a limit. Secondly, as customer's quality demands increase, so does pressure to decrease variability, figure 2.3a thus misrepresents reality.

Tagushi chooses to use figure 2.3b to correctly demonstrate the relationship between cost and variability by means of a smooth curve, where losses due to deviations in quality are relatively small around the aim specification, but increases away from it, which augments the customers perception of quality as a gradation of acceptability rather than an absolute boundary. (Chase and Aquilano, 1992:212)

The ISO 9000 Code of Practice for Quality Management and Quality Assurance Standards

Technical (product/service) specifications generated by customer need are not per se a guarantee that customer requirements are constantly being met, if the organisational system designed to deliver such specifications is incapable of doing so. This gap led to the development of quality systems standards (ISO 9000 Series) which compliment and enhance product/service specifications.

The International Organisation for Standardisation (ISO) was established in 1947 as a world-wide federation consisting of national standards bodies restricted to one member in each country of membership, with the objective of promoting and developing standardisation in related activities thereby stimulating the international exchange of
goods and services by enhancing co-operation in intellectual, scientific, technological and economic activity.

The findings of ISO are published as international standards, to which all spheres of activity are subject, bar electrical and electronic engineering which are governed by a code of standards set by the International Electrotechnical Commission (IEC) founded in 1906.

In 1977 the South African Bureau of Standards (SABS) met with representatives of standards bodies of the United Kingdom, Netherlands, Germany and France to establish the feasibility of an international committee tasked to produce quality standards which resulted in the establishment in 1979 of the committee ISO/TC 176 on "Quality Assurance", to which a South African delegation consisting of SABS and private sector officials continue to contribute (Schroder, 1993:5).

By 1993 approximately 30000 experts across the globe had contributed to ISO technical work through technical committees, mandated by ISO, resulting in the publication of 8651 ISO standards. Due to the rapid changing environment in which they are applied, these standards are constantly being reviewed by the ISO at intervals of not more than five years.

The purpose of the ISO codes of practice are:

• to clarify distinctions and interrelationships between quality concepts, and

• to provide guidelines for the correct selection and use of the codes of practice that can be used for internal management purposes (ISO 9004) and for external quality assurance purposes (ISO 9001/2/3)

The ISO 9000 range of International Standards is thus divided into two sections viz. ISO 9001/2/3 dealing with external quality assurance issues in contractual situations and ISO 9004 which guides organisations on quality management issues.
ISO 9001/2/3 are three International Standards dealing with quality system requirements applicable to a supplier wishing to demonstrate its capability, as well as for the external assessment of such capability:

- **ISO 9001**: *Quality systems - Model for quality assurance in design, development, production, installation and servicing*

  For use when conformance to specified requirements is to be assured by the supplier in design, production, installation and servicing

- **ISO 9002**: *Quality systems - Model for quality assurance in production, installation and servicing*

  When conformance to specified requirements is to be assured by the supplier during production, installation and servicing

- **ISO 9003**: *Quality systems - Model for quality assurance at final inspection and test*

  When conformance to specified requirements is to be assured by the supplier solely at final inspection and test

The quality system requirements specified in ISO 9001/2/3 are generic and independent of any specific industry or economic sector. They are complementary rather than alternative to the technical (product) specific requirements, in determining requirements that have to be included in quality systems, without having the intent to enforce uniformity of such quality systems (SABS ISO 9001 : 1994).

- **ISO 9004**: *Quality systems- Quality management and quality system elements*

  In order to meet its objectives, an organisation has to be organised in a way that enables control over technical, human relations and administrative factors that
influence it. This control should be oriented towards the reduction, elimination and ultimately the prevention of quality deficiencies.

To achieve the above, an appropriate quality management system has to be adopted which satisfies:

- the organisations needs and interests i.e. business need to achieve and sustain desired quality at optimum cost via effective and efficient utilisation of technical, human and material resources

- the customers needs and expectations i.e. a need for confidence that the organisation can deliver and sustain the desired quality

The code of practice contained in ISO 9004 provides guidelines by which quality management systems can be developed and implemented, depending on the market being served, nature of product, production process and consumer needs, and addresses all stages of the quality loop (see figure: 2.5 Quality Loop) in establishing a suitable quality management system (see figure 2.4 Relationship of Quality Management Concepts)( SABS ISO 9004, 1994:30).

Figure 2.4 depicts the relationships of quality management concepts as follows:

- **Quality policy** - as determined and communicated by top management
- **Quality management** - that aspect of management that determines and implements the quality policy
- **Quality system** - the organisational structure, processes, procedures, resources and responsibilities that make implementation of quality management possible
- **Quality control** - operational activities that are used to ensure quality requirements are met
- **Quality assurance** - planned and systematic actions necessary to provide the confidence that a product or service will meet quality requirements
The quality loop as depicted by figure 2.5 contains all activities applicable to the quality of a product or service, and involves all phases from initial identification to final satisfaction of customer requirements and expectations.

The quality system described by figure 2.4, typically applies to and interacts with the activities of the quality loop which may include all aspects of the product/service from market/marketing research to final disposal by the customer after use. The closed quality loop of figure 2.5 shows the interrelationship between producer/supplier of quality products/services and customer/consumer as the final judge of quality of the product/service provided.
This chapter has explored the historical evolution of management thought from the early Classical to Contemporary era as a background to gain insight in and understand the development of TQM as an internationally accepted management method.

The evolution of management method has shown a shift in emphasis from standardisation to scientific and administrative management culminating in the contemporary approaches to management, driven by continuously changing industries and ever demanding customers. Today's organisations are faced with the ultimate contingency viz. total customer satisfaction as it is this that separates successful organisations from "also runs". TQM provides a way of meeting this latter contingency.

The Malcolm Baldrige National Quality award, as well as the work of quality proponents viz. Deming, Juran, Feigenbaum, Crosby, Ohno, Ishikawa and Tagushi have been
investigated as individuals that have made essential contributions to the development of TQM.

The Baldrige Criteria provide a useful common medium applicable to both service and manufacturing industries, by which industry competitors can be compared vis-à-vis the success of their quality efforts. The usefulness of Deming methods to TQM stem from the fact that although focused on statistical techniques to improve quality viz. SQC and SPC, importance of the human element in achieving quality standards is emphasised. The work of Crosby supports the importance of the human element in as far as motivation and planning of quality issues is concerned, but argues that quality is free if prevented and thus questions the cost associated with SPC and the problem solving techniques of Deming and Juran. JIT, Kanban, and the Jidoka system as well as Quality Circles are quality management contributions made by Ohno. The success in quality efforts achieved by Ishikawa is due to the fact that he empowered employees by combining the techniques of Deming, Juran, Crosby and Feigenbaum and converting these to easily useable techniques.

The latter part of the chapter has provided information on the ISO 9001/2/3/4 Code of Practice which has developed off the base of changing management method with time and is rooted in the work of quality experts. This code aims to facilitate ease of trade nationally and internationally between organisations and countries that have adopted these quality standards.

Although the historical development of management thought, and the work of quality "gurus" has been invaluable in establishing TQM, it appears that the key to long term success in the quality arena lies not in their individual efforts, but in synergising a Crosby, Ohno or Juran philosophy and tailoring it to the needs of the organisation. It is in this context that Quality Management has to be viewed as a strategic issue which cannot be approached as an instant off-the-shelf program, developed by others that guarantees success.
Although its origins can be found in the manufacturing industry, the philosophy and concepts of TQM are as important to the service as they are to manufacturing industry, as a strategy that offers competitiveness in the global market.

The financial services industry has experienced tremendous growth and undergone great change in the past decade. In developed countries it now employs far more people than manufacturing industry, adding substantially to Gross Domestic Product (GDP). This growth is largely due to varying forms of deregulation, competition, better products and more demanding customers, resulting in an industry environment vastly different from that which existed only a few years ago.

Today's modern state cannot exist without the financial services industry, as market driven, consumer-oriented societies require a myriad of common and sophisticated financial services from the Automated Teller Machine (ATM) to asset swaps between countries. The effect of a inferior financial services infrastructure can be seen in countries that are struggling to make orderly and rapid transition from communism to capitalism viz. Eastern Europe and the former states of the Soviet Union.

Deregulation in the financial services industry has produced a new competitive environment where distinct sectors are now allowed parity in competing for the same customer base. This is evident as banks now compete with insurers, called Bancassurance or Allfinanz, where banks are increasingly launching products traditionally associated with the insurance industry (in the UK, banks have captured 40% of the insurance industry market). The retaliation of insurers however, is evident
by the launch of Money Market Funds (MMF's) which have most of the benefits of a
traditional bank account viz. cheque writing facilities, cash withdrawal etc. but at greatly
improved value to the customer via extremely competitive rates offered on credit
balances. These funds have been hugely successful as an instrument to capture
deposit base marketshare from banks and have been instrumental in capturing
approximately 60% of all fund deposits in the US with great strides presently being
made in the Australian market as well. (Legislation on the issue of these funds in the
local market is expected to be passed in August 1996).

Banks, conversely are finding themselves increasingly competing against retailers (card
based credit and instalment sale), building societies, credit card companies,
stockbrokers and insurance companies, resulting in each sector of the financial services
industry now competing on a much wider front.

The financial services industry has not been ignored by the quality revolution.
Competitive advantage was initially sought by automated technology, new products and
new pricing strategies, which were all rapidly matched by competitors. Today,
customers are increasingly finding it difficult to differentiate the offerings of one financial
services provider from another, and service providers have come to realise that
competitive advantage lies in the quality of personal customer service.

This chapter focuses on quality issues in the financial services industry, examining
current trends and future developments.

### 3.2 TRENDS AND DEVELOPMENTS IN TQM WITHIN THE FINANCIAL SERVICES INDUSTRY

Quality issues in the financial services industry mostly revolve around two primary
processes and all the functions that support these processes viz. **Transaction Management**
and **Relationship Management** (Axson, 1992:30). **Transaction**
Management, where the focus is on execution and cost, involves all money transmission and clearing activities together with account handling and information provision services. Relationship Management, however, covers the total interaction (experience) an individual has when dealing with a financial services provider.

How effectively the customer is satisfied, will ultimately separate the winners from also-rans in the financial services industry. It is thus becomes evident that a paradigm shift from Transaction Management to Relationship Management is essential for those wishing to survive in a highly competitive industry. This shift in emphasis requires the transformation of the entire structure of the service provider from one managing processes and distribution channels to one devoted to managing customer relationships.

The magnitude of change that is necessary is further illustrated when one considers that in most retail financial institutions, only 10% of staff actually deal with customers (or sell) to generate revenues, whereas 90% are involved in cost-incurring tasks. In South Africa, cost to revenue ratios of above 60% versus that of international competitors which are in the 50’s (Anon, 1996:6), further illustrates the adversity that faces the local industry viz. a viz. international competitors, who have cost to revenue ratios ranging from the mid 40’s to 50’s which highlights their high level of efficiency.

3.2.1 The Dimensions of Quality

To set quality standards and achieve quality gains, it is necessary to conceptualise quality from a consumer’s point of view. Only when quality is segregated into manageable parts, the dimensions of quality, can an attempt be made to isolate the factors (quality gaps) that need to be addressed in order to achieve the desired quality results.

The dimensions of quality in the financial services industry, not only includes those dimensions applicable to the actual product line (Garvin, 1987:104) viz.
<table>
<thead>
<tr>
<th><strong>Performance</strong></th>
<th>the product's primary operating characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Features</strong></td>
<td>those characteristics that supplement basic functioning i.e. &quot;bells and whistles&quot; of a product</td>
</tr>
<tr>
<td><strong>Conformance</strong></td>
<td>the degree to which the product meets established standards</td>
</tr>
<tr>
<td><strong>Serviceability</strong></td>
<td>the speed, courtesy, competence of mistake rectification/detail change</td>
</tr>
</tbody>
</table>

but also those dimensions of quality applicable to the services industry (Valerie et al, 1990:26) viz.

| **Reliability** | ability to perform the promised service dependably, accurately and consistently i.e. doing it right over a period of time |
| **Responsiveness** | prompt service and willingness to help customers |
| **Assurance** | knowledge and courtesy of staff and their ability to inspire trust and confidence |
| **Empathy** | caring, individualised attention to customers |
| **Tangibles** | appearance of physical facilities, equipment, staff and communications material. |

Of obvious importance in the financial services industry is the fact that the potential of staff performance is equitable to the support they get from the total operating system. Reliable and responsive service is the result of reliability and responsiveness of the organisations systems and processes (Christopher et al, 1991:72).
From the construction of a hypothetical quality map of the customers perceptual world (see figure. 3.1) where the longitudinal axis represents quality characteristics instrumental to quality solutions i.e. all solutions to customer problems which are of value to customers and the latitudinal axis represents quality characteristics which give support to the solution, the following is evident:

- Where each axis intersects, as at point 1, what the customer experiences of the firms service offer, is exactly what was expected. There is thus no "quality gap" at this point.
- If the service offer is experienced as unique, and of value beyond expectations over time, the map moves from point 1 through 2 and 3 in the direction of the arrow.
- Any other positioning other than on the curve from 1 to 3 is a quality gap in the service offered, i.e. a waste of opportunity or resources, positively or negatively positioned as a variation from the intersect point.

Figure 3.1: Repositioning quality in the customers' perceptual world

Source: Christopher et al, (1991:72)
If the definition of service quality is accepted as "the ability of the organisation to meet or exceed customer expectations" (Christopher et al, 1991:89) it can be concluded that service quality is measurable in terms of the extent to which performance as perceived by the customer meets or exceed predetermined levels of service. Service quality can thus be quantified as: (Christopher et al 1991:90)

\[
\text{Service quality} = \frac{\text{perceived performance} \times 100}{\text{desired expectation}}
\]

Where any result less that 100% represents a failure in service. When quantified in this fashion, the service quality strategy becomes obvious: to bring perceived performance and customer expectations into line (see figure 3.2).

**Figure 3.2 : A Performance/expectation mismatch**

Source: Christopher et al (1991:90)

From the above discussion it becomes evident that service organisations need to consciously manage customer expectations. Service needs to be agreed upon in advance with the customer, and positioned in such a way that there is no scope for mismatch between what the customer perceives he should get and that which the organisation strives to provide (Walker et al, 1992:308).
3.2.2 Parasuraman's "Gap Analysis"

Work of Parasuraman et al (1990:46) has identified that consumers' perceptions and expectations of service quality are influenced by a series of 5 distinct "gaps" occurring in service organisations: (see figure 3.3):

Figure 3.3 : The Determination of Perceived Service Quality : Gap Analysis

Source: Parasuraman et al, (1990:46)
Gap 1: Difference between what the customer expects and what management perceives the customer expects

It is imperative for management to obtain the necessary information (customer surveys, complaints management etc.) to determine which areas of service customers find important, and to align their attention to these areas.

Gap 2: Difference between management perceptions of customer expectations and service quality specifications

Management may understand what consumers want, but may be unable to translate their understanding into effective operating service quality specifications.

Gap 3: Difference between service quality specifications and the service actually delivered

Employees must be provided with the necessary resources to provide service to the quality standards set. These standards of service must be backed by the necessary training and reward system, and must be measured and evaluated.

Gap 4: Difference between service quality specifications and the service actually delivered

It is important that the service specifications set by the organisation are effectively communicated to the customer, as even good service will disappoint the customer if the organisations marketing message causes unrealistically high expectations.

Gap 5: Difference between perceived service and expected service

The inability of an organisation to effectively address gap's 1 to 4 results in a difference between a customers actual service experience and that which was expected.
The "gap analysis" of Parasuraman points to the actions organisations can take to improve customer service. The implementation of the service shortcomings may however be difficult to implement as it analyses the service delivery holistically (across all boundaries of the organisation) and involves the co-ordination of employee efforts, which are often from different departments and at different functional levels of the organisation (Walker et al, 1992:311).

### 3.2.3 SERVQUAL

The development of the SERVQUAL model, a multiple-item scale for measuring service quality, by Parasuraman et al in 1986 resulted due to the inadequacy of marketing measurement procedures at that time. The conceptual base for the model was derived inter-alia from the work of Sasser et al (1978), Gronroos (1982) and Lehtinen and Lehtinen (1982) who examined the meaning of service quality, and was a natural progression of the works of Parasuraman et al (1984) from their definition of service quality, the dimensions of quality and associated "Gap Analysis" as described earlier.

The basis of the SERVQUAL scale is the concept of perceived quality viz. the consumer's judgement about a product's overall excellence or superiority (Parasuraman et al, 1986:3). A summary of the steps used in developing the SERVQUAL service quality scale is shown in figure 3.4 (see overleaf).

The application of the SERVQUAL enables the assessment of a service organisation's quality along the dimensions of quality as well as providing a overall measure of quality in the organisation in the form of an average quality score across all five quality dimensions.

In addition to the above, SERVQUAL scores have the following possible uses:
Figure 3.4: Summary of Steps Employed in Developing the Service-Quality Scale

Step 1: Definition of service quality as the discrepancy between consumers' perceptions of services offered by a particular firm and their expectations about firms offering such services.

Step 2: Identification of 10 dimensions making up the domain of the service-quality construct.

Step 3: Generation of 97 items representing the 10 dimensions.

Step 4: Collection of expectations and perceptions data from a sample of 200 respondents, each of whom was a current or recent user of one of the following services: banking, credit card, appliance repair or maintenance, long-distance telephone, securities brokerage.

Step 5: Scale purification through the following iterative sequence:
- Computation of coefficient alpha and item-to-total correlation's for each dimension.
- Deletion of items whose item-to-total correlation's are low and whose removal increases coefficient alpha.
- Factor analysis to verify the dimensionality of the overall scale.
- Reassignment of items and restructuring of dimensions where necessary.

Step 6: Identification of 34 items representing 7 dimensions.

Step 7: Collection of expectations and perceptions data (using the 34-item instrument) from four independent samples of 200 respondents (each sample containing current or recent customers of a nationally known firm in one of the following four service sectors: banking, credit card, appliance repair and maintenance, or long-distance telephone).

Step 8: Evaluation and further purification of the 34-item scale by using the same iterative sequence as in Step 5 on each of the four data sets.

Step 9: Identification of a more parsimonious, 26-item scale ("SERVQUAL") representing five dimensions.

Step 10: Evaluation of SERVQUAL's reliability and factor structure and reanalyses of the original data (collected in Step 4) pertaining to the 26 items, to verify the scale's internal consistency and dimensionality.

Step 11: Assessment of SERVQUAL's validity.

Step 12: Examination of SERVQUAL's distributional properties.

A service organisation's customers can be segmented according to perceived quality groups (e.g. high, medium and low perception groups) on the basis of individual SERVQUAL scores. Identification of the distinguishing characteristics of these segments may provide valuable insight for marketing strategies.

A service organisation with multiple branches may use SERVQUAL scores for those branches to divide them into groups of similar quality image. An analysis of the characteristics of these branches may reveal factors that enhance/detract from quality service.

The two section format of SERVQUAL with different sections for perceptions and expectations makes it applicable in the measurement of the quality of competing organisations within a service category by the inclusion of perception statements for each organisation.

SERVQUAL is intended primarily for measuring quality as perceived by current or past customers, rather than prospective customers of a firm.

Much criticism has recently been directed at the SERVQUAL model, questioning its validity. Cronin and Taylor (1994:125) suggest that performance-minus-expectations (P-E) as used in SERVQUAL is an inappropriate basis for the measurement of service quality, and suggest that consumer satisfaction exerts a stronger influence on purchase influence intentions than does service quality (Cronin and Taylor, 1992:65) and consequently offer the SERVPERF model on the basis that it is unnecessary to measure customer expectations in service quality research, and that measuring perceptions is sufficient, as service quality fails to affect purchase decisions.

Teas (1993:111) raises concern about the impact of the interpretation of the expectations measure (E) on the meaningfulness of the P-E specification of the
SERVQUAL model, and concludes that increasing P-E scores may not necessarily mean continuously increasing levels of perceived quality, as implied by the SERVQUAL model. Teas consequently proposes an Evaluated Performance (EP) and Normed Quality (NQ) model as alternatives to the SERVQUAL model.

In their response to the criticism of SERVQUAL, Parasuraman et al. (1994:121) concede that the direction of causality between Service Quality (SQ) and Customer satisfaction (CS) is an important unresolved issue and propose that an integrative framework that reflects and reconciles the differing perspectives is needed to solve the position.

The debate around the validity of SERVQUAL and the various other models that have been proposed, has led to the identification of key issues referring to conceptual and operational definitions of perceived quality as well as the link between perceived quality and customer satisfaction. The clarifying of these issues will be invaluable in quantifying the issue of quality.

### 3.2.4 Service Quality Benchmarking

**Service Quality Benchmarking** is well described by the Japanese term *dantotsu* which means to become the *best of the best*. Benchmarking involves the continuous measurement of an organisations products/services against the standards of best competitors and industry leaders, with the aim of continuous improvement (Gavin, 1984:9)

Whereas initial benchmarking efforts were solely aimed at matching best competitors practices, modern benchmarking efforts seek new highs in standards by not only focusing on the particular industry in question, but by selectively observing the best practices of top companies regardless of the industry sector (Christopher *et al.*, 1991:92).

The benefits of benchmarking (Camp, 1989:7) include:
• It enables best practices from any industry to be creatively incorporated into the function being benchmarked

• It provides stimulation and motivation to those whose creativity is needed to implement benchmark findings

• It serves to break down ingrained barriers that resist change

• It may identify a technological breakthrough that would not have been identified and applied in the own industry.

The implementation of service benchmarking can be followed along the following five stage process (see figure 3.5)

**Figure 3.5 : The Customer Service Audit**

1. Define the competitive arena
2. Determine customer-based definitions of service
3. Utilise trade-off analysis to identify key service factors
4. Benchmark performance against key competitors
5. Develop service profile and service performance matrix

Step 1: Define the competitive arena i.e. who are we compared to by customers, and whom do we want to be compared with?

Step 2: Identify the key components of customer service as seen by customers themselves.

Step 3: Establish the relative importance of those service components to customers.

Step 4: Identify the organisations position on key service components relative to competitors.

Step 5: Analyse data to determine if service performance matches customer’s service needs.

Benchmarking together with "gap " analysis provide a mechanism by which the factors that influence consumer demand can be identified and catered for to ensure that the organisation that successfully employs these techniques remain the consumers first choice.

### 3.2.5 Customer Satisfaction Measurement

The emphasis on quality, especially in the financial services industry, is a product of intensified global competition and the value ethic of today's customer. This emphasis on quality is enhanced by management's exposure to Profit Impact of Market Strategy (PIMS) results, which indicate that customer perceived quality influences profitability directly through market share. According to PIMS, heavy marketing is no substitute for high levels of customer perceived quality.

If the customer is indeed the final judge on quality, then the priority in quality control is to have a valid way of assessing the customers' evaluation of the company. Customer Satisfaction Measurement (CSM) provides a way for assessing the customers' perception of quality within the organisation, and can be used as a compass for orienting the entire organisation to the customers' needs (Crosby, 1990:63).
External quality (as perceived by external customers) is the result that is sought in quality initiatives, whereas internal quality is the means to achieve it. Customer Satisfaction Measurement is not simply a research activity, but a key management tool of the 90’s that:

- Determines how resources are to be allocated
- Emphases how company’s operations/processes can be improved
- Aids in public relations, by communicating the organisation’s commitment to quality
- Provides opportunities for motivation and leadership
- An auditing instrument.

In order to make full use of CSM, it is essential that organisations have a Quality Integration Framework (QIF) (see figure 3.6).

**Figure 3.6 : Quality Integration Framework**

Source: Crosby (1990:65)
The upper pyramid of the QIF consist of five levels which emphasise factors that are used by external customers in their evaluation of an organisation. These factors also form the basis of a CSM questionnaire:

- **Level 1** emphasises the fact that long term profitability is dependant on creating, maintaining and enhancing customer relationships

- **Level 2** suggests that strong customer relationships are the result of having a company image more favourable than competitors

- **Level 3** deals with the companies perceived performance on core processes

- **Level 4** reflects how the quality of the processes at level 3 are judged by customers on secondary attributes which reflects the customers expectations and requirements

- **Level 5** represents the customers behavioural experience which shape perceptions of the organisations performance

The lower pyramid of the QIF displays a hierarchy of internal quality elements as follows:

- **Level E** deals with the vision and mission, as the nucleus of the organisations strategic plan. If it is intended that the organisation is guided by principles of total quality, then this needs to be incorporated in the vision and mission and clearly communicated to all employees

- **Level D** depicts the degree to which the corporate strategy is a quality strategy i.e. do quality concepts define how the organisation will compete

- **Level C** refers to how the organisation is arranged, its culture and systems, and whether all these factors enable or hamper the organisation from meeting/exceeding customer expectations
- **Level B** requires that each functional unit needs to adopt the quality strategy and implement it within its own operations.

- **Level A** emphasises the fact that quality is directly influenced by the design and performance of the organisation's processes. All of the underlying organisational elements through levels E to B, primarily exist to support employees who man the level A processes.

The QIF is intended to communicate a cause-and-effect chain from level E, the vision and mission to level 1, the actual relationship outcome. Quality improvement drives can only effectively be addressed if the QIF and its "paths of causal influence" and how they operate within the firm, are understood.

From the discussion on the QIF and the deduction that external quality is the goal that has to be achieved, whereas internal quality is the vehicle with which to achieve this goal, it becomes evident that CSM is not merely a research activity within the organisation but a key management tool viz. (Crosby, 1990:65).

- A strategic tool for determining how resources are to be allocated within the organisation
- An operations tool for determining how to improve processes
- A communications tool for communicating the organisation's commitment to quality
- A motivation/leadership tool that gives direction to employees' efforts
- An auditing tool to supplement indicators like Return On Equity (ROE), Return On Assets (ROA), marketshare etc.

To enable the effective use of CSM within the organisation, it is essential to build an integrated quality information system that effectively links customer, employee, process, market and financial data into a system that will give added meaning to CSM and assist the organisation in establishing itself as a leading provider of quality in the market it serves (Crosby, 1990:66).
The design of such a system must cater for:

- Immediate access to global benchmarked CSM scorecard information

- The forecasting of levels of customer perceived quality likely to be achieved in the short, medium and long term

- The determination of the contribution of the organisation's quality programme to market share and bottom-line profits

- The comparison of the performance of the operating units within the organisation in keeping customers satisfied

- The conducting of a "backtrack" of factors which explain upward or downward trends in quality, and differences observed between the operating units of the organisation

- The setting of a hierarchy of quality performance targets

- The identification of areas where additional resource allocation is needed that will have the most impact on overall quality performance

- The monitoring of the effects of quality improvement efforts and experiments over time.

According to Crosby (1990:67) the design of an effective integrated quality management system, where the CSM survey is the cornerstone of such a system, can best be achieved when designed along the parameters outlined in figure 3.7: The Logic Of A Integrated Total Quality Information System (Crosby, 1990:67).
With the type of information supplied by the integrated total quality information system readily available, managers are in a strong position to integrate CSM into their basic business planning decisions, as it brings the customers viewpoint into much sharper focus.
One of the major challenges that face organisations that hope to achieve quality goals in the 90's is not necessarily the production of quality data reports, but rather the selection and management of the right data and linking it to decision making and the bottom-line, enhanced by the need to do all this globally (Crosby, 1990:70).

### 3.3 PROBLEMS AND SOLUTIONS TO IMPLEMENTING TQM IN THE FINANCIAL SERVICES INDUSTRY

Now almost a decade into the TQM revolution, it seems not to have been the panacea for troubled service industries that many had hoped it would be.

TQM as a doctrine within the services industry is seen by many as an article of faith rather than a proven business strategy, as parties on either side of the debate are able to marshal evidence to support their position. While Baldrige finalists report impressive results (see figure 3.8), recent surveys indicate that 2 out of 3 companies implementing TQM strategies report no impact on competitiveness (see figure 3.9).

**Figure 3.8 : Duelling Surveys: Where You Stand**

Baldridge Award Finalists' Assessment of TQM Effectiveness. Percentage of Respondents Reporting Favourable Change (Sample = 22)

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<tr>
<th>Financial Performance Indicators</th>
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Figure 3.9: Success in TQM Depends on Whom you Ask

2 of 3 TQM companies report no impact on competitiveness

Arthur D Little Survey of TQM Effectiveness

Total = 500 Companies


Of concern is that a consistent pattern seems to be emerging - most organisations attempting to implement TQM will eventually abandon effort with disappointing results (see figure 3.10).

Figure 3.10: Two-Thirds of TQM Initiatives Grind to Halt for Lack of Results

After two years of implementation....

The almost dismal record of TQM implementation in the financial services industry described above can be attributed to one or more of the following common pitfalls:

- The organisation fails to integrate the TQM effort with overall strategic goals. Even in organisations with long term strategic priorities, TQM often operates as a parallel entity with separate, vague objectives.

- Management fails to exercise effective control over project selection within the TQM ambit, bottom-up selection cannot ensure that projects most important to institutions overall TQM strategy are met (see figure 3.11).

**Figure 3.11 : TQM Thrown Against Wrong Projects**

![Diagram showing the relationship between management commitment, perfect training, and employee commitment leading to zero change in competitive position.]

Source: The Advisory Board (1995:10)

- Managers (all those involved with the TQM initiative), confuse activity with results, and fail to recognise the efforts that don't contribute to the bottom line.
• Failure to remove internal obstacles to the TQM effort. Middle managers threatened by loss of power as well as the distraction of employees from their jobs, caused by the TQM effort, leads to low levels of employee motivation.

• The failure of sponsors to the TQM effort to set short term goals. A typical two to four year TQM implementation plan drains employee motivation.

3.4 TQM IMPLEMENTATION FRAMEWORK

Implementing TQM within the financial services industry requires a thorough examination of the organisation in its totality, from the reason for existence as encapsulated by its mission, through all operating activities, culminating in the customers that it serves.

The following steps can be used as a framework of TQM implementation within the financial services industry (Anon, 1995:28)

Step 1: Start by finding answers to the following questions:

• Who are our top customers, by line of business?
• Is this segment likely to change in the foreseeable future?
• What criteria does this segment use to select financial institutions?
• With answers to the above, what goals will be central to gaining a strategic advantage in the next three to five years?

Step 2: Set the corporate strategy:

• Identify and prioritise customer base by contribution to current and future profits
• Identify and weight the criteria key customers use in selecting a financial institution.
  Assess what changes are likely to occur in these criteria in future
• Assess the financial institutions competitive advantage and disadvantage in each area important to key customer segments

• Establish areas where the biggest gaps exist between what is important to key customers and the financial institutions own strengths and weaknesses, and set long term strategic objectives

Step 3: Translate the corporate strategy into one year organisational goals:

• Interdepartmental planning groups isolate a small set of top priority areas for improvement, and develops specific benchmarks to be attained in year one

• Set the first-year goals for achieving the long term strategic plan by means of:
  
  • Isolating one or more top priority area for improvement based on strategic objectives
  
  • Setting specific goals for improvement effort to achieve in year one, and integrating these with performance objectives where possible
  
  • Communicate the strategic plan and first year goals to managers and then employees

Step 4: Deployment to affected departments:

• Departmental team analyses year on goals and are give opportunities to suggest alternative/additional areas of focus

• Departmental team analyses own capabilities to support year one goals, and identifies critical areas of process improvements required as well as measures to gauge the process

• Department prepares action plans, specifying process requiring improvement, appropriate measures and year one targets
- Year one planning group reviews plans of individual departments to ensure that the synergy of plans is sufficient to reach the year one target

**Step 5**: Launch of implementation teams; individual teams work against targets identified in action plans, with interdepartmental co-ordination/assistance on complementary efforts

- Efforts are focused on achieving "world class" improvements in important areas rather than incremental improvement across the board

**Step 6**: The scheduling of monthly progress reviews. Departmental heads meet with planning groups to review progress against plan, identify problems and solutions to be used in the planning process of future years

**Step 7**: The scheduling of an annual review with top management of year one efforts, areas for improvement and the restart of the process.

Although not descriptive in terms various TQM methods that are applicable along the steps described above, the framework nevertheless gives a clear methodical way to organisations that wish to institute TQM, ensuring that a implementation is embarked upon along a definite implementation strategy.

### 3.5 SUMMARY

The financial services industry, currently featuring intense competitiveness amongst participants, is bound to face even higher levels of competition towards the turn of the century as parity in products and automation is reached and boundaries of operations are transgressed.

Various developments in and trends applicable to TQM in the financial services industry have been described in this chapter viz. Transaction vs Relationship Management, the
Dimensions of Quality, Parasuraman's "Gap" Analysis, the SERVQUAL model, Service Quality Benchmarking as well as Customer Satisfaction Measurement.

Pitfalls and possible solutions to implementing TQM within the financial services industry have also been discussed, in an attempt to gain better insight into the high failure rates associated with TQM in the Financial Services Industry.

Although not exhaustive, the TQM elements referred to in this chapter can be used as a nucleus of practicable TQM "tools". The application of these tools must be guided by a thorough implementation plan, as it seems that a large portion of TQM failure in the financial services industry is not due to shortcomings in the TQM doctrine itself but rather in how it is implemented.

The discussions of this chapter outline the fact that a definite method of implementing TQM within the financial services industry is difficult to arrive at. A possible solution may be to "cherry-pick" the best practices from those that have had success in TQM implementation, and tailor these practices to the needs of the organisation under investigation. Important for those wishing to successfully implement TQM is to ensure that the strategy is firmly embedded in the strategic plans of the organisation, is practicable in terms of a methodical approach to implementation, and is ideally supported by an implementation model suitable to the organisation and its goals as a whole.
CHAPTER FOUR
A TOTAL QUALITY MANAGEMENT MODEL FOR THE FINANCIAL SERVICES INDUSTRY

4.1 INTRODUCTION

How to successfully implement TQM, rather than should we embark on TQM initiatives seems to be the question that faces the financial services industry, when considering the fact that achieving success at TQM offers the competitiveness that leading organisations seek in an industry plagued by parity in products and services.

In this chapter a workable methodical TQM model will be presented and described. The model will subsequently be tested by exposure to the opinions of leaders in the financial services industry viz. those individuals responsible for quality issues in Retail Banking, Merchant Banking and Life Assurance, via personal interviews. Following the input received, the model will be revised, and presented.

4.2 A TQM MODEL FOR IMPLEMENTING TQM WITHIN THE FINANCIAL SERVICES INDUSTRY

The alarming rate of TQM implementation failure as discussed in Chapter 3 viz. that most organisations attempting TQM eventually abandon it with disappointing results, and that two thirds of TQM initiatives grind to halt due to lack of results, point to definite shortcomings in the way TQM implementation is managed.

When developing their overall TQM approaches and implementation strategies, financial services providers are inclined to succumb to the trap of attempting to introduce a wide range of TQM-related activities simultaneously throughout the
organisation (which is already stressed by the change continuum) resulting in a loss of focus, measurable results, and ultimately motivation and failure. This scenario is further enhanced when trying to implement TQM at the last minute in an ailing organisation.

The TQM model as depicted in figure 4.1, serves to provide a systematic, methodical approach to TQM implementation as a continuous 8-step implementation loop, starting and ending with the organisation's reason for existence as encapsulated by its mission statement.

The model also allows the implementing organisation to methodically map its TQM progress against key performance indicators as the organisation strives to attain quality in all aspects of its operations and services.
Figure 4.1: A TQM Model for the Financial Services Industry

1. Cause-effect of quality:
   - Customer satisfaction
   - Customer Retention
   - Market Share
   - Cost of Quality
   - Profit & PIMS
   - RCE
   - RCA
   - Management by Values/Culture
     - Action and senses
       - Mind
       - Intellect
       - Feelings
     - Values
       - Awareness
         - "Triple effect"
         - Observations of behaviour

2. Performance Match:
   - 100
   - Performance
   - Customer Expectations

3. Mismatch Indicators:
   - "Gap" Analysis
   - Service Audit:
     - Staff Survey
     - Internal Measurement Against Standards
     - Customer Complaints measurement
     - Phantom telephone survey
   - Non-important factors
   - Important factors

4. Performance - Importance Mapping:
   - Customer losing factors
   - Customer gaining factors

5. Benchmarking of Important Factors:
   - Define the competitive arena
   - Benchmark performance against key competitors
   - Develop minimum standards
   - Establish objectives based on "best practice"

6. Investigate current Operations:
   - Activity Value Analysis
   - Continuous Improvement
   - Process Improvement
   - Process Re-engineering

7. Design to "Best Practice":
   - Business Process Re-engineering
   - Scary change / Dramatic improvement / Holistic

8. Organisational Restructuring:
   - Systems
   - Structures
   - Strategies
   - Mission
Step 1: The cause-effect of quality

This step serves to illustrate the effect internal quality (the organisation, its processes and employees: levels A to E) has on external quality as experienced by the customer (levels F to J) as a cause-effect starting with the mission of the organisation at level A to J, the relational outcome.

Internal quality is ultimately driven by the vision and mission of the organisation (level A). It is thus imperative that quality becomes an inherent part of the vision and mission and clearly communicated to employees and customers.

**Level B** reflects the degree to which quality concepts are incorporated into the strategic plan, and how these concepts define how the organisation will compete; it thus reveals to what extent the corporate strategy is a quality strategy.

In **Level C**, the quality strategy is translated into strategic management of how the company is organised, its systems and culture, which enables the organisation to meet customer expectations.

**Level D** reveals the extent to which the corporate quality strategy has been adopted by and implemented by functional and administrative units in their own operations.

**Level E** emphasises the fact that quality is directly influenced by the design and performance of the organisations processes and that levels A to D primarily exist to support employees who man level E processes.

**Level F** depicts the customers behavioural experience which shapes perceptions of the organisations performance.

**Level G** deals with the customers experience of core processes.
Level H reflects how the quality of the processes at level G are judged by customers on secondary attributes.

Level I is a resultant of levels F to H which formulates the customers perception of the organisations corporate quality image (viz. a viz. competitors)

Level J is a reflection on how all levels (A to I) have culminated into a favourable relational outcome, and emphasises the fact that long term profitability is dependent on creating, maintaining and enhancing customer relationships through quality initiatives.

**Step 2 : Performance match**

The relational outcome of step 1 as seen against “snapshot” data which provides a “health check” on the organisation on issues such as: customer satisfaction, customer retention, market share etc. gives an indication of how well the organisation has succeeded in aligning customer expectations with perceived performance. Declining (or dormant) figures serve to indicate that perceived performance and customer expectations of the service are mismatched.

If service quality is defined as “the ability to meet and exceed customer expectations”, and quantified as:

\[
\text{Service quality} = \frac{\text{Perceived Performance}}{\text{Desired Expectation}} \times 100
\]

It becomes clear that any result less than 100% represents a failure in service quality. Service organisations thus have to strive to align perceived performance and customer expectations.
Step 3 Mismatch Indicators

Various “tools” exist which enables the organisation to determine and isolate factors which cause a mismatch between customer expectations and perceived performance. Step three serves to introduce “Gap” Analysis, Servqual, Customer Satisfaction Measurement and the Service Audit as instruments that can be used as mismatch delineators.

“Gap” Analysis

“Gap” analysis as defined by Parasuraman et al (as described in Chapter 3, p43) serves to identify the “gaps” that cause a difference/mismatch between consumers’ perceptions and expectations of service quality, and serves to illustrate how the closure of these “gaps” can ensure the alignment of expected and perceived service.

Servqual

By applying the Servqual model developed by Parasuraman et al (as described in Chapter 3, p45) service organisations are able to assess their quality of service along the dimensions of quality, as well as determining an average quality score along all five quality dimensions (as described in Chapter 3, p40).

Customer Satisfaction Measurement (CSM)

If the customer is indeed the final judge on quality, then a valid means of assessing the customers’ evaluation of the company becomes one of the highest priorities in quality control (Crosby, 1990:63). A CSM survey, if approached and implemented correctly provides the cornerstone of a total quality information system, an
invaluable database from which to determine mismatch indicators between expected and perceived customer experiences.

**Service Audit**

The internal service audit serves to complement CSM and consists of:

- **Staff Survey**- a regular survey of staff via questionnaire, interviews etc. to reveal current levels/shortcomings in service both to the internal and external customer as perceived by staff. The survey can further be strengthened by simultaneously gathering input on how shortcomings can be overcome.

- **Internal measurement against standards**- by continuously measuring itself against standards set, and continuously adjusting these standards to customer needs, the organisation can determine to what extent customers are being satisfied, and where service shortcomings exist.

- **Customer complaints measurement**- serves as an ideal vehicle to indicate where shortfalls in the service delivery exist. The magnitude, dispersion and repetitiveness of complaints give indication of severity, importance and locality of where operations have to be improved to create customer satisfaction. It thus becomes imperative that an complaints management systems is installed to manage customer complaints in a meaningful way.

- **Phantom telephone surveys**- provide additional data in determining customer satisfaction both internally and externally, and can be tailored to indicate service shortcomings as well as particular customer needs that aren't being catered for.
Step 4  Performance - Importance Mapping

Performance-importance mapping is a useful tool for assessing top customer perceptions in terms of key performance shortcomings of the organisation (or strengths of key competitors).

• By using performance-importance mapping, the service shortcomings determined in step 3 are separated into customer losing, customer gaining and unimportant factors, as well as the relative importance of these factors. It focuses the organisation on order-winning strategies and avoids "unimportant factors" i.e. those potential improvement areas constituting a waste of effort and resources. It thus prevents the organisations TQM efforts to be thrown against the wrong projects as described in Chapter 3, p58.

Step 5 : Benchmarking of Important Factors

Benchmarking involves the continuous measurement of the organisations products/services against the best of competitors and industry leaders.

By following the implementation steps described in Chapter 3 p49, the important factors revealed by the performance-importance mapping exercise described in step 4 can be benchmarked against best practice of either competitors or industry leaders, thereby helping the organisation to set targets for improving process/products or services.

Step 6 : Investigation of Current Operations

Value analysis is a systematic investigation into the functionality of products and services across the whole organisation to determine the extent to which value is added. In an acute form value analysis sets out to investigate a specific
product/service with the purpose of eliminating unnecessary product/service characteristics that do not add value either in intrinsic product features or service as perceived by the customer, thereby eliminating unnecessary cost and aligning the product/service with customer needs.

By scrutinising the organisations current operations in terms of products and services viz. a viz. the “best practice” delineated by the benchmarking exercise of step 5, value analysis helps to identify areas of shortcomings in products/services that needs to be overcome in order to meet benchmarked targets.

The **four phases of value analysis** are the following:

- **Problem identification phase.** This is facilitated by steps 3 to 5 of the TQM model

- **Information phase.** During this phase information is gathered about the identified problem areas viz. how the organisation operates within the ambit of the problem area in its totality i.e. features, processes, benefits, materials/resources as well as costs

- **The investigation phase** involves the systematic questioning of each component, part, process and manufacturing/operational method of the problem areas

- **The conclusion phase** highlights which areas investigated can be improved

**Step 7: Design To Best Practice**

The value analysis carried out in step 6 delineates areas of investigation that can be improved to enable the institution of “best practice”. Designing
products/processes/service to best practice can be achieved by Business Process Re-engineering and/or Continuous Improvement.

Business Process Re-engineering (BPR)

Hammer and Champy (1993:6) defined BPR as "a fundamental rethink and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, service and speed".

BPR is based on the approach that incremental improvements alone is not sufficient to stay competitive, and that organisations need major breakthroughs in performance to leapfrog competitors. Rather than settle for small improvements, BPR expects to achieve results typically of the following magnitude: a 50% cut in product development cycles, order delivery times cut from one month to a day, a 60-80% cut in costs, while simultaneously improving service levels.

The dramatic change and improvement in products, processes and service associated with BPR together with the fact that it has a holistic effect on the organisation instituting it, requires that it is driven by the following key principles:

- Customer driven at all times
- Strategic in concept
- Concentrates on key business processes
- Cross functional
- Requires senior executive involvement
- Needs dedicated time of "the best" people
- Will take time i.e. not a quick fix
- Requires communication of a clear vision
- Should target dramatic stretch goals.
Continuous Improvement (CI)

Continuous improvement (CI) and continuous improvement initiatives like *kaizen* places emphasis on process improvement. With CI all employees are empowered to identify and implement improvements to all work processes. CI involves the "fine tuning" of processes via incremental improvements which are mostly task orientated.

In contrast to BPR there is thus a tendency for CI to be confined within functional boundaries of the organisation.

BPR and CI are interrelated as shown in the figure 4.2 below.

**Figure 4.2: Relationship between BPR and CI**

From figure 4.2 it can be seen that CI involves small incremental steps to change over a long period of time whereas BPR results in a dramatic measure of change in a short period of time. Although there is a distinct difference between BPR and CI both are necessary to establish improvement in operations/products and services. Their complementary nature as improvement agents requires that both be used
taking into consideration that CI has to form part of a culture of improvement within the organisation whereas BPR is instituted when radical change is required.

The Human Resources Issue

Steps 6 and 7 of the model cannot be carried out in isolation; they have to take cognisance of the effect the human resources element has on the organisations operations, and how this element has to be addressed to achieve the required objectives delineated in step 5, hence the inclusion of the headings: leadership and management by values/culture within the ambit of steps 6 and 7.

Leadership: “doing the right things right”

The improvement sought amongst employees requires that the right style of human resources management is followed viz. a style of “leadership” rather than “Management” where leadership is defined as “doing the right things right” whereas management is defined as “doing things right”.

Effective leadership requires that employees are correctly managed (led), with the right plans and best resources, to ensure that business process objectives targeted in step 5 are reached. It also requires that this is done to employee, customer and ultimately community satisfaction.

Management by values/culture

The continuous and sometimes dramatic improvement sought as described in steps 7 of the TQM model, together with the right leadership warrants that the organisation strives to enhance its primary resource viz. the number of people who take responsibility. This can best be achieved by expanding the level of conscious
awareness amongst employees as to the organisations values and how it affects operations in total.

The organisation thus has to strive to achieve a situation where it is driven by the values of its employees (which are aligned with the organisational vision, mission and values). This means acknowledgement that at any level in the organisation, the values, attitudes, assumptions and beliefs of each individual, and the shared culture, are motivators and controllers of human feeling, thinking, speech and ultimately actions. Together with leadership, management by values/culture ensures a transition from “doing things right” to “doing the right things right” or from efficiency to effectiveness.

The strategy behind management (leadership) by values/culture is to enhance the level of quality of the employee awareness, as it is this awareness that is the central factor in generating thought and action. This transition from awareness to action can be compared to the ripple effect when a stone is thrown into a pond. The ripples propagate outward from an epicentre of awareness and values, in a direction which combines feelings, intellect and mind into actions.

Step 8: Organisational Restructuring

The implementation of steps 1 to 7 of the TQM-model results in changes in how the organisation operates in terms of systems, structures, strategies and ultimately mission and values, depending on the nature and magnitude of change. These changes serve as input to step 1 of the model which stimulates the cycle to start again in a perpetual loop that strives to achieve quality in all aspects of the organisation and its operations.
Organisational “snapshot”- how does the organisation measure

Apart from striving to improve quality via the TQM model it is important that progress is measured on a regular and continuous basis to determine to what extent TQM goals are reached. It is furthermore important to communicate this information to all involved with the TQM effort, to highlight areas of concern as well as of praise where goals have been achieved.

Various indicators to this extent can be used of which the following are examples:

- Customer satisfaction indices
- Customer retention indices
- Market share
- Cost of quality
- Quality control measurements
- Return on equity
- Return on assets
- Profitability.

4.3 FEEDBACK FROM INDUSTRY LEADERS

Qualitative research involved the testing of the TQM Management Model via exposure to the opinions of leaders in the financial services industry responsible for quality issues. Personal interviews were conducted with leaders within financial services industry sectors which included Retail Banks, Merchant Banks and Life Assurers. Of the total of 20 leaders targeted, 11 granted an interview.

Interviews involved a detailed presentation of the TQM model postulated in this chapter followed by in depth discussions during which criticism and confirmation of the model’s applicability to the financial services industry was actively sought. Participants were
encouraged to evaluate the model as applicable to their specific organisational environment.

Feedback obtained is as follows:

**Step 1: The Cause-effect of Quality**

No criticism regarding the importance of this step and its methodology as a starting point to implementing TQM was received. Emphasis was placed on how important it is that quality is encapsulated in the mission of the organisation, and that there has to be buy-in from all employees into the TQM concept within all levels of the organisation (quality adoption has to be visible in terms of actions rather than words, especially from top management). It was also pointed out that TQM implementation will fail if delegated as the responsibility of a certain department or area of the organisation, rather than getting all employees to adopt the concept and be responsible for implementation.

A view was expressed that certain organisations prefer to use the term business excellence rather than quality in defining business priorities, as it eases employee buy-in to the quality concept.

**Step 2: The Performance Match**

Although there was agreement pertaining to the functionality of this step, no clear agreement of opinion was evident when considering whether organisations need no meet or exceed customer expectations when attempting to close the gap as delineated by the performance match of the TQM model.

The following opinions were expressed:

- Value has continually to be added in terms of products and services even when the “gap” has been closed in order to stay abreast of customer expectations.
Some indicated that exceeding customer expectations constituted an overspend on quality related issues, and that organisations rather have to strive to meet expectations on a continuous basis.

Organisations have to strive to exceed (supersede) customer expectations to create a "memorable" experience. "Delighted" customers spread the word and are unlikely to defect.

Step 3: Mismatch Indicators

General agreement was received pertaining to the applicability of this step in the TQM Management Model.

Step 4: Performance - Importance Mapping

The relevance of this step was endorsed by all industry participants as being of utmost importance in facilitating successful TQM implementation. A clear indication was received that successful implementation necessitates that a return on TQM related issues must be visible within the short term i.e. 6-12 months, as this acts as a catalyst for successful TQM implementation.

It was further pointed out that social responsibility, within the context of the South African financial services industry, must be addressed viz. that it is not only a question of addressing the pure economics of customer losing and customer gaining factors, but also addressing those factors presentative of the community at large.

Step 5: Benchmarking of Important Factors

Although regarded by all participants as an essential element of the TQM Management Model, it was emphasised by those that have had success in TQM implementation that
benchmarking will increasingly involve not only measurement against the standards of key industry competitors, but measurement against any industry leader that is regarded as having “best practice”.

Step 6: Investigation of Current Operations

All participants agreed to the applicability and functionality of this step within the TQM Management model. It was suggested that the model heading: Activity Value Analysis be expanded to include: Process Value Analysis, as a more complete descriptor.

Step 7: Design to “Best Practice”

The complementary nature of BPR and CI as improvement agents in the design towards “best practice”, and the functionality within the model was accepted by all participants.

Concern was shown by a majority of participants that the Human Resources Issue (H.R-issue) i.e. Leadership and Management by Values/Culture needs to form an integral part of the model as a whole and not restricted to steps 6 and 7 of the model only. It is argued that the HR-issue forms an integral part of the model and is a fundamental issue that will cause failure in TQM implementation if not addressed continually.

Step 8: Organisational Restructuring and “Snapshot”

The "snapshot" indicators were acceptable to all participants as part of the model. The perpetual nature of the TQM model, starting and terminating with the organisations mission was accepted by all participants.
General

The dynamics of the model i.e. that there may be “currents” or “smaller loops” within the bigger 8-step loop of the model, pending on how TQM implementation was being experienced, or how circumstances were changing (pertaining to the steps of the model) was accepted by all participants as inherent to the model.

4.4 REVISED TQM MODEL FOR THE FINANCIAL SERVICES INDUSTRY

The revised TQM Model differs from that originally presented due to the placement of the HR-issue viz. Management by Values Culture and Leadership as encompassing the 8-step model. This positioning places emphasis on the importance of managing the HR-issue on a continuous basis as fundamental to successfully implementing TQM within the financial services industry.

Other changes include the addition of the word “process” to step 6 to better describe this step.
Figure 4.3: Revised TQM Model for the Financial Services Industry
This chapter has sought to address a perceived root cause of failure of TQM within the financial services industry viz. the question of poor implementation.

A workable TQM model was compiled and presented as a methodical continuous 8-step TQM implementation loop starting and ending with the organisation's reason for existence as described by its mission statement.

The model was subsequently tested by means of personal interviews with leaders within the financial services industry. During these interviews the model was critically reviewed in terms of its applicability pertaining to successful TQM implementation within the financial services industry.

Criticism as well as reinforcement of the model was actively sought from all industry participants. This input served as the basis from which a revised TQM implementation model has been compiled and presented.

Without exception all participants agreed to the usefulness, methodical approach and practicality of the TQM model. The main criticism revolved around placement of the HR-issue within the model originally presented. It was felt by the majority of participants that the HR-issue is all encompassing and paramount to successful TQM implementation. The model was consequently adjusted to reflect this sentiment.
The inevitability of an ever expanding global market, driven by trade agreements between countries, is fuelling the parity in products and services available from most competitors. This parity is further enhanced by the ease of data exchange and product/service imitation that has become a feature of modern business practice. These factors are increasingly making it difficult for organisations that are driven by product/service leadership to sustain their competitive advantage.

Total Quality Management provides organisations with a way to gain and sustain competitive advantage. It is a way of running an organisation in such a way that all efforts are focused in a systematic, disciplined way towards continually improving the quality of every aspect of the organisation's operations across all organisational boundaries viz quality of systems, operational activities as well as service delivery to both internal and external customers.

Criticism of TQM includes the perception that it is just another management technique facing decline after a decade of strong following during the 80's. This perception has been enhanced by the subsequent failure of companies to sustain competitive advantage although having won quality awards in the eighties viz. IBM and General Motors, both Malcolm Baldrige National Quality Award winners.

This study has sought to explore and investigate TQM so as to provide a broad understanding of TQM as well as providing the necessary stimulation to further explore and exploit this management technique.
The main purpose of the study was to provide an understanding into the concerns, problems and challenges as well as advantages associated with the application of TQM in financial services organisations. This was necessary in order to determine the causes of failure in achieving successful TQM implementation as is evident by the by two thirds of organisations that abandon efforts due to poor results.

Specific objectives derived from the abovementioned main purpose of the study can briefly be stated as follows:

- to gain insight in how and why TQM developed over time

- to review current TQM trends and obstacles within the financial services industry

- to develop and arrive at a workable model for TQM implementation within the financial services industry

5.2 LITERATURE STUDY FINDINGS: THE EVOLUTION OF TQM AND ITS USE IN THE FINANCIAL SERVICES INDUSTRY

Solutions to problems is the common denominator evident when considering the evolution of management thought from the 1890's to the present. This evolution has shown a shift in emphasis from standardisation to scientific management culminating in the contemporary approaches to management, driven by continuously changing industries and ever demanding customers.

The financial services industry is currently experiencing unsurpassed parity in products and services. These organisations face an ultimate contingency viz. total customer satisfaction as it is this that separates successful organisations from "also -runs". Total quality management provides a way of meeting this contingency.
Contributions of quality "gurus", although only recognised ad-hoc, has been invaluable in establishing TQM as a fundamental way to create competitiveness in industries plagued by parity in products and services. It appears that the success in achieving quality lies not in blindly following the doctrine of these individuals, but in synergising their ideas and tailoring it to the needs and situation that faces a particular organisation that wishes to implement TQM. It is within this context that it becomes evident that TQM has to be viewed as a strategic issue that cannot be approached with a "one size fits all" approach.

TQM within the financial services industry is seen by many as an article of faith rather than a proven business strategy, as two out of three companies implementing TQM strategies report no impact on competitiveness, and eventually abandon it with disappointing results. This dismal record of successful TQM implementation in the financial services industry may be attributed to some or combinations of the following common pitfalls:

- The failure to integrate TQM efforts within overall strategic goals
- Failure to isolate and concentrate on projects crucial to effective TQM implementation, by attempting to introduce a wide range of TQM activities simultaneously
- The confusion of activity with results i.e. failure to recognise efforts that don't contribute to the bottom line
- The inability to remove internal obstacles to the TQM effort
- The failure of sponsors of the TQM effort to set short term goals. Longer term goals are bound to fail due to a drainage of employee motivation

The poor implementation record of TQM within the financial services industry highlights the fact that successful implementation is dependant on how firmly the TQM strategy is embedded in the strategic plans of the organisation, and how well implementation is supported by a methodical implementation model.
5.3 A PROPOSED MODEL FOR IMPLEMENTING TQM IN THE FINANCIAL SERVICES INDUSTRY

When considering the poor rate of successful TQM practice within the financial services industry, as seen against the background of pitfalls mentioned above, the lack of a practical TQM implementation model seems key to the failures experienced by those wishing to institute TQM.

The development of a workable TQM implementation model as depicted in chapter 4 serves to provide a systematic, methodical and practical approach to TQM implementation. The model further allows TQM implementing organisations to map progress against key performance indicators.

Fundamental to model development has been the integration of TQM practice as determined by the literature study, into a practical methodical as well as logical model that facilitates effective TQM implementation, when considering the large amount of data currently available on TQM, and how confusing and misleading it may be to those organisations wishing to adopt and implement a TQM strategy.

Following development, the model was tested by exposure to the opinions of business leaders within the financial services industry. The model's practicality, methodical approach and usefulness was endorsed by all participants. Major criticism involved how the human resources issue was accommodated within the model. This was subsequently addressed in the revised model.

5.4 RECOMMENDATIONS

Total Quality Management still offers organisations a way of achieving competitiveness in products and services. The high failure rate associated with TQM in the financial services industry is associated with unsuccessful implementation rather than with TQM as a management doctrine.
Besides needing to understand the fundamentals of TQM before adopting this management method, financial services organisations need have a sound implementation strategy in place. The model presented by this study serves as a guideline to facilitate TQM implementation.

Future research should include the actual testing of the model within a financial services organisation implementing TQM, as well as simplification of terminology to ease understanding of the model by employees on all levels of the organisation.


APPENDIX 1: LIST OF COMPANIES AND INDIVIDUALS INTERVIEWED

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Mr. Dorian Wharton-Hood
Vice Chairman
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Mr. Allistar Soutar  
AGM- Human Resources  
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Mr. Dries van Rooyen  
Managing Director- Fedgro Unit Trusts  
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Mr. Derek Poole  
Managing Director- Short Term Company  
Commercial Union  
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Director- Asset Management  
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Managing Director- Fund Management
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Mr. Kevin Weitz
Manager- Customer Focused Quality
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2001

Dr. Leon Porter
Executive Director
Nedcor
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Johannesburg
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11 September 1996

Dear Sir

Since the increase in awareness of Total Quality Management (TQM) during the mid-eighties, widespread consensus has been reached that it is a way of managing organisations to improve their overall effectiveness. There is however less agreement as to what the key elements to TQM are, as well as the critical factors that influence the implementation process thereof. This stems from the diversity of organisations that have adopted TQM with varying degrees of success.

RAU, Department of Business Management has approved research into the issues surrounding TQM within leading financial services organisations, in fulfillment of the qualification M.Comm. - Business Management. Your organisation, as a leading competitor within the financial services industry has been identified as an essential participant in the research. We would greatly appreciate the opportunity of a one hour interview with yourself, or a senior executive in your organisation, to discuss TQM related issues and in particular a postulated model for successful TQM implementation within financial services organisations.

As is customary with research commissioned by RAU, the information gained and source will be considered highly confidential, whereas the research results will be provided to participants on conclusion of the study.

As a critical participant, your contribution towards this research is invaluable in the generation of a workable model for successful TQM implementation within the financial services industry. Mr. Chris Swart, a registered M.Comm. student (student no. 82/1481/9) will be contacting your office within the week to arrange an interview at your convenience should you wish to participate.

Thank you in advance for your kind assistance.

Yours faithfully

Professor Stephen Kruger
Head - M.Comm. Business Management
Department Business Management