Implementation of Quality Management System in the Banking Sector of Bangladesh

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ABSTRACT

This research has been initiated to evaluate the managerial attitude towards implementing Quality Management System (QMS) in the commercial banks of Bangladesh. For this purpose, a questionnaire survey of managers and above of commercial banks in Bangladesh was carried out. Majority of the items included in the questionnaire were measured on a five-point Likert scale. During the survey, a total of 44 questionnaires were distributed, out of which 35 filled-in ones were returned (response rate 80 per cent; 95 per cent level of confidence). It is found that QMS operates in more than half of the banks. QMS implementation is dependent on the bank size. QMS is perceived to be significant for all of the banks irrespective of the size. The overall managerial satisfaction level is more for organizations that have established training program for the employees compared to those that do not have it. Moreover, managers of large size banks tend to be more satisfied compared to their counterpart of other two size banks. All of the managers have found their satisfaction to be highly correlated with knowledge of QMS, availability of training program, and proportion of staff undergone training program, and moderate degree of correlation with competence level of staff. Higher customer satisfaction, better service quality, better financial situation, and higher staff motivation are found to be mostly perceived benefits of QMS.

Keywords: QMS in Banks, Implementation, Managerial Satisfaction, Perceived Significance and Benefits.

INTRODUCTION

Financial institutions have undergone intense competition and a change in customers' expectations over the last few years (Cheng, Madan, & Motwani, 1996). The importance and increasing attention to service quality in financial institutions is fully justified by the socio-political changes that have arisen (Cowling & Newman, 1995). The economic globalization has brought about a reversal in consumer habits for banking services, which in turn affect these customers' assessment of the financial services and products offered (Longo & Cox, 1997). The banking sector follows this new trend in management which leads to an improvement in both services and products. Melidonioti and Gotzamani (2007) have mentioned that the intense competition among companies, along with the customers' demands, has turned them towards the implementation of quality management and control systems.

Therefore, it is time to take bank's quality management in earnest. This is according to Sogala (2003), Quality Management System sets up customer delight as the central point of focus for all the operations of organizations. Secondly, it provides the framework to measure performance at the macrolevel and requires continuous improvements. A registration system like ISO would additionally require external validation of conformity of working of the organization and its procedures and practices to the mission, the goals and the regulations already set out. In fact, as the ISO 9001:2001 standards declare that the quality standards do not suggest and even imply, "uniformity in the structure of quality management system or uniformity of documentation like ISO do not prescribe and allow for the development of a unique customized quality system for each organization, according to its need and purposes and appropriate to its line of business, size and structure of the organization and scale of its operations."

The Bangladesh banking sector relative to the size of its economy is comparatively larger than many economies of similar level of development and per capita income. Access to banking services for the population has improved during the last three decades. As The finance sector remains predominantly bank-based, accounting for 96% of the sector's resources (Sayeed, Bari, Rahman, Azad, Moniruzzaman, & Shilpi, 2002), Chowdhury and Azad (2006) mention that there is a need for exploring ways for further improvement of market conditions to meet the expectation of consumers of financial services in Bangladesh.

As not such prior research has been undertaken with respect to the implementation of Quality Management System in the banking sector of Bangladesh, the objectives of this research are,

- To examine managerial perceptions of the QMS implementation in the Banks of Bangladesh;
- To assess the level of managerial satisfaction with the currently operating quality management systems;
- To compare and contrast the QMS implementation in different size banks;

- The benefits perceived by the implementation of quality management system.

LITERATURE REVIEW

The Quality Management System (QMS) is a coordinated aggregate of interrelated and interactive activities that determine quality policy and objectives as well as provides organizations with guidance and rules in their goal attainment (Lithaunian Standards Board, 2001). In order to best fulfill customer needs, requirements, and expectations, effective organizations create and utilize quality management systems (Summers, 2005). Within a quality management system the necessary ingredients exist to enable the organization's employees to identify, design, develop, produce, deliver, and support products or services that the customer wants. Effective quality management systems are dynamic, able to adapt and change to meet the needs, requirements, and expectations of their customers. The implementation of quality management systems enables banks to define and manage processes that ensure delivery of services that meet customer needs and expectations. Besides, it installs trust in both organizations and consumers in respect to service quality and conformity to respective standards.

Implementation of quality management system has a positive effect on customers and the quality of employee performance (Sim & Killough, 1998), thereby improvement in business performance (Brah, Wong, & Rao, 2000). Pong et al. (2001) concluded that perceived quality has a positive impact on customer satisfaction which eventually leads to service loyalty. The improvement in business performance could be achieved by using some of the important tools of TQM such as introduction of performance based rewards in the organization. Samat (2006) while analyzing the TQM implementation in bank branch operation argues that QMS results in high level of service quality. Whereas, Naeem and Saif (2008) doing the similar research conclude that quality management system implementation in the banking sector leads to motivated employees, increased customer satisfaction and higher levels of productivity. Quality management system certification helps in ensuring that certain procedures were followed systematically and much quickly (Venugopalan, 2003). The certification is basically aimed at streamlining and ensuring better customer service. It helps in accelerating efficiency and improving the overall banking services.

In its report, The Lexington Group (2004) argues that sixty percent of their surveyed firms are found to improve their performance with implementation of quality management system. These firms are also very satisfied with its

QMS. The report also verified that due to the implementation of QMS appropriate management systems are being put in place. It recognizes some management initiatives such as senior management involvement, designation of the senior management representative, pervasive distribution of quality responsibility, and use of audits. The report also identified some major benefits relate to firm image, client relationships and employee satisfaction.

Implementation of quality management system leads to improvement in certain aspects of the organization such as procedure development and scarcity of financial resources and information (Buciuniene, Malciankina, Lydeka, & Kazlauskaite, 2006). The authors also found a strong correlation between existence of training program and audit group formation with improvement in employee competence. As to the most valued benefits as perceived by hospital heads, these include improved allocation of responsibility and power, service quality, and patient satisfaction with services.

There is a strong correlation between implementation of QMS and employee satisfaction within employees of the organization (Melidonioti & Gotzamani, 2007). The authors found that employees with QMS ranked their organizations first in the development and management of human resources compared to those that do not have QMS. This is because the Board of the QMS implemented organizations recognizes and awards the employees' efforts.

RESEARCH METHODOLOGY

A quantitative research method, i.e. a questionnaire survey, was chosen to attain the research goals. The survey was a cross sectional, onetime assessment of the managerial attitude to the QMS implementation in banks. During the survey, 44 questionnaires were distributed to the managers and above level personnel of private commercial banks in Bangladesh (Bangladesh Bank) out of which 35 filled-in ones were returned with a response rate 80 per cent comparable to the research done by Buciuniene, Malciankina, Lydeka, and Kazlauskaite (2006). Apart from questionnaire survey, primary data was also collected through discussions with the respondents.

The questionnaire was designed following the ISO standards and prior research on QMS in other types of organizations (Yahya & Goh 2001; Staines, 2000; Ennis & Harrington; 1999). The questionnaire items fell under the following four major categories: 1) general questions, 2) questions on the current QMS implementation stage, 3) questions on the level of managerial satisfaction with the operating QMS. The respondents were asked to rank their agreement/disagreement with the provided statements on a five-point Likert scale. The statistical data reliability was checked according to χ^2 criteria, degrees of freedom number (DF), and statistical significance (Buciuniene, Malciankina, Lydeka & Kazlauskaite, 2006; Hardigan & Cohen; 2003). The relationship between two independent variables was assessed by calculating Spearman's rank correlation coefficients (Moser, Frost, & Leon, 2007), taking into consideration the value of the correlation ratio and its statistical significance (reliability notation: $p < 0.05$ means statistically significant). Explanatory factor analysis was used to reduce the number of QMS-related benefits (Lu & Zhang, 2003).

For analysis purposes, all banks under the survey were subdivided into three major groups with respect to the number of employees:

1. *small*, with the employee number less than 500;
2. *medium*, with employee number ranging between 500 and 1000;
3. *large*, with employee number over 1000.

Respectively 17 per cent of the banks fell under the first group, 34 percent were categorized as medium sized, and 49 percent large-sized. Based on the number of years spent working for a bank, respondents distributed as follows: 50% have worked for up to 5 to 7 years; 40% 7 to 10 years; and 10% over 10 years.

RESULT

The mean of the perceived QMS significance is 4.1 on a five-point scale (Table I). In respect of the bank size, there are no statistically significant differences in the QMS significance ranking among the three bank groups under this study. There are also no statistically significant differences of the perceived QMS significance between banks with QM training systems and banks that do not have such systems.

Depending on the existence/absence of employee training systems on quality management, research brought out a statistically significant difference as regards the managerial assessment of employee knowledge, i.e. managers of banks that have training systems rank their employee knowledge higher than those that do not have them.

Table I. Perceived QMS Significance and Satisfaction with QMS in Banks

	Perceived QMS Significance		**Satisfaction with QMS**		
	Mean	Standard deviation	Mean	Standard deviation	
Banks with training system	4.2	0.44	4.6	0.62	χ^2=12.75, DF=2
Banks without training system	3.5	1.05	2.9	0.84	p=0.002<0.05
	Perceived QMS Significance		**Satisfaction with QMS**		
	Mean	Standard deviation	Mean	Standard deviation	
Small sized banks	4.67	0.51	2.7	1.03	χ^2=15.54, DF=4
Medium sized banks	4.67	0.65	3.6	0.72	p=0.004<0.05
Large sized banks	4.70	0.47	4.4	0.53	

The overall managerial satisfaction with the QMS is moderate (mean = 3.5 on a 5 point scale) (Table II). Research findings show some statistically significant variances in satisfaction rating among different size banks: managers of large banks tend to be more satisfied with the QMS (4.4) than their counterparts in medium (3.6) and small (2.7) hospitals. Besides research results revealed statistically significant higher levels of managerial satisfaction with QMS in banks that have developed QM training systems (4.6) in contrast to those that have not (2.9).

Managerial satisfaction with the QMS was found to bear a high degree correlation with QM knowledge (Spearman's correlation ratio = 0.778, $p < 0.05$), staff training program in QM (0.714, $p < 0.05$), and proportion of staff undergone training program (Spearman's correlation ratio = 0.712, $p < 0.05$) (Table II). Moderate degrees of correlation were found between the managerial satisfaction with the QMS and competence level of staff (0.614, $p < 0.05$).

Table II. Relationship between Satisfaction with QMS and Criterion Affecting It

Criterion	Satisfaction with QMS (Spearman's ratio)	
Knowledge of QMS	0.778	
Availability of training program	0.714	p=0.017
Proportion of staff undergone training program	0.712	<0.05
Competence level of staff	0.614	

The analysis of managerial attitude towards the QMS implementation in banks of Bangladesh showed that the QMS operates in 57.14 per cent of organizations and is currently under development in 22.86 per cent of banks

(20 per cent still do not have it). The QMS implementation stage was found to vary among different size banks: it is implemented in 11.76 per cent of small, 17.65 per cent of medium, and 70.59 per cent of large banks (Table III). Quality audit groups have been set-up in 71.43 per cent of banks, while 28.57 per cent of organizations still do not have them. It is noteworthy that all large-scale banks have quality audit groups, while the same figure among small size institutions is just 17 per cent.

Table III. Current Stage of QMS Implementation in Banks in Respect to the Size of Banks

	Small		Medium		Large		Total		
	n	%	n	%	n	%	n	%	
QMS implementation stage									
QMS Under implementation	1	16.67	4	33.33	3	17.65	8	2.86	χ^2=15.661 DF=4 p=0.004<0.05
QMS implemented	1	16.67	7	58.44	2	70.59	20	7.14	
QMS not implemented	4	66.66	1	8.23	2	11.76	7	0.00	
Total	6	100	12	100	7	100	35	100	
Audit group formation									
Group formed	1	16.67	7	58.33	7	100	25	1.43	χ^2=16.625 DF=2
Group not formed	5	83.33	5	41.67	0	0	0	8.57	p=0.000<0.05
Total	6	100	12	100	7	100	35	1 00	
Training system development									
Training system developed	3	50	9	75	7	100	29	2.86	χ^2=8.599 DF=2 p=0.014<0.05
Training system not developed	3	50	3	25	0	0	6	7.14	
Total	6	100	12	100	7	100	35	100	

Employee training systems currently operate in 82.86 per cent of banks. QM-related training systems have been developed in a statistically significant greater part of large banks (10%) in comparison to medium (75%) and small-size (50%) banks.

Out of the 9 proposed QMS organizational benefits, bank managers perceived the following ones as of the highest relevance to their banks: Higher customer satisfaction (mean = 4.4), better service quality (4.2), better financial situation (4.1), and higher staff motivation (3.9) (Figure-1).

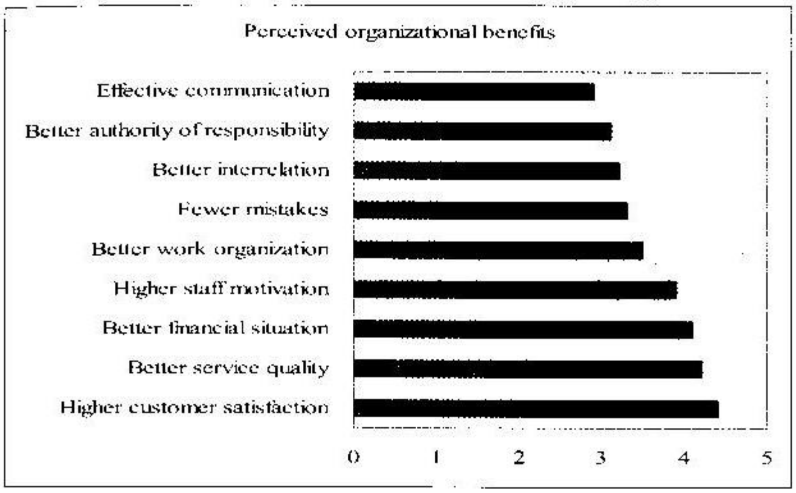

Figure - 1: Mean score of perceived organizational benefits

The results of the factor analysis of the perceived QMS organizational benefits show that there are three rotated factors, which explained a total variance of 77 per cent. These are as follows: *improved organizational performance* (improved financial situation, better staff motivation, and higher customer satisfaction); *improved service quality* (improved service quality, fewer mistakes); *better organization* (better work organization, better interrelation, effective communication, and better authority of responsibility) (Table IV).

Table IV: Factor Analysis of the Perceived QMS Implementation Benefits

Factor	Variable	Loading	Total variance explained
Factor1: Improved organizational performance	Improved financial situation	0.872	
	Better staff motivation	0.819	51%
	Higher customer satisfaction	0.897	
Factor 2: Improved service quality	Improved service quality	0.819	
	Fewer mistakes	0.835	14.7%
	Better work organization	0.640	
Factor 3: Better organization	Better interrelation	0.798	
	Effective communication	0.782	11.3%
	Better authority of responsibility	0.803	

CONCLUSION

Research findings show that as perceived by bank managers QMS operates in more than half of the banks. QMS implementation is dependent on the bank size. Currently QMS operates in the majority of large banks (over 1000 employees), whereas in more than half of smaller banks (less than 500 employees) QMS is still not implemented. Moreover, all of the large banks have quality audit system whereas most of the small organizations are still to have it.

Managers of banks consider QMS implementation highly relevant for their organizations. About eighty two per cent of banks have established employee-training systems. In order to QMS be successful, all of the large sized banks have developed training system and it is about fifty percent for smaller banks.

QMS is perceived to be significant for all of the banks irrespective of the size and in this regard managers of almost all of the banks consider need for training program for their employees.

The overall managerial satisfaction of the managers about QMS is moderately high. This satisfaction level is more for organizations that have established training program for the employees compare to those that do not have it. Moreover, managers of large size banks tend to be more satisfied compared to their counterpart of other two size banks. All of the mangers have found their satisfaction to be highly correlated with knowledge of QMS, availability of training program, and proportion of staff undergone training program, and moderate degree of correlation with competence level of staff.

As to the most valued benefits perceived by bank heads, these include higher customer satisfaction, better service quality, better financial situation, and higher staff motivation.

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