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GRADUATION PROJECT

"ASSESSING THE NEED OF TQM IN THE BANKING SECTOR OF THE NORTHERN CYPRUS"

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# ASSESSING THE NEED OF TQM IN THE BANKING SECTOR OF THE NORTHERN CYPRUS.

ABSTRACT This paper describes the results of a research conducted in Turkish Cypriot Banks during the fall semester of the academic year 2002/2003. According to secondary data these banks donot seem to follow the world-wide trend of implementing quality principles and management systems. The research aims to investigate the organized and scientific implementation of quality management systems in the Turkish Cypriot Banks. Research findings resulted in pulling the cover from over the important point which is our bank managers do not really consider quality management as an important mission for their bank's strategies. It is considered but only applied frequently and on ad-hoc basis which is not enough to render a good quality service to customers to meet their expectations.

## 1.INTRODUCTION

Most bankers would like to believe that banks are in the finance industry, and not in the service industry. Thus they tend to compete in terms of financial prowess rather than service quality. People, resources, time, and systems are devoted more to managing assets and cash rather than managing customers and service. In fact most bank systems are designed to control customers rather than satisfy customers. Products and procedures are set up for the convenience of the bank rather than that of the customer. A big bank may have as many as three vice presidents responsible for guarding its assets, but no one to take care of customer service and complaints.

Banks usually give customer service and satisfaction very low priority, and accordingly assign it to a low level, if not lowly-paid, manager. Few or none of the bank's elaborate systems and structures are designed to monitor and maintain customer loyalty.

The lifeblood of any business is its customers. Profit comes from sales minus cost. Sales must be realized first before cost becomes relevant. Customers decide sales based on their perception of product and service quality. In short, quality determines profits, and customers alone define and determines what that quality is and should be (Domingo, 1995, pp.1).

As banks move from the realm of quality service into the domain of total quality management, they are asking themselves some serious questions about the way they do business. Their probing extends beyond sales and service to include the total management philosophy. Banks are opening up their definition of quality management and considering what their customers expect and experience, rather than just what the bank provide. There are alot of factors that go into the total quality that the customer never sees, yet considers important such as accurancy in processing. Both internal and external procedures are being examined, measured, and improved to deliver quality service that is consistent throughout the bank. Sometimes referred to as re-engineering or strategic management, total quality management programs empower employees to participate more in the decision process.

Consequently, if service quality is the bolts of an organization, then total quality mangement is the bricks, giving the organizational structure and strength. More encompassing than individual programs, total quality management is a change in behaviour and attitude felt throughout the whole company. It's not just the frontline employees who are being asked to bear the responsibility for delivering quality service, but back room employees also are being held accountable.

The main aim of this study is to assess the need of TQM in banking sector of the Northern Cyprus, and our objectives were based on the following proposals :

1. Banks in the TRNC are well aware of the operations and benefitsof TQM.
2. Banks are aware of the terminology of TQM.
3. Banks apply some sort of quality management in their customer service.

## 2.LITERATURE REVIEW

The concept of quality has always given rise to controversise in trying to explain a variety of phenomena. Thus today different viewpoints regarding the definition of quality in service exist (Logothetis, 1992, pp.5). However the most widely used definition is 'Quality is meeting or exceeding customer expectations' (Evans & Lindsay, 1996).

In the feild of banking, TQM refers to a management process and a set of dieciplines that are coordinated to ensure that the organization consistently meets and exceeds customer requirements. TQM engages all divisions, departments, and levels of organization. The goal is to deliver the highest value for the customer at th lowest cost, while achieving reasonable profit and economic stability for the bank (Morehouse, 1996, pp.1-2).

This management approach and theory has been strongly influenced by the ideas of few American and Japanese practitioners. Among the most widely credited founding fathers are; Fiegenbaum, Juran, Crosby, Ishikawa, and others.

The term TQM was first introduced by Armand Fiegenbaum in 1956. His original exploration of what he referred to as ' a way out of dilemma imposed on businessmen by increasingly demanding customers and by ever-spiraling costs of quality (Costin, 1994, pp.9).

Among the different quality approaches, a clear preference has been observed, at a universal level, for the adoption of quality assurance principles in the field of banking. The term means the assessment of the actual level of quality rendered plus the effort to modify, when necessary, the provisions of those services (Logothetis, 1992, pp.7).

## 3.THE BASICS OF TQM IN BANKING

For the successful implementation of a quality approach that will eventually lead to quality improvement of the provided services, the following factors ar necessary :

1. Trusting; the bank must have a good, trustable staff that's able to work properly and ontime.
2. Eagerness of staff; the staff must be eager and have the desire to work anytime.
3. Proficiency and Capability; the staff must be professional and capable of the job they are doing inorder to be able to help their clients.
4. Good location; a bank that can be reached quickly, contacted by phone easily is always recomended.
5. Well mannered staff; polite and smiling face staff can always be close to their clients.
6. Communication; the level of discussion between the employee and the customers must be understandable.
7. Persuasive; employees, while working must persuade that they work happily.
8. Safety, Security; customers will always prefer to work with the bank with low risks.
9. Physical value; the decoration, number of branches, used machines, etc, are also factors that help in improving the quality of a bank.
10. Understandable staff; the working staff must be understandable to their clients questions and needs (Takan, 2001, pp. 94-97).

## 3.1 ELEMENTS OF TQM IN BANKING

Producing defective product is certainly anithetical to quality. However, preventing defects has not captured the strategic interests of top managers. By focusing on the customers, managers view quality as a means of achieving competitive advantage by providing value to customers.

Value based approaches expand on the regarding value based approaches.

Customer value has been defined as a combination of benefits and sacrifices occuring when a customer use a service to meet certain needs.

Certainly, managers must ensure quality through conformance to design specifications. But quality of conformance should be a secondary issue, pursued only after they have seen that design conforms to the needs of the customers. Thus managers should regard quality as an important element to strategy formulation and planning, deciding which customer to serve, which services to offer, and how to provide value to customers and to outperform competitors in doing so. Once top managers decide to compete on the basis of particular dimensions of quality, they enter the realm of strategic planning. This means assuming personal responsibility for continouesly improving the systems and processes that provide valued service for customers (Bound, Adams & Ranney, 1994, pp. 63-64, 66-67).

A popular slogan of the quality movement is 'quality begins with the customer'. The premise being if customers are the people who receive our work then only they can tell us what they want and how they want it. The quality that comes out of a process is affected by the quality of what goes in and what happens at every step along the way. It follows that we must build quality into every step, process, and system to produce quality in the outcome. To do this, we must collaborate with internal and external customers to determine their needs.

When TQM is successful, employees at every level participate in decisions affecting their work..The most common vehicle for employee participation is a team. Teams range in scopes and responsibilityfrom problem solving to self managed work teams that schedule work, assign jobs, hire members, and set the standards and volume of output. A participative work is when quality becomes everybody's responsibility (Schlenker, 1998).

Wether it's re-examining procedures, redesigning a quality assurance program or re-vamping training service is fueled by the understandingthat happy employees and effecient operations lead to satisfied customers, which translates into improved profits.

Those who have launched total quality management programs say they have learned that sll operatipns within the bank are inter-related and dependent on one another. Quality service is no longer the job of only the front-line employees, it is everyone's responsibility (Morall, 1995, pp. 68).

## 3.2.PROBLEMS FACED BY THE BANKS IN APPLYING TQM

While using TQM strategies in banking sector, occur that limits the TQM's success. The most important problems are :

1. The employees must be supported and given good service from the entire of the bank such as machines, information, etc. This will effect the quality of services rendered to clients. These elements donot have direct contact with clients but they effect the service quality the employees will work on.

The employees are the representatives of the bank. The cliènts will blame the employees for any mistake that may take place during any banking operation.

2. The reached quality level can be affected by another factor and this is; always adding new working systems, machines, etc, to the operation strategies.

3. Following the technology and changing the machines(computers) in very short periods of time will cause difficulties to the staff to get used to the new system which will make their work more complicated and take more time which will decrease the quality of the service. No doubt, changing and improving the system will make the firm more successful in the longrun but when happened in short periods, the time needed to operate the system will be long.
4. Another and last factor is; having the staff working in the same position for long time which will cause the quality of service to decrease by time. For this reason, the employee feel bored from always doing the same operations and same job which will lead to a working staff without feelings or motivation( Takan, 2001, pp.97-100).

## 3.3.IMPROVING THE QUALITY MANAGEMENT IN BANKING SECTOR

Total Quality Management (TQM), which is about total customer service and continuous customer satisfaction, is applicable not only in the manufacturing industry but in the service sector as well, where the customer is just as important. In fact, customers in the service industry are more sensitive to service quality and service delivery than in manufacturing because they are always in contact with front-line service personnel, which is not the case with factory workers. These points-of-purchase contact or "moments of truth" decide whether the customer will come back or shift to the next door competitor.

Solving the problems and improving the quality in banking sector cannot happen through one solution.

Number of steps should be applied and the important point is to control these steps after applying them. These steps can be grouped as follows :

1. Determining quality factors

A bank that wishes to improve its quality, must realize the factors affecting the quality in the sector as well as the factors that the customers most care about.

2. The customer's expectation of quality

The quality level expected from the customer side can give good information to the management of a bank. Determining what is desirable often means reorganizing around customer requirements. To do that, banks have to be prepared to ask their customers questions and listen to them.

3. Influencing the customer's expectation

Customer's expectations can be influenced by some physical factors as decoration, uniforms, etc, as well as the human element. The human element component includes setting up service quality training for managers and employees on an ongoing basis. A growing trend is to have managers conduct one-on-one service quality training with their employees.

4. Technical efficiencies

Technical effeciencies include policies, computer systems, and any behind the scene efforts that affect how quickly and efficiently the bank can service customers (Morrall, 1995, pp.64-65).

Many banks are managed by finance people, with little or no training in customer service. Good service does not happen naturally or by accident. Good service is planned and managed. Without planning, bad service is the natural state of affairs. As the quality guru, Dr. W. Edwards Deming put it, to improve service quality, one has to have profound knowledge of the service delivery system.

Bankers tend to think that money - not the customer - matters. They find it hard to accept that banks are in the service industry in the same league as McDonalds, Singapore Airlines, Federal Express, Domino Pizza, and Marks & Spencer. Because of this antiquated paradigm, banks could not appreciate the excellent and valuable lessons in customer service and people management which these world-class service institutions could offer for free. Customer service will not improve if banks just learn and copy from other banks: the world class bank in terms of service does not exist yet.

In general, the bigger the bank, the more inferior the service because of complacency and bureaucracy which stifle both innovation and efficiency in customer service. The big bank can lose customers because of bad or slow service but can easily replace them with new and even bigger customers, thus hiding the service problem.

Presently banks are ranked, benchmarked, and judged of their success by sheer size, financial resources, and other quantitative measures which hardly indicate customer service quality: asset base, number of ATM's (automated teller machines), number of transactions, number of depositors, amount of loans released, etc. Bank executives are mainly involved in asset management (the bigger the better), cash flow management, spread management (the wider the better), asset/liability management, and financial ratio analysis (Chuadhuri, 2000). According to John A. Young, President & CEO, Hewlett - Packard, "Our one major goal is to create satisfied customers. Hence, all systems, objectives, and measurements are designed to improve customer satisfaction." A bank applying TQM should track as goals and benchmarks those that matter to the customer:

- processing times of key products and services, like loans, new accounts, ATM cards, credit cards, check encashment;
- waiting times like downtime and queuing time;
- customer complaints, written or verbal;
- friendliness and efficiency of staff;
- accuracy and timeliness of statements of accounts and records;
- effective interest rates, inclusive of all service and hidden charges;
- promptness in responding to customer inquiries such as in answering the phone, the number of rings before phone is picked up, and number of transfers before the caller talks to the right person.
- lost customers and accounts (Domingo, 1995)

These service indices should then be audited as regularly and as conscientiously as the bank internal auditors audit cash flows, transactions, and balances. McDonald's inspectors, equipped with standards and stopwatches, regularly check branch performance in terms of quality, service, cleanliness, and value. They make sure all branches have the same consistency in product and service quality. In other words, the customers will not have any "surprises". Contrast this to banks, whose service quality differs by branch, location, and branch managers. To aggravate the problem, head office rates and promotes branch managers based on the sheer business the branch generates: loans released, interest earned, and deposits generated; they are seldom evaluated on customers satisfaction, service, and complaints, No wonder branch managers do not pay attention to customer service since it does not affect their performance evaluation.

Most banks therefore do not have a system to handle errors or customer complaints, verbal or written.

Friendliness is just as important as efficiency to customers. Many banks have neglected the basics in salesmanship and service: No greetings when meeting customers, no thank you after any and every transaction, no eye contact with the customer, no apologies for having kept you waiting. In Japanese banks, tellers are trained to thank the customer all the time even if he withdraws money, and to apologize if he was kept waiting longer than the standard time. Depositors, borrowers, inquirers, in fact, anybody who enters the bank are all treated as customers with immediate and thorough attention. In contrast, the first to welcome customers in many banks in Asia are heavily armed security guards. Management thinks that the only way to intimidate thieves is to intimidate everybody else, including their own customers. The banking industry has probably the largest training budget in the private sector, next to the airline; with so much to be desired in customer service quality, these huge sums are obviously wasted in training the wrong people in the wrong things.

What are the consequences of bad service? According to a report submitted to the White House :

- *96% of unhappy customers never complain about rude or discourteous treatment*
- *90% or more who are dissatisfied with the service they receive will not buy again or come back*
- *each of those unhappy customers will tell his or her story to at least nine other people*
- *13% of those unhappy former customers will tell their stories to more than 20 people.*

The financial consequences of slow service and processing could also be staggering. In manufacturing, the quality cost, or the cost of not doing the right things right the first time, is estimated at 15%-35% of sales of any company. One major international credit card company I have studied in Indonesia was having a negative ROI or -7% because of system inefficiency in processing foreign billings and invoices. It took the company 3 months from time it pays the member-merchants to the time it collects the money from the foreign card issuer. Analysis showed that if they could streamline operations, and cut this time to one week, the company could have a potential ROI of 112% indeed, there is money in efficiency. But few banks realized that if they continuously cut all processing times, it becomes a WIN-WIN situation - customers are happier, and the banks make more money (Efil, 1999).

# 4.THE RESEARCH OF STUDY

## 4.1.RESEARCH METHODOLOGY

At the begining of this research, I proceeded in collecting secondary information regarding the banking sector generally. Based on this information, a structured questionaire was compiled, consisting of 12 questions. The questionaire was used to obtain data and information about the general quality status in the banking sector in the TRNC. The research was conducted on 25% of the banks found in the TRNC during the month of May 2003. The analyzed banks are :

- HSBC
- KOOPERATIF BANK
- NEAR EAST BANK
- AS BANK
- IŞ BANK
- AKFINANS BANK

The research was done through questionaire that contained questions about the following groups :

- Sufficiency of resources and use of information systems;
- Quality policy and strategy;
- Human resources awareness;
- Communication procedures on behalf of banks which could lead to customer satisfaction.

## 4.2.RESEARCH HYPOTHESIS

According to secondary data, banks in TRNC donot seem to follow the world-wide trend of implementing quality principles and management systems.

After analyzing the listed banks, I realized that some bank managers donot know the meanings of ISO and internal customers, and the managers that know these terms donot apply any quality activities or even modern quality managements. Certain elements seem to be an obstacle in the banks normal functions. These elements are the following :

- Absence of written quality policy;
- Lack of systematic training on quality;
- General confusion of the meaning of quality.

## 4.3.BASIC FINDINGS OF THE RESEARCH

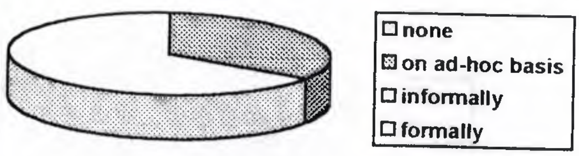
The research analysis verified the reasearch hypothesis as it showed that in the vast majority of the institution understudy, the application of quality approachs in Turkish Cypriot banks is at an initial stage.

The main reason for the absence of the TQM is the ignorance of quality issues. Since managers donot seem to be ready to apply modern methods of management and are unaware of basis quality terms. Specifically :

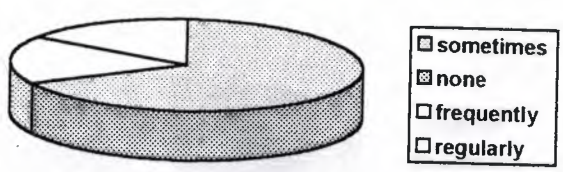
- 33.4% of the managers donot monitor quality of service and customer satisfaction,
- 33.4% of them are not aware of ISO certification and 16.7% of them are not aware of the term Internal Customers,
- 66.7% of the managers measures only sometimes the work productivity and customer satisfaction,
- 33.4% of them involves in quality activities only on ad-hoc basis.

The results of the questionaires are presented graphically.

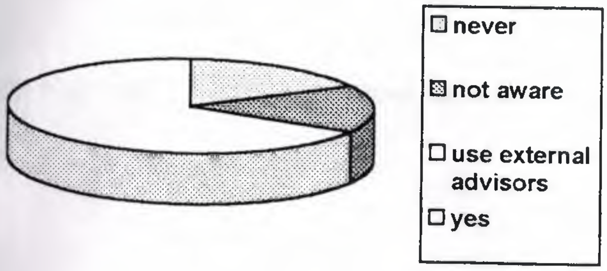
The first question was about applying quality activites; and the answers were as follows:



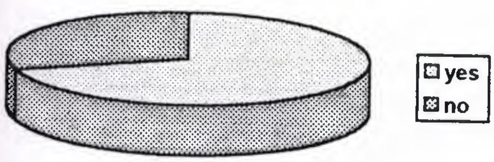

The second question was about using indicators to measure customer satisfaction;



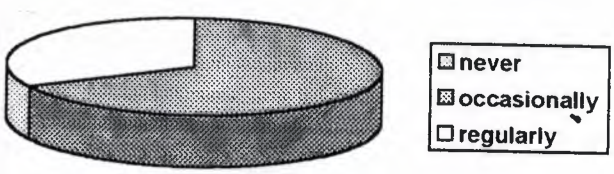
The third question was about the application of quality management models;




The fourth and fifth questions tested the awareness of the managers of the terms ISO and internal customers;

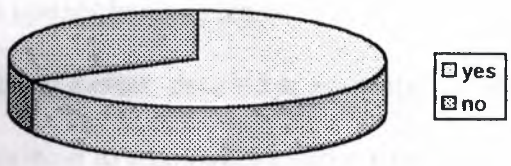



A question was asked about carrying out reports on service quality;



A formal question was asked about service quality and if is it concerned as part of the company's mission and the answers were all yes,

And the last but not least was a question about monitoring quality of service and the answers were as follows;




## 5.CONCLUSION

As far as strategy and policy are concerned, although quality is considered to be a part of the bank's mission, it should be noted that quality is absent as a target of organizational planning. Tha main conclusions of this research are as following:

- The use of information systems in the banking sector is limited.
- Only half of the responding banks use some kind of information system and this happens frequently.
- Very few managers keep formal reports on the quality activities.
- The ignorance of essential quality terms by superior managers leads to lack of information and appropriate education of bank employees regarding quality issues.

## 6.RECOMMENDATIONS

The need for updating and implementing new rational management-administration methods and multi-levelled restructing of Turkish Cypriot banks is now imperative. In order to ensure a successful implementation of the above actions, which are anticipated to lead to efficient and effective banking operations, the following actions are essentials:

1) The motivation of employees so that their productivity will be increased and the level of service provided by them will be improved.
2) The appointment of qualified and competent managers who will successfully contribute to the unitary banking management.
3) The determination of a clear, detailed and specific quality policy.
4) Giving enough training to employees inorder to understand the strategy and the terms.
5) Monitor the customer satisfacion periodically through improved methods as filling questionaires.

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