

## ASSESSING TOTAL QUALITY MANAGEMENT AS A SOURCE OF BANKING COMPETITIVE ADVANTAGE

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### ABSTRACT

Competition today is one of the most important factors that assist the banks to grow , develop, expand their business and play a critical role in improving and motivating the quality of services to enhance their competitiveness in the marketplace. The objectives of this article is to assessing the relationship between total quality management dimensions as a source of competitive advantage for Jordanian banks, the research looks at the effect of implementing the total quality management practices in increasing the competitive advantage of banking by using the Porter definition of competitive advantage which cover the differentiation of services and the cost of services, the article has been studies four dimensions of total quality management, customer focus, service quality , product innovation ,cost of quality , the study was used the cross- functional research methodology and a unit of 70 managers and supervisor from four Jordanian banks was selected,. SPSS program was used to analysis the data for 240 responses, the main findings of the article is to improve the effect of adopting the total quality practices and in increasing the market position of Jordanian banks, the article tends to be reference guide for services sector generally and banking industry especially by considering the effect of total quality management in increasing the market positions, markets shear and the competitive advantage.

**Keywords:** competitive advantage total quality management, customer focus, service quality, product innovation, cost of quality, Product\services differentiation

### 1. INTRODUCTION

Any organization today is seeking to gain a competitive advantage in the marketplace, especially if the market environment is open, and the competitions from the local and international companies are high , in the banking industry to gain a competitive advantage, it's more difficult because the differentiation in products is too rare because most of the banks provide the same services and product, Quality management is the single term may have different interpretations depending on the places that be used for Example in Bankers it is Service, Restaurant it is Customer measurements Satisfaction and for manufacturing it's the Quality of Product. Total quality management today is

common in manufacturing because they know and realize the benefits of adopting and implementing the total quality management model in their process and operations. While still until now most of the services sectors include banking industry has a lack of conviction in the benefits of adopting TQM in their activities and to understanding if the quality management will increase the competitive advantage or not. Many researchers define the techniques for implement the total quality management dimensions in the organization; (Bryde, D. J and L. Robinson, 2007,). TQM process start with clear vision statements and a well-defined of scope and objectives with clear progress and procedures for controlling issues and managing risks with developing an effective team member with a well-defined role including task objective. Total quality management philosophy is focusing on customer service and the by putting the customer need in top list of organization activity (Alomain, 2003). And because the customer satisfaction plays a significant role in banking industry especially in market like Jordan, that is facing a huge competition from local and international banks in addition to the differential between services among banks is too rare, the research will investigate the effect of implementing total quality management in commercial banks in Jordan and discover the impact of implementing TQM in increasing the competitive advantage.

### **1.1 RESEARCH PROBLEM**

Jordan market is one of the safest and stable markets in the Middle East, also, the kingdom had a proper growing in GDP and income level in the recent years, because of that Arab and foreign banks were Enthusiastic to open branches in the Kingdom and start offering new tools and product of banking services for Jordanian customers. This makes the Jordanian banks live under the influence of three major powers, the customers, competition, and change, where customers and their needs become the most critical factors to continued, growth and development. TQM plays a major role in increasing the customer satisfactions, and customers loyalty. Porter (1985) defines the competitive advantage as the capability of any organization to create a product or services differentiation in addition to price leadership from the competitors and once the dimensions of total quality management match in same place Porter definition, the study will try to investigate if the total quality dimensions can make a competitive advantage.

for Jordanian commercial banks by considering the four Dimension of total quality management, Customer Focus, Product\service quality, Product Innovation and Cost control

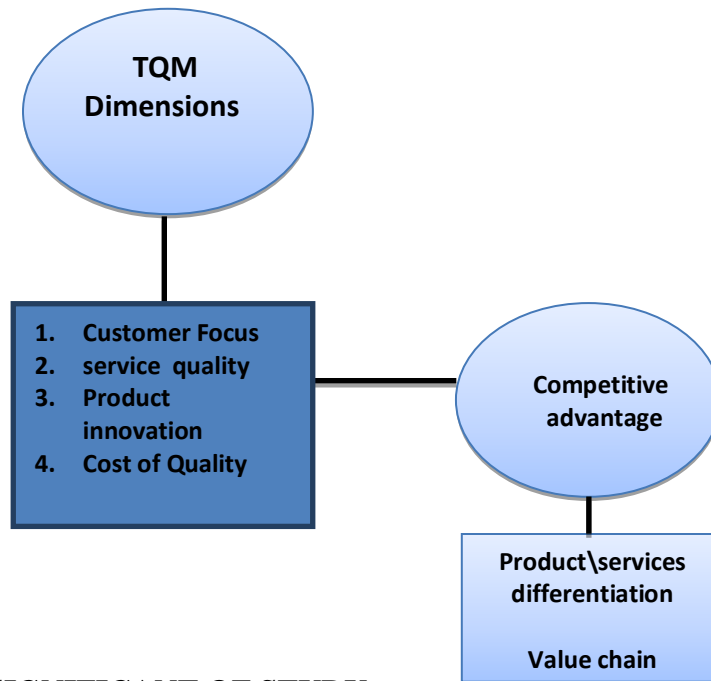
### **1.2: RESEARCH QUESTION:**

From the above problematic factors the study will be addressed the following questions: If the TQM dimensions and practices can lead the organizations to gain a competitive advantage or not? And from the main question, the research tries to answer the below sub- questions Q1: What the impact of the implementing total quality management on banking service quality? Q2: what is the impact of implementing and adopting the dimensions of quality management in increasing customer service satisfaction level? Q3: what is the effect of applying and utilizing quality management dimensions in cost control? Q4: what is the impact of implementing and adopting the dimensions of quality management in product innovation?

### **1.3: RESEARCH HYPOTHESES:**

The main hypotheses for this research are H1: There is significant relationship between Total quality management and competitive advantage in the Jordanian commercial banks And from the main hypotheses the research investigate the below sub- hypotheses H<sub>1.1</sub>: There is a significant relationship between competitive advantage and service quality. H<sub>1.2</sub>: There is a significant relationship between competitive advantage and customer service level. H<sub>1.3</sub>: There is a significant relationship between competitive advantage and the product innovation and diversity. H<sub>1.4</sub>: There is a significant relationship between competitive advantage and cost of quality in banking

#### 1.4: RESEARCH MODEL:



#### 1.5: SIGNIFICANT OF STUDY:

In the last decade, Jordan was transferred to open market strategy because of that many of Arab and international banks like **HSBC, Standard Chartered, and BLOM Bank** had started working and competition the Jordanian banks in the Jordanian market. Besides that many new regulations were issued by the central bank of Jordan like the corporate governance, which makes the banking leaders under pressure to meet this rapid changing in the Jordanian market. The study will tend to provide reference in the educational institutions about the role of total quality management (TQM) in increasing the performance and productivity of service sector especially in banking industry and clarify the role of TQM model and practices as a source of leading the banks to gain a competitive advantage based in Proter (1985) definition of competitive advantage.

### **1.6: RESEARCH OBJECTIVES:**

1. Define the stages of implementing TQM dimensions in the banking
2. Highlight the requirements that must be adopted by banking services to improve their quality and to support the competitive advantage of banks.
3. Define the competitive advantage element's and how can the service sector benefits from the differentiation in services
4. Trying to visualize the framework of the relationship between total quality management and competitive advantage in commercial banks

### **2: RESEARCH METHODOLOGY:**

Jordanian local banks are around twenty banks, our targeted is to assess the banks that adopt and implement TQM in their process that will make The research population limited to four Jordanian banks ( **Jordan Dubai Bank, Ahli Bank, Housing Bank, a commercial bank** ), the study was used the cross- functional quantitative research methodology a unit of 70 managers and supervisors from each bank was selected, the research sample size is 280 employees in supervisory positions in the four targeted banks. After getting 240 respondents, SPSS program was used to produce a regression analysis of the TQM above dimensions.

#### **2.1QUESTIONNAIRE DESIGN:**

The study was used the Ahire and Ravichandran (2002) multidimensional questionnaire for measuring the total quality dimensions The questionnaire was validated by(Sadikoglu and C. Zehir (2010), and we make some customizations in the questions to adopt the Jordanian market culture and Confidentiality of the targeted banks.The questionnaire consists of 25 items each five questions cover one dimension, and five questions measuring the competitive advantages where the respondents will have to assign on likert five point scale the level of impact the TQM. Where will be

1. Strongly agree 2. Agree, 3. Neutral 4. Disagree, 5. strongly disagree.

### **3. LITERATURE BACKGROUND**

#### **3.1: TOTAL QUALITY MANAGEMENT**

From the mid-eighties, most of the big organization have been tested the total quality management as one of the critical success factors and the companies (Sutter, 1996). Kaynak (2000) shows that total quality management plays a significant role in building the organization's commitment and assist the organization to meet the customer requirement and satisfaction.

Many researcher define the total quality management Sashkin & Kiser (1992) define quality management as an process of continues improvement to meet the customer need and expectations also AL-Asiri (2004) focusing on the role of total quality management in improving goods and services by meet the customer expectations through effectiveness and efficacy process , regarding that Jordanian commercial banks and any service company must consider the total quality management not only as a quality system but also as the sources of improving the services to gain an competitive advantage in marketplace, the research investigate the impact of the four dimensions of total quality, Customer Focus, service quality, Product Innovation and Cost control and how will assess the Jordanian commercial banks competitive advantages in the marketplace .

##### **3.1.1: CUSTOMER FOCUS**

Most of the organization is looking for increasing the customer satisfactions while total quality management is considered as a tool for increasing the customer satisfactions with minim limit of resources (Hallsten and Klefsjo, 2000), the new researchers in customer satisfactions approved that the link between the corporate vision, mission and values is an essential part of designing the customer satisfactions program Psomas (2010) in addition to management support and follow-up

In banking sector, the differentiation between products is very rare because most of the baking provide the same type of services, and because of that the customer service become the most important part in the competitions between banks,

Total quality management process is focusing on customer satisfaction program by developing procedures to measure the customer satisfactions level in a particular period and develop a plan to increase the customer satisfactions Psomas(2010).

### **3.1.2 SERVICE QUALITY**

Customer always when dealing with any products or services are expected a high quality (Bennett and Rundle-Thiele (2004); and most of the world class companies like Apple and General Electric consider the quality of products as primer objectives that went to achieve, but in the services sector the quality of service is more difficult because the definition of quality in any service always needs to define, while

some researcher like (Levitt, 1980) believes that even the simple service or products in the marketplace need to differentiate in order to survive, the study was conducted by Kanji and Asher (1996) appear that implementing a total quality management to improve the quality of services has an complicated process and it its need to review and control in Frequently bases .

### **3.1.3: PRODUCT INNOVATION**

Many researchers investigate in the relation between total quality management and product innovation (Pisano, 2002).Whereas total quality management considers the consistency of product and service, standardizations and quality control, while the innovation is considered how difference and add value that makes in goods and services.

The relation appears in the role of total quality management in controlling the operation process, reducing the reduction cost and continues improvement in learning cycle (Kim et al., 2012).The role of total quality management is building the infrastructure in product design process by to linking the customer expectations with product design and development process Wilkinson (1992), in addition to the role of total quality management as tools for improving the a quality of monitoring like Deming cycle Deming (1982,1986).

### **3.1.4: COST OF QUALITY**

Porters (1980) define the cost leadership is one of the most element in achieving the competitive advantage in the marketplace while there is an extra cost for implement and adopt total quality management like inspection costs, preventive costs and failure costs (Politecnico di Milano2010). Therefore, many banking leaders claimed that there is an unnecessary extra cost for implementing total quality management process in the organization, while some researcher like (Ashweni Sahni and Chris Gaertner 1996), shows that the return on investment for total quality management can be calculated in each year and must of the time the companies will make benefits from implementing the total quality management in their process Also the benefits from the improving the service's cycle and service quality in addition to increasing the competitive advantage for the company will effect in the cost reduction

### **3.2 COMPETITIVE ADVANTAGE**

Any organization or company when trying to create goods or provide services is looking for differentiation to gain a competitive edge by providing high-quality product with low price than the competitors, Porter (1985), so the cost of goods or services and the quality of the banking service play an a significant role in the banking industry, this important area that was developed by Porter's (1985) is covering the most important elements of any organization that seeking to gain a competitive advantage in the marketplace that include the product or services cost in the other word the value chain and product or services differentiation Porter's (1985), the research will consider these elements to discover the relationship between Porter model and total quality management dimensions in banking sector .

#### **3.2.1 VALUE CHAIN**

The meaning of competitive advantage is providing and matching and surpassing what others and competitors offer, because of that it's paramount to measure and discover what the customer need and expected then how the organization cans profitability is satisfying



Hill & Jones (2001, 5th ed.).The value chain concept and terminology was developed by Michael Porter(1985), the concept define how the organization develops the product and services through chain of activates include designing , producing , marketing and delivering and support(Porter, 1985:33) these chain

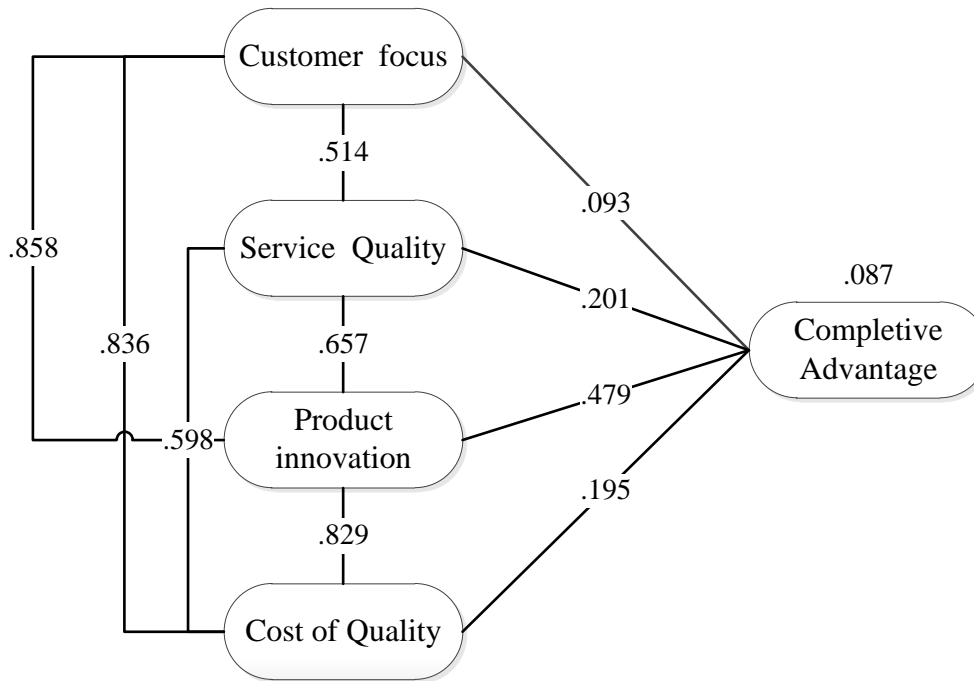
must be calculated by the companies to provide the customer with valuable product and services while Hill & Jones (2001, 5th ed.) define the value chain as the process of producing and designing the product from inputs to outputs also(Pearson, 1999), Confirmed the value chain play a significant role in competitive strategy by determining the role of the organization leader in developing the organization objectives by analysis the value chain and the advantage and disadvantage of production process then consider the value chain in the design phase .

### **3.2.2: PRODUCT\ SERVICE DIFFERENTIATION**

Today each company try to offer and deliver a product or services in the marketplace by creating a particular characteristics or identity to goods and reach the targeted customer, product differentiation is one of marketing principles that the companies used to differentiate the services and product from competitors (Kotler and Keller, 2006) , but what make the product different in the market, Jay(2006), define the most factors that make the differentiation between services in marketplace which cover the quality of services and product, pricing strategy and product design and packaging Total quality management principles seek to build integrations between all organization functions starting from design the services into the packing and delivery, according to Tuz (2000), the companies need to conduct a benchmark in frequently to discover what the standard and quality of the similar product or services that was offering from the competitors

## **4. RESEARCH ANALYSIS**

The researcher considers four Jordanian banks they had implemented and used total quality management methods that make the research populations is limited to (Jordan Dubai Bank, Ahli Bank, Housing Bank, and commercial bank ), a unit of 70 managers and supervisors was selected from each bank ( $n=240$ ) questionnaire was responses and collected



$$CA = .087 + .093 (CF) + .201 (SQ) + .479 (P) + .195 (CQ)$$

**Table 1: Cronbach's Alpha result**

Aspect	Cronbach's Alpha
Customer focus	0.733
Service Quality	0.752
Product innovation	0.769
Cost of Quality	0.665
Compleitive Advantage	0.830
The Total Cronbach's Alpha Degree	0.853

From the table one we show that questionnaire reliability had been significant and the Cronbach's Alpha coefficient, the result of reliability coefficient and composite reliability was 0.853 this evidence that the questionnaire is reliable and coefficient. Table 2 study

The correlation between the research variables and competitive advantage,

The findings show that the correlations are high for all variables; the strongest relation was between the product innovation and competitive advantage while the lowest correlation was between the costs of quality as a source of competitive advantage

**Table (2) correlations and reliability coefficient, Means & standard deviation**

		1	2	3	4	5	Mean	SD	Skewness	Kurtosis
1	Customer focus	<b>.733</b>	.224	.651	.553	.475	2.81	.753	.438	.349
2	Service Quality		<b>.752</b>	.498	.365	.418	2.33	.767	.098	.915
3	Product innovation			<b>.769</b>	.765	.721	2.68	.809	.380	.411
4	Cost of Quality				<b>.665</b>	.703	2.83	.698	.727	.191
5	Competitive Advantage					<b>.830</b>	2.99	.873	.026	.449

**Table (3): Regression results for competitive advantage**

D.V	R	R <sup>2</sup>	F	DF	Sig	Beta	T-Value	Sig		
Competitive Advantage	.762	.580	74.346	Regression	4	.00	CF	.01	.185	.853
				Residual	215		SQ	.08	1.64	.103
				Total	219		P	.40	4.90	.000
							CQ	.37	5.34	.000

#### 4.1 HYPOTHESES TESTING:

the main hypotheses suggested there is a significant relationship between total quality management and competitive advantage, the study test the hypothesis by analysis the data ,regression method was used to verify the relation between competitive advantage and Total quality management the analysis table (3) shows the relation was significant where the correlation coefficient equal (.762) and the R Square(.58) this result confirm the Total quality management effect by( .58 ) in the competitive advantage. The beta

value was -0.01 in CF, 0.08 in SQ, 0.40 in P and 0.37 in CQ, which means the change one degree in the interest level in Total quality management in its 4 aspects leading to increasing the competitive advantage about -0.01 in CF, 0.08 in SQ, 0.40 in P and 0.37 in CQ, and the value of (F) test that equal 74.35 confirm the relation between the two variables competitive advantage and Total quality management at the significant level ( $\alpha < 0.05$ ).

#### 4.2 SUB-HYPOTHESIS

**H<sub>1.1</sub>:** suggest that there is a significant relationship between competitive advantage and service quality at the significant level ( $\alpha < 0.05$ ), to test this hypothesis the regression method was used to verify the relation between competitive advantage and service quality the analysis Table (2) shows the relation was significant where the correlation coefficient equal (.752) and the determination coefficient (R Square) (.580) this result confirm the service quality effect by .580 in the competitive advantage the beta value was(.8) and the value of (F) test that equal 74.346 confirm the relation between the two variables competitive advantage and service quality .

**H<sub>1.2</sub>:** the hypothesis investigate the relationship between competitive advantage and customer service level at the significant level ( $\alpha < 0.05$ ), to check this hypothesis the researcher used regression method the analysis shows at Table (2) the relation was significant where the correlation coefficient equal (.733) and the coefficient R(580) this result confirm the service quality effect by .580 in the competitive advantage , and the beta value was(-.01) and the value of (F) test which equal 63.49 confirm the relation between the two variables competitive advantage and service quality

**H<sub>1.3</sub>:** the hypotheses examine the relationship between competitive advantage and the product innovation and diversity at the significant level ( $\alpha < 0.05$ ), to test this hypothesis regression method was used the analysis shows Table (2) the relation was significant where the correlation coefficient equal (.769) and the coefficient R(580) this result confirm the service quality effect by R(580) 2 in the competitive advantage and the beta value was(.40) and the value of (F) test which equal 74.346 confirm the relation between the two variables competitive advantage and service quality.

**H<sub>1.4</sub>:** examine the relationship between competitive advantage and cost of quality in banking services at the significant level ( $\alpha < 0.05$ ), to test this hypothesis the researcher used regression method to test the relationship between competitive advantage and cost of quality the analysis shows the relation was significant where the correlation coefficient equal (.665) and the determination coefficient (R Square) (.580) this result confirm the service quality effect by (.580) in the competitive advantage and the beta

value was(.37) confirm the relation between the two variables competitive advantage and service quality

## **5. RESULT AND FINDINGS**

The quality of banking services is an essential element today Especially in the world of massive competition between different banks, Competitive advantage as strategic tools in banking sector, allows the banks to increase the opportunity for growth, expand, and increase the market shear, while the total quality management provides the practical tools to enhance the banks process and to improve the competitiveness in the marketplace , the study was investigated the effect of total quality management in increasing the competitive advantages in banking industry and Regarding the analysis the research found that there is a strong relationship between service quality, product innovation, customer focus and cost of quality with the competitive advantage of the Banking ,This is due to the overall quality management tools that drive and lead to developing the business strategy, and improve competitive advantage in order to achieve Profitability through good service, but to reach this position it must link all total quality management activities with the banking business process by encouraging the Innovation, and improve the methods of work and measure the customer satisfactions infrequently basis .in addition to the important role of banking leaders in commitment to lead and encourage the employees to adapt and total quality management principles to gain competitive advantages in the marketplace which drive the bank to increase the markets share, customer satisfactions, and profitability .

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