A COMPARISON OF QUALITY MANAGEMENT IN VARIOUS CATEGORIES OF SMALL SERVICE BUSINESSES

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ABSTRACT

This paper compares managerial perceptions of total quality management (TQM) practices in different types of small businesses in the service sector. It is based on a survey of small service organizations in northeastern Indiana. While firms in all categories studied indicated that their top management was committed to TQM, they were lacking in actual implementation. Similarities, differences, and implications in the responses from the different types of businesses are discussed.

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INTRODUCTION
This paper presents a comparison of managerial perceptions of total quality management (TQM) practices in three types of small businesses in the service sector—food services, financial services and services whose direct recipients are people. The paper is based on the results of a survey of small firms in these three types of service businesses. TQM implementation, quality tools used, successes, failures, benefits, and problems encountered in these businesses are discussed. Similarities and differences in the responses of the firms in the three categories are discussed as well as the unique nature of each category.

Most of the large manufacturing firms have adopted TQM programs in order to be competitive in the global marketplace. Literature regarding quality management in the service sector if quite recent and, further, restricted to large service-oriented organizations. Studies about the status of TQM in small service firms are few and far between. Complaints about the deterioration of both quality and customer service have become quite common.

Small business firms today employ more people than big firms. For instance McDonalds’ franchises are collectively the largest employer in the U.S. Quality in small businesses attracts as much attention as is the case in large organizations. For instance, the International Standards organization (ISO) has publications addressing the implementation of ISO 9001-based quality management systems for small organizations (International Standards Organization, 2002). This is even reflected in the Malcolm Baldridge National Quality Awards – out of the 49 organizations applying for the 2002 awards, only 8 were large manufacturers. The rest were: 3 service, 10 educational, 17 health care, and 11 small business firms (Baldridge Process News, 2002). There is still a dearth of material in the literature regarding the status of total quality management in small firms particularly in the service sector. This study seeks to establish the extent to
which TQM has been deployed in small firms in food service, financial services, and services directed at people.

**SERVICE INDUSTRIES IN THE STUDY**

As already mentioned this study focuses on three categories of small businesses in the service sector. In this section, we discuss the characteristics of these categories of services—food service, financial services, and services directed at people.

There is no indication that the food service sector has been subjected to the same intensity of global competitive pressures as many other service industries. If anything, it seems that it is U.S. business that is taking the fight in this area to the global scene.

The nature of the food service industry touches very directly on the immediate health of people. This uniqueness may account for the closer scrutiny and monitoring that the industry attracts from local, state, and federal health agencies to ensure that certain standards that would otherwise have been voluntary in other sectors are observed.

Like other service industries, the food service sector is a major employer and contributor to gross domestic product in the U.S. and other advanced economies. It is not surprising that organizations in this industry have been studied extensively in the production and operations management field especially with respect to the adaptation and application of techniques utilized in the manufacturing field. Despite the heavy attention that operations management researchers have paid to firms such as McDonalds, Burger King and others, the literature regarding the status of total quality management in the food service sector is sparse.

Increasing market deregulation and extensive breakdown of governmental barriers by international agreements have created a global highly competitive environment in such cross-border sectors as financial services (Longco and Cox, 1997). It is averred that these pressures later spilled over to other service sectors on the domestic front with the focus
shifting from price to both price and quality (Singh and Deshmukh, 1999). The financial services category is becoming increasingly important in the service sector economy.

Poor quality is very expensive for any business. This cost can be even more onerous for service firms given the proclivity of people to sue and/or recount their good or bad service experiences to friends, family and colleagues. This penalizes the “offending” service firm on multiple fronts – loss of repeat business, unfavorable word of mouth, and a costly legal battle on its hands. The stakes are especially high where the service act is directed at people’s bodies and minds for instance health care, food services, and beauty salons. Medical malpractice suits, litigation against restaurants, and liability suits for negligence in settings such as beauty salons are commonplace and quite often do lead to bankruptcies. Hence quality and its deployment in services directed at people is even more crucial than in other types of services.

This study includes organizations rendering services directly to people regardless of whether or not the nature of the service act is tangible or intangible. A beauty salon performs a tangible action directed at a customer’s body whereas the service act performed by a school is an intangible one directed at a student’s mind. This category of service firms is unique since the organization is not isolated from the customer – the latter must physically be present throughout the service act, unlike other sectors such as manufacturing (Fitzsimmons and Fitzsimmons, 2004). This intensive interaction between the service organization and the customer in person has profound quality implications for the organization. Ensuring quality and consistency in the service offering is a lot harder to achieve than in other sectors.

A comparison of managerial perceptions regarding the implementation of quality management in the abovementioned types of services would be very interesting. The next section describes the research methodology used and the survey instrument developed. The demographic breakdown of the respondents is also included.
RESEARCH METHODOLOGY

We adopted the commonly used definition of a small business as one having 500 or fewer employees. We developed a survey instrument that included a definition of total quality management. The first part of the instrument had demographic items but respondents did not have to identify themselves. This was followed by a definition of TQM as “a business strategy encompassing the entire organization to provide goods/services that completely satisfy the customer” and 29 Likert-scaled statements covering the areas mentioned above with $1 = \text{strongly agree}$, $2 = \text{agree}$, $3 = \text{neutral}$, $4 = \text{disagree}$, and $5 = \text{strongly disagree}$.

Small businesses in northeastern Indiana were included in the samples. They were selected from the yellow pages. After verifying that the organization met study criteria and was willing to participate, a questionnaire was sent to the manager of the firm along with a stamped, addressed return envelope. There was telephone follow-up. Firms were offered the opportunity to complete the questionnaire through an interview.

Samples of 50 small businesses in the food service sector, 95 small financial services firms, and 285 small businesses in the people-oriented service sector were included in the study. The usable responses we received were 30, 47, and 174 respectively. The high response rates are attributable to persistent follow-up by students of an operations management course. Food service businesses represented included full-service and fast food restaurants, and caterers. The financial services firms included banks, cooperative societies, and accounting firms, Firms performing services directed at people included health care providers, fitness centers, beauty salons, motels, restaurants, educational institutions, churches, and entertainment stores.

Most of the respondents were from top or middle management and had been in existence for at least five years. A great majority of the organizations had less than 50 employees and had annual sales revenues of less than $10 million.
TQM DEPLOYMENT

Specific TQM deployment issues investigated included respondents’ perceptions with regard to the commitment of top management to TQM, the existence of a formal TQM program in the firm, the existence of internal quality standards, specific TQM tools and quality improvement programs (QIPs) used, and involvement of suppliers in TQM efforts. Table 1 summarizes these findings. We see that 57.4% to 69% of the firms in the three categories reported that their top managements were totally committed to TQM and that they had a formal TQM program. In sharp contrast, responses regarding specific TQM deployment tell another story. They fall short on implementation. On the issues of having benchmarked internal quality standards and using TQM tools and quality improvement processes, only 36.2% and 31.9% of the financial services businesses agreed or strongly agreed. The nature of this industry makes it difficult to develop these standards and employing TQM tools. Compared to the other two service sector types, a higher proportion of the respondents from food service companies (46.6%) agreed or strongly agreed that suppliers were involved in their TQM program. This is explained by the fact that the quality of ingredients plays a significant part in the success of a restaurant. A mere 13.3% of the food service businesses reported using team building techniques such as quality circles suggesting that this industry does not attach any importance to the value of team work.

The above results raise the possibility that respondents may simply be using TQM as a fashionable buzzword. Responses to items dealing with implementation provide little evidence of actual deployment of TQM in a majority of the firms surveyed. This state of affairs is however not unique to the service sector. Even in the manufacturing sector, firms are using common TQM tools and techniques rather sparingly (Zwirn, 2002). There may also have been ambiguity in the minds of the respondents about the term TQM and many may not have really understood its meaning completely despite the inclusion of a
formal definition in the survey instrument. The survey instrument did not contain an elaborate explanation of TQM and some respondents may have perceived this as “intention to pursue” rather than “actual implementation” of TQM in their firms.

**WORK PROCESSES AND REWARD SYSTEMS**

The study also sought to establish respondents’ perceptions regarding their firms’ practices in employee training, commitment, responsibility, culture, continuous improvement, and reward systems in connection with quality. In general, most respondents indicated that their organizations were continually making improvements in their work processes and employees were committed to achieving excellence (Table 2). On the issue of employees being responsible for their own work, the percentage of respondents agreeing or strongly agreeing was considerably less in the food service organizations (66.6%) compared to the other two categories. The low skill level of many employees in this industry may explain this difference. The lower proportion of respondents agreeing or strongly agreeing with the statement that their firm’s organizational culture builds mutual trust is attributable to the competitive environment in the financial service industry.

Only half of the respondents from the food service industry agreed or strongly agreed that employees undergo extensive quality training. This low proportion compared to the reported top management commitment to TQM suggests that employees are left on their own to implement TQM with little organizational support. Just 36.2% and 54% of the respondents in the financial services and people-oriented industries agreed or strongly agreed that employees who successfully apply TQM are rewarded/recognized. It is at sharp variance with the much higher proportions on the other items suggesting that the firms are yet to follow through on their implementation of TQM. They may merely be paying lip service to TQM.
The findings may also signify that most firms’ commitment to TQM was higher than their commitment to rewarding employees for quality performance. In quality-conscious organizations, high quality is everybody’s business and it has to be buttressed by a reward system that recognizes successful instances of quality accomplishments (Sureshchander et al, 2001). These results may be pointing to a malaise which is not the exclusive domain of firms in these service industries. Other studies have shown that even in the manufacturing sector, most firms’ TQM programs are yet to evolve to that stage and time where the importance of tying reward systems to quality performance is recognized (McCarthy and Keefe, 1999).

CUSTOMER-CENTERED ISSUES

The final set of issues surveyed covered the extent to which customer satisfaction is incorporated into the firm’s quality program. This category goes to the root of the definition of TQM included in the survey instrument. Table 3 presents a summary of the responses. Most of the respondents (73.3% to 95.7%) reported that their organization did focus its corporate sight on customers by using various mechanisms of assessing their satisfaction and having in place a system for handling their complaints. Only a little over a half of the respondents from the financial services industry indicated that the organization systematically assessed customer satisfaction. This suggests that these firms may not regard it important to assess customer satisfaction independently from handling customer complaints.

CONCLUSIONS

Our survey results highlight inconsistencies in how small organizations in service industries perceive and implement total quality management programs. While a majority of the small firms surveyed maintain that they are committed to TQM, the survey results
do suggest that these programs may not have been thoroughly thought through or deployed. This supports conclusions others have reached that TQM even in large companies often suffer from lack of commitment and proper implementation (Zwirn, 2002). A part of the problem may stem from different levels of management perceiving it in different lights. There is obvious need for the entire organization to be in agreement with regard to TQM deployment, supplier involvement, use of TQM tools, QIPs, employee quality training, and establishment and use of benchmarked standards.

The area of quality training of employees in the food service industry stands out in the survey results – with an obvious need for the majority of firms to raise their commitment in this area to the same levels as their reported commitment to continuous improvements in work processes and customer satisfaction. The very nature of the food service industry may be responsible for the lack of TQM implementation. The survival of restaurants and catering establishments rests heavily on pleasing the customer, which, in turn, depends considerably on the impression frontline workers such as hostesses, and waiters make on the customer and on the food or drink served. These are functions of the personality and skill of not only the employees who have direct contact with the customer but also those who prepare the product. The firms may therefore be relying on employees to implement TQM practices mostly on their own but providing them with little training to actually enhance these skills. The industry should place more emphasis on nurturing the workforce as a resource, building in quality, and getting back to basics.

The confidence customers have in financial services firms and their employees is critical to the success of these firms. This depends to a great extent on the knowledge and skills of not only the employees in direct contact with the customer but also those who work in the back office. Handling customer complaints effectively does not automatically ensure customer satisfaction. Systematic assessment of customer satisfaction is vital to the financial services sector.
It is noteworthy in the financial services and people-oriented industries that employees who successfully practice TQM are not necessarily rewarded or recognized. These firms have to raise their commitment to employee reward to the same level as their reported commitment to TQM.

More fundamentally, these survey results do suggest that US practices still stand out in marked contrast with those in Japanese firms wherein TQM is perceived differently – as being important in both service and manufacturing and buttressed by the appropriate TQM tools, QIPs, reward systems and supplier involvement (Chaudhry and Chaudhry, 2000). Juran, one of the acknowledged quality gurus, maintains that with relatively few exceptions, the United States currently is still below the Japanese as far as quality of products and services is concerned despite decades of improvements (Paton, 2002). American business should place less emphasis on short-term financial payoffs, nurture the workforce as a resource, build in quality, and get back to basics.

REFERENCES


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**Table 1**

Percent of Respondents Who Agree/Strongly Agree with TQM Deployment Statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Food Services</th>
<th>Financial Services</th>
<th>Services Directed at People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management is totally committed to TQM</td>
<td>60.0%</td>
<td>66.0%</td>
<td>69.0%</td>
</tr>
<tr>
<td>Firm has a formal TQM program</td>
<td>60.0%</td>
<td>57.4%</td>
<td>59.8%</td>
</tr>
<tr>
<td>Suppliers involved in organization’s TQM program</td>
<td>46.6%</td>
<td>34.0%</td>
<td>36.2%</td>
</tr>
<tr>
<td>Firm has benchmarked internal quality standards</td>
<td>46.6%</td>
<td>36.2%</td>
<td>50.0%</td>
</tr>
<tr>
<td>Firm uses TQM tools and QIPs</td>
<td>40.0%</td>
<td>31.9%</td>
<td>48.9%</td>
</tr>
<tr>
<td>Firm uses team building techniques such as QCs</td>
<td>13.3%</td>
<td>36.2%</td>
<td>44.3%</td>
</tr>
</tbody>
</table>
Table 2
Percent of Respondents Who Agree/Strongly Agree with Statements on Work Processes and Reward Systems

<table>
<thead>
<tr>
<th>Statement</th>
<th>Food Services</th>
<th>Financial Services</th>
<th>Services Directed at People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm is always making improvements in work processes</td>
<td>86.7%</td>
<td>87.2%</td>
<td>93.7%</td>
</tr>
<tr>
<td>Employees committed to achieving excellence in TQM</td>
<td>83.4%</td>
<td>76.6%</td>
<td>90.2%</td>
</tr>
<tr>
<td>Firm’s organizational culture builds mutual trust</td>
<td>83.4%</td>
<td>70.2%</td>
<td>78.1%</td>
</tr>
<tr>
<td>Employees who successfully apply TQM are rewarded/ recognized</td>
<td>70.0%</td>
<td>36.2%</td>
<td>54.0%</td>
</tr>
<tr>
<td>Employees responsible for their own work</td>
<td>66.6%</td>
<td>89.4%</td>
<td>87.9%</td>
</tr>
<tr>
<td>Firm’s employees undergo extensive quality training</td>
<td>50.0%</td>
<td>68.1%</td>
<td>75.9%</td>
</tr>
</tbody>
</table>
Table 3

Percent of Respondents Who Agree/Strongly Agree with Customer-Centered Statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>Food Services</th>
<th>Financial Services</th>
<th>Services Directed at People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm handles complaints effectively to earn customer loyalty</td>
<td>93.3%</td>
<td>95.7%</td>
<td>93.1%</td>
</tr>
<tr>
<td>Firm systematically assesses customer satisfaction</td>
<td>86.7%</td>
<td>52.3%</td>
<td>88.5%</td>
</tr>
<tr>
<td>Firm has a thorough system of identifying customer wants</td>
<td>73.3%</td>
<td>80.9%</td>
<td>77.6%</td>
</tr>
<tr>
<td>Firm incorporates features to delight the customer</td>
<td>73.3%</td>
<td>74.5%</td>
<td>70.7%</td>
</tr>
</tbody>
</table>