

Quality management initiatives in Hong Kong's banking industry: A longitudinal study

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ABSTRACT *As an international financial center, the banking industry in Hong Kong (HK) plays a significant role. Because of increasingly competitive pressure from domestic and overseas banks, HK banks must tightly control cost and improve quality and efficiency of operations in order to maintain profitability. For this purpose, quality management has emerged as an effective tool in recent years. In fact, it has been regarded as a vital strategic element for meeting the challenge of the new and intensified competition in the financial services industry (Knights & McCabe, 1996b, Managing Service Quality, 6, pp. 18-21). This paper reports the result of a survey on quality management initiatives in HK's banking industry between 1997 and 2000. The trend of changes in these years is analyzed and the results from HK are compared with those from British financial institutions reported by Wilkinson et al. (1996, Total Quality Management, 7, pp. 67-78). The results show that HK banks have gradually adopted quality initiatives and gained significant success in quality management over the past 3 years. They focused more on meeting service standard and providing prompt services while banking institutions in the UK focused more on understanding and meeting customers' needs.*

Introduction

The financial sector in Hong Kong (HK) plays a very important role in the Asia-Pacific Region and in the world. The banking sector also plays a crucial role in the economic developments of both HK and Mainland China. HK is the ninth largest international banking center in terms of external transaction volumes. HK banks are facing increasing competitive pressure from local banks and overseas banks. In order for a bank to survive in this competitive environment, it has to control costs, improve quality and increase productivity. To cope with the competitive pressure, HK banks have taken major initiatives in improving service quality. The adoption of quality initiatives in the banking service sector may be due to several major changes in the banking industry.

First of all, customer expectations and needs for banking services are changing. As customers become more educated, they demand new products, better delivery channels and more reliable as well as responsive services. Improvement in service standard in other industries also raises the expectation of banking customers. Banks need to deal with a

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generation of more demanding customers. To improve competitiveness, banks have to satisfy their customers by providing higher quality services.

The second major change in the banking industry is the intense competition among competitors in the industry. At the end of 1999, there were altogether 156 licensed banks and 288 financial institutions in HK. The density of financial institutes is probably the highest in the world. HK also has one of the largest representations of international banks in the world. Seventy-six of the top 100 largest international banks have operations in HK. Whenever new products are launched, they are copied in the market. In addition, prices, customer convenience, service standard and reputation are all of concern to the banks.

The third major change in the banking industry is the change in culture and technology. Customers are more concerned with their rights and are more willing to voice their opinions or complaints than before. With rapid development in mass media, any complaints or negative feelings from dissatisfied customers would be propagated rapidly and easily. Therefore, banks have to be more proactive to prevent being complained about or criticized. Rapid advancement in technology facilitates the development of new banking products and services. Information technology is heavily used as a competitive weapon by changing the critical factors of competition such as cost, price, service and quality.

Lastly, the Asian economic crisis has changed not only the banking profit formulas but also the competitive landscape in the banking sector of HK. Traditionally, local banks have strong ties with the local business community and are almost guaranteed substantial earnings from interest margins. The average return on assets (operating profit) of a local bank was at 2% in 1996. However, with the downfall of the Asian financial crisis and the domestic recession since the second half of 1997, such a formula no longer provides lucrative returns. Bad debt surged significantly in both 1998 and 1999. The bad debt charges for the banking sector as a whole increased to 0.65% of average total assets in 1999 from 0.45% in 1998 (Hong Kong Monetary Authority, 1999). Since 1997, the number of licensed banks has been reduced by 17% (from 188 banks at the end of 1997 to 156 banks at the end of 1999). Customers worried about the stability of financial institutions during the Asian financial crisis transferred their deposits to what were seemingly more reputable institutions such as the Hong Kong and Shanghai Bank (HSBC), Citibank, and Standard Chartered Bank. This made it more difficult for the small and medium-sized banks to survive.

Although HK's economic performance is on its way to a solid recovery, the demand for domestic credit remains weak. In order for banks to survive and cope with this period of intense competition, they need to write off bad loans, strengthen services and finance improvement in the products, technology and skills needed to compete with the global giants (Casserly & Gibb, 1999).

In summary, the business environment in the HK banking industry is changing rapidly. More demanding customers, rapid technology advancement as well as more regulatory requirements (such as code of practice or disclosure) strongly affect the future opportunities and challenges of every bank in HK. To survive and prosper in this environment, banks have to improve the quality of services they provide to their customers.

Although we know that banks in HK are striving for quality improvement, we do not know how they are doing and what they have achieved through their quality improvement effort. This study is designed to complete the following research agenda:

- (1) to investigate the current quality management initiatives in HK banking industry;
- (2) to examine the different approaches used in implementing quality improvement initiatives;
- (3) to identify the critical success factors and major obstacles for quality improvement in the banking industry;

- (4) to study any difference or trend in quality management between 1997 and 2000;
- (5) to compare quality initiatives of HK companies with those of financial institutions in the UK reported in 1994.

Related studies

Wilkinson *et al.* (1995, 1996) conducted a survey of quality initiatives among the 122 largest financial service companies in the UK in 1994. Ninety-six out of 122 companies responded to the survey. The respondents were executives in general management, marketing, quality and personnel functions of these companies. Based on the responses from the survey, the extent and nature of quality initiatives were analyzed. They found that an emerging and complex trend of quality initiatives was appearing in the industry and the content and success of these initiatives were mixed. Among a variety of quality initiatives adopted, the most popular quality initiatives were business process re-engineering (BPR), customer care and total quality management. The majority of the respondents indicated that their quality initiatives were either 'very successful' (12%) or 'reasonably successful' (60%). They also discovered that companies often adopted ideas in a piecemeal fashion and implemented them unevenly in the whole organization. They proposed to have more in-depth case studies of company experiences to understand the implementation of quality initiatives.

Knights and McCabe (1996a) discussed some of the inconsistencies between management actions and the underlying rationale of quality initiatives. Based on the results of six case studies during 1993-96 (which included two banks, two building societies and two insurance companies), they discovered numerous counter-productive tendencies where management said one thing but did another. Management might encourage staff to provide customer service, yet allow little time for them to do so. With the aforementioned inconsistencies, a number of initiatives had been undermined to a considerable extent. Management should reflect on such inconsistencies if they are to implement the quality initiatives effectively.

Davison and Grievies (1996) discussed service quality issues in local government. Based on the result of survey conducted among 104 local authorities in England and Wales, they found that as quality initiatives were becoming widespread, they reflected external initiatives more than proactive and internal concern with service quality. They suggested that consumer expectations were rising; local authorities needed to focus quality improvement more on identifying local needs and on their abilities to deliver those services by paying close attention to the unique characteristics of service quality.

Danaher and Rust (1996) investigated the indirect benefits from service quality using data from a market for which customer retention was not yet an important factor. They found that service quality had significant impact on both customer attraction and customer usage rates, in addition to its previously highly documented impact on customer retention. The result showed a significant positive link from service quality to likeliness to recommend, and from likeliness to recommend to customer attraction. The result also indicated that service quality was the key driver of usage rates. Therefore, they recommended that companies could use service quality to gain market share.

Athanassopoulos (1997) attempted to assess whether there would be a gap in the service quality provided as perceived by bank management and what they thought the customers had perceived. There were 2200 bank branches spread across the country of Greece including both public and private sectors. The study is the first banking survey in that country to explore how service quality is being understood among management in the industry. The author invited 680 branch managers to participate, 40% of whom agreed to a direct interview. It was concluded that the service provider was not in any position to differentiate between

his/her own beliefs and his/her understanding about customers' beliefs. Bank managers in general were under the impression that the service quality they were providing was much better than what the customers perceived. Private bankers seemed to provide better services to business customers than to individuals while public bankers tended to provide more or less the same levels of service quality to both customer groups.

Bilich and Neto (2000) in their study created a macro-function quality model consisting of five management dimensions: strategy, managerial model, organization structure, human resources, and systems. They claimed that these dimensions were instrumental to the overall measurement for service quality for banking institutions. The rationale behind such a model is that quality improvement should engage the top decision-makers of the organization in the effort for better service performance.

The objective of their study was to verify the awareness of banking executives within the financial system in Brazil on how they perceived such a macro-function quality model in the context of service quality management. A questionnaire with 48 straight propositions bearing variables of each of the five management dimensions was designed. Respondents were given a five-point Likert scale to indicate their preference or degree of desirability/undesirability. Out of the total 236 commercial and multiple banks existing in Brazil, 160 questionnaires were sent to senior executives of the larger banks in May-July 1993. Fifty-six samples were collected, which represented 78% of the existing banking agencies in Brazil. As a result of the study, a list of desirable factors (propositions) was formed which served as a consensus of what would be important in measuring service quality within the local banking environment.

All the above studies give us some insight into the quality factors or the current status of quality programs in the banking institutions of their countries. Nevertheless, none of them compared the difference in quality initiatives of the banking industry between two countries. The existing literature does not offer any insight into the banking quality initiatives in HK, nor does it contain any longitudinal study of quality programs in the banking industry. Our study is the first in the literature to fill these voids.

Research methodology

Subjects

The first survey was conducted in early 1997 and the second in early 2000. The subject group for the first survey consisted of 45 banks systematically sampled from a population of 188 licensed banks in HK. The questionnaire was sent to the executives of these 45 banks who were in charge of quality programs. After 3 weeks, the same questionnaire was sent to the non-respondents. Eventually, 19 banks responded to the survey, nine from the first mailing and 10 from the second mailing. This gave us a 42% response rate. In early 2000, the same questionnaire was sent to the entire population of 156 licensed banks in HK, rather than a sampled group. This helped us to increase the number of respondents. After two waves of mailing, 59 banks responded to the survey, representing a 38% response rate. The first mailing generated 30 responses and the second mailing generated 29.

Questionnaire

A focus group was formed to design a valid questionnaire for the study. The initial questionnaire was pre-tested to assure the relevancy and clarity of questionnaire items. The final questionnaire consists of questions in 12 areas. These include:

- (1) the mechanism adopted for quality management;

- (2) reasons for quality initiatives;
- (3) distribution of responsibilities for quality initiatives;
- (4) the main aims of the quality initiatives;
- (5) the definition of quality;
- (6) techniques or methods used in quality improvement;
- (7) degree of success of the quality initiatives;
- (8) areas of improvement achieved;
- (9) difficulties experienced in implementing quality initiatives;
- (10) critical factors for success;
- (11) methods used to monitor quality performance;
- (12) major issues in quality programs.

The first nine questions were adapted from Wilkinson *et al.* (1996). The last three questions concerning critical success factors, monitoring methods, and major issues of quality programs were created by the authors for this study. One of the major reasons for using the questions from Wilkinson *et al.* is to compare the quality initiatives among HK banks with those from the UK banks. This UK study was done after the showdown and shakeout in the UK financial sector caused by the 1987 stock market crash. What UK financial institutions were facing is very similar to what HK banks are facing today. Therefore, the findings of the 1994 UK study may shed some light on the direction in which our HK banks are going.

Data representativeness

The first step of data analysis is to examine the non-response bias and the data representativeness of the samples. A chi-square was conducted on each survey question between the respondents from the two waves of mailing in each survey. This allowed us to identify the existence of non-response bias. No significant difference at the 0.05 level was found on respondents' perceptions of quality initiatives between the two groups, indicating the absence of non-response bias. Furthermore, the distributions of balance sheet size, number of staff and number of branches of the responding banks were tested against the entire population. No significant difference was found in any distribution at the 0.05 level according to the chi-square test of independence. This indicates that both samples should be representative of their corresponding populations.

Analytic procedure

After data validation, the responses from HK licensed banks in the two longitudinal surveys were analyzed and compared with those from the UK financial institutions in 1994. A series of chi-square tests was conducted between the responses from each pair of the three studies. The result can help us to develop a picture of the trend and the extent of usage, and the nature of quality initiatives in HK's banking industry.

Results of survey

Given the 59 respondents in 2000, 23 (39%) of them had only one quality initiative, while 18 banks (31%) had two initiatives, 12 banks (20%) had three and six banks (10%) had four or more. The responses to the survey questions are summarized in Figs 1-12. The responses from the banks in 2000 are discussed first, followed by a comparison with the results of 1997 and the UK 1994 survey.

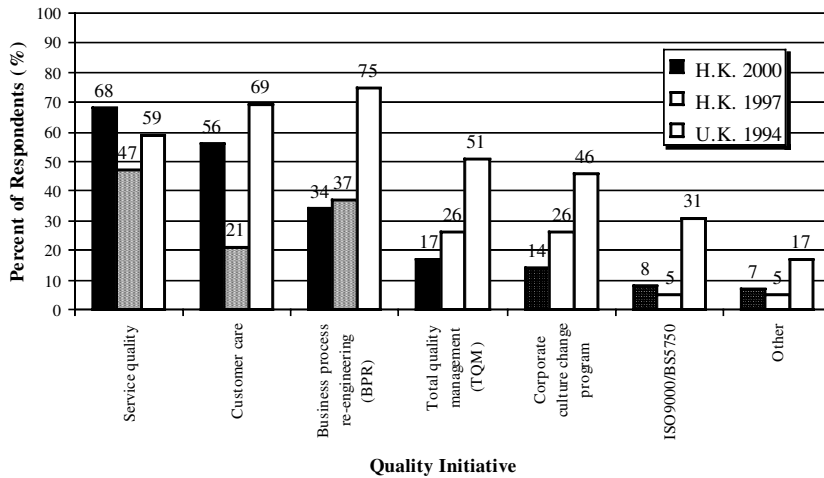


Figure 1. Adopted quality initiatives (chi-square tests between each pair of 2000, 1997 and 1994 are all $p < 0.001$).

Quality initiatives adopted for quality improvement

The responding banks seem to have adopted a wide variety of initiatives to improve quality, as shown in Fig. 1. HK banks most frequently adopt 'service quality' program (68%), followed by 'customer care' (56%) and 'business process re-engineering' (34%). ISO 9000 (8%) has been the least popular initiative among the responding banks. HK banks are generally very concerned with service quality where competition is fierce. They are increasingly focusing on the delivery of quality services to their customers.

Compared with 1997 findings, there is a significant increase in the number of HK banks involved in the different quality initiatives. 'Service quality' and 'customer care' seem to have gained much more popularity in the banking sector. On the other hand, 'total quality management' and 'corporate culture change program' have lost much popularity in 2000. This may be due to the difficulties in introducing new culture without upsetting the traditional cultures; therefore, forcing some HK banks to drop their quality initiatives.

For UK financial institutions, 'business process re-engineering' (75%) was the most commonly adopted initiative, which is ranked third in HK banks (34%). The second most popular initiative was 'customer care' (69%), followed by 'service quality' (59%), 'total quality management' (51%), 'corporate culture change program' (46%) and ISO 9000 (31%). These results indicate that HK banks are still much behind UK financial institutions in taking quality management initiatives, however the nature and types of respondents may cause the difference. In the UK study, survey respondents included banks, insurance companies and building societies, while the HK survey only included licensed banks. The comparison here cannot show us the strength of HK's banking industry; but it can tell us what direction the entire financial industry in HK might turn to.

Reason for quality management initiatives

Figure 2 shows the responses to the question of 'What led to the development of the quality initiatives?' Among the responding banks in 2000, the most dominant reasons for the development of quality management initiative are 'competitive pressure to improve service quality' (68%), 'competitive pressure to improve product design' (63%) and 'customer

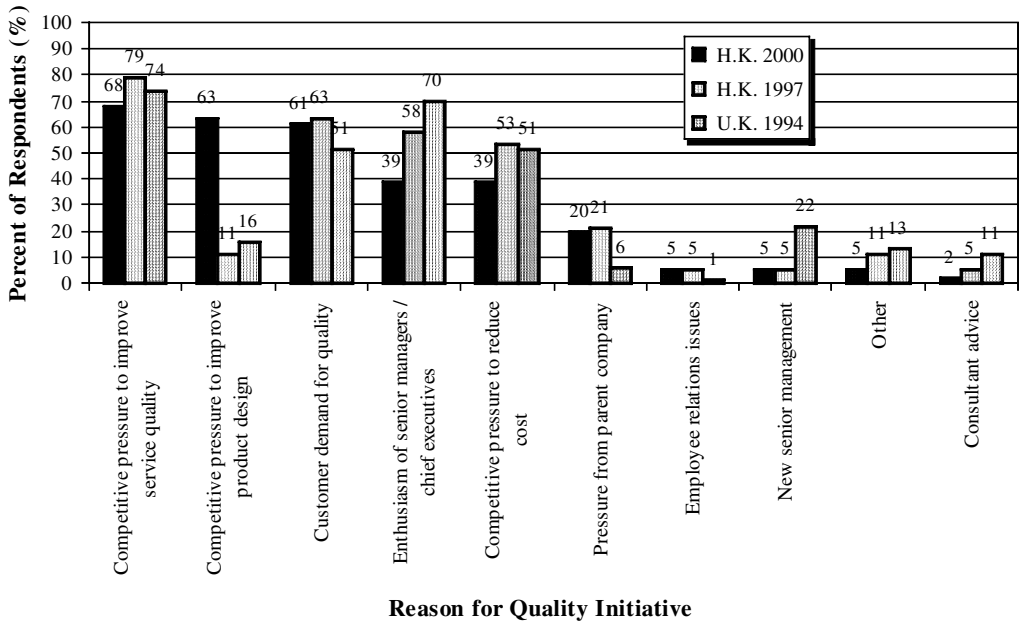


Figure 2. Reasons for quality initiatives (chi-square tests between 2000 and 1997, 1994 are both $p < 0.001$; between 1997 and 1994 is $p < 0.01$).

demand for quality' (61%). It seems that the majority of the respondents initiated quality management programs because they believe that quality improvement can help them compete in business.

When 2000 rankings are compared with those of 1997, the percentage of companies who indicated 'competitive pressure to improve product design' as the reason for quality management initiatives has increased dramatically (63% in 2000 versus 11% in 1997). 'Enthusiasm of senior managers/chief executives' and 'competitive pressure to reduce cost' (both are 39% in 2000) were less frequently cited as reasons for quality management initiatives in 2000 but more frequently cited (58 and 53%, respectively) in 1997. This indicates that HK banks seem to care consistently about the competitive pressure to improve service quality and the customer demand for service quality. However, the emphasis on improvement in product design has gained popularity only in the recent competitive environment.

The top four reasons from UK financial institutions were the same as those from HK banks in 1997. These were 'competitive pressure to improve service quality' (74%), 'enthusiasm of senior management/chief executive' (70%), customer demand for quality' (51%) and 'competitive pressure to reduce cost' (51%). There are significant differences in the percentages of 'competitive pressure to improve product design' and 'enthusiasm of senior management/chief executive'. HK banks are much higher in the former reason (63% versus 16% in the UK) but much lower in the latter one (39% versus 70% in the UK).

Where does the responsibility lie?

The results in Fig. 3 show the rankings among HK banks in 2000, 1997, and UK financial institutions in 1994 are similar. The top three responsibilities are 'all employee', 'Managing Director/CEO' and 'Steering Committee.'

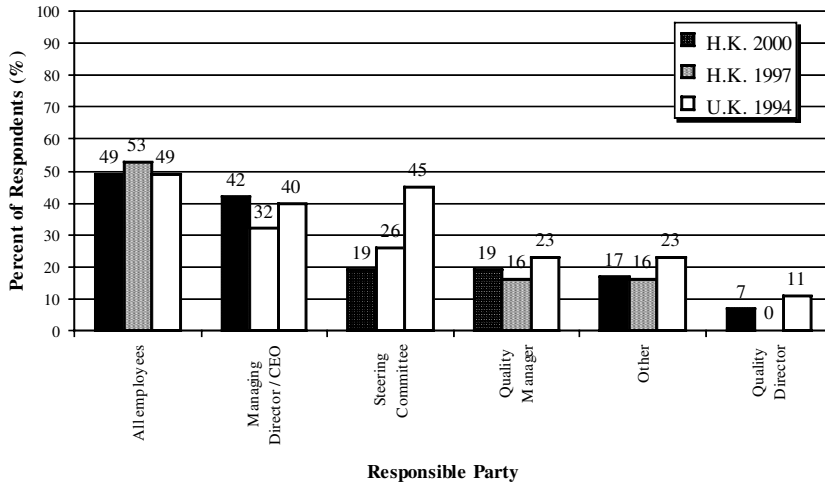


Figure 3. Distribution of quality responsibilities (*chi-square tests between 1997 and 1994 is $p < 0.05$; other contrasts are not significant*).

Forty-nine percent of respondents in HK banks believed that all employees should be responsible for quality improvement. Many of them (42%) also considered that the responsibility of quality improvement relies upon the Managing Director or CEO. The findings indicate that quality improvement is likely to start from the top level, while the success of implementation requires all employees' involvement and support. Moreover, the responsibility for quality rests relatively more on top executives than on the other managers.

Although 'Quality Director' is the least frequent party for quality responsibility, there was a great jump from 0% in 1997 to 7% in 2000. This jump indicates that quality improvement is beginning to have a designated high-ranking officer to plan, execute and monitor.

For the UK institutions, the distribution of responsibilities is quite similar to that of HK, except that a Steering Committee was more frequently relied on in the UK (45% versus 19% in HK).

Main aims of quality initiatives

The responses to the question of 'What are the main aims of your quality program?' are summarized in Fig. 4. Among HK banks, the main aims of the quality program are 'to improve the quality of service' (68%) and 'to improve competitive advantage' (68%); followed by 'to improve productivity' (47%), 'to streamline working practice' (46%) and 'to reduce costs' (37%). The lowest percentage goes to 'to support organization culture change' (15%). Although cultural change is always required in service quality improvement, it is not the main aim of a quality program.

'To improve the quality of service' was also the highest ranking in 1997 data, but 'to streamline working practice' dropped from 63% in 1997 to 46% in 2000, and 'to reduce cost' dropped from 58 to 37%. This indicates that the increasing competition of the HK market has shifted the aim to improving competitive advantage. Moreover, most quality programs consume a lot of resources at the outset and nothing can be done if a bank is cost

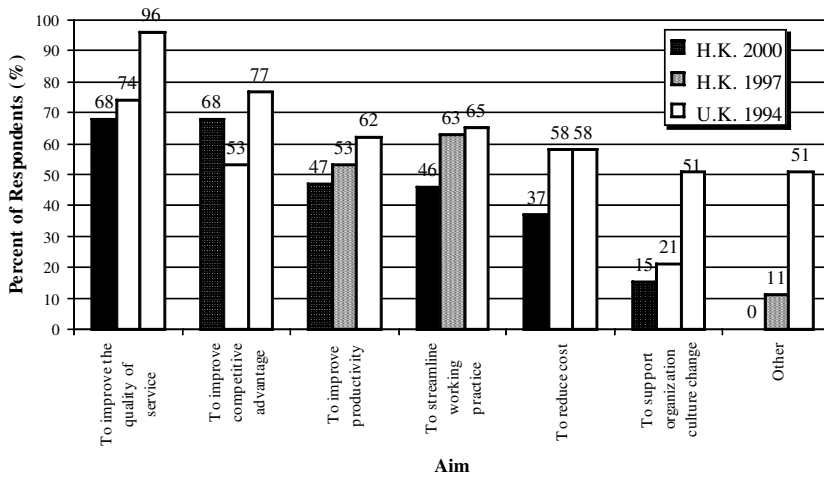


Figure 4. Main aims of quality initiatives (chi-square tests between 2000, 1997 and 1994 are both $p < 0.001$; between 2000 and 1997 is $p < 0.01$).

conscious. Therefore, once the banks have gained experience in launching quality programs, the aim of 'to reduce cost' should logically move down from the list.

For the UK financial institutions, the pattern of distribution was very similar to that of HK in 2000, except that 'to streamline working practice' (65%) and 'to improve productivity' (62%) had traded places. The main difference was that many percentages of responses from the UK were significantly higher than those from HK. This seems to reflect that UK institutions expect more returns from their quality programs and have more objectives or aims for their quality programs than their HK counterparts.

Definitions of quality

Definitions of quality among the respondents appear to be mixed (see Fig. 5). The three most popular definitions of quality are 'speed and promptness of service' (69%), 'high standard of service' (68%) and 'relationship with customers' (61%). The first two definitions were also most popular in 1997. However, the third one was 'providing service the customer wants' (58%). In contrast, British banks were thinking of 'providing service the customer wants' (77%) more than anything else. The least thought-of definition in all three surveys was 'competitive pricing'. This indicates that HK's banking industry has been striving for efficiency and quality of services rather than 'competitive pricing'. Alarming and unlike its British counterpart, it has been losing sight of customers' wants. This is evidenced by the reduction of percentage for 'providing service the customer wants' from 58% in 1997 to 46% in 2000. Although the customer relationship has gained significant attention, the industry must also be attentive to customer wants in order to attract and retain customers.

Techniques or methods used

With respect to techniques or methods used in conjunction with quality initiatives, responses in Fig. 6 indicate that 'team building' (42%), 'business process re-engineering' (41%), 'quality improvement projects' (37%), 'quality awards/prizes' (37%) and 'customer care

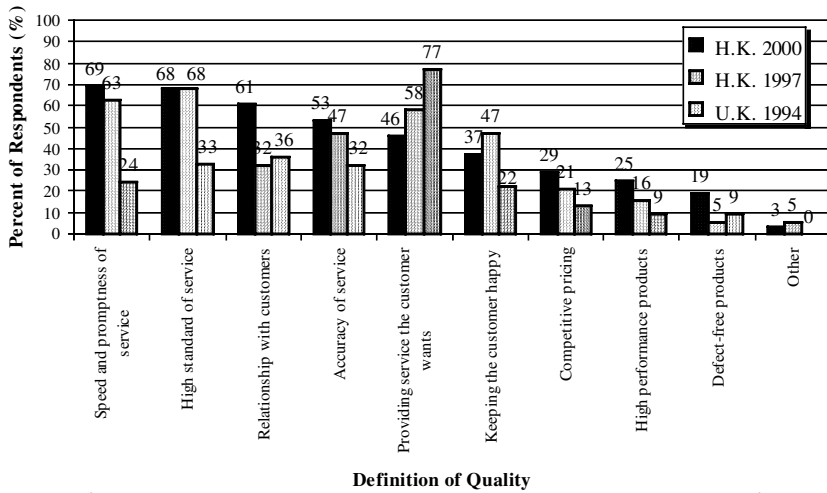


Figure 5. Definition of quality (chi-square tests between 2000, 1997 and 1994 are both $p < 0.001$; between 2000 and 1997 is $p < 0.05$).

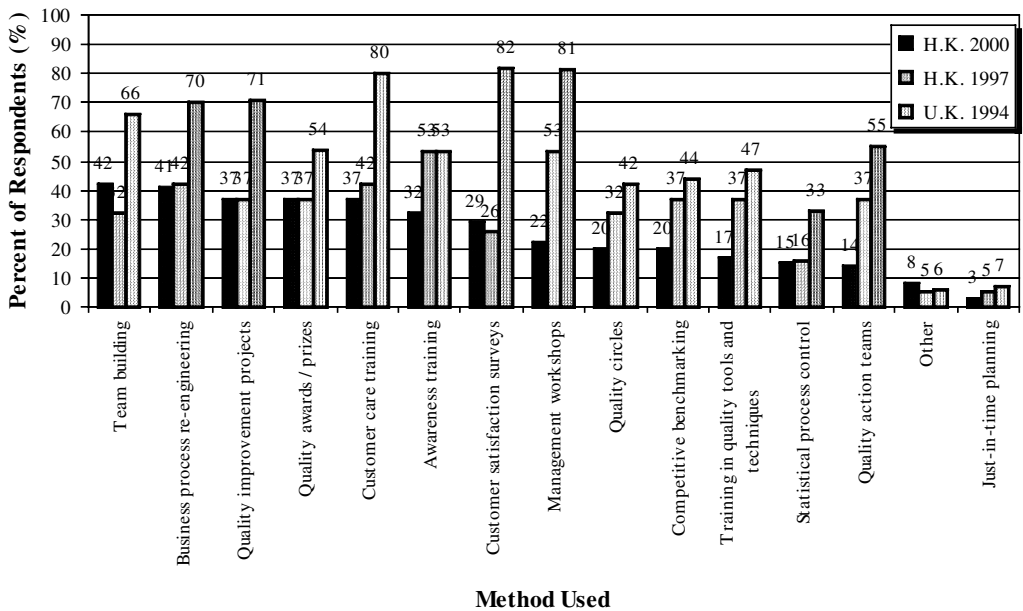


Figure 6. Methods used in conjunction with quality initiatives (chi-square tests between 2000 and 1997 is $p < 0.01$; between 2000 and 1994 is $p < 0.05$; between 1997 and 1994 is not significant).

training' (37%) were the most popular methods among HK banks in 2000. These quality methods pose a challenge to existing management styles and organizational culture. This finding also confirms that HK banks are utilizing an explicit total quality management (TQM) framework such as team building and business process re-engineering. On the contrary, not many banks have chosen the traditional quality methods such as 'training in

quality tools and techniques' (17%), 'statistical process control' (15%) and 'quality action teams' (14%).

Comparing with 1997 data, the percentages of top five methods used are very consistent, except that team building was less popular (32%) in 1997. Furthermore, several methods have dropped their popularity significantly since 1997. These include 'awareness training' (53% down to 32%), 'management workshops' (53% down to 22%), 'quality circles' (32% down to 20%), 'competitive benchmarking' (37% down to 20%), 'training in quality tools and techniques' (37% down to 17%) and 'quality action teams' (37% down to 14%).

Among British financial institutions, the three most popular methods are 'customer satisfaction survey' (82%), 'management workshops' (81%) and 'customer care training' (80%). In comparison with HK banks, UK financial institutions seem to use more different techniques or methods in their quality improvement efforts. Furthermore, their techniques or methods emphasize more understanding and delivering the services to meet customers' needs and wants.

Success of quality initiatives

Figure 7 shows that 61% of HK respondents claim that their quality initiatives have been 'reasonably successful'. Twenty-nine percent are still 'too soon to say.' Only 7% of respondents say 'very successful'.

Compared with 1997 data, the number of successful banks has increased significantly from 53% in 1997 to 68% in 2000. These responses indicate that the effort in quality improvement devoted by HK banks in the past 3 years has paid off. Many banks have a significant achievement in their quality initiatives. However, they need to continue their effort in order to catch up with their British counterparts. For UK financial institutions, there are more successful stories. Seventy-two percent of the respondents claim that their quality initiatives are either 'very successful' or 'reasonably successful'.

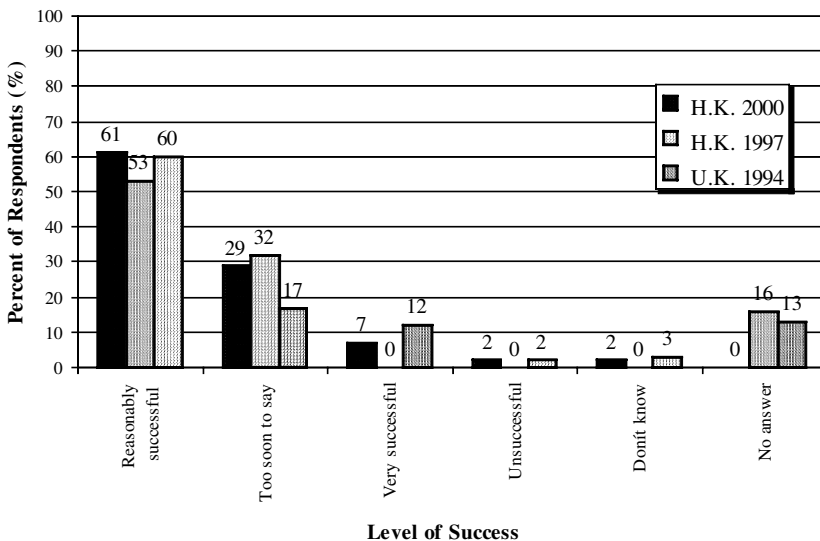


Figure 7. Success levels of the quality initiatives (*chi-square tests between 2000, 1994 and 1997 are both $p < 0.001$; between 2000 and 1994 is $p < 0.01$.*)

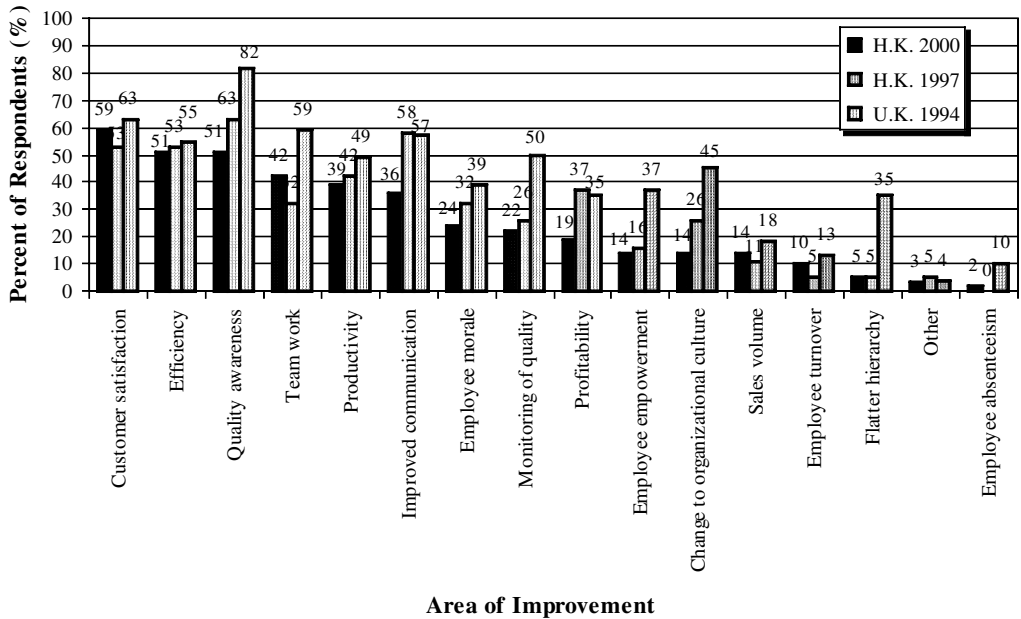


Figure 8. Areas improved by quality initiatives (chi-square tests between 2000 and 1997 is not significant; between 2000 and 1994 is $p < 0.01$; between 1997 and 1994 is $p < 0.001$).

Areas of improvement

Figure 8 presents the areas of improvement as a result of the introduction of quality initiatives. ‘Customer satisfaction’ (59%), ‘efficiency’ (51%) and ‘quality awareness’ (51%) are the most frequent improvements made by the HK banks. ‘Team work’ (42%) and ‘productivity’ (39%) have also improved. On the other hand, quality initiatives do not seem to have a major impact on human resources issues such as ‘employee empowerment’ (14%), ‘employee turnover’ (10%), and ‘employee absenteeism’ (2%).

The top rankings of 2000 and 1997 are somewhat similar, except that ‘improved communication’ has dropped from 58 to 36%. The top ranked ‘quality awareness’ (63%) in 1997 was replaced by ‘customer satisfaction’ in 2000. This indicates the increasing emphasis on meeting the customers’ needs and wants among the HK banks. There were significant drops in ‘improved communication’ (22% drop), ‘profitability’ (18%), ‘quality awareness’ (12%) and ‘change to organizational culture’ (12%). The drop of ‘profitability’ might be due to the recent Asian economic crisis. The other drops might be due to the rising expectation of the banks that have already been practicing quality methods since 1997. That is, it is expected that the improvement (or change) would be less significant after a bank’s operation has been improved (or changed) by its quality initiatives.

The corresponding percentages for the UK institutions are mostly higher than those of HK banks. The significant differences in improvements include ‘flatter hierarchy’ (20% higher in UK), ‘change to organizational culture’ (31%), ‘employee empowerment’ (23%), ‘profitability’ (16%), ‘monitoring of quality’ (28%), employee morale’ (15%), ‘improved communication’ (21%), ‘team work’ (17%), ‘quality awareness’ (31%) and ‘productivity’ (10%). All data agree that ‘profitability’ is less frequently improved, so that quality improvement is still in the cultivating stage. This may also be due to the long-term nature of quality management initiatives and the masking effects of other factors such as changes in competitive

environment or economic conditions. The other important factors may include that quality improvement is an expensive program and some benefits of improvement cannot be directly transformed into profit or any quantified measures.

Difficulties experienced in implementing quality initiatives

Figure 9 presents the major difficulties experienced in implementing quality initiatives. The major difficulties in HK banks are 'barriers between departments' (39%), 'employee resistance to change' (34%) and 'organizational culture resistant to change' (32%). These difficulties are common when we implement system changes in an organization (Keen, 1981). Unfortunately, most of these difficulties are human issues that thwart the implementation. These issues should be tackled in order to gain the long-term quality improvement. The findings also indicate that the driving force of quality improvement is from the top management, who must have substantial commitment and thoughtful strategies to overcome the difficulties.

Most difficulties were the same between 1997 and 2000. 'Measuring quality' is no longer a major difficulty as measurement techniques and methodologies in the quality area have made significant progress since 1997. In contrast, 'economic pressures' and 'lack of top management commitment' are the two emerging difficulties in HK banks after Asian economic crisis.

For UK financial institutions, the most frequently encountered difficulties are 'organizational culture resistant to change' (65%), 'barriers between departments' (49%), 'measuring quality' (48%), 'middle management resistant to change' (44%) and 'emphasis on short-term goal' (42%). Comparing with HK banks in 2000, UK institutions have a relatively higher degree of difficulties. The only exception is that the 'employee resistance to change' (12% versus 34%) was significantly lower in UK while the 'middle management resistance to change' (44% versus 10%) was much higher.

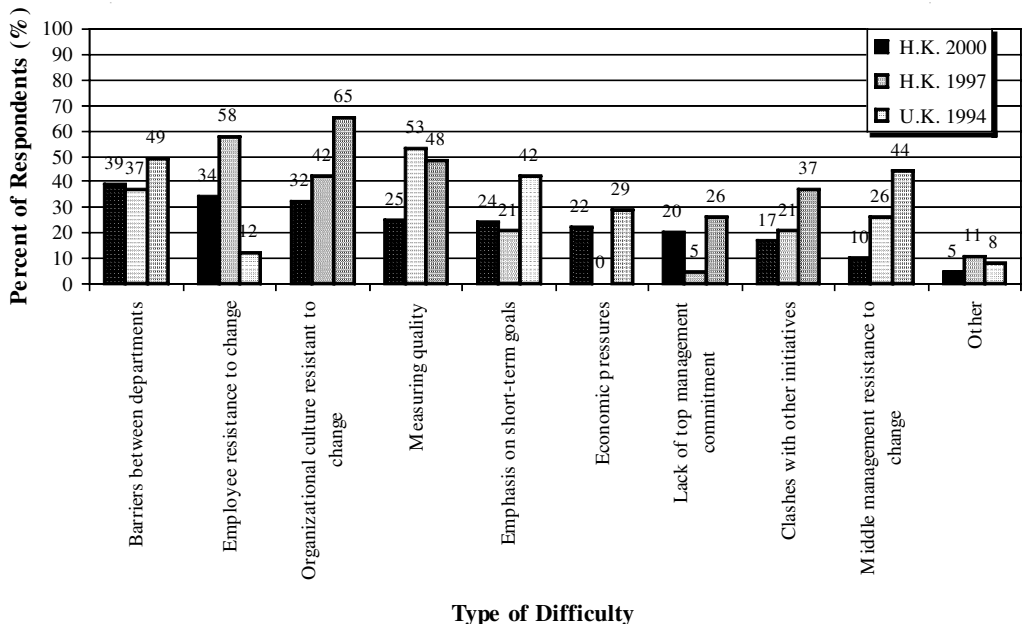


Figure 9. *Difficulties experienced in implementing quality initiatives (chi-square tests between 2000, 1997 and 1994 are all $p < 0.001$).*

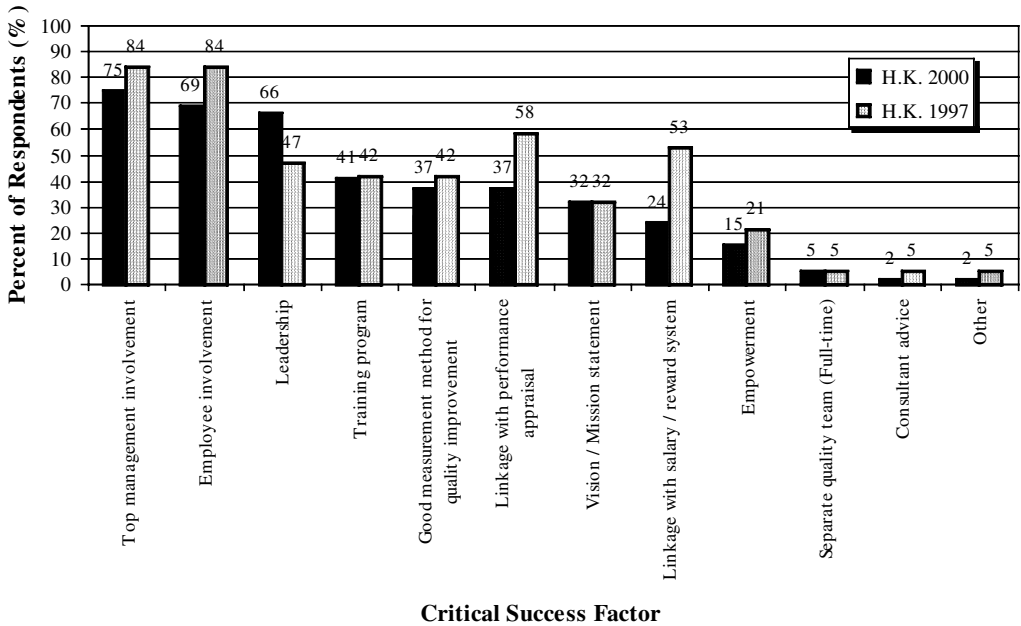


Figure 10. Critical success factors for quality initiatives (*chi-square test between 2000 and 1997 is not significant*).

Critical factors for success

HK banks were asked to indicate the critical success factors (CSFs) for implementing quality initiatives. The responses are shown in Fig. 10. ‘Top management involvement’ (75%), ‘employee involvement’ (69%) and ‘leadership’ (66%) are the three major critical factors for success. The first two CSFs are consistent with our earlier finding that the CEO and employees are most frequently responsible for quality improvement.

Between 2000 and 1997, the popularity of almost every CSF had dropped, except ‘leadership’ (increased by 19%). Leadership is one of the hot management topics in HK today. In our opinion, it requires a balance of delegation, coordination, motivation and stimulation. All these techniques are more an art than a science because they deal mainly with human issues, which require more time and effort to turn them into successes.

Furthermore, two CSFs had the largest drop in popularity. These are ‘linkage with performance appraisal’ (21% drop) and ‘linkage with salary/reward system’ (29% drop). It seems that the flux of an organization undergoing a quality improvement process makes such linkages unfeasible. One must realign performance measures to the new quality centric environment before one can begin measuring performance and linking the performance with the reward system.

Finally, it is comforting to see that ‘consultant advice’ and ‘separate quality team’ have the lowest single-digit ratings. This reconfirms that successful quality implementation should start from within, inside the company and departments. No consultant or any quality team can successfully implement the program without the commitment and involvement of top management and employees.

How to monitor quality performance?

Figure 11 summarizes the responses to the question ‘How do you monitor quality performance?’ The most common methods used to measure or monitor the quality performance

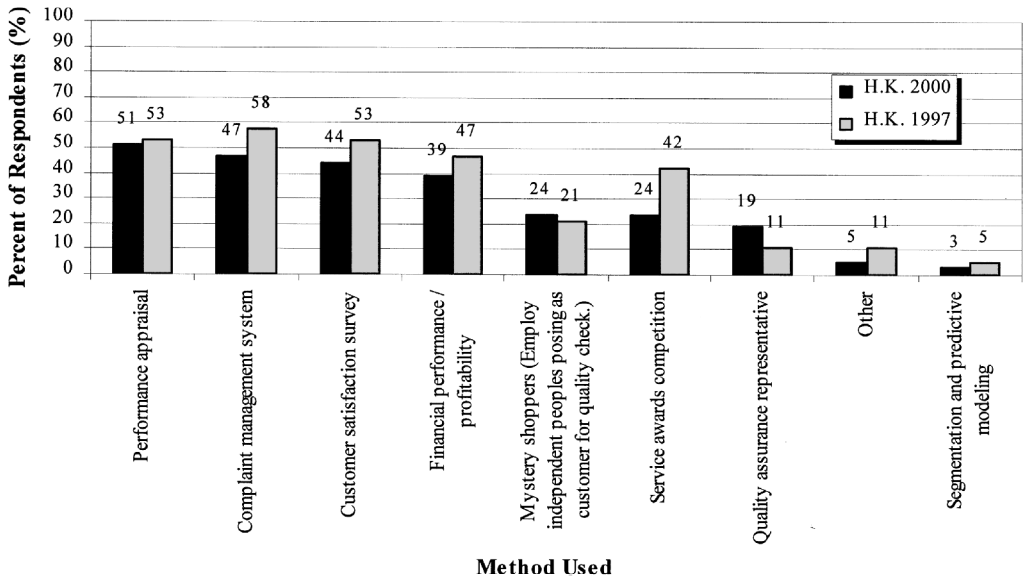


Figure 11. *Methods of monitoring quality performance (chi-square test between 2000 and 1997 is not significant).*

among HK banks in both 2000 and 1997 were 'performance appraisal' (51 and 53%, respectively), 'complaint management system' (47 and 58%), 'customer satisfaction survey' (44 and 53%) and 'financial performance/profitability' (39 and 47%). 'Performance appraisal' and 'financial performance/profitability' methods are popular because these are the most direct and cost-effective approaches to monitor quality performance. Nonetheless, the major problem is that some performance items are difficult to measure and quantify.

In contrast, 'complaint management system' and 'customer satisfaction survey' are popular because these are easy to use, yet relatively expensive. In our opinion, the banks should use the positive approach, 'customer satisfaction survey', to measure the quality management performance while using the negative approach, 'customer complaint management', to collect customer feedback and formulate quality improvement actions.

Major issues in quality programs

Figure 12 summarizes the responses to the last question in our questionnaire, 'What are the current major issues in your quality programs in the context of retail banking?' The most frequent issue is 'customer perception' (44%), followed by 'reinforcement of service attitude' (42%) and 'measurement of improvement' (27%). As time goes by and the banks gain more experience in quality programs, most major issues encountered in previous years should occur less frequently.

In 1997, 'reinforcement of employee service attitude' (68%) was the most critical issue. Today, more attention has been put on 'customer perception' of service quality. This reveals that the banks in HK seem to understand that the customers are the ones who define quality, not the bank or its employees.

Conclusions and recommendations

Under today's intense competition, a bank in HK must shape up or ship out. Most banks in HK have engaged in quality improvement programs in order to meet the customer demand

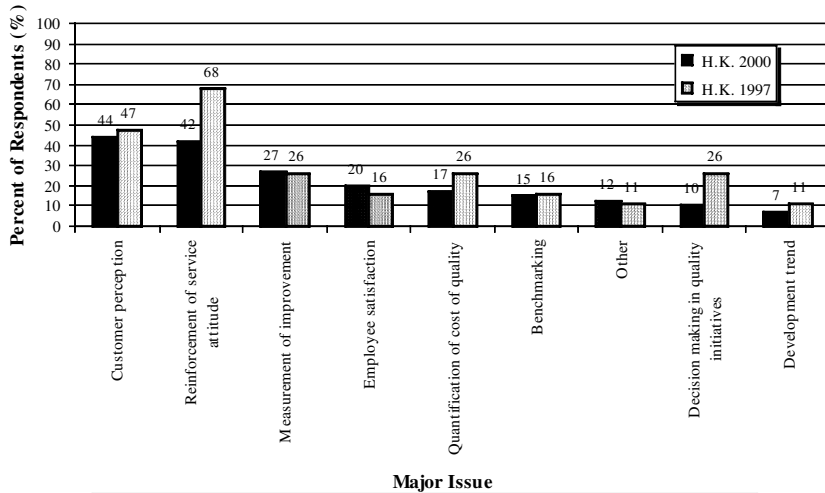


Figure 12. Major issues of quality programmes in retail banking (*chi-square test between 2000 and 1997 is not significant*).

and stay competitive in business. The desire for a ‘quick fix’ in service quality is commonplace. It is evidenced by the fact that more than 59% of the responding banks have two or more quality initiatives and three to five aims going on at the same time. This phenomenon was shared by the UK financial institutions in 1994. While too many programs may be counterproductive, too many aims may give the management and the staff an illusion that a quality initiative is the panacea for all. Both HK and UK banks should cut down the number of programs and aims launched simultaneously. They should continue their quality awareness training and management workshops. This should help the management and the staff identify what a quality program can and cannot do for them.

It is encouraging to see that the success rate of quality initiatives has been increasing since 1997. Although profitability is improved less frequently, many banks have gained customer satisfaction, efficiency and quality awareness. While UK institutions focus more on meeting customer needs and wants, HK banks tend to devote more effort to meeting service standards and providing prompt services. In terms of difficulties encountered in implementing quality initiatives, both ‘barriers between departments’ and ‘organizational culture resistant to change’ are ranked top in the difficulty list. While HK banks have more difficulties with employee resistance to change, UK institutions reported more difficulties with measuring quality.

On the positive side, it is laudable that most HK banks today have realized the keys to successful quality initiatives are employee involvement, top management involvement and leadership; not the linkages with performance appraisal and reward system. They also recognize that customers are the ones who define quality, not the banks or their staff. Therefore, they have been using a customer satisfaction survey and complaint management system to monitor the quality of customer service process. This customer-centric, process-oriented management approach is the essence of the TQM concept.

Quality management programs are known to be of strategic nature. These programs require long-term commitment and total involvement. There is no level to pass or finish line to reach. It is a never-ending game of continual improvement that might increase costs and reduce profitability in the short run. What we can do is to contain the scopes and the costs

of the programs to match the affordability of the engaging banks. Too many programs at one time may not only create financial stress but also confuse bank staff. In our opinion, a bank with a small improvement budget should avoid the drastic BPR approach and adopt incremental change strategy. Conversely, a bank with a large budget should keep the number of quality programs small, preferably no more than two programs launching simultaneously. Large banks should keep the size of the participating business unit manageable, preferably no more than 30 staff in the participating unit (Li *et al.*, 2000). If the quality improvement project involves multiple departments, a Steering Committee should be established to give guidance to the project manager. This latter practice appears to have been prevalent among the UK financial institutions in 1994.

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