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# Quality management initiatives in the banking industry

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## A meta analysis of Hong Kong and the UK

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**Abstract** *The banking industry in Hong Kong plays a significant role in the international financial arena. Because of increasingly competitive pressure from domestic and overseas banks, Hong Kong banks must improve service quality and care about customer demand. They must tightly control cost and improve the quality and efficiency of operations in order to maintain profitability. This study surveys the entire population of licensed banks in Hong Kong on their quality management initiatives. It not only analyzes the current status of quality management initiatives in Hong Kong, but also compares the results with those from UK financial institutions in 1994.*

### Introduction

Hong Kong's banking sector has experienced several major changes since the Asian financial crisis in 1997. First of all, the intense competition among competitors in the industry had forced many banks to close their businesses. At the end of 1997, there were 188 licensed banks. While 172 licensed banks were still in business at the end of 1998, only 156 remained at the end of 1999. The density of financial institutions in Hong Kong is probably the highest in the world. At the end of 1999, there were 288 financial institutions. Hong Kong also has one of the largest representations of international banks in the world. Of the top 100 largest international banks, 76 have operations in Hong Kong. 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 second major change in the banking industry concerns customer expectations and needs for banking services. As customers become more educated, they demand new products, better delivery channels and more reliable and responsive services. Improvement in service standards in other industries also raises the expectations of banking customers. Banks need to

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

The third major change in the banking industry concerns changes in culture and technology. Customers are more aware of 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 complaints and criticism. 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.

The other major change concerns the banking profit formulae and the competitive landscape in the banking sector of Hong Kong. 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 2 per cent in 1996. However, following the Asian financial crisis and the domestic recession since the second half of 1997, such formulae no longer provide lucrative returns. Bad debt significantly increased in both 1998 and 1999. The bad debt charges for the banking sector as a whole increased to 0.65 per cent of average total assets in 1999 from 0.45 per cent in 1998 (Hong Kong Monetary Authority, 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 Hong Kong and Shanghai Bank (HSBC), Citibank and Standard Chartered Bank. This makes it more difficult for the small and medium-sized banks to survive.

Although Hong Kong'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 and Gibb, 1999). We all know that banks in Hong Kong are striving for quality improvement today. However, we do not know what they have achieved through their quality improvement effort. The purpose of this study is twofold:

- (1) Investigate the current status of quality management initiatives in the Hong Kong banking industry.
- (2) Compare quality management initiatives of Hong Kong banks with those of financial institutions in the UK reported in 1994.

### **The 1994 UK study**

Slower economic activities, falling property prices and increasing bad debt charges, all of which the Hong Kong financial sector has endured, also befell the same sector in the UK over a decade ago. What quality initiatives the UK

financial companies adopted to cope with this crisis could provide us a reference point to benchmark the quality practices in the Hong Kong financial sector. In 1994, after the showdown and shakeout in the UK financial sector caused by the 1987 stock market crash, Wilkinson *et al.* (1995, 1996) surveyed the 122 largest financial service companies in the UK regarding the quality initiatives they used. A total of 96 out of 122 companies responded to the survey. 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. Their findings are very useful for us to benchmark the current quality initiatives among Hong Kong's financial sector and to shed some light on the direction in which the sector is going.

### **The study**

#### *Subjects*

In early 2000, the questionnaire was sent to the executives of all of the 156 licensed banks in Hong Kong who were in charge of quality programs. After three weeks, the same questionnaire was sent to the non-respondents. Eventually, 59 banks responded to the survey, 30 from the first mailing and 29 from the second mailing. This gave us a 38 per cent response rate. Table I exhibits the demographic profile of the population and the respondents.

#### *Questionnaire*

For comparison purposes, the questionnaire for this study was adapted from that of Wilkinson *et al.* (1996). The initial questionnaire was pre-tested to assure the relevance and clarity of questionnaire items. The final questionnaire was then sent to the survey subjects.

#### *Data representativeness*

The first step of data analysis is to examine the non-response bias and the data representativeness of the sample. A chi-square was conducted on each survey question between the respondents from the two waves of the mailing. This allows 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 (see Table I). No significant difference was found in any distribution at the 0.05 level according to a chi-square test of independence. This indicates that the sample should be representative of the population.

#### *Analytic procedure*

After data validation, the responses from Hong Kong licensed banks were analyzed and compared with those from the UK financial institutions in 1994. A series of chi-square tests were conducted between the responses from the two

Company trait	Population		First wave		Second wave		Total received	
	<i>n</i> <sup>a</sup>	Per cent	<i>n</i> <sup>a</sup>	Per cent	<i>n</i> <sup>a</sup>	Per cent	<i>n</i> <sup>a</sup>	Per cent
<i>Number of branches in Hong Kong</i>								
1	96	70.1	15	60.0	12	52.2	27	56.3
2-10	12	8.8	3	12.0	2	8.7	5	10.4
11-25	10	7.3	2	8.0	4	17.4	6	12.5
26-50	16	11.7	4	16.0	3	13.0	7	14.6
51-219	3	2.2	1	4.0	2	8.7	3	6.3
Total	137	100.0	25	100.0	23	100.0	48	100.0
<i>Number of staff in Hong Kong</i>								
3-25	23	18.4	2	8.0	0	0.0	2	4.2
26-100	53	42.4	11	44.0	10	43.5	21	43.8
101-500	21	16.8	4	16.0	5	21.7	9	18.8
501-1,000	17	13.6	5	20.0	4	17.4	9	18.8
1,001-14,000	11	8.8	3	12.0	4	17.4	7	14.6
Total	125	100.0	25	100.0	23	100.0	48	100.0
<i>Balance sheet size (US\$ billion)</i>								
0.1-1	4	2.6	1	3.3	1	3.4	2	3.4
1.1-5	18	11.8	2	6.7	7	24.1	9	15.3
5.1-10	17	11.2	6	20.0	3	10.3	9	15.3
10.1-100	64	42.1	11	36.7	9	31.0	20	33.9
100.1-758	49	32.2	10	33.3	9	31.0	19	32.2
Total	152	100.0	30	100.0	29	100.0	59	100.0

<sup>a</sup> The total numbers of data points are not equal among the three company traits due to missing values

**Table I**  
Respondents' profiles

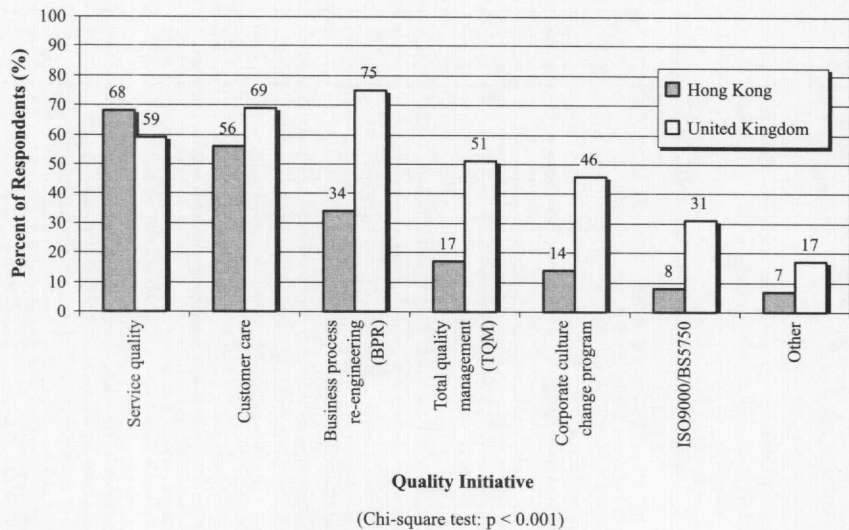
studies. The result can help us develop a picture of the extent of usage and the nature of quality initiatives in Hong Kong's banking industry.

## Results and discussion

### *Quality initiatives adopted for quality improvement*

The responding banks seem to have adopted a wide variety of initiatives to improve quality, as shown in Figure 1. Hong Kong banks most frequently adopt a "service quality" program (68 per cent), followed by "customer care" (56 per cent) and "business process re-engineering" (34 per cent). ISO 9000 (8 per cent) has been the least popular initiative among the responding banks. Hong Kong 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.

For UK financial institutions, "business process re-engineering" (75 per cent) was the most commonly adopted initiative, which is ranked third in Hong Kong banks (34 per cent). The second most popular initiative was "customer care" (69 per cent), followed by "service quality" (59 per cent), "total quality



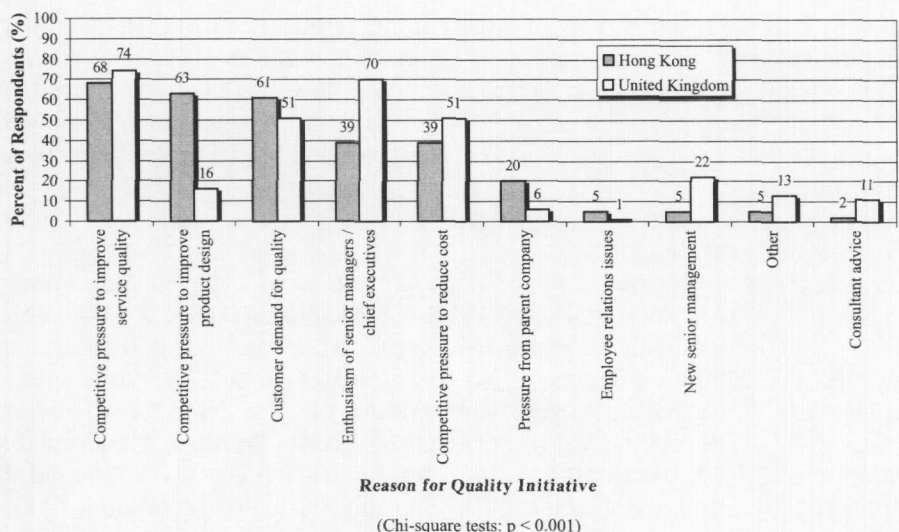
**Figure 1.**  
Adopted quality initiatives

management” (51 per cent), “corporate culture change program” (46 per cent) and ISO 9000 (31 per cent). These results indicate that Hong Kong 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 Hong Kong survey only included licensed banks. The comparison here cannot show us the strength of Hong Kong’s banking industry but it can tell us in what direction the entire financial industry in Hong Kong might be going.

#### *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, the most dominant reasons for the development of a quality management initiative are “competitive pressure to improve service quality” (68 per cent), “competitive pressure to improve product design” (63 per cent) and “customer demand for quality” (61 per cent). It seems that the majority of the respondents initiated quality management programs because they believe that quality improvement can help them compete in business.

The top four reasons from UK financial institutions are “competitive pressure to improve service quality” (74 per cent), “enthusiasm of senior management/chief executive” (70 per cent), “customer demand for quality” (51 per cent), and “competitive pressure to reduce cost” (51 per cent). There are significant differences in the percentages of “competitive pressure to improve product design” and “enthusiasm of senior management/chief executive”. Hong Kong banks score higher in the former (63 per cent versus 16 per cent in the UK) but much lower in the latter one (39 per cent versus 70 per cent in the UK).

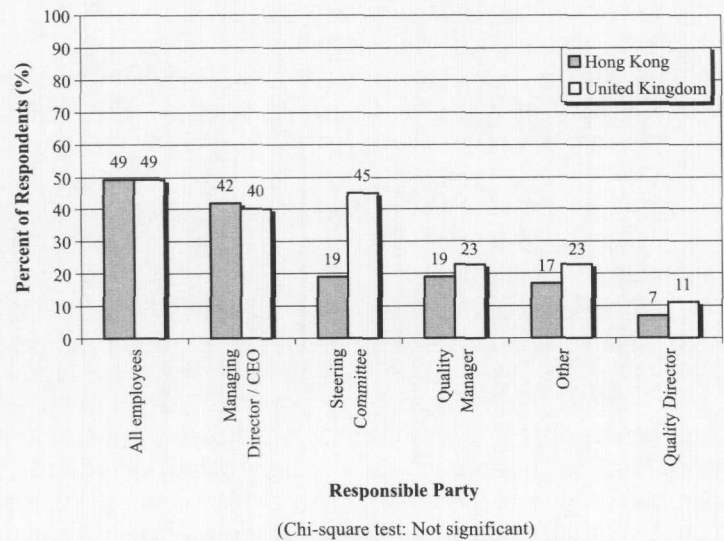


**Figure 2.** Reasons for quality initiatives

*Where does the responsibility lie?*

The results in Figure 3 show the rankings between Hong Kong banks in 2000 and UK financial institutions in 1994 are similar, except that a steering committee was more frequently relied on in the UK (45 per cent versus 19 per cent in Hong Kong). The top three responsibilities are “all employees”, “managing director/CEO” and “steering committee”. The least frequent party for quality responsibility is “quality director”.

Of respondents, 49 per cent in Hong Kong banks believed that all employees should be responsible for quality improvement. Many of them (42 per cent) also



**Figure 3.** Distribution of quality responsibilities

consider that the responsibility of quality improvement relies upon a managing director or chief executive officer. The findings indicate that the 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.

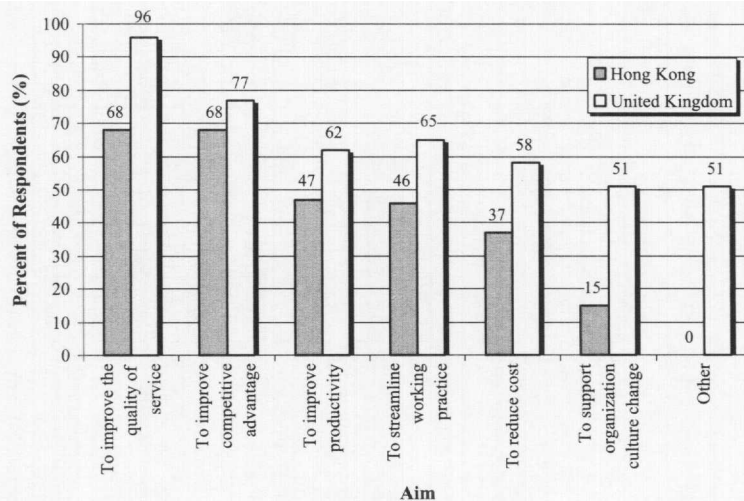
*Main aims of quality initiatives*

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

For the UK financial institutions, the pattern of distribution is very similar to that of Hong Kong in 2000, except that "to streamline working practice" (65 per cent) and "to improve productivity" (62 per cent) had traded places. The main difference is that many percentages of responses from the UK are significantly higher than those from Hong Kong. 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 Hong Kong counterparts.

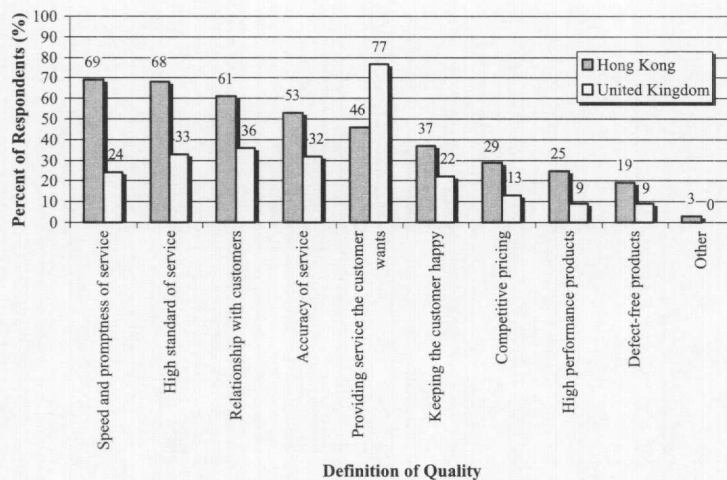
*Definitions of quality*

Definitions of quality among the respondents appear to be mixed (see Figure 5). The three most popular definitions of quality are "speed and promptness of



**Figure 4.**  
Main aims of quality program

(Chi-square test:  $p < 0.001$ )



(Chi-square test:  $p < 0.001$ )

**Figure 5.**  
Definitions of quality

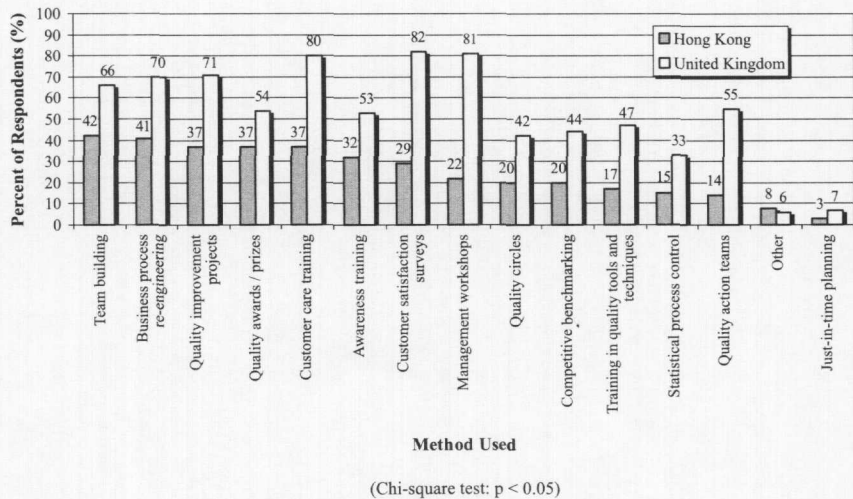
service” (69 per cent), “high standard of service” (68 per cent), and “relationship with customers” (61 per cent). In contrast, UK banks were thinking of “providing service the customer wants” (77 per cent) more than anything else. The least thought-of definition in both surveys is “competitive pricing”. This indicates that Hong Kong’s banking industry has been striving for efficiency and quality of services rather than “competitive pricing.” Alarming, and unlike its UK counterpart, it has been losing sight of customer’s wants. This is evidenced by the lower percentage for “providing service the customer wants” (46 per cent) in Hong Kong. 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 Figure 6 indicate that “team building” (42 per cent), “business process re-engineering” (41 per cent), “quality improvement projects” (37 per cent), “quality awards/prizes” (37 per cent), and “customer care training” (37 per cent) are the most popular methods among Hong Kong banks in 2000. These quality methods pose a challenge to existing management styles and organizational culture. This finding also confirms that Hong Kong banks are utilizing an explicit 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 per cent), “statistical process control” (15 per cent) and “Quality action teams” (14 per cent).

Among UK financial institutions, the three most popular methods are “customer satisfaction survey” (82 per cent), “management workshops” (81 per cent) and “Customer care training” (80 per cent). In comparison with Hong





**Figure 6.**  
Methods used in conjunction with quality initiatives

Kong banks, UK financial institutions seem to use more techniques or methods in their quality improvement efforts. Furthermore, their techniques or methods emphasize understanding and delivering the services to meet customers' needs and wants to a greater extent.

#### *Success of quality initiatives*

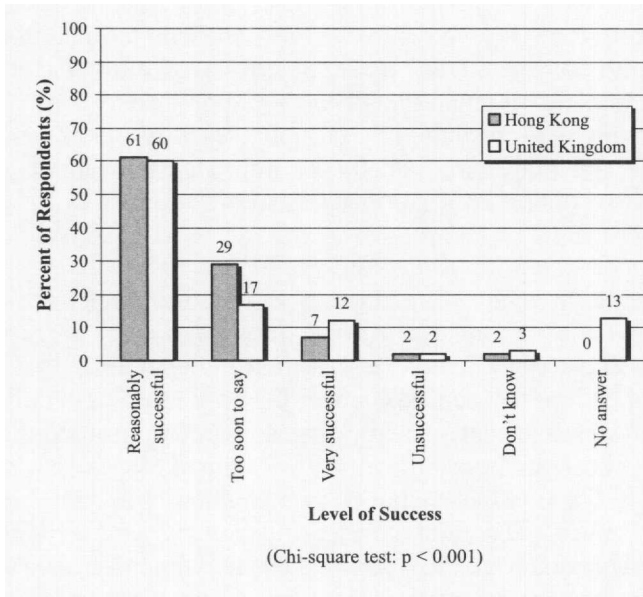
Figure 7 shows that 61 per cent of Hong Kong respondents claim that their quality initiatives have been "reasonably successful". A total of 29 per cent are still "too soon to say". Only 7 per cent of respondents say "very successful."

These responses indicate that the effort in quality improvement devoted by Hong Kong banks in the past years has its pay-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 UK counterparts. For UK financial institutions, there are more successful stories. Of the respondents, 72 per cent claim that their quality initiatives are either "very successful" or "reasonably successful".

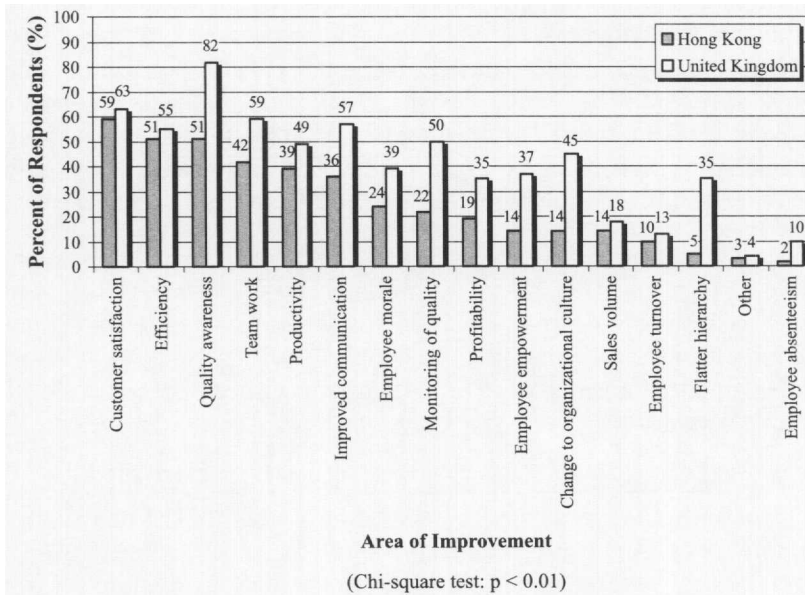
#### *Areas of improvement*

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

The corresponding percentages for the UK institutions mostly are higher than those of Hong Kong banks. The significant differences in improvements



**Figure 7.**  
Success levels of the quality initiatives



**Figure 8.**  
Areas improved by quality initiatives

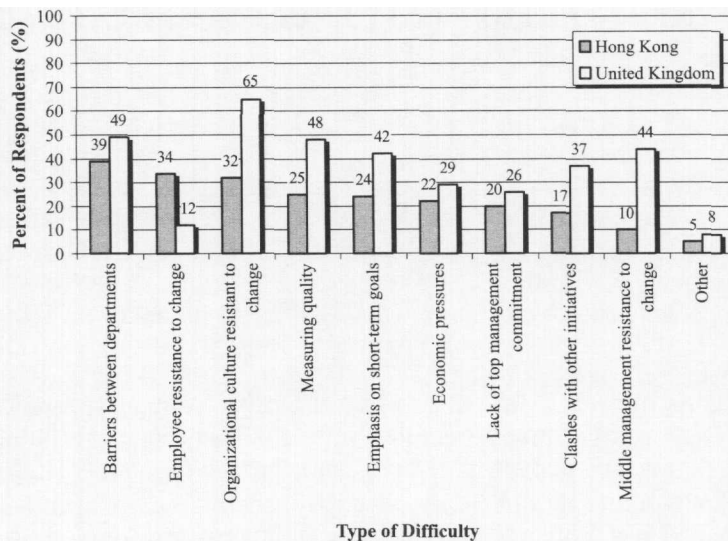
include “flatter hierarchy” (20 per cent higher in UK), “change to organizational culture” (31 per cent), “employee empowerment” (23 per cent), “profitability” (16 per cent), “monitoring of quality” (28 per cent), “employee morale” (15 per cent), “improved communication” (21 per cent), “team work” (17 per cent), “quality awareness” (31 per cent), and “productivity” (10 per cent). 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 the fact 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 Hong Kong banks are “barriers between departments” (39 per cent), “employee resistance to change” (34 per cent) and “organizational culture resistant to change” (32 per cent). 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.

For UK financial institutions, the most frequently encountered difficulties are “organizational culture resistant to change” (65 per cent), “barriers between departments” (49 per cent), “measuring quality” (48 per cent), “middle management resistant to change” (44 per cent), and “emphasis on short-term goal” (42 per cent). Compared with Hong Kong banks in 2000, UK institutions have a relatively higher degree of difficulty. The only exception is that the “employee resistance to change” (12 per cent versus 34 per cent) was



**Figure 9.**  
Difficulties experienced  
in implementing quality  
initiatives

(Chi-square test:  $p < 0.001$ )

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significantly lower in UK, while the "middle management resistance to change" (44 per cent versus 10 per cent) was much higher.

### **Conclusions and recommendations**

Today's banking environment in Hong Kong is increasingly competitive. This forces more and more banks in Hong Kong to engage in quality improvement programs in order to stay in business. The desire for a "quick fix" in service quality is commonplace. It is evidenced by the fact that more than half of the responding banks have two or more quality initiatives and three to five aims going on at the same time. Specifically, 39 per cent of the Hong Kong banks have only one quality initiative, while 31 per cent have two initiatives, 20 per cent have three, and 10 per cent have four or more. This phenomenon was shared by the UK financial institutions in 1994.

The fact that Hong Kong banks today have a 68 per cent success rate for quality initiatives is quite intriguing, although UK institutions have more success stories (72 per cent) to tell. While profitability is less frequently improved, many Hong Kong banks have gained customer satisfaction, efficiency, and quality awareness. They tend to devote more effort to meeting service standards and providing prompt services. In contrast, UK institutions focused more on meeting customer needs and wants. Regarding the difficulties encountered in implementing quality initiatives, Hong Kong banks have more difficulties with employee resistance to change, while UK institutions reported more difficulties with measuring quality. "Barriers between departments" and "organizational culture resistant to change" are ranked top in the difficulty list of both regions. Experience has told us that successful quality implementation should start from within, inside the company and departments. No consultant or quality team can successfully implement the program without the commitment and involvement of top management and employees.

Moreover, the fact that most Hong Kong bank executives regard employee involvement, top management involvement, and leadership, rather than linkages with performance appraisal and reward system, as the keys to successful quality initiatives is laudable. They also recognize that customers are the ones who define quality, not the banks or its staff. Therefore, they have been using customer satisfaction surveys and complaint management systems to monitor the quality of customer service process. This customer-centric, process-oriented management approach is the essence of the total quality management concept. With this concept, they must have known that quality management programs are of a strategic nature and require long-term commitment and total involvement. It requires continual improvement that usually increases costs and reduces profitability in the short term. It is necessary for an engaging bank to contain the scope and the costs of the programs in order to match the affordability of the engaging bank. Too large a scope or too many programs at one time may create financial stress and even confuse bank staff. In our opinion, a bank with a small improvement budget should avoid the drastic re-engineering approach and adopt an incremental

change strategy. Conversely, a bank with a large budget should keep the number of quality programs small, preferably no more than two programs launched simultaneously. According to Li *et al.* (2000), the optimal size of a participating business unit is no more than 30 persons. Large banks with large business units should adopt a divide-and-conquer technique and logically break up the units into smaller subunits. This may increase the success rate of quality programs. Furthermore, if the quality improvement project involves multiple departments, a steering committee should be established to give guidance to the project manager.

In summary, the business environment in the Hong Kong banking industry is changing every day. More demanding customers, rapid technology advancement and more regulatory requirements (such as code of practice or disclosure) strongly affect the future opportunities and challenges of every bank in Hong Kong. To survive and prosper in this environment, it is vital for these banks to improve the quality of services that they provide to their customers. Specifically, they should:

- Continue the practices that were proven effective, e.g. business process re-engineering, team building, quality improvement projects, quality awards and customer care training.
- Increase the practices of awareness training, management workshops, complaint management systems and customer satisfaction surveys.
- Avoid launching too many quality programs at the same time. Keep the aims of quality programs focus on the significant few – those that affect the survival of the organization.
- Assess the risk of each quality improvement project. Balance the risk of the projects being selected for implementation. While too many high-risk projects make the organization vulnerable, too many low-risk projects inhibit organizational learning.
- Create and maintain an employee-ownership culture. A quality initiative is not a panacea for all illnesses. It needs a healthy environment to succeed. Hong Kong's bank employees seldom voice their concerns or fight for their rights. They normally work very hard and stay out of trouble. It is necessary for the management to empower employees, institutionalize communications, and share profitability.

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