Impact of Total Quality Management (TQM) Implementation on Service Quality and Performance of Islamic Banks

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Abstract
Companies are competing to improve quality in the face of global market competition and so is Islamic banking industry. According to the Indonesian Islamic Banking Roadmap 2015-2019 issued by the Financial Services Authority (OJK), two out of the seven policies to be implemented are to improve service quality and product diversity, and to improve the quality and quantity of HR and IT. In any development of any industry, especially in the world of Islamic banking, the keys to improving competitiveness are companies’ service quality and performance. This research aims to analyze the effects of TQM implementation on service quality and performance of Islamic banks. Findings of this research show that TQM has a significant effect on service quality. Similarly, service quality has a significant effect on performance of Islamic banks as well. However, TQM has no direct significant effect on the performance of Islamic banks.

Keywords: Total Quality Management, Service Quality, Performance of Islamic Banks, Structural Equation Modelling, and Partial Least Square
Analisis Penerapan Total Quality Management (TQM) Terhadap Kualitas Layanan dan Kinerja Bank Syariah

Abstrak

Kata Kunci: Total Quality Management, Kualitas Layanan, Kinerja Bank Syariah, Structural Equation Modelling, dan Partial Least Square

INTRODUCTION
Globalization has reached the various aspects of life. One of the best ways to deal with global competition is to produce a product and service of the highest quality. The best quality is obtained by making continuous improvement efforts on human resources, processes, and environments.¹

Service quality is one of the factors that determine the success of Islamic banks as a company engaging in service provision. Improving service quality will definitely bring benefits to Islamic banks. For example, improving profitability, customer satisfaction, customer loyalty, and bank performance.

In general, Islamic banks seem to continue to experience positive growth, but that does not mean they do not face challenges in their development. Ac-

¹ Kuat Ismanto, Manajemen syari’ah: implementasi TQM dalam lembaga keuangan syariah (Pustaka Pelajar, 2009).
ccording to Thohuri\(^2\), there are six challenges faced by Indonesian Islamic banking industry, namely product innovation, service level, competition with conventional banks, infrastructure which is equivalent to that of conventional banks, attempts to increase “public awareness”, and reliable and competent human resources. Manan\(^3\) also states that despite a great number, the existence of Islamic banks in Indonesia is not supported by competent human resources, especially the background from the Islamic banking discipline, and, as a result, the development of these Islamic banks runs slowly. This is also in line with the statement given by Bank Indonesia Deputy Governor Halim Alamsyah that the challenges to be solved include filling the gap in human resources both in terms of quality and quantity, and innovative development of Islamic banking products and services that are competitive and based on public needs.\(^4\)

The Indonesian Islamic banking Roadmap 2015-2019 published by OJK specifies the visions for the development of national Islamic banking which consist of seven policy directions to be implemented. Two out of the seven policies to be implemented are to improve service quality and product diversity, and to improve the quality and quantity of HR and IT.

Based on the foregoing, it is revealed that service quality and limited human resources (HR) are challenges faced to develop Islamic banking. In any development of any industry, especially in the world of Islamic banking, it seems that an quality integrated service is a must to survive in the face of the existing competition. Thus, the key to improving competitiveness is quality. As a result, companies need to focus more on quality which in this case is called Total Quality Management (TQM).

Total Quality Management (TQM) can be chosen as one of the quality control methods to meet what consumers need and want. It is a system developed as an effort to improve the quality of goods and services. It is ori-

\(^2\) Rizqullah Thohuri, “Perkembangan Perbankan Syariah di Indonesia dan Kebutuhan akan SDM Unggul” (Workshop on Redesigning of Undergraduate Programs Curriculum, Surabaya and Trawas: Islamic Economics Study Program at IAIN Sunan Ampel, 2012).

\(^3\) Abdul Manan, “Hukum Perbankan Syariah,” Jurnal Mimbar Hukum dan Peradilan, No.75 (2012).

ented towards customers and intended to improve customer satisfaction in a sustainable manner by eliminating a waste, improving quality, developing skills, and reducing production costs.\footnote{Kaoru Ishikawa, \textit{Pengendalian mutu terpadu} (PT. Remaja Rosdakarya, 1992), p.133.}

**TOTAL QUALITY MANAGEMENT (TQM) AND SERVICE QUALITY**

Total Quality Management (TQM), according to Ishikawa\footnote{Ishikawa, p.135.}, is defined as a combination of all functions of a company into a holistic philosophy built on the concept of quality, teamwork, productivity, and understanding as well as customer satisfaction.

It is a systematic approach to improving the company’s quality management with a view to improving performance in terms of quality, productivity, customer satisfaction, and profitability because the practices of Total Quality Management (TQM) have been used by many companies around the world for decades.\footnote{Davood Gharakhani et al., “Total Quality Management and Organizational Performance,” American Journal of Industrial Engineering Vol.1, No. 3 (2013): 46–50, https://doi.org/10.12691/ajie-1-3-2.}

Another definition states that Total Quality Management (TQM) is an approach in running a business that tries to maximize operational competitiveness through continuous improvement of products, services, people, processes, and environments.\footnote{Fandy Tjiptono and Diana Anastasia, Total Quality Management (TQM). (Yogyakarta: Andi, 2003), p.4.}

According to Goetsch dan Davis (1994) in Tjiptono and Diana\footnote{Tjiptono dan Anastasia, p.5.}, Total Quality Management (TQM) consists of the main elements, namely:

1. **Focus on Customers**
   
   Customers here refer to both internal and external customers who serve as drivers. External customers determine the quality of the product delivered, while internal customers play a major role in determining the quality of labor, processes, and environments associated with the product or service.

2. **Obsession with Quality**
   
   With the quality set, the organization must be obsessed to meet or exceed
what it has predetermined. Quality is an important factor in improving the performance of a company and its employees. Moreover, by improving the quality of goods or services, labor, and processes, the company can attract customers.

3. Scientific Approach
A scientific approach plays a vital role in designing work and making decisions as well as solving problems related to the work designed.

4. Long-Term Commitment
TQM is a new paradigm in conducting business. As a result, it also requires a new corporate culture. Therefore, long-term commitment is crucial in order to change the culture for successful TQM implementation.

5. Teamwork
In organizations that implement TQM, teamwork, partnership, and relationships are built and nurtured, both between company employees and with suppliers, government agencies, and other communities.

6. Sustainable Improvements to the System
Each product or service is produced using certain processes within a system or environment. Therefore, the existing system needs to be improved on a continuous basis in order to improve quality.

7. Education and Training
For organizations that implement TQM, education and training are fundamental factors. Everyone is expected and encouraged to learn.

8. Controlled Freedom
Involvement and empowerment of employees in decision making and problem solving are elements that are very important. This freedom is the result of well-planned and well-executed control.

9. The Same Objective
In order that TQM can be implemented properly, companies must reach the same objective. In this way, every single effort can be directed to the same objective.

10. Employee Involvement and Empowerment
Attempts to engage employees bring two main benefits. First, it will increase the probability of making good decisions, better plans, or more effective improvements. Second, employee involvement also enhances a
sense of belonging and responsibility over decisions by involving people who have to implement them.

The next is service quality. Service quality refers to the ways a company works that seek to continuously improve the quality of processes, products, and services it produces. If the service quality perceived by customers met the one they expect, then it is considered good and satisfactory. The service quality provided by a company to its customers is not only aimed to give satisfaction. As Muslims, which in this case are sharia-based companies such as Islamic banks, should provide services that comply with the values of sharia so as to demonstrate piety and prove the consistency of faith in an attempt to carry out sharia missions.

Othman and Owen developed a model of service quality measurement to measure the service quality run based on the principles of sharia, especially Islamic banking. Othman and Owen conducted a study to analyze the service quality of Islamic Banks in Kuwait by adopting the CARTER model. The CARTER model is the measurement of the quality of Islamic banking services based on six dimensions, namely:

1. Compliance. Firdaus states that compliance is the ability to comply with Islamic law and banking regulations established by the local government. This dimension includes: observing Islamic principles and laws, not implementing the interest system for both savings and loans, implementing Islamic product service-related provisions, and applying investment return-sharing.

2. Assurance. Employees’ knowledge and sense of decency and their abilities to provide a sense of security and trust to customers. This also includes

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verbal and written communication between employees and customers. This dimension includes: employees who are polite and friendly; provision of financial advice, comfortable office interiors, and an experienced and competent management.

3. **Reliability.** The ability to have promised, reliable, and accurate service performance. This includes: pleasant service delivery (fast service time), provision of diverse products and services, guaranteed transaction security, and optimal service time.

4. **Tangible.** The discovery of aspects that physically can be seen such as equipment, personnel, and, even, communication. This dimension includes: attractive office look and physical facilities, fast and efficient transactions, and clear opening hours.

5. **Empathy.** The ability of personnel to care about and give attention individually to customers by providing convenience and good communication. This dimension includes: easy-to-reach locations, recognizable reputation and image, enormous assets and capital, adequate parking areas, guaranteed confidentiality of customer data, providing profitable products and services, and affordable service tariff.

6. **Responsiveness.** The desire to help customers and provide prompt services. This dimension includes: providing financial consultation services related to customers’ business, employees’ willingness to help customers, the ways employees serve customers which comply with sharia, providing loans with beneficial repayment terms, fast and efficient services, and having a sufficient number of branch offices.

**PERFORMANCE OF ISLAMIC BANKS**

Gash and John in Firdaus\(^\text{14}\) define performance measurement as a process to monitor, assess, and report fulfillment of tasks towards better management. Performance measurement can reach broader areas such as productivity including economy, efficiency, effectiveness, impacts, quality, timeliness, and safety. Firdaus\(^\text{15}\) explains that the purpose of performance measurement

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\(^\text{14}\) Firdaus, p.9.
\(^\text{15}\) Firdaus, Maslahah Performa (MaP): Sistem Kinerja untuk Mewujudkan Organisasi Berkemaslahatan.
is to determine whether an organization has reached a predetermined goal or not.

Among the six aspects of organizational orientation based on the above-mentioned problems, the performance indicators used in this research were customer-oriented performance and wealth-oriented performance.

1. Customer-Oriented

Firdaus\textsuperscript{16} explains that customers are a very important factor for an organization. They constitute a representation of the number of demands because it is impossible for an organization to survive and develop in the absence of demands. Therefore, there are no organizations if there are no customers. The development of an organization also depends significantly on customers, the higher the number of customers an organization has, the higher its growth is, and vice versa.

There are two groups of measurement for customer perspectives, namely customer core measurement and customer value preposition\textsuperscript{17}. The first (the primary measurement group) is generally the same for all types of companies and this measurement group consists of the measurement of Customer Satisfaction, Customer Retention, Market Share, Customer Acquisition, and Customer Profitability. While the latter is divided into three categories, namely as Product/Service Attributes, Customer Relationship, and Image and Reputation.

In the present research, because of limited data sources and limited time to conduct the research, the author only measured the customer-oriented performance by measuring Customer Satisfaction, Market Share, Customer Retention, and Customer Acquisition.

2. Wealth-Oriented

Firdaus\textsuperscript{18} states that Islam teaches that wealth is used as a medium or tool to achieve goals, both the short-term one, which is the success of life in the world, and the long-term one, which is life safety in the afterlife. Islam regulates the position of wealth as follows:

\begin{itemize}
  \item \textsuperscript{16} Firdaus, p.151.
  \item \textsuperscript{18} Firdaus, Masalah Performa (MaP): Sistem Kinerja untuk Mewujudkan Organisasi Berkemaslahatan, p.161.
\end{itemize}
a. Humans do not have any wealth, but God entrusts it to them. Human ownership of wealth is relative (not absolute). Consequently, the wealth owned is the wealth entrusted or, in other words, humans have to account for it in the afterlife.

b. The ways wealth is acquired and spent must comply with sharia. The ways wealth is acquired and spent affect the degree to which it is considered having a blessing.

c. Wealth is used not only for worldly interests, but also to make preparations for the afterlife.

THE EFFECTS OF TQM IMPLEMENTATION ON THE SERVICE QUALITY AND PERFORMANCE OF ISLAMIC BANKS

In this research, hypotheses were tested using the Partial Least Square (PLS) analysis. This PLS analysis consisted of two models, namely the outer model (measurement model) and the inner model (structural model).

1. Outer Model (Measurement Model)

The measurement model or the outer model with indicators was evaluated using convergent and discriminant validity of the indicators and composite reliability for the block indicators.

a. Convergent Validity

Chin in Ghozali explains that in the early-stage research of developing a measurement scale, loading values between 0.50 and 0.60 is considered sufficient. Scientific Approaches ($X_3$) generated a value of 0.411, Long-Term Commitment ($X_4$) generated a value of 0.203, Teamwork ($X_5$) generated a value of 0.459, Continuous System Improvement ($X_6$) generated a value of 0.378, Education and Training ($X_7$) generated a value of 0.107, the Same Objective ($X_9$) generated a value of 0.399, and Employee Involvement and Empowerment ($X_{10}$) generated a value of 0.311. Indicators $X_3, X_4, X_5, X_6, X_7, X_9,$ and $X_{10}$ were excluded from the model as they had a loading value of less than 0.50.
After removing indicators $X_3, X_4, X_5, X_6, X_7, X_9,$ and $X_{10}$, it means that the remaining indicators all had a loading factor by more than 0.50. Each indicator had a correlation with the variable TQM.

b. Discriminant Validity

<table>
<thead>
<tr>
<th>Table 1. Cross Loadings</th>
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<tr>
<td>Performance of Islamic Banks</td>
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<tr>
<td>X1</td>
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<tr>
<td>X2</td>
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<td>X8</td>
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<td>Y1</td>
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<td>Z2</td>
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The table above shows that the correlation between the TQM construct and its indicators is higher than the correlation between TQM indicators and any other constructs (Service Quality and Performance of Islamic Banks). The correlation between the Service Quality construct and its indicators is higher than the correlation with any other constructs (TQM and Performance of Islamic Banks). Similarly, the correlation between the Performance of Islamic Banks construct and its indicator is higher than the correlation with any other constructs (TQM and Service Quality). This suggests that the latent construct predicts that indicators of their own block are better than indicators of the other blocks.

c. Composite Reliability

<table>
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<th>Table 2. Composite Reliability</th>
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<tbody>
<tr>
<td>Performance of Islamic Banks</td>
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<tr>
<td>Service Quality</td>
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<tr>
<td>Total Quality Management</td>
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Table 2 describes that the output of the composite reliability of each variable has a value greater than 0.60. It can be concluded that the con-
structs have good or satisfactory reliability (reliable).

2. Inner Model (Structural Model)

The inner model was evaluated by looking at the percentage of the variance described by looking at the R-Square value. The inner model also viewed dependent latent constructs and their significance based on Path Coefficients.

a. R-Square

Table 3. R Square

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<tr>
<th>Constructs</th>
<th>R Square</th>
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<tbody>
<tr>
<td>Performance of Islamic Banks</td>
<td>0.361</td>
</tr>
<tr>
<td>Service Quality</td>
<td>0.329</td>
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<tr>
<td>Total Quality Management</td>
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Table 3 shows that the effect of TQM on the performance of Islamic banks generates an R-square value by 0.361. The percentage of service quality that can be explained by TQM is equal to 36.1%. The remaining 63.9% is explained by other variables not included in the present research.

The effect of TQM on service quality generates an R-square value by 0.329. The percentage of the performance of Islamic banks that can be explained by TQM is equal to 32.9%. The remaining 67.1% is explained by other variables not included in the present research.

b. Path Coefficients

Table 4. Path Coefficients

| Path Coefficients                        | Original Sample (O) | T Statistics (|O/STERR|) |
|------------------------------------------|---------------------|-----------------|
| Service Quality -> Performance of Islamic Banks | 0.715               | 4.136           |
| Total Quality Management -> Service Quality  | 0.574               | 3.205           |
| Total Quality Management -> Performance of Islamic Banks | -0.276             | 1.512           |

Based on Table 4, it is revealed that the parameter value is equal to 0.715 (which can be seen from the Original Sample (O)) and the t-statistic
value is equal to 3.891, which is greater than the t-table value by 1.96. This means that service quality has a positive effect on performance of Islamic banks. The more excellent the service quality provided by these banks is, the higher their performance is.

The relationship between TQM and service quality generates an estimated parameter value of 0.574 which is significant at 0.05 (5%). Therefore, TQM positively affects service quality. The higher the application of TQM is, the more excellent the service quality is.

The t-statistic value by 1.642 is not significant (the t-table value is significant at 5% = 1.96) because it is lower than the t-table value. This shows that TQM does not affect performance of Islamic banks.

Results of the convergent validity test indicate that all the indicators of variables Service Quality and Performance of Islamic Banks in this research are eligible to be included because they have a loading factor by ≥ 0.50. The indicators of variable TQM that is eligible to be included are \(X_1, X_2,\) and \(X_8\) as their loading factor is ≥ 0.50. As for indicators \(X_3, X_4, X_5, X_6, X_7, X_9,\) and \(X_{10}\) they are not eligible for inclusion because their loading factor is ≤ 0.50.

Results of the research hypothesis testing indicate that \(H_1\) and \(H_3\) have a significance value because the t-count value > the t-table value. While \(H_2\) has no significance value because the t-count value < the t-table value.

1. **Testing of Hypothesis \(H_1\)**

Research findings show that TQM has a significantly positive effect on service quality with a t-statistic value by 3.205, which is higher than the value of the t-table at a level of significance by 5% = 1.96. Thus, in this research, \(H_1\) is accepted and \(H_0\) is rejected.

The better the implementation of TQM among Islamic banks is, the better the quality of their services to customers is. By applying TQM components, namely focus on customers, obsession with quality, and controlled freedom, service quality will improve.

The term *focus on customers* means that Islamic banks always improve their product quality, service quality, and quality of human resources in
order to create work processes and work environment that can satisfy customers. Islamic banks must thoroughly know, identify, and analyze what customers need and expect in order to make them feel satisfied.

Another TQM component that is also improtant to be applied is obsession with quality, in which every employee should uphold the principle of doing their job as well as possible.

Another TQM component that is also important to be applied by Islamic banks is controlled freedom. Controlled freedom refers to the freedom granted by Islamic banks to employees to express their arguments in a decision-making process. Employees are also given the freedom to establish standardized work processes.

2. **Testing of Hypothesis** $H_2$

The implementation of TQM has no positive and significant effect on the performance of Islamic banks. This is because the value of the t-statistic by 1.512 is smaller than that of the t-table by 1.96. The implementation of TQM among Islamic banks cannot directly affect the performance of these Islamic banks. TQM affects the service quality first and then the service quality affects the performance of Islamic banks. Thus, in this research, $H_1$ is rejected and $H_0$ is accepted.

3. **Testing of Hypothesis** $H_3$ $H_3$

Research findings show that service quality have a positive and significant effect on the performance of Islamic banks. This can be seen from the t-test result which shows that the value of the t-statistic is equal to 4.136, which is higher than that of the t-table at a level of significance by 5% = 1.96. An increase in service quality will improve performance of these banks. The better the quality of services these Islamic banks provide to their customers is, the better their performance is. Thus, in this research, $H_1$ is acceptable and $H_0$ is rejected.

Thus, it is vital to implement the indicators of service quality among Islamic banks. These indicators, which consist of compliance, assurance,
reliability, tangible, empathy, and responsiveness, can improve the performance of Islamic banks.

Among the main indicators of service quality are compliance and assurance. Compliance in the context of Islamic banks refers to the ability to comply with Islamic laws and operate in accordance with the principles of Islamic banking. For example, the absence of interest payments implemented by Islamic banks for both savings and loans. As for the indicators of assurance, these include knowledge, a sense of decency, and abilities to provide a sense of security and trust to customers. For example, Islamic bank tellers serve customers politely and manage to provide them with financial advice.

The other indicators of service quality are reliability and tangible. Reliability refers the ability to have promised, reliable, and accurate service performance. For example, Customer Services staff who provides prompt and appropriate services to customers. While the indicator tangible refers to the discovery of aspects that physically can be seen such as equipment, personnel, and attractive office look and physical facilities.

The indicators of service quality that are equally important to be implemented by Islamic banks are empathy and responsiveness. Empathy refers to the ability of personnel to care about and give attention individually to customers by providing convenience and good communication. For example, Islamic banks are situated in a location that is easy to reach. As for responsiveness, it refers to the desire to help customers and provide prompt services. For example, the Marketing Finance Department which makes time for customers who wish to consult their business and finance.

CONCLUSIONS

Based on the research objectives, calculation results, and hypothesis testing, the following conclusions can be drawn:

1. TQM has a significantly positive effect on service quality. Good implementation of TQM among Islamic banks will improve the service quality
of these Islamic banks.

2. TQM Implementation among Islamic banks cannot directly affect the performance of these Islamic banks. TQM implementation will firstly affect service quality and then service quality will affect performance of Islamic banks.

3. There is a significantly positive influence between service quality and performance of Islamic banks. Improvements in service quality will result in improvements in performance of a company. The better the service quality banks provide to their customers is, the better the performance of these Islamic banks is.

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