

**A CRITICAL OVERVIEW OF CORE VALUES ON THE RELATIONSHIP BETWEEN
TOTAL QUALITY MANAGEMENT CONCEPT AND CORPORATE PERFORMANCE**

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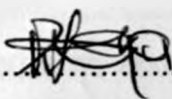
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requirement for the degree of Doctor of Philosophy, School of Business,
University of Nairobi



Declaration

This Independent Conceptual Paper is my original work and has not been submitted to any University for any award

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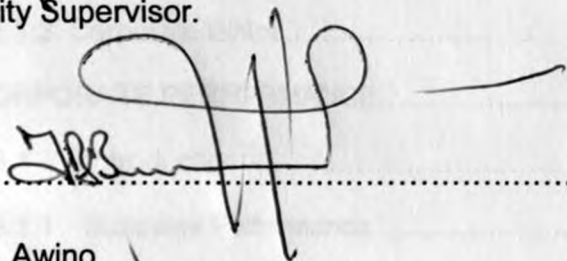
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Dedication

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Abbreviations

TQM	-	Total Quality Management
QM	-	Quality Management
CEO	-	Chief Executive Officer
CQI	-	Continuous Quality Improvement
QFD	-	Quality Function Deployment
CEO	-	Statistical Quality Control
JKUAT	-	Jomo Kenyatta University of Agriculture and Technology

Abstract

Total Quality Management (TQM) has become, according to one source, 'as pervasive a part of business thinking as quarterly financial results,' and yet TQM's role as a strategic resource remains virtually unexamined in strategic management research. Drawing on the resource approach and other theoretical perspectives, this paper examines TQM as a potential source of sustainable competitive advantage, reviews existing empirical evidence, and report's findings from a new empirical study of TQM's performance consequences. The previous researches suggest that most features generally associated with TQM such as quality training, process improvement, and benchmarking do not generally produce advantage, but that certain implicit, behavioral, imperfectly imitable features such as open culture, employee empowerment, and executive commitment can produce advantage. The researchers concludes that these implicit resources, and not TQM tools and techniques, drive TQM success, and that organizations that acquire them can outperform competitors with or without the accompanying TQM ideology

This paper further examines the relationship between total quality management (TQM) and innovation performance and compares the nature of this relationship against quality performance. The researchers suggest that TQM significantly and positively relates to both product quality and product innovation performance although it appears that the magnitude of the relationship is greater against product quality. In addition, significant causal relationships between quality performance and innovation performance were found, suggesting that achievement of one aspect of performance could impact the other.

Corporate culture does matter. It has been revealed from the previous researches that the strength of corporate culture significantly affects corporate policies such as employment policy, management structure, and financial structure. It has also been confirmed that the culture and its embedding contribute to better corporate performance. These culture effects are found to be considerable in magnitude and at least as large as those of other factors. Therefore it is important to recognize the existence of the culture for understanding corporate policies and performance.

Total quality management (TQM) has an internal focus on a corporation's business operations. Additionally, it has an external focus. A rare topic examined in these contexts of TQM is ethics. In the first place, the core values of TQM should be built upon ethical fundamentals. On the other hand, techniques and tools used in the implementation of TQM should also consider these ethical fundamentals. An internal approach of ethics in TQM stresses the issue of corporate ethics in intra-organizational business operations, while an external approach of ethics in TQM stresses the issue of business ethics in inter-organizational business operations. This review has revealed that TQM is not only about figures, profits and costs. It is also a business approach that should penetrate all activities inside and outside that are relate to the corporate performance.

Key: Core values, Relationship, Total Quality Management Concept, Corporate Performance

1.0 TOTAL QUALITY MANAGEMENT CONCEPT

1.1 Background

Total Quality Management (TQM) is a concept based on continuous improvement in the performance of processes in an organization and in the quality of the products and services that are the outputs of those processes. It is a team activity, demands a new culture, a new philosophy, a new emphasis and it calls for discipline and a profound knowledge. It is always argued that TQM has the potential to not only increase competitiveness and organizational effectiveness but also improve product quality and organizational performance Ahire (1996). Many studies have investigated the notion that TQM practices provide approach to improve the economic position of organizations in manufacturing and also in service sectors. Powell (1995) suggests that there are significant relationships between TQM, competitive advantage and business performance. Several studies have succeeded in providing evidence that TQM has positive impact on financial performance and the overall performance Schaffer and Thompson (1992); Opara (1996), Cherkasky (1992). According to Kaufman (1992) total quality management is defined as providing what is required as judged by the client. It is accomplished through everyone in the organization being committed to achieving results, a passion for quality and decisions based on performance data.

One aspect of quality is the aspect of the results. However, an aspect of the results is not the only aspect of quality. Total Quality Management (TQM) is a concept much broader, which not only emphasizes the aspect of human beings but also the quality and the quality of the process. Even the quality not only includes products and services, but also includes processes, environment and humans. Definition of Total Quality Management also varies. Total Quality Management is defined as a combination of all functions of the company into a holistic philosophy that is built on the concept of quality, teamwork, productivity and customer understanding and satisfaction. Other Definition Total Quality Management is a management system as a strategy to raise the quality-oriented business and customer satisfaction by involving all members of the organization. So, Total Quality Management is an approach of doing business that tries to maximize the organization's competitiveness through continuous improvement of products, services, people, processes and environment.

As asserted by Caplan (1990), client satisfaction or dissatisfaction is based on the degree to which outputs meet specifications of perceived quality. Output quality and customer satisfaction are the vision for TQM. Satisfaction comes from everyone in the organization working constantly to achieve customer satisfaction. TQM emphasizes that it is important for all elements to fit together to turn raw materials into the products and deliverables that satisfy clients. Customer satisfaction is the result most addressed by TQM Crosby (1979); Caplan (1990). It is geared towards clients' perception and feelings about the outputs. That is, do they find them worthy? will they continue to be customers, or will they demand changes or take their business elsewhere? The basic elements of TQM include: customer-oriented processes; an organizational climate which supports continuous improvement towards perfection, and; quality management function, which is not delegated (Kaufman, 1992).

Studies done by the Japanese on quality mainly emphasized product and performance and only shifted concern to customer satisfaction later in the nineteen nineties. Sergesjetter (1993), Youngless (2000) argued that rather than check the quality of products and services after they are completed, TQM implant the values of doing the job right the first time. The philosophy may sound easy, but implementing the process requires an organizational culture and environment that are often unfamiliar and threatening. Changes that must arise in the organization are so important that it takes time and endurance to complete the process. Just as the process does not happen suddenly, the results may not be realized for a long period of time. Some experts say that it takes up to ten years to fully appreciate the results of implementing quality management. As revealed by Bank, (1992), Total Quality Management (TQM) refers to management methods used to improve quality and productivity in organizations, specifically businesses.

TQM is only one of many acronyms used to label management short forms that focus on quality. Other short forms that have been used to describe similar quality management viewpoint and programs include CQI (continuous quality improvement), SQC (statistical quality control), QFD (quality function deployment), QIDW (quality in daily work) and control). TQM provides a structure for implementing effective quality and

productivity initiatives that can increase the productivity and competitiveness of organizations (Deming, 1992). Quality management applications have been researched widely Saraph et al., (1989); Flynn et al., (1994); Waldman (1994); Powell, (1995); Ahire et al., (1996); Anderson and Sohal (1999); Najmi and Kehoe (2000); Zhang et al., (2000); Sun, (2001); Sila and Ebrahimpour (2002); Kaynak (2003). Although there are quite a number of approaches, but the quality practices are familiar in most sectors.

Basic practices quoted in the top journals includes: top management commitment and support, organization for quality, employee training, employee participation, supplier focus, customer focus, continuous support, improvement of quality system, quality data reporting and analysis. According to Flynn et al. (1995a), Pannirselvam and Ferguson (2001) and Sousa and Voss (2002), the above practices can also be grouped into the following categories: management practice: issued from the top management; infrastructure practices: intended to support core practices; and core practices: based on tools and techniques specifically related to quality. Issues of corporate performance need to given prominence. Considering the profitability of an organization Total Quality Management should be given utmost understanding and proper implementation.

From the innovation point of view TQM has become the platform for market potential realization and synergistic in facilitating efficient management of processes for value creation and delivery in the highly dynamic and competitive market Mele, (2007). TQM has become one of the most successful practices in helping companies enhance competitiveness and prosperity through innovation and ensuring sustainable growth. In light of global success for companies, innovative process is one of the most important functions. But this is also least understood function by many companies. It is important because it is the source of new market. It is the function that gives the company competitive edge over others through unique value of innovation. Besides, it is responsible for revenues and business profits that company can achieve financially.

Empirical evidence reveals that corporate culture can be a significant contributor to corporate performance. Corporate culture, sometimes called organizational culture, is defined as “a set of values, beliefs, and norms of behavior shared by members of a firm that influences individual employee preferences and behaviors” Besanko, et al. (2000). Previous researchers claim that the culture can be a major source of efficiency in organizations and improve corporate performance Kotter and Heskett (1992), Cremer (1993), Besanko, et al. (2000), Hermalin (2001). They argue that performance benefits of corporate culture derive from three effects. The first effect is the goal setting effect: the culture specifies the goals of the firm and helps the employees make daily decisions easily. The second effect is the coordination effect: the culture reduces the communication costs and facilitates coordination among employees. The third effect is the motivation effect: the culture raises the employees' motivation when they believe in the company's culture. Other researches revealed that TQM is fast becoming a condition for survival in business and will impact economic development of organizations dramatically by forcing increasing levels of sophistication and increased performance Spiker (1991); Canada (1993).

Townsend and Gebhardt (1997) argue that the way that corporations go about their business operations, with particular respect to ethical concerns, is increasingly important to their customers. Customers in the marketplace are becoming increasingly aware of, and increasingly discriminating against, corporations that fail to meet the customers' criteria of ethical consideration in business operations. The concern does not just apply to customers, but to all stakeholders of the corporation and the society in general.

1.1.1 Quality Management

The word “quality” is derived from the Latin word *qualis*, meaning, “what kind of”. With variety of meanings and suggestions, quality is usually difficult to define, hence mainly referred to as a “slippery concept” Pfeffer and Coote, (1991). This is due to its diversity of meanings. The word implies different things to different people. It has, thus, been defined with different viewpoint, according to the person, the measures applied and the context within which it is considered. Amid the wide range of such definitions, there

seems to be no agreement on the definition, but they all deal either with the product or the services. From the consumers or the users point of view, the product or service based definition is more appropriate. From the organization point of view providing goods/services, the process-view is more practical Sangeeta and Banwe (2004). Considering the management philosophy, the basics of QM are diverse and this is very obvious corporate performance.

The different terms like strategic quality management, total quality improvement, and total quality leadership are some of the examples showing the different importance placed on specific constructs of what is basically known as quality management Sangeeta and Banwe, (2004). Seymour (1992) recognized four philosophical principles for what he identified as strategic quality management: "meeting or exceeding customer requirements", "everyone's job", "Continuous improvement" and "leadership". He asserts that the control of customers is a truth that displays itself, for example with the implementation of Total Quality Management and acquisition of ISO certification. Linking to continuous improvement, Seymour (1992) highlighted the importance of processes and the importance of continuous improvement strategy. Tribus (1993) expressed the "process over the product principle" for the corporate performance stating that for improving products and services, the innovation process and the ethics and the organization's culture needs to be considered.

1.1.2 Origin and elements of TQM

Most organizations adopted the TQM techniques slightly before World War II, the formation of the Total Quality Management philosophy is normally accredited to Deming, Juran and Crosby (1949). In the late 1920s, while working for an Engineering firm in the US, he discovered that workers' incentives systems were humiliating and reasonably unproductive; inducements were tied directly to quantity of output, and ineffective post-production inspection systems were used to find defective goods Hunt (1992). Deming teamed up in the 1930s with Shewhart, a Bell Telephone Company statistician whose work influenced Deming that statistical control techniques could be used to replace traditional management methods. Using Shewhart's theories, Deming invented a statistically controlled management process that provided managers with a

means of determining when to intervene in an industrial process and when to leave it alone. Deming tested the effectiveness of Shewhart's statistical-quality-control techniques, alongside management philosophies, during World War II. Government managers discovered that those techniques could easily be taught to engineers and other workers, and then swiftly implemented in over-burdened war production plants Weiss and Gershon (1989).

US state Department one of Deming's clients in the U.S. sent him to Japan in 1947 as part of national effort to rejuvenate the war-devastated Japanese economy. It was in Japan that Deming found passionate reception for his management ideas. Deming introduced his statistical process control, or statistical quality control, programs into Japan's ailing manufacturing sector. TQM Techniques have been accredited enhancing dedication to quality and productivity in the Japanese industrial and service sectors that made the country to become a central force in the global economy, Harry and Sergesketter, (1980,1993). Although as Japanese industries embarked on quality in the 1900s, Most American companies continued to produce quality goods and services for their foreign and domestic markets... But by the 1970s some American industries had come to be regarded as junior to their Asian and European competitors. As a result of increasing economic globalization during the 1980s, made possible in part by advanced information technologies, the United States manufacturing sector fell prey to more competitive producers, particularly in Japan Svenson, et al (1994). In response to huge market share gains achieved by Japanese companies during the late 1970s and 1980s, U.S. producers scrambled to adopt quality and productivity techniques that might restore their competitiveness. Indeed, Deming's philosophies and systems were finally recognized in the United States, and Deming himself became a highly sought after lecturer and author.

Empirical studies have not shown that TQM firms consistently outperform non-TQM firms Mathew (1992), Fuchsberg (1993a), nevertheless, TQM has become an irrepressible globally pervasive strategic force in today's industrial economy. And, because TQM requires firms to coordinate a wide range of behavioural, tacit, intangible resources, its dissemination stands as both support and a challenge to the new

emphasis on firm-specific resources in strategic management research, TQM's impact on strategic management research and practice remains unclear and underutilized, for continuous improvement there was need of Deming philosophy enhancement Walton (1986).

1.1.3 Economic Value of TQM

TQM has disseminated widely among *Fortune* 1000 firms, presumably because managers believe TQM improves performance. However, both the anecdotal evidence and the empirical studies suggest considerable variability in TQM's performance impacts, ranging from unprecedented successes to bankruptcy and abandonment of TQM. Can TQM act as a source of sustained competitive advantage? If not, why is TQM disseminating so rapidly? If so, why the mixed results and high-profile failures? Resource theory provides a useful perspective on these issues, beginning with the notion of resource heterogeneity, such as that different firms hold different resource portfolios, and that these differences produce variability in performance across firms Wernerfelt (1984); Barney (1986b); Peteraf (1993).

Although firms may attempt to imitate resources held by successful competitors, or at least to replicate their benefits, resource bundles remain heterogeneous due to imperfect immutability, created by 'isolating mechanisms' Rumelt (1984) such as: (1) *time compression diseconomies*—the resource may require longterm accumulation before attaining value (for example learning, experience, or proficiency in a skill); (2) *historical uniqueness (first mover advantages)*, the resource may have been originally acquired under unique, nonreplicable conditions; (3) *connectedness of resources*, firm may acquire a competitor's valuable resource only to find that its success depends on some complementary resource that the firm cannot acquire; (4) *causal ambiguity*—firms may be unable to determine the link between another firm's resources and its success; and (5) *social complexity*—a firm's success may result from social phenomena too complex for managers to understand or manage Lieberman and Montgomery, (1988); Derrick and Cool (1989); Barney (1991).

Under the resource view, success derives from economically valuable resources that other firms cannot imitate, and for which no equivalent substitute exists. Is TQM such a resource? According to TQM advocates, TQM does produce value, through a variety of benefits: improved understanding of customers' needs; improved customer satisfaction; improved internal communication; better problem-solving; greater employee commitment and motivation; stronger relationships with suppliers; fewer errors; and reduced waste Juran, (1988); Schmidt and Finnigan, (1992); Spechler (1991). But the evidence also suggests that some employees resist or even subvert TQM, finding it ideological or faddish. Furthermore, TQM entails substantial time investments from managers, it is expensive (especially for training and meetings), it rarely produces short-term results, it demands intense Chief Executive Officer's (CEO) commitment, and it makes unrealistic assumptions about most organizations' capacities to transform their cultures Bleakley, 1993; Naj, (1993); Fuchsberg (1992, 1993a, 1993b;) Mathews, (1992)

1.1.4 Total Quality Management Philosophy

According to prior researches (Alkhafaji *et al.*, (1998); Mandal *et al.*, (1999), TQM, philosophy can be applied to any organization, including manufacturing services, service industries and information related industries. Total Quality Management operates in two main management theories, Agency theory and Resource based theory: Stakeholder focus refers to the extent of effort by a firm to satisfy its most important stakeholders. In TQM literature, among the related dimensions are customer focus, employee focus, and society/community focus. Most excellence models include the role of stakeholders and the impacts they have on performances. Stakeholders play a decisive role in stimulating business growth. For example Quality Award for Excellence measures scores in the form of customer satisfaction (20%), people satisfaction (18%), society impact (6%) and only 15% for business results. That means 44% of the scores are influenced by the impact on stakeholders as compared to only 15% on the business results.

Schmidt (1999) gives the importance of each category of stakeholder. The employee is responsible for productivity and customer satisfaction. The source of sales revenue and earnings stability comes from customer support. Investors provide capital to fuel the growth of the companies. Suppliers are companies with technology and supply chain management. Communities must be satisfied with the favourable rules and regulations to support their well-being. In the earlier studies by Freeman (1983). He identified the origin of the word "stakeholders" from Stanford Research Institute, which refers to "those groups without whose support the organizations would cease to exist"

Using Agency theory, Hill and Jones (1992) explored the impact of stakeholders on the firms' performance. From the perspective of corporate social responsibility, Wood (1991) studied how stakeholders influence the decision-making process. Anderson (1989) extended the argument on how stakeholders impact corporate social performance. Donaldson and Preston (1995) concluded that the stakeholder theory is justifiable itself based on four aspects: descriptive accuracy, instrumental power, validity, and managerial implications. Descriptive accuracy explains whether the stakeholder approach is a viable business model to describe a corporation. Instrumental capability checks if the framework has been established while examining the relationship between stakeholder management and organizational performances. Managerial implication clarifies if the theory offers attitude, structure and practices and not only predicts a cause-effect relationship.

Throughout 1980s most studies on performance and competitiveness have been dominated by Michael Porter's market-based theory. In resource-based theory, most studies confirm that those companies who possess resources that are rare, unique, limitability beat their competitors in various performance indicators. Resources are the basis of firms' capability. Tangible resources are those that could be seen and quantified. Four basic categories are: financial capital, physical capital, human capital, corporate capital Barney, (1996). Financial resources are firms' borrowing capacity and the ability to generate internal funds.

2.0 SELECTED CORE VALUES

2.1 Introduction

This part discusses the relationship between Total Quality Management and the selected core values listed as follows: innovation, corporate culture and corporate ethics. A number of studies have been conducted on Total Quality Management (TQM) but only very few of these Flynn (1994); Gustafson and Hundt, (1995); McAdam et al., (1998) have been focused on testing the relationship between TQM and innovation performance, this part therefore, presents the critical review of the nature of the relationship between TQM and innovation performance; and compares the strength of this relationship with that between TQM and quality performance. This part further reviews both positive and negative of the relationship between TQM and innovation. It also examines the significance of corporate culture, by focusing on its impact on corporate policies and corporate performance considering corporate culture as organization capital.

Previous studies have indicated that a growing number of companies have recognized the business benefits of corporate ethics; their experiences are strengthened by the findings of previous literatures which has demonstrated that corporate ethics has a positive impact on business performance, and is not harmful to shareholder value. Companies also have been encouraged to adopt or expand corporate ethics efforts as the result of pressures from customers, suppliers, employees, communities, investors, activist organizations and other stakeholders. This part therefore, critically reviews the relationship between Total Quality Management and the above mentioned selected core values on business performance.

2.1.1 Innovation

Innovation as described in the Baldrige Criteria (2005), it means "making meaningful change to improve an organization's products, services, processes, and operations and to create new value for the organization's stakeholders". Strategically, Innovation should lead you to a new dimension of business performance. And it has to value add to the organization in terms increased in market share, capturing new customers and higher profit and increased performance. It is not about research into new product or service

which cannot be commercialized. To be effective, organizations should set direction and policy pertaining to innovation of product and service to an extent not to discourage such initiatives due to minor failure but to manage such activities to yield maximum results. Innovation should expand into supporting process to ease of doing business with customers.

Basically TQM has been widely accepted as a management model that provides a competitive advantage, if implemented successfully. However, as market conditions change, it is expected that the basis of competition will also change with quality becoming one of the "qualifying criteria" and flexibility, responsiveness and particularly innovation taking over as "winning order criteria" Bolwijn and Kumpe (1990); Hamel and Prahalad (1994; Tidd et al., (1997). In this respect, a question can then be raised: Should organizations continue to implement TQM as a management model in the future, particularly if they want to achieve a high innovation performance?

From the point of view of innovation, testing the suitability of TQM as a management model for managing innovation could enrich the perspective of managerial practices in innovative organizations. As Cooper (1998) suggests, academics as well as practitioners have devoted significant amount of time to continually seeking and indentifying organizational factors, practices and resources that support and enhance innovation. In this respect, a particular question can thus arise; Can TQM function as a specific resource that allows organizations to build their competence and competitiveness in innovation.

The discussion on the relationship between TQM and innovation is important from the point of view of innovation based also on the fact that innovation studies consider TQM itself as one form of innovation Westphal et al., (1997); Yamin et al., (1997); Cooper (1998). At the same time, innovation scholars have an interest to examine the impact of adoption and implementation of a particular innovation, as suggested by Wolfe (1994).

Tornazk and Flischer (1990) argue, innovation will have a wide range of consequences, the intended or anticipated ones as well as the unintended ones. Similarly, Flynn et al. (1995a) also affirm that.

2.1.2 Corporate Culture

Total Quality Management (TQM) programs are more likely to succeed if the prevailing organizational culture is compatible with the values and basic assumptions proposed by the total quality management discipline. Organizations looking to implement TQM practices need to have an organizational culture that considers learning fundamental for the survival of the organization. Only with the proper organizational culture and environment, can TQM initiatives be successfully implemented. Organizational culture has long been acknowledged to be important to the success of an organization. It is increasingly evident that top management must have an explicit focus on the development and maintenance of their organization's culture. By using the relevant literature on organizational culture and Total Quality Management (TQM) including books and journal articles, organization's culture is one of the most important core values in increase the corporate performance.

Much has been written on the impact of total quality management (TQM) on organizational performance, Flynn et al., (1994); Samson and Terziovski, (1999). These studies typically conclude that TQM has a positive and significant relationship with corporate performance. However, not all TQM implementation yields the satisfactory results promoted by its advocates Brown (1993); Harari (1993); Tatikonda and Tatikonda (1996). Literature has noted numerous stories on the problematic issues relating to the implementation process and how they affect its outcomes. Among several factors, which have been attributed as key determinants of its success corporate culture is often among those listed at the top. A number of studies have been devoted to identify what kinds of factors are suitable for implementing TQM based on a proposition that culture affects the extent to which TQM can be implemented in organizations.

Closer examination of literature that explores this relationship between TQM and culture reveals two competing schools of thought Bright and Cooper (1993). The view argues that TQM is associated with a single “homogenous” culture. Underlying this “unitarist” argument is a view that promotes TQM as a set of organization-wide practices that unify mindsets and perceptions among members of an organization. Within this group, the arguments typically suggest that TQM is associated with a single culture especially the one that is flexible and people oriented, Tata and Prasad (1998) In short, the underlying principal in this unitarist view is that TQM also includes cultural elements, which can promote control and standardization, as opposed to flexibility alone, Watson and Kurukonda, (1995). As such, this pluralist view of the TQM/culture relationship is more multi-dimensional, with different cultural characteristics in turn being associated with different elements of TQM. This view appears to contradict the people-centred cultural characteristics that are commonly associated with the unitarist view.

Underlying these two opposing arguments is the contrasting view on TQM as a set of organizational practices. The first group (unitarist) views TQM as an undimensional “package” which has to be implemented as a whole and therefore both requires and reflects a specific, single “homogenous” culture of the organization. The opposing pluralist school of thought suggests that TQM practice is multidimensional, and is driven by and reflects various types of practices which are driven and reflect various dimensions of organizational culture.

2.1.3 Corporate Ethics

TQM is built on a foundation of ethics, integrity and trust. It fosters openness, fairness and sincerity and allows involvement by everyone. This is the key to unlocking the ultimate potential of TQM. These three elements move together, however, each element offers something different to the TQM concept. Ethics is the discipline concerned with good and bad in any situation. It is a two-faceted subject represented by organizational and individual ethics. Organizational ethics establish a business code of ethics that outlines guidelines that all employees are to adhere to in the performance of their work. Individual ethics include personal rights or wrongs. Integrity implies honesty, morals,

values, fairness, and adherence to the facts and sincerity. The characteristic is what customers (internal or external) expect and deserve to receive. People see the opposite of integrity as duplicity. TQM will not work in an atmosphere of duplicity. Trust is a by-product of integrity and ethical conduct. Without trust, the framework of TQM cannot be built. Trust fosters full participation of all members. It allows empowerment that encourages pride ownership and it encourages commitment. It allows decision making at appropriate levels in the organization, fosters individual risk-taking for continuous improvement and helps to ensure that measurements focus on improvement of process and are not used to contend people. Trust is essential to ensure customer satisfaction. So, trust builds the cooperative environment essential for TQM.

TQM gained increased interest among practitioners and scholars during the 1990s. Lagrosen (2001) writes that TQM has become well established as a system for improving both the performance of corporations and the satisfaction of customers. Despite its popularity, the meaning of TQM is rather ambiguous. Amsden et al., (1996) state that many business people and academicians regard the development and practice of TQM as an evolutionary process rather than a revolutionary one. It is also considered to be either a buzzword, Hackman and Wageman (1995), Harari (1993); Binney, (1992) or something to reach for in order to enhance corporate competitiveness and profitability in the business environment; Ghdadian and Gallear, (1996); Becker (1993). A set of values, such as customer focus, management commitment, process focus, continuous improvements, and fact-based decisions, unites the descriptions of TQM, Bergman and Klefsjo (1994); Hellsten, (1997); Hellsten and Klefsjo (2000), Lagrosen, (2002).

Hellsten and Klefsjo (2000) provide a framework of TQM consisting of three components, namely core values, techniques, and tools. Other similar working is used to describe these phenomena. These words include but are not restricted to principles, procedures, and tools, Shea and Gobeli (1995). Other authors have identified different

core values in TQM, Bergman and Klefsjo (1994); Hellsten (1997); Hellsten and Klefsjo (2000); Lagrosen (2002), Hellsten (1997) concludes that there are a number of common core values in most descriptions of TQM. These values consist of a focus on customers, management commitment, everybody's commitment, focus on processes continuous improvement, and fact-based decisions.

TQM requires cross-functional thinking, planning, and doing, Schonberger (1995). An important core value neglected in most descriptions of TQM is ethics in the society in general, and business ethics in the market place in particular, Svensson and Wood (2004b); Vinten, (1998); Peters, (1997a). Furthermore, corporate ethics is also neglected in most descriptions of TQM. Representing the soft and hard sides of management, ethics and quality are crucial aspects of an organization, Bowman and Wittmer (2000). The implementation of TQM would benefit from a conscious consideration of ethics in management practice, Peters (1997b).

Stainer and Stainer (1995) argue that management's ethical behaviours is moulded by five main factors, namely the business situation itself, the task to be performed, the group of peers, leadership style, and past experience. Svensson and wood (2003) show that the dynamics of business ethics is function of time and culture. Business ethics performance is affected by evolutionary and contextual issues, Svensson and Wood (2004a). Likewise, corporate ethics is influenced by the same functions and issues. TQM and the performance of TQM are also dependent upon these functions and issues, Lagrosen (2002) explores and describes the influence of culture on the way quality management is practiced, and concludes that some differences in focus have been found.

Owensend and Gebhardt (1997) argue that the way that corporations go about their business operations, with particular respect to ethical concerns, is increasingly important to their customers. Customers in the marketplace are becoming increasingly aware of, and increasingly discriminating against, corporations that fail to meet the customers' criteria of ethical consideration in business operations. The concern does not just apply to customers, but to all stakeholders of the corporation and the society in general.

Corporate ethics is a core value per se that underpin a corporation's business ethics and should affect the techniques and tools used in a corporation's implementation of TQM. Corporate ethics besides business ethics should be aggregated to the list of core values or what Bergman and Klefsjo (1994) labeled as the cornerstones of TQM. Corporate ethics is considered as a part of the internal process of TQM and not extraneous to it. The worldwide business environment is changing towards a stronger focus on ethics. As this environment changes, then as a consequence one can assume that its members will expect and even demand more ethical behaviour from its business leaders and their corporations. Ethics has to be considered internally and externally if firms hope to increase their performance.

3.0 CORPORATE PERFORMANCE

3.1 Introduction

This part critically reviews the literature on the impact of Total Quality Management (TQM) on corporate performance. The impact of TQM is usually measured by comparing each firm's performance to a control benchmark designed to capture what the performance would have been without TQM. The previous studies showed that performance measured by both accounting variables and stock returns, is improved for the firms adopting TQM. The improvement is consistently stronger for firms with more advanced TQM systems. According to prior researches Alkhafaji *et al.* (1998); Mandal *et al.* (1999), asserts that it would be worthwhile to investigate how TQM may affect business performance, this part therefore, revealed that relationship between TQM practices and various levels of business performance indeed improves the corporate performance. The contribution of this part is to propose a conceptual model which can study TQM effects more effectively and hence, implement TQM in a more efficient manner. The findings obtained from the previous studies have become very useful for researchers and practitioners in the quality management area.

3.1.1 Business Performance

Success of a business is largely dependent on achieving an effective coordination and integration among the individual units of the organization. Corporate performance therefore, mainly focuses on the profit impact of the firm Buzzell and Wiersema (1981), Phillips *et al.* (1983), Vickery and Droge (1996) study found that business performance is significantly related to return on investment growth, return on sales growth and growth on market share and it is also measured according to performance relative to major industry competitors.

Business performance measurement is an integral component to how businesses do, know things and how it is they cause themselves to act in a manner that helps them survive and thrive. It is natural, then, that businesses would show an increased interest in performance measurement, especially since Internet technology makes diffusion of

performance measurement across the business or across businesses much simpler than in the past. The measurement mantra continues to reverberate throughout nearly every corridor of business life Simmons (2000). In order to survive and succeed, firms need to set strategic directions, establish goals, execute decisions and monitor their state and behavior as they move towards their goal. Once a firm becomes large enough that a single manager cannot sense the firm's current state and cannot control its behavior alone, the firm must use performance measurement and control systems to replace the eyes and ears of the beleaguered manager Euske (2002)

Over the past few decades, firms have used information technology to provide "sense and control" capability. Several dozen vendors provide business performance measurement information technology solutions. These tools have leveraged the latest advancements in data and application integration approaches, web-based charting and reporting, statistical analysis, artificial intelligence, machine learning and expert system technology.

Specifically, business performance measurement and control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simmons 2000). A typical performance measurement helps businesses in periodically setting business goals and then providing feedback to managers on progress towards those goals. The time horizon for these goals can typically be about a year or less for short-term goals or span several years for long-term goals (Simmons 2000). Since a business performance management system measures performance, it is important to define what performance is. Lebas and Euske (2002) provide a good definition of performance as "doing today what will lead to measured value outcomes tomorrow." Business Performance Management then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target.

Business performance Measures may be related to human performance, process performance or market conditions. Some, but not all, measures are directly related to the firm's strategy and are critical for its successful execution of its strategy. These are called critical or key performance indicators. Finally, measures can refer to tangible things, often recorded in the chart of accounts, such as inventory levels, accounts receivable balances, employee headcount, or can refer to intangibles such as level of skill or knowledge, creativity and innovation Kaplan and Norton (2001).

Looking at the firm as a complex organism seeking to survive or thrive in its competitive environment, performance measurement systems serve as a key contributor to the perceptual and coordination/control capabilities of the firm. Firms use business performance measurement systems to help monitor and control specific activities; to predict future internal and external states; to monitor state and behavior relative to its goals; to make decisions within needed time frames; and to alter the firm's overall orientation and/or behavior.

3.1.2 Operational Performance

An organization's operations function is concerned with getting things done; producing goods and/or services for customers. Operations management is important because it is responsible for managing most of the organization's resources. However, many people think that operations management is only concerned with short-term, day-to-day, tactical issues. Kaplan and Norton (1992) believe that the traditional measurements of financial performance are no longer valid for today's business demands. They consider that operational measurements of management are needed when dealing with customer satisfaction, internal processes and activities directed at improvement and innovation in the organization, which lead to future financial returns. Operational performance takes into account the company's performance in reaching its basic objectives, that is, productivity, quality and service.

Gattorna et al (1991) asserts that operation unit is responsible for producing the required quality of products, in the quality and time demanded by the customers by using materials, equipments and human resources in the minimum possible cost. They argued that operation function should always be in close interaction with other units of the organization in order to be able to employ company resources in an efficient manner.

Ferdows and de Meyer (1990) argue that certain operational capabilities enhance one another, enabling operations excellence to be built in a cumulative fashion. In their 'sandcone' model of operations excellence they maintain that there is an ideal sequence in which operational capabilities should be developed. The starting point, the base of the sandcone is excellence in quality. On this should be built excellence in dependability, then flexibility (which they take to include speed), then cost. They emphasize that efforts to further enhance quality should continue whilst commencing efforts to build dependability. Similarly, actions on quality and dependability need to continue whilst building flexibility. Finally efforts to reduce costs take place alongside continuing efforts to improve quality, dependability and flexibility. They claim that operational capabilities developed in this way are more likely to endure than individual capabilities developed at the expense of others.

Skinner (1985) argued that operations could become a 'Formidable Competitive Weapon' if the function was allowed to play a full strategic role in the organization. In their four-stage model, Hayes and Wheelwright (1984) categorize different types of organizations based on their attitude towards their operations Hayes and Wheelwright's four stage model is underpinned by their belief that Cost, Flexibility, Dependability and Quality concept based on the premise that it is impossible to excel simultaneously at all aspects of operations. This means that an operations strategy can be successful only if it is based upon a single clear goal, determined by a prioritization of operations performance objectives (for example cost, quality, speed, dependability and flexibility). an organization's operations can provide a source of competitive advantage.

3.1.3 Linking Operational Performance and Business Performance

The previous researches prove that the overall business performance will be significantly improved through the way in which the operational function is effectively integrated with downstream marketing function in the supply chain. Kaplan and Norton (1992) in their research paper "The Balanced Scorecard -- measures that drive performance", regarding the measurement of business performance, suggested for the way to approach the issue. According to the researchers, since there is increasing need, both for large and small businesses, to master a variety of capabilities in different fields, the traditional measures of financial performance gives inadequate, or in some cases inaccurate, perspective for the status of the business and its ability to keep improving.

Operational measures according to the balanced scorecard constructed from three dimensions -- How do customers see us? (Customer perspective), What must we excel at? (Internal perspective), Can we continue to improve and create value? (Innovation and learning perspective). Rami Schayek revealed that operational performance and business performance are very necessary when dealing with quality performance and the selected core values. Total quality management deals with continued improvement of the organization processes, for the success of this all players in the organization are important hence the need to enhance and understand the operational processes, as well as evaluation of business processes to gauge the performance of the firm.

According to Venkatraman and Ramanujam (1986) a border conceptualization of business performance would include emphasis on measures of operational performance, which consists of those key parameters which may lead to an improvement in financial performance. Venkatraman and Ramanujam (1986) note that it would be logical to treat operational performance measures such as market-share, new product introduction, product quality, marketing effectiveness, manufacturing value-added, within the domain of business performance.

3.1.4 The Effects of TQM on Corporate Performance

The benefits of an effective TQM implementation can be studied with three different perspectives. Firstly, from the operating angle, the reason that TQM has become a hot topic in both industry and academia is that it can be applied to improve/enhance global competitiveness (Flynn *et al.*, 1995; Samson and Terziovski, 1999). Firms with effective TQM implementation can accomplish the internal benefits such as improving quality, enhancing productivity enhancement, or realizing better operating income (Corbett *et al.*, 2005; Hendricks and Singhal, 1997). Secondly, from the financial performance perspective, careful design and implementation of consistent and documented quality management systems can contribute significantly to superior financial performance (Corbett *et al.*, 2005). Further, firm with an effective TQM implementation can significantly outperform on the stock price performance (Hendricks and Singhal, 2001). Finally, from the knowledge management (KM) viewpoint, the implementation of TQM can also increase and enhance organizational knowledge, which in turn helps more understanding of how quality management practices can affect firm performance (Linderman *et al.*, 2004). Compared with TQM and KM, there are many similarities between these two management philosophies. If properly planned, they can complement one another effectively (Hsu & Shen, 2005)

Recent studies have examined the relationship between total quality management and various levels of business performance (Das *et al.*, 2000; Kaynak, 2003; Mohrman *et al.*, 1995). Although many results of prior studies supported the positive effects of TQM on organizational performance (Hendricks & Singhal, 1997; Kaynak, 2003; Madu *et al.*, 1995; Sun, 2000; Terziovski & Samson, 1999), there were several researches which found the implementation of TQM might lead to ineffectiveness of firm performance (Choi & Eboch, 1998; Dale *et al.*, 1998; Lemak *et al.*, 1997; Reed *et al.*, 1996). Kaynak (2003) indicated the reasons that the results of these aforementioned studies have

different outcomes probably resulted from the nature of the research designs such as using TQM practices or business performance as a single construct. In this study, the Researcher examines the relationship between seven important TQM constructs and various levels of firm performance and measure how each TQM constructs affects other TQM constructs.

3.1.5 Total Quality Management Constructs

Based on the introduction, seven factors can be concluded to be the key driving force to an effective implementation of TQM. Namely, these seven factors include: customer focus, management leadership, human resource, quality data & reporting, suppliers' management, design management, and process management (Ahire *et al.*, 1995; Flynn *et al.*, 1994; Kaynak, 2003; Samson & Terziovski, 1999; Sousa & Voss, 2002). Further discussions about the aforementioned seven factors are provided below.

For business enterprises, the significant driving force to establish the quality goals basically originates from customer needs. Generally speaking, customer needs identify the operational goals for firms to meet. And this type of quality goals is also referred as market-driven (Juran, 1992). Oakland (2005) mentioned that quality started with the understanding of customer needs and ended when those needs were satisfied. In order to meet the requirement of customers, top management should clarify the expectations of its customers. Further, organizational strategy should also be developed based on customers' needs. Samson & Terziovski (1999) pointed out that customer focus is the underpinning principles for firms to implement TQM programs. Since senior management may have the influence and authority to dominate the entire TQM implementation, dedicated commitment from top management about implementing TQM is certainly a necessity.

Management leadership is considered to be another major driver of TQM and it has a significant influence on determining whether or not a TQM program can be implemented effectively (Soltani, 2005). Management leadership in fact, refers to how management level guides and supervises personnel of a firm in an appropriate manner. Management

level provides the necessary resources for training employees to meet the new requirements and/or changes that are resulted from TQM implementation, and consequently, creates a work environment which is conducive to employee involvement in the process of changes (Kaynak, 2003; Wilson & Collier, 2000). In addition, effective management leadership is critical to influence the decision of selecting qualified suppliers and certifying suppliers for quality material (Flynn *et al.*, 1995; Trent & Monczka, 1999).

Management level is also responsible for mentoring product design and considering market demands & consumer needs (Deming, 1986; Flynn *et al.*, 1995). In other words, the focus of management is essential for firms to produce goods that are manufacturable and meet the needs of customers (Flynn *et al.*, 1995; Juran, 1981). In conclusion, management level plays a significant role on conducting organizational operation and also highly influences the decision-making and resource allocation processes for supplier management and design management, respectively.

In terms of quality management, employees must be able to measure and utilize quality data efficiently and effectively (Ahire & Dreyfus, 2000; Ho *et al.*, 1999). The study of Ho *et al.* (2001) indicated that human resource, which includes employee training and employee relation, was positively related to quality improvement, which was mediated through utilizing quality data and reporting. Thus, whether or not a TQM program will be successfully implemented mainly depends on the collaboration and coordination among a firm's workforce. An effective implementation of TQM can be derived from employees' understanding of the philosophy and principle of TQM implementation. Furthermore, if employees have high consciousness of TQM, the data and reporting of quality control prepared by working staffs will be easy to uncover the reality and thus, can be used to correct quality flaws or mistakes immediately and effectively. In this way, the scholars propose that better human management will result in more positive effect on producing quality data and reporting.

Quality data and reporting utilize quality reports and control charts to identify explicit & potential quality problems and provide timely information for correcting & improving problems explored (Ho *et al.*, 1999). In other words, a good data and reporting system can timely and correctly reflect the actual circumstance/situation to management level. It can also provide management level adequate information to make timely decisions. With regard to quality data and reporting, it can help management or employee to identify and solve problems stemming from input materials that are supplied by cooperative suppliers (Adebanjo & Kehoe, 1999). In addition, several studies indicated that the goals for firms to implement TQM were mainly focused on building quality into the products rather than merely inspecting quality into the finished products or removing defective products (Flynn *et al.*, 1995; Handfield *et al.*, 1999; Tan, 2001).

Since effective design management requires various resources to support, such as considering the requirements of customers or coordination of procurement function, design function, production function & supply function, design management can be effectively implemented only if quality data and reporting are collected and shared throughout the organization in a timely manner (Ahire & Dreyfus, 2000; Easton & Jarrell, 1998; Flynn *et al.*, 1995; Handfield *et al.*, 1999; Ho *et al.*, 1999). Additionally, quality data and reporting can provide employee timely information to deal with changes or problems occurred and further examine the results with the improvements made (Flynn *et al.*, 1995; Handfield *et al.*, 1999; Ho *et al.*, 1999). Thus, an effective quality data and reporting system will have positive impacts on enforcing suppliers' management, design management, and process management aspects (Kaynak, 2003).

With regarding to suppliers' management, an effective suppliers' management will enforce the cooperation between suppliers and firms by allowing suppliers' involvement and/or participation not only in the design process but also in the production process, and help the procurements of materials or parts meet firm's requirements and be efficiently utilized (Flynn *et al.*, 1995; Shin *et al.*, 2000; Tan, 2001). The research

findings of Kaynak (2003) showed that suppliers' management, which emerged as an important component of TQM implementation, had directly positive effects on both design management and process management. In addition, the quality of materials provided by suppliers is important and the starting point for firms to produce quality products.

Eventually, a good quality of raw materials will reduce the occurrences of rework, scrap, and/or defective outputs. Ultimately, it can result in a good operational performance. From the discussion above, suppliers' management can be used to streamline the suppliers' base to facilitate the following tasks such as managing suppliers' relationship, developing strategic alliances with suppliers, cooperating with suppliers to ensure meeting the customers' expectations, involving suppliers early in the product development process, and enhancing the process management (Flynn *et al.*, 1995; Kannan & Tah, 2005).

Effective design management can increase the efficiency of process management and improve operating efficiency. The study of Ahire & Dreyfus (2000) showed that design management has positive impacts on process management, internal quality, and external quality. The empirical results of Kaynak (2003) showed that product/service management had significantly positive effects on process management and quality performance, which in turn influenced operating performance.

Inferior quality manufacturing process will result in higher scrap rate and rework rate which will lead to more resource consumed to produce qualified products (Ahire & Dreyfus, 2000). The goal of process management is to reduce process variation by building quality into the production process (Flynn *et al.*, 1995; Handfield *et al.*, 1999). The effects of reducing process variation will increase the quality of outputs as well as decreasing the occurrences of unnecessary costs such as rework costs and waste

costs by finding and correcting quality problems immediately (Ahire & Dreyfus, 2000; Anderson *et al.*, 1994; Forza & Flippini, 1998). Thus, the effectiveness of process management implementation has been cited as one of the major dimensions of integrated quality efforts (Anderson *et al.*, 1995).

There are plentiful studies investigated the relationship between TQM and firm performance. Kaynak (2003) indicated that quality improvement had positive effects on improving a firm's financial and market performance. However, as the effects of TQM have different impacts on internal quality and external quality, TQM implementation that directly and positively improves firm's operating performance by increasing quality performance (Kaynak, 2003), has indirect effects on increasing customer satisfaction as well as market share (Handfield *et al.*, 1998; Hendricks & Singhal, 1997). It is further noted that quality management can improve operating efficiency by reducing defect rate, scrap rate, and the occurrence of rework.

The improvement of operating efficiency will improve customers' satisfaction and eventually the company's financial performance. In addition, the improvement of customers' satisfaction and loyalty may sustain or enlarge market share, which can be eventually transformed into better firm's financial performance (Ahire & Dreyfus, 2000; Choi & Eboch, 1998). Thus, the scholars propose that operating performance resulting from TQM implementation will increase customers' satisfaction and improve financial performance, respectively. In the meantime, the improvement of customers' satisfaction will also have positive effect on improving financial performance.

3.1.6 Relationship between Selected Core Values and Corporate Performance

It is widely acknowledged that organizations should improve firm's innovation performance in order to survive and prosper in a vulnerable and dynamic environment. Some TQM proponents have stated that it provides the necessary background and facilitates innovation, since TQM and innovation share many common aspects Prajogo and Sohal (2001). This rationale is founded on the argument that TQM practices, in both its human and technology dimensions, stimulate organizations to create an

environment and culture that support innovation. Several studies identified a positive relationship between TQM and innovation Baldwin and Johnson (1996) Prajogo and Sohal (2003b) confirmed a positive association between TQM and product innovation, although product quality exerted a much stronger relationship with TQM. Hoang et al (2006) verified that only three constructs, namely, leadership and people management, process and strategic management, and open organization among the TQM practices under investigation showed a positive impact on firm's innovation performance.

However, there is an alternative school of thought, supporting that TQM can impede innovation Slater and Narver (1998), Kim and Marbougne (1999) and Atuahene-Gima (1996), stated that customer focus is related to product conformance, rather than product innovation. Recently, Pinho (2008) failed to verify the effect of TQM on innovation. In a similar vein, Singh and Smith (2004) provided supporting evidence to these earlier studies, since no relationship between TQM and firms' innovation performance was confirmed, implying that there could be more complex association between these concepts. Despite admitting arguments for such positive impact on innovation, mainly due to employees' learning and culture benefits McAdam Armstrong and Kelly(1998), the advocates of the negative school consider that TQM implementation is likely to create more disadvantages for innovation than support Prajogo and Sohal (2001).

A review of the literature discussing the relationship between TQM and innovation suggests that there are conflicting arguments concerning the relationship between TQM and innovation Prajogo and Sohal, (2001). Arguments that support a positive relationship between TQM and innovation contend that companies embracing TQM in their system and culture will provide a fertile environment for innovation because TQM embodies principles that are congruent with innovation Dean and Evans, (1994); Kanji, (1996); Mahesh, (1993); Roffe, (1999); Tang, (1998). The principle of customer focus encourages organizations to consistently search for new customer needs and expectations, and therefore, leads organizations to be innovative in terms of developing

and introducing new products as a continual adaptation to the market's changing needs Juran, (1988). Likewise, continuous improvement encourages change and creative thinking in how work is being organized and conducted. Finally, the principles of empowerment, involvement, and teamwork are also substantial in determining the success of organizational innovation.

Peters (1997a) argues that social responsibility is good capitalism or that good capitalism is socially responsible. Therefore, corporate ethics is an important ingredient in social responsibility, and in turn a determinant of good capitalism. In and of itself, being ethical requires one to embrace a belief in incorporating social responsibility into one's corporate thinking and planning. Bowman and Wittne (2000) states that organizations exist to improve the quality of people's lives by producing goods and services. Yet, whilst producing these goods and services, managers have to realize the worth of the idea that their purpose is not only to do the right things, but also to do things right. Stainer and Stainer (1995) concludes that ethical behavior should be an integrative factor within the productivity of corporate responsibilities as well as providing a competitive edge may be achieved. Vinten (1998) points out that within TQM sufficient emphasis has not been placed on ethical considerations.

Corporate ethics, besides business ethics, Svensson and Wood (2004b), may also be seen as a generic or grounded core value for the other core values in TQM. Therefore, it may serve as an umbrella to be incorporated and considered in the internal implementation of TQM. Townsend and Gebhardt (1997) argue that the way that corporations go about their business is important for the improvement of business performance.

It has long been discussed that corporate culture can be a significant contributor to corporate performance. Corporate culture, sometimes called organizational culture, is defined as "a set of values, beliefs, and norms of behavior shared by members of a firm that influence individual employee's preferences and behaviours" Besanko et al (2000). Previous researchers claim that the culture can be a major source of efficiency in organizations and improve corporate performance, Kotter and Heskett (1992), Cremer

(1993), Besanko et al (2000), Hermalin (2001). They argue that performance benefits of corporate culture derive from three effects. The first effect is the goal setting effect; the culture specifies the goals of the firm and helps the employees make daily decisions easily. The second effect is the coordination effect; the culture reduces the communication costs and facilitates coordination among employees. The third effect is the motivation effect; the culture raises the employees' motivation when they believe in the company's culture.

While the significance of corporate culture is widely accepted in academia and the media, empirical evidence seems to be insufficient. Most evidence has been anecdotal or case studies and thereby has been of little quantitative value. The exceptions are Denison (1984), Gordon and DiTomaso (1992), Kotter and Heskett (1992), and Sorensen (2002) who report that cultural strength is associated with superior performance. The researchers views, reveals that the scarcity of quantitative evidence stems from the following reasons. First, corporate culture and its strength are difficult to measure directly, which often prevents scholars from conducting quantitative analyses. Second, it might be difficult to detect the positive correlation between culture and performance, because some firms may have unadaptive or defective cultures that harm productivity Kotter and Heskett (1992), Hodgeson (1996). Third, previous studies have mostly focused on the association between culture and performance, and have devoted less effort to explore accumulation of the organization capital.

Detert et al (2000) established a comprehensive framework relating corporate culture and improvement efforts. Quality culture is the results of corporate culture with specific emphasis on quality. Many attempts to validate to prove something to be sound or logical. Also to certify conformance to a standard. Contrast with "verify" which means to prove something to correct. Using Coyne (1996) framework, Hall (1991) explained that corporate culture could be fitted into his frameworks of intangible resources. It includes the habits, attitudes, beliefs, and values that bind the individuals and groups together. Such cultures that promote high quality standards, enhance the ability to react

to change and encourage the ability to learn, would lead to competitive advantage for that organization. Hall's (1993) survey on top managers found that corporate culture is the top four most significant intangible resources. In relation to excellence models, elements of corporate culture are traced in Larache's competitive fitness model and quality culture.

If corporate culture is regarded as the firm-specific capital and it is valuable for enhancing performance, it can then easily be predicted that firms with strong culture have an incentive to maintain and utilize it, rather than to build new culture. Preserving the culture and sustaining the culture-embedded organization can increase the firm value via two effects. First, it raises *current* performance. The firm takes advantage of its accumulated culture to operate efficiently. Second, it improves *future* performance. Observing that the culture and the organization continue to exist, the employees are encouraged to make culture-specific investments which helps further accumulation of the organization capital. Therefore, firms with strong culture are supposed to have policies for preserving the culture and the organization and making the most of its cultural benefits. This leads us to the prediction that corporate culture affects the firm's employment policy, management structure, and financial structures. It can be hypothesized that strong-culture firms are more likely to retain incumbent employees, have internally promoted managers, and reduce the probability of default and hostile takeovers than weak-culture firms.

Total Quality Management (TQM) is a concept based on continuous improvement in the performance of processes in an organization and in the quality of the products and services that are the outputs of those processes. It is said that TQM has the potential to not only increase competitiveness and organizational effectiveness but also improve product quality and organizational performance Ahire, (1996). Powell (1995) suggests that there are significant relationships between TQM, competitive advantage and business performance. In addition, several studies have succeeded in providing evidence that TQM has a positive impact on financial performance and/or overall performance Schaffer and Thompson, (1992); Opara, (1996); Cherkasky, (1992); Arawati Agus & Za'faran Hassan, (2000). Well implemented TQM can offer many

benefits including improved products and services, reduced costs, more satisfied customer and employees, and improved bottom line financial performance (Powell, 1995). Quality advocates have identified several critical principles for successful TQM practices which among others are: benchmarking, customer focus, supplier relationship, benchmarking, quality-oriented training, employee focus, zero-defects, process improvement and quality measurement (Saraph et al, 1989). TQM is fast becoming a condition for survival in business and will impact economic

As Castells (1996) says, already in the 1960 – 1970s the development of the world and the societies gained new features. Almost at the same time three each other interacting processes took place. First, rapid development of information technologies, that exceeded all forecasts for sector, second was described as globalization, which highlighted the significance of the environment as a global unifying connection, and the third process was formation and increased pressures of different non-governmental movements and stakeholders' groups. The aforementioned processes and reaction influenced by them stipulated development of the new social structure net society, new kind of economic, and new virtual culture.

4.0 ECONOMIC DEVELOPMENT

studies by Todaro (1970) identify the meaning of the economic development thought and the main objectives that it actually pursues. One of the most important objectives on the opinion of Todaro is the production of the "life necessities" for the people in need and therefore providing them with sufficient amount of food to survive physically, through providing a shelter for people that have no other option than to live on the street and what is even more important the ability and readiness of health institutions to provide such people with health care. Though the production of all the necessary products to satisfy these basic needs is important, the broadening of their implication is vital in terms of a corresponding economic development. Economic development does not just cover the "black spots" but identifies their reason and find a way to prevent their existence.

The second objective of the economic development after the satisfaction of the survival needs according to the opinion of Todaro is the general raise of the standards of living. When the conditions of living change the person's self-esteem growth and he starts settling for more or in other words acquires ambitions. These ambitions are of a special importance as they motivate a person for at least staying on the same level if not for further achievements. The third Todaro's objective of the economic development is that when a person start getting all the required things for his successful living he starts having more economic and social choices, reduces his fear of the unknown future. Such a person is more likely to succeed and prosper financially. The more people in the country feel safe and protected the higher is the productivity and the technological competency of the country.

Economic development improves the well being of the inhabitants and the well being of the inhabitants is in its turn the guarantee of the economic growth and literally the economic development itself, too. Basically, Todaro proclaims three main functions of the economic development. The first one implies the production of the basic goods, as it has been mentioned before; the second one is saving and developing the conditions established through the sufficient production; and the third one is the reduction of social anxiety through sufficient labour supply. The more people feel confident of the financial

well-being for tomorrow the more they are open to the perspective of having children and providing them with everything needed. As asserted by Harris and Torado (1970) economical development in terms of labour supply is necessary. He developed a model known as Harris-Todaro model of rural-urban migration that occurs due to the economic development necessity. One of the factors preventing the developing countries from converting into developed countries is the urban unemployment. According to Todaro and Harris the rate of migration flow is influenced by the wages offered by the labour supply. Ordinarily the wages that rural inhabitants expect to get in urban areas are way higher than the rural ones. This difference causes instability and raises unemployment greatly, creates the necessity to industrialize rural areas in order to make the economic situation more stable and stimulates the economic development of the company. In spite of the existence of numerous models of economic development, the main priority is still the reduction of the poverty rate, the improvement of social justice and therefore the elimination of inequality and the employment growth. The Harris-Todaro model does not completely explain the potential economic growth and regression along with other numerous models of economic development.

4.1 Impact of TQM on Economic Development

TQM is fast becoming a condition for survival in business and will impact economic development of organizations dramatically by forcing increasing levels of sophistication and increased performance Spiker (1991); Canada (1993). According to Murray (1997), benchmarking is a process used by companies to target key areas for improvement within their operations so they can increase their productivity, competitiveness, and quality. It involves comparing their financial and operating performances against a competitor's performance or comparing the performance of various internal departments against each other. Since quality results have to be measured against a target, benchmarking is very important for companies to gauge their performances to stay competitive. Firms must therefore engage in efforts to increase the understanding of its competitors thoroughly Mabert, (1992). By comparing themselves with the best performing competitors in every aspect of business endeavor, companies thus develop both high-quality targets and various possible sources of information concerning how to perform each aspect better Richman and Zachary (1993).

The term economic development gets a unique understanding owing to the books of Godaro. The word "development" implies the progress and the positive changes in the growth of the wealth of a given firm and therefore the growth of the well-being of its employees. It is necessary to mention that the economic development may be seen as the synonymy of the well-being of the country. The term economic development also emphasizes the importance of the constant economic growth that is achieved through the competency of the national companies and their work force and the quality of their products and services. The process of the economic development requires certain adjustments that will stimulate the creation of various innovations, raising the economic competency of the firms.

And though there is not accepted theory of economic development there still is a variety of factors that can help to identify the important of the economic development and the means of achieving it. Another vital part of making a company economically developed are investments that help to develop the manufacture and production of the sufficient amount of products enough to be distributed in order to cover the vital needs of the population and guarantee its well-being and therefore economical development. Given the essence of economic development, there is close relationship between economic development and Total quality management due to the level of involvement with the services, production, human resources and the processes.

4.1.1 Conceptual Framework

Based on discussion above, this paper establishes the research model, which examines the relationship among seven core values and various levels of firm performance, to measure the direct and indirect effects of TQM on firm performance. Figure 1 illustrates this research model and guidelines that this paper proposed and clarified the relationship between TQM and firm performance. The model may facilitate for corporations a means by which they can implement TQM and at the same time include a consideration of corporate ethics. The implementation process originates from the identification of core values that should characterize the corporation's corporate ethics. Thereafter, the corporation has to distinguish appropriate techniques to use and underpin the corporation's core values of corporate ethics

The operational performance is based on three pertinent dimensions namely productivity, cost reduction and efficiency McGaughey (1991). Lastly business performance in this paper is derived from three important business performance comprised of profitability, return on sale and market share. Like all the other manifest variables, operational and business performance also used a seven-point interval scale, representing a range of agreement on statement whether over the past three years these performances are high relative to competitors after implementing TQM practices.

Researchers believe that top management role and other TQM constructs determinants have influence on the overall results such as operational performance and business performance.

Conceptual Model

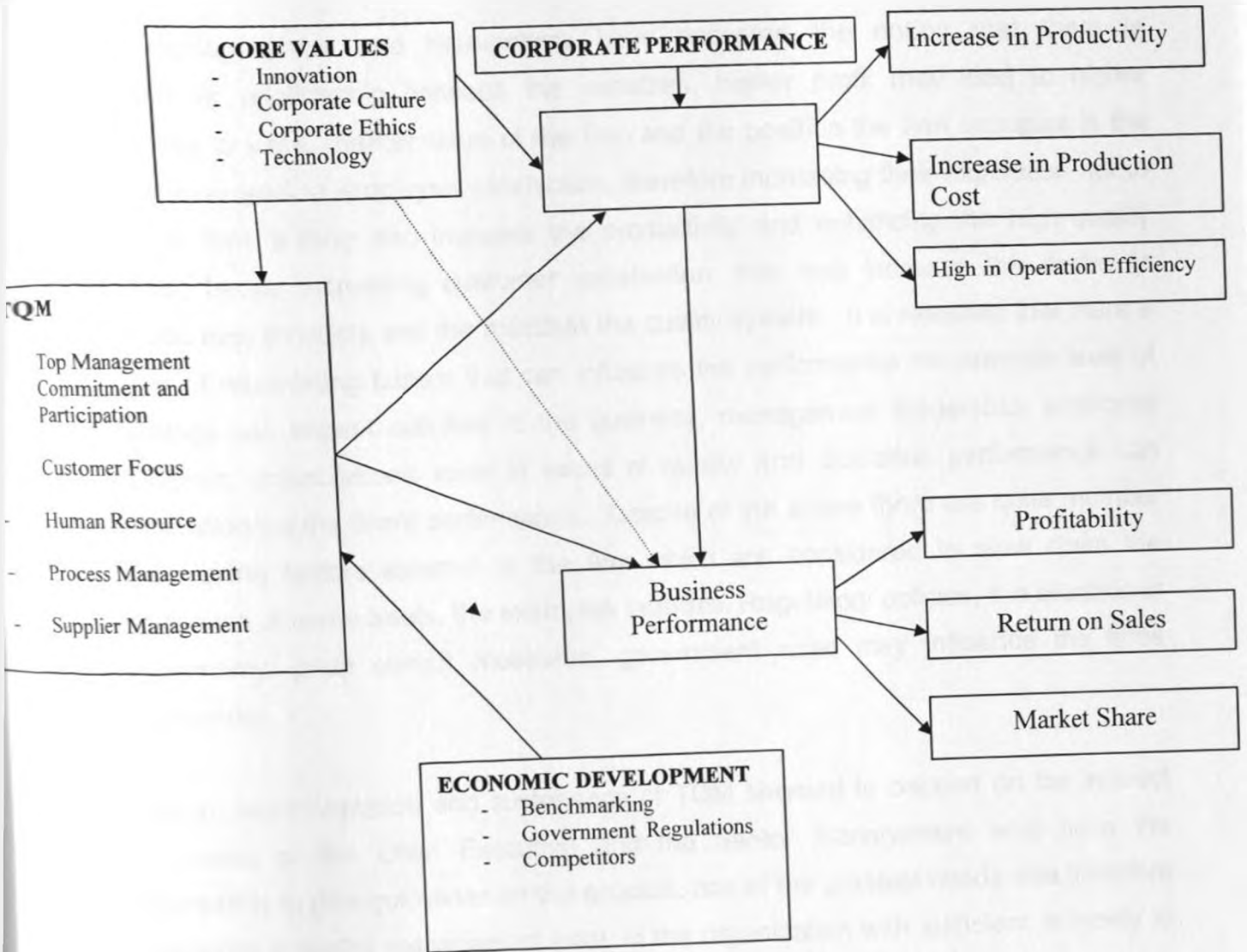


Figure 1. Research Model of TQM on various levels of firm's performance

The model stimulates and predicts the participation of all the independent and other variables in the effects of business performance. The model is divided into four parts comprising of the independent, dependent, moderating and intervening variables. Corporate ethics and culture should influence the core values of a corporation's internal

system, that in turn influences the techniques and tools used. Consequently, corporate ethics should penetrate the values, the techniques and the tools in TQM and TQM as whole quality management system.

Many demographers and researchers have accepted the notion that there is considerable relationship between the variables, higher profit may lead to higher willingness to work, market value of the firm and the position the firm occupies in the industry may lead to employee satisfaction, therefore increasing their motivation not to leave the firm, it may also increase the productivity and enhancing the high quality products, hence increasing customer satisfaction, this may increase the desire to introduce new products and the maintain the quality system. It is revealed that there a number of moderating factors that can influence the performance for example level of technology can impact activities in the business, management leadership, employee satisfaction, organization's level in terms of quality and operation performance can greatly influence the firm's performance. Despite of the above there are quite number of intervening factors external to the firm which are considered to slow down the performance at some levels, the examples includes, Regulatory policies, the situation in the economy, price control measures, government rules may influence the firms performance.

However, implementation and sustenance of TQM seemed to depend on the interest and energy of the Chief Executive and the Senior Management who have the responsibility to give guidelines on the process, one of the greatest needs was therefore to establish a quality management body in the organization with sufficient authority to control, plan, and develop proper procedures for the above, similar conclusions have been reached in other researches (Thomason and Edwards (2001). The principal parameters of corporate ethics in TQM are management expectations and perception versus employee expectation and perception. There should be match between management expectation and perception of corporate ethics. Likewise, there should preferably be congruence between employee expectation and perception. Ideally, there should be a harmony between management and employee expectations and perceptions.

Table 1: Summary of Empirical Studies on Total Quality Management (TQM) and Corporate Performance, Corporate Culture and Ethics, Innovation, Economic Development

Author(s)	Variables	Focus of the Study	Gaps
Adam Jr. (1994)	Relationship of quality and production practices with financial, operational and quality results	The study focused 187 North American companies	The study did not address the relationship of other TQM constructs such as Human Resource, Suppliers Management, Management Leadership. Also the study did not focus on innovation and economic development
Anderson et al. (1995)	A Path Analytic Model of a Theory of Quality Management, an analysis based on theoretical model developed by the authors in previous study	The study analyzed the effects between the level of employee satisfaction and the level of customer satisfaction	The study did not analyze the level of continuous improvement efforts and the customer satisfaction. The study did not focus on the TQM and firm's performance.
Ahire et al, (1995)	Review of empirical articles on Total Quality Management and business performance	The study sought to explain the effects of TQM on business performance, the focus was on 226 companies in the US. It also analysed the quality management systems certification papers and the cross-sectional basis that provide evidence of statistical validity.	The study only focused on the intervening variables of the firm, the other variables were not considered in the study.
Simmons and White (1999)	Studied the relationship between TQM and registration and multi objective measures of business performance, profitability and foreign sales	The study focused on 126 US companies, 63 TQM registered and 63 non-registered	Did not examine the relationship between the registered and non-registered companies operational performance

Wayhan et al. (2002)	Analysis of performance of organizations, registered vs. non-registered.	Analysis of performance of 96 organizations in the USA between 1990 – 1998, focusing on the assets employed.	Did not analyze operational performance, financial performance, innovation
Al-Ghamdi, Barnes and Bhuian (1998) Morita (1996)	Customer service, reduced customer complaint, increased efficiency, business service, quality culture and management control	The study focused on the motives of TQM implementation	The study ignored the other TQM variables, performance, corporate culture and external forces
Lee (2003)	TQM registered firms and non-registered firms and manufacturing strategies	Survey of the Korean electronic industries	Did not examine effects of TQM on performance, Design management, process management, human resource
United States General Accounting Office (1991)	Criteria for performance excellence, performance improvement, employees focus, productivity, customer satisfaction and market share	A study of 20 companies that obtained the highest scores among the applicants to the Malcolm Baldrige National Quality Award from 1988 to 1989	The study ignored aspects of suppliers management, market value of the firm, management leadership, financial performance, operational performance
Flynn, Schroeder and Sakakibara (1995)	Financial performance, process improvement, organizational culture, leadership commitment, training	The study used questionnaires answered by managers and employees of North American companies to identify relations in a proposed theoretical framework. The performance construct was measured by quality and operational variables.	Did not measure the effects of TQM on business performance, and also the effects of TQM constructs on various levels of the firm.
Powell (1995)	Process improvement, benchmarking and training	The study focused on the characteristics commonly associated with quality management	The study ignored some aspects such as behavior, organizational culture, empowerment, leadership commitment
Mohrman et al. (1995)	Quality management, financial performance, profitability	The study investigated the impact of improvement initiatives in the	The study did not address leadership commitment,

		performance of the companies, using a sample of 500 largest industrial companies and the 500 largest service companies of the United States	employee commitment, customer focus, operational performance
Hendricks and Singhal (2001a)	Stock market, quality awards, abnormal returns,	Examined the relationship between applying quality management and the performance of the firm	The study did not examine the independent variables, moderating and the intervening variables
Hendricks and Singhal (2001b)	Market value, control groups, quality awards	The study focused on the quality management contribution to the shareholder wealth maximization of publicly traded U.S. companies, by means of evolution	Did not examine the effects of TQM on firm's performance was not addressed, the constructs and the variables
Adam Jr. et al. (1997)	Profitability, leadership commitment, employee awards	Used data of companies in North America, Europe and Asia/South Pacific to analyze the relationship between practices associated with quality management and the financial performance of these companies	The study only looked at three variables, did not focus on major TQM construct and benefits on performance.
Chenhall (1997)	Profitability, growth, TQM implementation	Examined the relationship between financial performance and management performance based on manufacturing indicators	The study did not examine the effects of TQM on performance
Ittner and Larcker (1997)	Process Management techniques, quality management, profitability	Used a sample of companies in the automotive and computer industries with operations in Canada, Germany, Japan and the United States, the main focus was linking processes management techniques, quality management and profitability increase	Did not study the relationship between quality management and performance, innovation and firms growth
Easton and Jarrell (1998)	Quality management, improvement in growth,	Interviewed companies' representatives to establish the landmark of the	Did not explore the failure of TQM in some organizations.

	profitability, market value	beginning of use of the TQM	Did not address performance
Forza and Filippini (1998)	Customer relationship, supplier relationship, process control, human resource	Used a structural equation model to establish quality conformity and customer satisfaction	Did not verify leadership commitment, corporate ethics, market share, financial performance
Choi and Eboch (1998)	Customer satisfaction, performance	Used structural equation model to evaluate the effect of TQM in customer satisfaction and performance of industrial plants.	The study ignored other variables such as TQM constructs, the intervening variables
Dow, Samson and Ford (1999) and Samson and Terziovski (1999)	TQM performance, Satisfaction of clients, product conformity, productivity and delivery performance	Used data from questionnaires answered by approximately 1200 companies in Australia and New Zealand.	The study did not address operational performance, it also ignored the major TQM variables
Staw and Epstein (2000)	Management techniques, corporate performance	Analysis of the impact of the use of popular management techniques on corporate performance	The study ignored human resource, leadership management
Ahire and Dreyfus (2000)	Process management, product design management	The research on the impact of process management, together with the product design management on performance	The research ignored customer focus, leadership management, human resource, quality data and reporting
Fynes and Voss (2001)	Design management, quality, customer satisfaction	Used a model to test a sample of 200 companies of the electronic sector in Ireland	The model ignored operational performance, financial performance, innovation
Douglas and Judge (2001)	TQM implementation, financial performance	The research focused only on hospitals, a sample of 229 answered questionnaires	The study did not include operational performance, market share, TQM constructs
Cho and Pucik (2005)	Quality, innovation	Used a model to test the direct effects of these practice, as well as its mediator effects on growing, profit and market value	The study did not address performance issues
Nair (2006)	Quality, Performance, customer focus, product management, supplier management, quality data	Used meta-analysis study on the impact of quality on performance, using data from 23 studies published recently. The	The analysis did not address human resource, leadership commitment, financial

	and reporting	study focused on the evaluation of the relationship among different practices associated to TQM	performance
Sila (2007)	Quality management, performance	The objective of the study was to study the effect of contextual factors on quality management and its impact on performance. A model was used to test five factors based on context to have or not have TQM ideology, to have or not have ISO 9000 certificate	The model did not encompass all the TQM variables
Naveh and Marcus (2005)	Performance, post registration	An examination of 313 US firms between 1990 – 2000, individual firms were paired by industry and firm size	The research ignored all the TQM variables
Ebrahimpour et al., (1997) from 1990 to 2006	Peer-reviewed journals TQM, performance, benefits	A six-stage approach to selection of articles was used, 2000 journals were screened, and the screening excluded materials that did not explicitly measure business benefits or performance variables.	The reviews did not address operational performance, innovation, corporate culture, ethics

4.1.2 Conclusion

The literature review has shown that TQM may be running well and accomplishing the hard goals. However, TQM is not only about figures, profits and costs. It is also a business approach that should penetrate all activities inside and outside related to the company, including the soft ones. At any given point in time, all corporations face the dilemma of reading the mood of the marketplace and society. They also face the dilemma to interpret the mood within their corporations among the employees. Environmental scanning in the marketplace and in society is practiced throughout the world as a means of ensuring that one is in touch with the moods and events going on around, this is an obvious part of TQM. There is a human determinant of TQM that has to be seriously considered. Employees are a corporation's most valuable assets. Without the employees' optimism and positivism TQM will be less successful. A company's investment in its employees is an investment in the business and an investment in the performance of that business in the marketplace. Likewise, pessimism and negativism suffocate the intellectual spirituality and endeavours of employees and make the TQM implementation harder to perform.

The evidence from the previous studies explored the hypothesis that implementing effective TQM programs improves the operating performance of firms. The winning of quality awards is used as a proxy for the effective implementation of TQM programs. The studies provided strong evidence that firms that have won quality awards outperform a control sample on operating income based measures. The evidence indicates that there is not much improvement in operating income before the winning of the quality award.

Data analysis used in the empirical studies reinforced the importance of top-level commitment, customer intimacy, user involvement, management flexibility, and championship to quality and process improvement initiatives. Each organization interviewed in the studies reported that these factors appear to facilitate success. However, slack resources, bureaucracy, politics, budgetary constraints, and other

obstacles limit what can be done. For instance, some organizations believe that training is important, but may not be able to commit the appropriate resources. In addition, top management commitment is critical to success, but fragmented decision making may buffer management from the project. Classification shows that the organizations blend TQM and empowerment into their change management projects. It also shows that they view empowerment differently, management style or technology configuration is better, but this was not the goal. Although classification sheds limited light on contrasting the three constructs, it offers a basic set of properties which can be measured for future research.

Implementation of the technical methods and principles of TQM requires a quality of management, managerial values, attitudes, skills and behavior that enable TQM to flourish over time. In addition to the immediate problems of closing the gap between rhetoric and reality, TQM will only persist and become a way of life if management deals with a number of fundamental dilemmas that are likely to unfold if the TQM transformation succeeds Hackman and Wageman (1995). To achieve reliable quality outcomes TQM requires that employees follow standardized methods. As a result, employees undoubtedly experience as a loss of freedom and increased control. Moreover, if TQM succeeds in improving performance, the organization's customers may gain through lowered prices or improved satisfaction; its shareholders gain through higher compensation. TQM depends on employees taking more responsibility for continuous improvement decisions. If corporate leaders want to ensure that TQM practices are sustained over time, they will have to consider requiring all subunit managers to lead a regular process of organizational learning from which they also can learn.

The most of the recent transformations in organizations' business environment are associated with external pressures. External pressures are understood as pressures for change, associated with a number of global phenomena. External pressures are most usually experienced through activity of stakeholder groups. There exist plenty of methods to identify the stakeholders of organization, their influence and level of

leverage; still the most significant message to organizations is that impact of and to stakeholders should be managed. In order to be successful in the future knowledge based environment, companies will need to implement triple-bottom line; strategies for simultaneously creating economic, social and environmental values.

Total Quality management philosophy need to be rethought in the context of recent transformations. The most likely and reasonable developments for contemporary total quality management should be made by incorporating approaches of sustainability and strategy to the concept of total quality management.

A review of the relevant literature suggests that there are conflicting arguments in regard to the TQM innovating link. The researchers introduced mediation framework in the studies to explicate the TQM innovation performance relationship by introducing job satisfaction as the vehicle for channeling the effects of TQM practices on innovation performance, further studies are required in this area. Corporate culture and corporate ethics plays a major role in TQM and performance.

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