TOTAL QUALITY MANAGEMENT AND SUSTAINABLE PERFORMANCE IMPROVEMENT BY MICROFINANCE INSTITUTIONS IN NAIROBI COUNTY

BY

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DECLARATION

I, Josiah Muriuki Maina, declare that to the best of my knowledge, this project is my original work which has never been published and/or submitted for any award in any other University, except where due acknowledgement has been made in the text.

Signed: ……………………………… Date: ……….……………

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Supervisor's Approval

This Research Project has been submitted for examination with my approval as the University Supervisor.

Signed: ……………………………… Date: ……….……………

ZIPPORAH KIRUTHU

DEDICATION

This project is dedicated to my dear family especially my parents for their unconditional love and guidance and for always believing in me, as well as my friends for their endless effort and faith in me. May the Almighty God blessings always be upon you.

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Special thanks goes to my supervisor Madam Zipporah Kiruthu for her guidance and insights into this work and the professional supervision that led to the completion of this report as well as to my moderator Mr. Stephen Nyamwange.

To my family who have always been there for me to offer their moral support and encouragement which was critical along the way.

To my classmates and group members, thanks for the support.

To all who contributed diversely in the success of this study.

Above all, I thank the Almighty God for this far He has brought me, for the strength, wisdom, courage and knowledge that I needed throughout this study.

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ABSTRACT

The rapid change in the environment has resulted to organizations reviewing their strategies from time to time to stay in operation and survive. This has resulted to management implementing different approaches and the most significant one has been the implementation of Total Quality Management. TQM can simply be defined as a management approach that is centered on quality, based on the participation of all the organization members and aiming at a long term success through customer satisfaction and benefits to the members of the organization and to the society.

This study aims to display a clear relationship between Total Quality Management and its effect on sustainable performance improvement of Microfinance Institutions in Nairobi County. The study reviewed the TQM principles that include management commitment and Leadership, strategic planning and cultural change, customer focus, continuous improvement, training and employee relations, factual based decision making, process approach to management and quality supplier relationship.

The empirical data was collected using a self-administered questionnaire that was distributed to the 12 licensed microfinance institutions by the Central Bank of Kenya in Nairobi County. Of the 36 questionnaires distributed, 27 of them were returned yielding a response rate of 75 per cent. The collected data was coded, quantified and analyzed quantitatively and qualitatively. Quantitative data was analyzed with the use of statistical package for social sciences (SPSS). The findings of the study confirmed the benefits that arise from implementation of TQM and that it has a positive effect on sustainable performance improvement including customer satisfaction and operational effectiveness.

CHAPTER ONE: INTRODUCTION

1.1Background

Thompson, Strickland and Gamble (2008) defined a company's strategy as the management action plans for running the business and conducting operations. The crafting of a strategy represents a managerial commitment to pursue a particular set of actions in growing the business, attracting and maintaining customers, competing successfully, conducting operations and improving the company's financial and market performance. Strategy is the determination of the basic long-term goals and objectives of an organization and the response to the environmental factors such as challenges and opportunities (Chandler, 2012). Strategy is the overall direction of the organization and is a process where managers must analyze the present situation and change it if necessary.

The rapid and revolutionary change in the environment have resulted to a challenging period for management and employees. The development of a worldwide economy and competition in worldwide markets, and new technologies and information systems is difficult to fully comprehend. When so many factors change so rapidly, management and organizations have little time to plan for their responses. The external change has resulted to an internal change and a revolution of management strategy, philosophy and practices; their view of the role employees play in an organization, organization structure (Cartin, 1989) and the most significant modification being the implementation of total quality management (TQM). TQM can be defined as an integrated management philosophy aiming at continuous improvement in all functions of an organization to produce and deliver commodities or services in line with customers' needs or requirements by better, cheaper, faster, safer and easier processing than competitors with the participation of all employees under the leadership of top management (Demirbag & Zaim, 2006).

1.1.1 Total Quality Management

Mallur (2012) defines Total quality management as a management philosophy, diffused all over the world, with the objective of improving the business performance of the organizations, by offering a systematic approach to continually improve the operative activities in order to fulfil customer's requirements. Due to global competition, companies have emphasized that quality should be put in place, integrated into all aspects of products and services within their management system. This has resulted into TQM becoming increasingly popular as one of the managerial devices in ensuring continuous improvement so as to improve customer satisfaction and retention, as well as, organization wide sustainable performance improvement. The decline in customer satisfaction due to poor service quality would be a serious cause of organization failure because consumers are becoming increasingly aware of rising standards in product and service quality, prompted by competitive trends, which have developed higher expectations.

TQM practices including quality management, process management, employee empowerment and teamwork, customer satisfaction management, quality goal setting and measurement, suppliers' cooperation and quality tools training have positive effects on customer satisfaction and that the adoption of TQM principles is an effective means by which companies can gain sustainable performance improvement (Yang, 2006). The implementation of TQM practices has helped companies benefit on improved competitiveness, better profitability and returns, reduction in operating cost, enhanced customer satisfaction, employee job satisfaction and improved employee relation, improved productivity as well as lead time reduction.

1.1.2 Sustainable Performance Improvement

Sustainable performance improvement in general means the ability of an organization to continuously carry out its activities and services in pursuit of its statutory objectives while still performing at a higher level and improving from time to time. The sustainable performance may be in the form of operational sustainability, financial sustainability, continuous customer satisfaction and all the time employee satisfaction.

1.1.3 Total Quality Management and Sustainable Performance Improvement

The implementation of TQM can be beneficial to MFIs when the principles are effectively adopted. Effective implementation of TQM will increase customer satisfaction and most importantly innovativeness as it empowers employees to make decisions that affect their job. The improvement in quality can result in increased market share and profitability. Implementation of TQM further ensures that organizations change how they perform activities so as to eliminate inefficiency, improve customer satisfaction and achieve best practice (Porter, 2005). Porter noted that constant improvement in the effectiveness of operation is essential but not a sufficient factor for organization to be profitable. According to Sila (2007) TQM helps in improving the quality of products and also reduces the scrap, rework and the need for buffer stock by establishing a stable production system. He argued that TQM will reduce the cost of production and time of production.

TQM has been used by management as a strategic approach since it's based on the principles of quality management, process management, employee empowerment and teamwork, customer satisfaction management, quality goal setting and measurement, suppliers' cooperation and quality tools training which have been found to have a positive effects on customer satisfaction. The adoption of TQM principles is also an effective means by which companies can gain sustainable performance improvement (Yang, 2006). Kaynak (2003) further asserts that TQM implementation improves the organization performance by influencing other TQM dimensions.

1.1.4 Microfinance Institutions (MFIs) in Kenya

Microfinance is commonly associated with small, working capital loans that are invested in microenterprises or income generating activities (Churchill and Frankiewicz, 2006). Such enterprises are often family owned and have less than five employees, sometimes based out of home, as for instance small retail kiosk, sewing workshops, carpentry shops and market malls (Whole Planet Foundation, 2009). Asiama (2007) defines microfinance as the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients.

Microfinance can be said to be the act of provision of various financial services such as credit, savings, micro-insurance, remittances, leasing to low income-clients including consumers and the self-employed, who over the past have lacked access to banking and financial related services. MFIs have been seen to have several benefits in developing and developed nations. They have been seen as the main preference source of financial services for Small and Medium enterprises (SMEs). Small and medium enterprises are commonly believed to have very limited access to deposits, credit facilities and other financial services provided by formal financial services (Quaye, 2011).

According to Peacock (2004) the important role played by the SMEs cannot be overemphasized; they contribute immensely to the economic development and wealth criterion through employment and creation of market linkages. SMEs foster creativity and entrepreneurial spirit through innovation and cheap resource utilization; therefore they serve as an important seedbed role for the growth of new industries and establishment of future large companies (Howard, 1997). Walker & Webster (2004) discussed on the importance of SMEs on the distribution of national income and wealth achievement equitably due to their wide spread ownership covering urban, rural and remote regions which stimulates local economic activity, which in turn drives wealth and further creation of employment.

SMEs contribution to the Gross Domestic Product (GDP) increased from 13.8% in 1993 to 20% in 2007, provided about 78% of the total employment and contributed to 57% of the jobs created in 2005/2006 financial year (World Bank, 2007). The figures shows that proper development of this sector is key to any National Economy. Efforts to promote this sector in Kenya have been articulated in Sessional paper No.2 of 2005 on development of SMEs for wealth and employment criterion. A number of initiatives have been stipulated aimed at improving SMEs environment such as expanding access to credit, and improving access to training (Rongwe, Ndirangu & Nyangito, 2002).

Statistics has indicated that three out of five start-up businesses fail within the first few months of operation (KNBS). Starting and operating a small business includes possibility of success as well as failure (Aseka, 2013). The challenges of being small in size, a simple management mistake is likely to lead to a sure death of a small enterprise, hence no opportunity to learn from past mistakes. The lack of credit because of financial institutions seeing SMEs as high risks area has been cited as the most serious constraints facing SMEs and hindering their development (Oketch, 2000; Tokecko & Dondo, 1992). Hence the importance of MFIs to SMEs cannot be simply overlooked.

1.2 Research Problem

The primary objective of a business enterprise is to improve the performance of the firm over time. Strategy plays a crucial role in the organization's performance (Gibbus & Kemp, 2003), as it gives the direction the firm has in mind and which way they want to achieve their goals. The performance of an enterprise is determined by the business strategy it adopts (Pearce & Robinson, 1985). Many researchers have associated business strategies associated with high and low performance (Covin 1991). In literature, it also investigates the different typologies and performance and determines which typologies lead to best performance for firms. Therefore, there is great need to understand the linkage between TQM as a strategic approach and sustainable performance as recipe for organizational improvement.

Hansson (2001) conducted a study to evaluate the aspects of TQM implementation in a number of small organizations in Sweden. His study reemphasized the importance of committed leadership and employee participation. Small organizations were found to face hurdles towards process orientation. Specifically, small organizations were observed to be in considerable difficulty in implementing 'fact based decisions' and 'continuous improvement'. The study showed that there was limited implementation of some TQM practices by the SMEs. However, according to the researcher's findings 'leadership', 'employee commitment' and 'customer focus' have all permeated across the organizations surveyed.

Most of the studies done on TQM, have been on large established firms and little attention have been paid to SMEs: In Pakistan, Alam & Yezhaug studied the trend, status and scope of ISO certification in Pakistani Industry and made comparative analyses with Spanish industry and Chinese industry to highlight the differences in approaches and hurdles encountered in implementation. They observed that maximum practice of quality management practices in ISO certified firms was in the production department, there was unawareness from usage of different quality tools for performance measurement and that TQM was properly practiced in only 5% of the firms. The generalization that only 5% of the firm's studies cannot be applied to SMEs as most of them are not even ISO certified.

Most of the past studies in Kenya have not touched on TQM and sustainable improvement on MFIs to a larger extent. A study carried out by Awino, Muchara, Ogutu and Oeba (2012) on total quality and competitive advantage of firms in the horticultural industry in Kenya, focused on the effect of total quality on Kenya's horticultural industry and the aspects of total quality and competitive advantage. Among the key finding was that total quality has a strong and positive impact on competitive advantage. However, it was discovered that the level of implementation of total quality is low. Another study by Gakure and Kithae (2010) investigated the role of quality in the growth of small and medium enterprises in Kenya. The authors of the study observed that todays' business environment, small and medium enterprises cannot afford to ignore the strategic implications of quality for its competitive position. The researchers noted that there was very limited literature in the topic and observed that SMEs have been very slow in implementing formal quality models, and where they have, the outcomes are inconclusive.

Karani and Bichanga (2012) carried out a study on the effects of total quality Management implementation on business performance in service institutions, a case of Kenya wildlife services. The key findings from the study was that effective management leads to improved performance and that there is need to put more emphasis on all TQM principle to ensure more organization business performance, tools in process approach need to be fully employed in implementation of TQM. Gachino (2009) conducted a detailed look at the impediments of Kenya Bureau of Standards in enforcing quality standards in Kenya. The key findings of the study was that effective management leads to improved performance and there is need to put more emphasis on all TQM principles to ensure more organization business performance. None of these studies explores the influence of TQM on sustainable performance improvement of MFIs. Dynamic environment currently and ever changing circumstances also make it difficult if not impossible to generalize similar research performed in different environments; hence there is a knowledge gap which this study intends to fill by investigating TQM and sustainable performance improvement by MFIs in Kenya and the extent of adoption of TQM by the MFIs.

It was important to ascertain the questions that formed the basis of research for this study. Research questions are integral in that they help provide direction and focus for the study at hand. This study intended to answer the following questions: what is the extent of adoption of TQM by MFIs in Kenya? And, what is the effect of TQM adoption on sustainable performance improvement of MFIs?

1.3 Research Objectives

The general objective of this study was to assess the effect of TQM principles and sustainable performance improvement by MFIs.

The specific objectives were to:

i. Establish the extent to which MFIs in Nairobi County have adopted TQM.
ii. Determine the effect of TQM adoption on sustainable performance improvement by MFIs in Nairobi County.

1.4 Value of the study

The stakeholders in the MFIs sector will find this study important as it will give insights into the benefits of implementation of TQM in the organizations. The study will add to the existing body of knowledge, the concept of TQM and sustainable performance improvement to benefit academicians and aid in further research on the concept. The study may also be used by MFIs regulatory board, to improve on the regulation of MFIs in ensuring that they implement TQM principles so that the benefits can be passed on the customers for more efficient services. The entire Nation could benefit from reduced cost, increased employment, improved productivity, contended workforce and improved economy.

The findings from this study will assist in providing more literature to support existing theoretical propositions on TQM principles and its applicability as a management strategic approach. It would form a fundamental base, upon which further researchers into the field would be based as it would act as both reading and secondary source material in such cases.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature relating to total quality management and sustainable performance improvement by assessing the various views of numerous authors. It presents a general framework of what quality is all about under the concept of quality. It reviews various studies on TQM and the different principles of TQM that include management commitment and Leadership, strategic planning and cultural change, customer focus, continuous improvement, training and employee relations, factual based decision making, process approach to management and quality supplier relationship; and literature on empirical studies conducted on TQM and sustainable performance improvement.

2.2 Quality

Quality is a mandatory element in production of goods as well as services to keep the customers satisfied. There are competing views of the term quality by different people and the common element of the business definitions is that the quality of a product or service refers to the perception of the degree to which the product or service meets the customer's expectations. The American society of Quality sees quality as being subjective, with different individuals having their own perception of it. They view quality as having two meanings; the characteristics of a product or service that bear on its ability to satisfy stated or implied need or a product or service devoid of faults (www.asq.org, retrieved 2008-07-20). Oluwatoyin & Oluseun (2008) defined quality as being the state of conformance to valid requirements where valid requirements are defined as conditions that meets the needs of customers, both measurable and achievable.

Waszink & Wijngaard (2000), Chapman & Al-Khawaldeh (2002) stated that quality is a key strategy for maintaining competitive advantage and is a way of managing firms to improve its overall effectiveness and performance towards achieving world-class status. Whichever way quality is defined, it should be mandatory and be viewed as part of an organization culture in every facets of production process.

2.2.1 Total Quality Management

Total quality management (TQM) is a firm-wide management philosophy of continuously improving the quality of the products, services and processes by focusing on the customers' needs and expectations to enhance customer satisfaction and firm performance. It is an integrated management philosophy and a set of practices that emphasize continuous improvement, meeting customer requirements, reducing rework, long-range thinking, increased employee involvement and teamwork, process redesign, competitive benchmarking, team-based problem solving, constant measurement of results, and closer relationships with suppliers (Ross, 1993).

According to Mohammed (2006), TQM is an effective system for integrating the quality development, quality maintenance and quality improvement efforts of various aspects of a system so as to enable production of products and services at most economical level and drive full satisfaction. TQM is aimed at the satisfaction of customers' needs in an efficient, reliable and profitable way. It involves a radical direction through which an organization perform her day to day operations in order to ensure that quality is put at the top of mind of every employee and departments in which the operate. Oakland (2004), describes TQM as an approach to improve competitiveness efficiently and flexibility for the whole organization. He noted that 'for an organization to be truly effective each part of it must work properly together towards the same goal, recognizing that each person and each activity affects and in turn is affected by each other – the methods and techniques used in TQM can be applied throughout any organization.'

2.3 Principles of TQM

This section of the literature reviews the principles in relations to TQM implementation. It is imperative that some principles of TQM would have to be enshrined into the organization's culture before they can rip the benefits from TQM implementation. The major principles are discussed below:

TQM requires effective change in organizational culture and this can only be made possible with the deep involvement or commitment of management to the organizational strategy of continuous improvement, open communication and cooperation throughout the organization (Oluwatoyin & Oluseun, 2008). Previous research in TQM practices emphasizes the critical role of top management commitment in driving overall TQM implementation in the organizations (Zakuan et al., 2010; Flynn et al., 1994; Teh et al., 2008). Teh et al. (2008) noted that senior leaders and management guide the organization and assess the organization performance. Kanji (2001) asserted that top management commitment is the fundamental driver of business excellence. Oluwatoyin and Oluseun (2008) states that the commitment of leadership to the TQM strategy as shown in their daily disposition to work will go a long way in motivating employees to deliver quality services that exceeds the expectations of customers.

Strategic planning is a process of accompanying the established vision, mission and goals of the organization. As illustrated by Dix & Lee (2002) the strategic quality planning is developing a procedure to achieve the organization long term goal by determining customer needs and respond to them by delivering the desired products and services. Srinidhi (1998) defined strategic planning as the activity of the formulation, implementation and evaluation of an organizational strategy that enable the organizations to achieve the desired goals.

Focusing on customer satisfaction is one of the ideology of TQM. International Organization for Standardization ISO 9000-14000 (2009), emphasized that in order for the organizations to be customer focus, they are supposed to focus on their customers by understanding the requirements of their current and future customer, and should meet customer needs and strive to exceed customer expectation. Thus, most organizations try as much as possible to meet or exceed customer’s expectations in their daily activity and also in their long term plan (Andrle, 1994). TQM require an organization to develop a customer focused operational processes and at the same time committing the resources that position customers and meeting their expectation as an asset to the financial well-being of the organization. Fillipini & Forza (1998) explained that it is necessary for organization to maintain a close link with their customers’ in order to know the requirements and to measure how it has been successful in meeting up to customers’ requirements.

Continuous improvement is a continuous journey that involves every element of the organization involved. Turney & Anderson (1989) defined continuous improvement as the relentless pursuit of improvement in the delivery of value to customers. According to Fuentes-Fuentes et al, (2004) continuous improvement means ‘a constant examination of the technical and administrative process in search of better methods.’ According to Benavent et al. (2005), the philosophy of TQM is built from the philosophy of continuous improvement of the entire team in the organization to meet customers’ needs. As described by Deming (1986), organizations need to improve the production and service systems consistently to improve quality and productivity, hence reducing costs. However, organizations need to expand the aspects of continuous improvement and not only focusing on the product context and the direct process, as the management of the organization itself also need to improve (Dean & Boyen, 1994).

Training helps in preparing employees towards managing the TQM ideology in the process of production. Training equips people with the necessary skills and techniques of quality management (Oluwatoyin and Oluseun, 2008). It is argued to be a powerful building block of business in the achievement of its aims and objectives (Stahl, 1995). Through training, employees are able to identify improvement opportunities as it is directed at providing necessary skills and knowledge for all employees to be able to contribute to ongoing quality improvement process of production. Stahl (1995) argued that training and development program should not be seen as a one-time event but a lifelong process. TQM is also built on the ideology of employees working in teams towards continuous improvement of processes. A well-structured team will aid in the effective production of good and services through the integration of activities involved in the process of production.

The organizations ability to satisfy the interests of different suppliers is a key factor of the success of TQM. Supply chain management in TQM implies reducing and streamlining the supplier base to facilitate managing supplier relationships, developing strategic alliances with suppliers, working with suppliers to ensure that expectations are met, and involving suppliers early in the product development process to take advantage of their capabilities and expertise (Sadikoglu & Olcay, 2013). Because the quality of input is directly related to the final product, the relationship between the organization and the supplier is important. Realizing the importance of the role of supplier. Ahire et al. (1996) noted that there is a need to build a solid relationship with qualified suppliers for an organization to enjoy on reliable and quality supplies.

Factual based decision making involves making of effective decisions based on logical and intuitive data and analysis of factual information. It support companies to ensure the availability of high quality, timely data and information for all users such as employees, suppliers, customers, and business partners (Lee et al., 2003). The employees, suppliers, customers and business partners will analyze this data and information to create new knowledge and distribute knowledge, interpret it, and then use it to make decisions.

TQM is built on the ideology that a desired result is achieved more efficiently when related resources and activities are managed as a process. A process is a series of steps that take inputs from suppliers and transforms them into outputs that are delivered to customers. The steps required to carry out the process are defined, and performance measures are continuously monitored in order to detect unexpected variation.

2.4 Sustainable Performance Improvement

Cokins, (2009) assert that performance management includes activities to ensure goals are consistently met in an effective and efficient manner. The need for firms to align their performance systems with their strategic goals has been a major concern for scholars in recent years. A number of frameworks and approaches have emerged; most popular of these is the balance scorecard (Kaplan and Norton, 2001). They argued that there was more to performance measurement other than financial performance alone. They argued that no single measure of performance can give a broad picture of the organization's health, so managers need to consider a range of measures for different aspects of operations which are clustered into four perspectives: Financial perspective which considers financial performance; Customer perspective which considers competitive advantage; Internal operations perspective which considers distinctive capabilities and Learning and growth which sees how the organization reacts to changing conditions.

A sustained performance improvement is often a difficult objective to achieve for any company whether large or small. Many attempts to achieve such performance improvement, leaves the company with unfinished projects, lower morale, disappointing results and wasted resources. Scholars in the field of performance management have found that the key to sustained performance improvement is the establishment of a cadre of high-potential managers to address company-wide initiatives full time. Providing such a team with ample training, visibility and support from senior management can lead to long term financial, operational and strategic benefits.

2.5 Total Quality Management and Sustainable Performance Improvement by Microfinance Institutions

Apart from empirical studies that's test and validate the critical factors in TQM, there are also have been conducted to investigate the relationship between TQM implementation and performance. As reported in previous studies, many researchers have clearly demonstrated that significant performance improvements in various organizations can be achieved through the implementation of TQM. In a study by Hendricks and Singhal (2001), the researchers empirically investigated a causal link between applying TQM and organization performance by demonstrating the significant performance between the organizations that implemented TQM and the organizations in the control group that did not, the result showed a significant relationship between applying quality management practices and organization performance.

Implementation of TQM further ensures that organizations change how they perform activities to eliminate inefficiency, improve customer satisfaction and achieve the best practice (Porter, 1996). Porter noted that constant improvement in the effectiveness of operation is essential but not a sufficient factor for organization to be profitable. According to Sila (2007), TQM helps in improving the quality of products and also reduces the scrap, rework and the need for buffer stock by establishing a stable production process. He argued that TQM will reduce the cost of production and time of production. Continuous improvement which is a feature of TQM is said to reduce the product cycle time thus improving productivity (Huang and Lin, 2002). Many other TQM practices such as training, information system management etc. have a positive impact on operational performance. The efficient management handling of these practices will improve efficiency and no doubt affect the profitability of the firm.

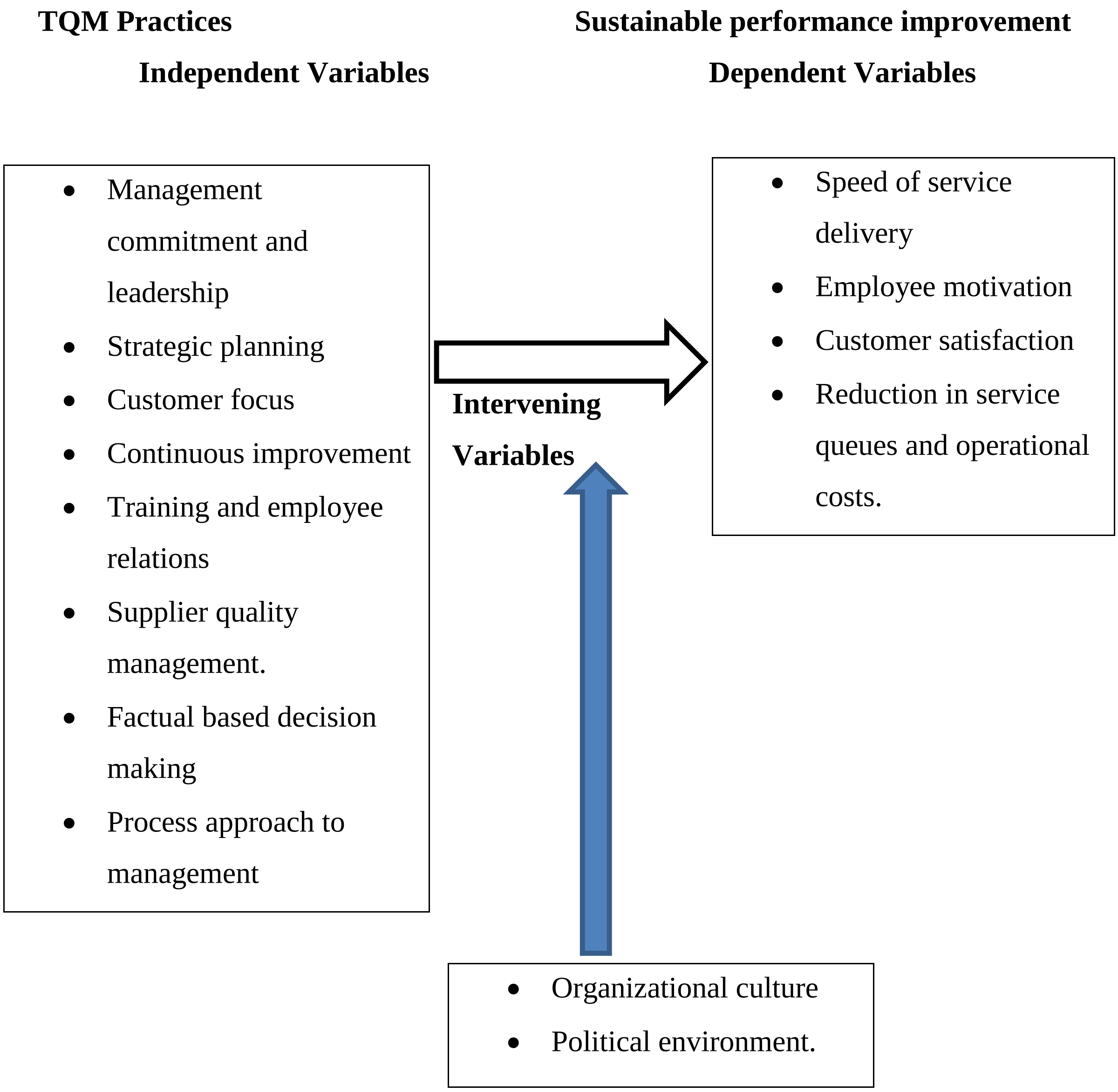
Oluwatoyin & Oluseun (2008) carried out a study to establish the benefit of TQM implementation in the Nigerian airline industry by examining the basic principles of TQM in the airlines. The finding of the research attested to the benefits that accrue from the implementation of TQM. It showed that TQM is a strategic tool for an organization to employ in the quest to remain competitive. If adequately deployed, the principles brings about added advantage in terms of efficiency in operation, employee satisfaction, customer satisfaction and even profitability. The finding also revealed that relentless pursuit of improvement is service delivery bring about added value to customers by making the organizations focused on satisfying customers' needs, while team workman training empowers employees for the continuous improvement drive of the organization.

From previous studies reviewed it is largely evident that implementation of total quality management by organizations is able to give a good impact such as assisting in identifying the target market, effective utilization of material and human resources and improve competitiveness in the market. However, this studies have mostly been done on large organizations that have well been established and are mostly been done in developed nations. The study on the implementation of quality management in MFIs in Kenya and its impact on business performance is still poorly researched and understood. Most of the research is focused on the large-scale industries in the manufacturing sector. MFIs are different from the large organizations in terms of management style, production process, capital and the ability to negotiate. There is therefore need to carry out studies on TQM and its effect on improving operational performance to ascertain the authenticity of the findings of this study on MFIs in Kenya.

2.6 Conceptual Framework

In order to study the relation between TQM and sustainable performance improvement within the Microfinance institutions, a conceptual framework is necessary to develop on how the relation is correlated and the direction between the pairs. The figure below shows the TQM practices and the sustainable performance measures and the relation between them:

Figure 1: Conceptual Framework



Source: (Author, 2015)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research design and methodology that will be employed to gather data for the study. Among the elements discussed in this section are the research design, sources and type of data, sampling design, data collection tools and techniques as well as the techniques that will be used to analyze the collected data.

3.2 Research Design

The study relied on descriptive study that is concerned with finding out the effect of TQM on sustainable performance improvement by MFIs. The study was conducted through a survey of the listed microfinance institutions by the Central Bank of Kenya.

The main reason for selecting descriptive research design was that it provides a knowledge base when little is known about a phenomenon or such things as clarification of a situation, classification of information, or description of subject characteristics that will aid in the refinement of the research problem, formulation of the hypothesis, or design of data collection and analysis procedure (Powers & Knapp, 2006). Descriptive studies portray the variables by answering who, what and how questions (Babbie, 2002).

3.3 Population

The study was carried out on all the 12 microfinance institutions governed and licensed by the Central Bank of Kenya. Three employees from top management were picked from each head office to represent the population of the study as they are involved in the strategic decisions of the institutions.

3.4 Data Collection

The study made use of both primary and secondary data. Secondary data is information collected by others for purposes, which can be different than those of the researcher. It is a synthesis of published and unpublished documents related to the research and it is of high importance, as it comprises the logical framework of the research (Sekaran, 2003). For the purpose of the study, the collected secondary data included: textbooks, academic articles, online resources and journals related to the implementation of TQM.

Primary data was obtained from three top management of the microfinance institutions using interview guides and questionnaires. The essence of this was to weigh the different views of the employees from the institutions.

3.5 Data Analysis

The data was checked for completeness and consistency after collection. It was then grouped into two categories as either qualitative or quantitative. Data analysis tools to be used also depended on the type of data to be analyzed, whether quantitative or qualitative. The quantitative data was be analyzed by descriptive statistics using statistical package for social scientists (SPSS). Descriptive statistics includes mean, frequency, standard deviation and percentages to profile sample characteristics and major patterns from the data.

The qualitative data was also analyzed using content analysis to analyze the interviewees' views about the implementation of TQM principles and their effect on sustainable performance improvement in the microfinance institutions in Kenya so as to bring out common themes or data from the various responses that will be collected. The approach would ensure that any unanticipated themes are given the opportunity to emerge from the data. The data was then presented in a continuous prose as a qualitative report. The data obtained was also compared with existing literature in order to establish areas of agreement and disagreement in order to ascertain the facts.

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

This chapter presents a detailed discussion and analysis of findings of the study with particular reference to the responses received, findings of the study, tables and figures and other related charts that are useful to the study. The research objectives were to establish the extent to which MFIs have adopted TQM and the effect of TQM adoption on sustainable performance improvement by MFIs in Nairobi County. Data collected for the study were qualitatively and quantitatively analyzed.

4.2 Analysis of Research Population

A total of 36 questionnaires were issued out. The questionnaires were edited for completeness and consistency. Out of the 36 questionnaires given to respondents, 27 were received representing an overall response rate of 75%.

4.2.1 Distribution of Respondents by Gender

A representation of gender from the population of the 27 respondents from the microfinance institutions, 59.3% of the respondents were male whereas 40.7% were female as shown in Table 4.1.

Table 4.1 Distribution of the Respondents by Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	16	59.3	59.3	59.3
	Female	11	40.7	40.7	100.0
	Total	27	100.0	100.0	

4.2.2 Distribution of Respondents by Age

Table 4.2 below represents the ages of the respondents. A majority of respondents were between the ages of 31-40 with 42.6%. That age bracket had the highest frequency of 12.

Table 4.2 Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	3	11.1	11.5	11.5
	31-40	12	44.4	46.2	57.7
	41-50	7	25.9	26.9	84.6
	51-60	2	7.4	7.7	92.3
	61-70	2	7.4	7.7	100.0
	Total	26	96.3	100.0	
Missing	**System**	1	3.7		
Total		27	100.0		

4.2.3 Distribution of Respondents by Educational Level

Table 4.3 below represents the educational level of the respondents. A majority of respondents had attained a postgraduate degree with 70.4%.

Table 4.3 Educational Level

Educational Level	**FREQUENCY**	**PERCENT**	**CUMMULATIVE PERCENT**
Secondary	0	0%	0.0
Tertiary college	0	0%	0.0
Undergraduate	8	29.6%	29.6
Postgraduate	19	70.4%	100
Other	0	0	
TOTAL	**27**	**100**	

4.2.4 Number of Employees

Table 4.4 below represents the background of the microfinance institutions by total number of employees. From Table 4.4 it can be seen that 44.4% of the microfinance institutions have 30-39 employees, 22.2% have both 20-29 and 40-50 number of employees while 11.1% have more than 10-19 number of employees.

Table 4.4 Total Number of Employees

Number of Employees	**Frequency**	**Percent**	**Cumulative Percent**
< 9	0	0%	0
10-19	3	11.1%	11.1
20-29	6	22.2%	33.3
30-39	12	44.4%	77.7
40-50	6	22.2%	100
>50	0	0	
TOTAL	**27**	**100**	

4.2.5 Years of Operation

Table 4.4 below represents the background of the microfinance institutions by number of years in operation. From Table 4.5 it can be seen that majority, 44.5%, of the microfinance institutions have been in operation for 11-20 years hence the requisite experience in the microfinance industry.

Table 4.5 Years of Operation

Years of Operation	**Frequency**	**Percent**	**Cumulative Percent**
0-5 years	6	22.2%	22.2
6-10 years	9	33.3%	55.5
11-20 years	12	44.4%	100
21-30	19	0%	
> 31	0	0%	
TOTAL	**27**	**100**	

4.2.6 Distribution of Respondents by Knowledge of TQM

From the respondents received, the knowledge of TQM is high with a frequency of 19 and a percentage of 70.4% as shown in Table 4.6 below.

Table 4.6 Distribution of Respondents by Knowledge of TQM.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	19	70.4	79.2	79.2
	no	5	18.5	20.8	100.0
	Total	24	88.9	100.0	
Missing	**System**	3	11.1		

4.3 Distribution of Respondents Based on Employees Satisfaction

From the below data in Table 4.7 the average mean is 3.37 approximated to the nearest whole number as 3. Based on the variables we can therefore statistically conclude that most of the respondents were neutral about the level of employee satisfaction in the microfinance institutions.

Table 4.7 Level of Satisfaction of Employees

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	
Variables	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Statistic**	**Std. Error**
Does Management recognize and encourage team-work effort?	27	2	4	3.44	.641	.410	-.726	.448
Does Management recognize and encourage employees' suggestions?	27	2	4	3.44	.641	.410	-.726	.448

Is individual effort recognized in delivering high quality service?	27	2	5	3.33	.734	.538	.000	.448
Is salary a means of motivation in the company?	27	2	5	3.48	.802	.644	-.176	.448
Is salary reviewed on a regular basis?	26	2	5	3.46	.905	.818	-.403	.456
Are workers trained regularly to improve their skills?	27	2	5	3.44	.847	.718	-.223	.448
There is continuous learning and improvement in the organization?	27	2	5	3.37	.688	.473	.123	.448
Is quality service delivery due to employees' empowerment?	27	3	5	3.56	.641	.410	.726	.448
Is there effective sharing of information in the organization and an open mode of communication?	27	2	5	3.37	.839	.704	.021	.448
Does management involve employees in decision making?	27	2	4	3.33	.679	.462	-.530	.448
Does management	27	1	5	3.19	.962	.926	-.119	.448

consult employees before making decisions in the organization?								
Are decisions based on facts and information shared?	27	2	5	3.33	.734	.538	.000	.448
Does organization culture encourage employee participation and performance recognition?	27	2	4	3.19	.736	.541	-.312	.448
Valid N (list wise)	26			3.37				

4.4 Distribution of Respondents Based on Their Perception of Customer Satisfaction

From the below data of average customer satisfaction, the average mean was found to be 3.5 approximated to 4 by rounding off to the nearest whole number. Based on the variables we can statistically conclude that the management of the microfinance institutions perceives that their customers are satisfied with the services the microfinance organizations render. We also can conclude from the data that the microfinance organizations works on ensuring that their customers are satisfied through maintaining a close link and responding to their customers complaints quickly.

Table 4.8 Customer Satisfaction

Descriptive Statistics on Customer Satisfaction.

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	
Variables	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Does everyone in	26	2	5	3.42	.945	.894	-.068	.456

the organization understand their responsibility towards customers' satisfaction?								
Does the organization maintain a close link with its customers in order to know their requirements?	26	2	5	3.62	.752	.566	.184	.456
Do customers view a high standard of quality based on the service you render?	26	2	5	3.65	.689	.475	-.209	.456
Do your customers recommend your services to others?	26	2	5	3.69	.838	.702	-.225	.456
Do customers complain about your services?	26	1	5	3.27	.919	.845	-.590	.456
Do customers come back in spite of complains?	24	2	5	3.42	.776	.601	.302	.472
Do customers defect from coming back as a result of poor quality service?	26	1	5	3.35	.936	.875	-1.101	.456

Does the organization respond to complaints in a quick manner?	26	2	5	3.42	.758	.574	-.317	.456
Does the organization honor its commitment to all customers?	26	2	5	3.65	.936	.875	-.169	.456
Valid N (list wise)	24			3.5				

4.5 Distribution of Respondents Based on their Perception of Effectiveness in Operation

From Table 4.9 below of the statistics on effective operation it can be noted that the average mean is 3.5 approximated to the nearest whole number 4 (3.53~4). Based on the variables it can be concluded that the management of the microfinance institutions agreed that their organizations were operating effectively.

Table 4.9 Operation Effectiveness

Descriptive Statistics on Effective operation

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness	
Variables	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Are the organization services readily accessible to your customers?	26	2	5	3.69	.736	.542	-.081	.456
Does the accessibility of services to customers' aids the efficiency in operation?	26	2	5	3.65	.629	.395	-.637	.456
Do customers spend less time in queues in the service premises?	26	2	5	3.50	.707	.500	.368	.456

Are delays in customer services due to uncontrollable factors?	26	1	5	3.65	.846	.715	-1.386	.456
Is management commitment to quality encourage effective operation?	26	1	4	3.54	.761	.578	-1.913	.456
Is employees' commitment to quality encourage effective operation?	26	2	5	3.54	.647	.418	-.153	.456
Does the organization training and learning improve the efficiency in operation of all employees?	26	2	5	3.58	.703	.494	.080	.456
Has the organization developed strategic alliances and solid relationships with its suppliers?	26	2	4	3.46	.647	.418	-.807	.456
Does the organization supply operations aid in the efficiency operations of the firm?	26	2	5	3.19	.895	.802	.317	.456
Valid N (list wise)	26			3.5				

4.6 Summary and Interpretation of findings.

This section summarizes the findings of the study. The main objective of the research was to find out if the adoption of TQM principles by the Microfinance Institutions will have an impact on their sustainable performance improvement through analysis of the means on the areas of employee satisfaction and empowerment, customer satisfaction and operation effectiveness. These areas provide insight into major principles of TQM and its level of adoption by microfinance institutions

Results from the study showed that teamwork, employee involvement in decision making, the organization culture, training, and staff remuneration are intrinsic as well as extrinsic factors towards employee satisfaction. The intrinsic factors includes involvement of employees in decision making, development of authority and regular training while the extrinsic factors includes the organization culture.

The principle of total involvement, with the aim of meeting customers' needs through delegation of authority and empowerment of employees when improved can have a great contribution towards the sustainable performance improvement of the microfinance institutions.

Empowerment of employees involves the organizations providing regular training to the employees. Without regular training, employees lack the necessary skills required for quality improvement. TQM brings about satisfaction to employees through the devolvement of authority, and the holistic approach to management. Through this kind of approach organizations develop a culture that allows continuous improvement through constant training and retraining of employees.

It was also observed that customer satisfaction is at the core of the microfinance institutions values. The objective behind the implementation of TQM is to create an environment which is focused on fulfilling the desires of customers while meeting the objectives of the company in terms of operational excellence or effectiveness and profitability. In the creation of an environment of ensuring the customers are satisfied, the organizations becomes sensitive to changes in customers desires and tailor their product offerings to meet or exceed customers' needs.

From the variables assessed for customer satisfaction, it was observed that most of the variables attained higher means of above 3.5 which can be approximated to the nearest whole number 4 except for the variables that assessed individual responsibility towards customers' satisfaction and the degree of customer complaints. Although the microfinance institutions experiences a high degree of customer complaints, they have been able to address the issue by putting up measures through which the complaints can be managed quickly and effectively. The ideology behind TQM implementation by organizations is to ensure that adequate attention is given to quality so as to have less room for customer complaints while maximizing customer satisfaction.

For an organization to have operation effectiveness it is imperative that every member of the organization is involved and committed towards meeting customers' demands. TQM implementation is holistic in nature where its success depends on how well each unit of the organization is able to work interdependently towards achieving the objectives of the firm. Measures such as the extent to which services are readily available to customers, management and employees' commitment and strategic supplier relationship were used to measure the efficiency in operations of the institutions. From the study, the institutions have a customer focused approach, thus have made their services readily accessible and available to customers. As noted in the literature as well, the effectiveness in the microfinance institutions also depends on how well they involve their supplier in the quality process as this could have an effect in their operation.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

This chapter will provide an overall conclusion of the research paper, limitations of the study and recommendations on TQM principles.

5.1 Conclusion

In summary, it is evident that implementation of TQM can have tremendous benefits to organizations. The study has shown that TQM is a management strategic approach towards attainment of sustainable performance improvement. If adequately implemented, it can bring about added value to an organization in terms of efficiency in operation, employee satisfaction and customer satisfaction. The findings also revealed that in the pursuit of sustainable performance improvement, brings about added value to customers by making the organizations focused on satisfying customers' needs, while team work and training empowers employees for the continuous improvement of the organization.

It can also be observed that, there is a relationship between the level of employee satisfaction, customer satisfaction and operational effectiveness. For example, the satisfaction of employee will have an effect in the way the institutions operate, such as satisfying customers who later on will recommend the services of the institutions to others. From the findings of this research as well as from the ones reported in literature supports the idea that the management of the institutions have a major role to play in terms of ensuring a culture that allows all employees are involved towards and contribute to quality improvement. The management of quality results to efficiency and effectiveness in operation hence satisfied customers through reduction of queues and wastage of time in the queues.

5.2 Limitations of the Study

One of the limitations of the study was the inability to show the financial impact of TQM implementation in this study, in that most organizations wanting to adopt TQM are mostly concerned with financial gains from the implementation. Apart from this, there was the limitation of time as the research was conducted during a short period of time and hence the researcher could not have covered a wider scope.

5.3 Recommendations

The study has provided an insight on how TQM principles has an effect on sustainable performance improvement in the microfinance institutions. However, it is highly recommended that the size and nature of the sample must be improved to ensure variability and control of possible extraneous variations. While the sample is simply restricted to a single region and a single industry, it would be strongly recommended that data should be gathered from various parts of Kenya including manufacturing and service organizations.

Based on the theoretical and empirical literature reviewed as well as the findings of this study, it is recommended that for an organization to sustainably improve its performance it should have a mechanism of implementing TQM as a strategic approach in its operations.

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APPENDIX 1

THE QUESTIONNAIRE

The objective of this questionnaire is to solicit information regarding the effect of TQM on performance improvement by Microfinance institutions. The questionnaire is completely anonymous, thereby providing full confidentiality. The information sought will be used strictly for academic purposes.

This questionnaire consist of the following critical parts as shown below, which focuses on the areas of interest of this research. The first part relates to the general information and organizations characteristics. The second part relates to the extent to which the organization has implemented TQM and the extent to which employees are motivated to implementation of TQM. The third section focuses on customers' satisfaction, and the final section focuses on operational effectiveness.

SECTION A: GENERAL INFORMATION AND FIRMS CHARECTERISTICS

	Details	**Please type or tick (X) in the box where appropriate.**
1.	Name of Your Organization	
2.	Job Designation	
3.	Gender	Male { } Female { }
4.	Age	20-30 { } 31-40 { } 41-50 { } 51-60 { } 61-70 { } > 70 { }
5.	Educational Level	Secondary { } Tertiary college { } Undergraduate { } Postgraduate { } Others { }
6.	Total number of employees	< 9 { } 10-19 { } 20-29 { } 30-39 { } 40-50 { } >50 { }
7.	Number of years in Operation	0-5 { } 6-10 { } 11-20 { } 21-30 { } >31 { }

SECTION B: EMPLOYEE SATISFACTION

Have you heard of Total Quality Management Yes { } No { }

Show your level of agreement at which employee satisfaction has been affected by the listed variables as per the rating scale below.

(1- Strongly disagree, 2 – Disagree, 3 - Neutral, 4 – Agree, 5 - Strongly agree)

	Description	**1**	**2**	**3**	**4**	**5**
1.	Management recognizes and encourages team-work effort					
2.	Management recognizes and encourages employees suggestions					
3.	Individual effort is recognized in delivering high quality service					
4.	Salary is a means of motivation in the company.					
5.	Salary is reviewed on a regular basis.					
6.	Workers are trained regularly to improve their skills					
7.	There is continuous learning and improvement in the organization					
8.	Quality service delivery is due to employees empowerment					
9.	There is effective sharing of information in the organization and an open mode of communication.					
10	Management involves employees in decision making					
11.	Management consults employees before making decisions in the organization					
12.	The decisions made are based on facts and information shared					
13.	The organizational culture encourages employee participation and performance recognition.					

SECTION C: CUSTOMER SATISFACTION

Show your level of agreement at which customers are satisfied based on the services rendered as per the rating scale below.

(1- Strongly disagree, 2 – Disagree, 3 - Neutral, 4 – Agree, 5 - Strongly agree)

	Description	**1**	**2**	**3**	**4**	**5**
1.	Everyone in the organization understand their responsibility towards customers' satisfaction.					
2.	The organization maintains a close link with its customers in order to know their requirements					
2.	Customers view a high standard of quality based on the service you render					
3.	Your customers recommend your services to others.					
4.	Customers complain about your services					
5.	Customers come back in spite of complains					
6.	Customers defect from coming back as a result of poor quality of service					
7.	The organization responds to customers complains in a quick manner.					
8.	The organization honors its commitment to all customers'					

9. What do your customers complain about the most?

10. How do you help to solve the complaint?

SECTION D: EFFECTIVE OPERATION

On a scale of 1- 5 below how will you rate the operational effectiveness of your organization.

(1- Strongly disagree, 2 – Disagree, 3 - Neutral, 4 – Agree, 5 - Strongly agree)

	Description	**1**	**2**	**3**	**4**	**5**
1.	The organization services are readily accessible to your customers					
2.	The accessibility of services to customers' aids the efficiency in operation					
3.	Customers spends less time in queues in the service premises					
4.	Delays in customer services are due to uncontrollable factors					
5.	The management commitment to quality encourages effective operation.					
6.	The employees' commitment to quality encourages effective operation.					
7.	The organization training and learning improves the efficiency in operation of all employees.					
8.	The organization has developed strategic alliances and solid relationships with its suppliers.					
9.	The organization suppliers' operations aid in the efficiency operations of the firm.					

APPENDIX II

List of Microfinance Institutions

1. Choice Microfinance Bank Limited
2. Faulu Microfinance Bank Ltd
3. Kenya Women Microfinance Bank Ltd
4. SMEP Microfinance Bank Ltd
5. Remu Microfinance Bank Ltd
6. Rafiki Microfinance Bank Ltd
7. Century Microfinance Bank Ltd
8. Sumac Microfinance Bank Ltd
9. U&I Microfinance Bank Ltd
10. Daraja Microfinance Bank Ltd
11. Caritas Microfinance Bank Ltd
12. Uwezo Microfinance Bank Ltd