Chapter 14
Innovation Through Total Quality Management Elements, and Customer Loyalty in Spanish Financial Institutions

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Abstract Customer relationship marketing (CRM) and total quality management (TQM) share a common principle that has become particularly important for financial institutions following the 2008 financial crisis: creating customer value to generate customer loyalty. The present study analyzes the relative influence and development levels of the component elements of TQM models on CRM strategies to improve financial institution customer's loyalty; an issue that has special relevance in a situation of economic crisis. Data gathered by means of a survey sent out to 53 Spanish banks and savings banks shows that, while all TQM components are considered necessary in generating customer loyalty, "customer and market orientation of all business agents and activities" is seen as especially important. The results also showed that there is insufficient development in establishing "human resource management policies," "process management geared toward continuous improvement," and on "establishing a system to evaluate results using wide-ranging indicators."

14.1 Introduction

According to a report by the Conference Board (cited by Daemon Quest 2007), US firms loose an average of 50 % of their clients every 5 years. Consequently, there is great preoccupation over the subject of customer attrition; it is a common theme for

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top management to set churn reduction as a strategic priority. As markets become more open and competitive, firms tend to develop defensive strategies to avoid customer loss (Fandos et al. 2011). Increasingly, firms are realizing that it is advantageous for them to develop long-term relationships with their clientele and reap the benefits of a loyal customer base (Gummesson 2008; Buttle 2009).

The relationship between entrepreneurial and marketing orientations is a strategic response to the turbulent environments faced by firms today. Further, marketing provides an effective medium for achieving entrepreneurship (Bhuian et al. 2005; Morris and Paul 1987). Customer relationship marketing (CRM) is the key for the entrepreneurial process. A firm's entrepreneurial orientation has three dimensions: innovativeness, risk taking, and proactiveness (Morris and Paul 1987). A firm's marketing orientation refers to the size and consistency of its investment in marketing activities and people, and includes the firm's adoption of the marketing concept (i.e., CRM).

CRM is a term that includes all marketing actions oriented toward establishing, developing, and maintaining long-term relationships with customers (Weinstein and Johnson 1999). The basic goal of CRM is to develop customer loyalty in order to generate repeat purchases and recommendations to other potential customers (Buttle 2009) as well as reduce new service costs (Heskett et al. 1997).

The Spanish financial sector is highly competitive (Castillo et al. 2011). Because of this, profit margins are on a negative trend and customer or relationship banking is becoming prevalent (Funcas 2007). The main characteristic of this new form of banking is that it makes customers the center of the banking business by aiming to create long-term—and profitable—relationships with customers. The loss of trust generated by the financial crisis is counterbalanced with increased transparency and customer service (Castelló 2011). Basically, this trend is a move by financial institutions to join firms in other sectors by embracing customer loyalty as their main goal. This is achieved by implementing customer relationship strategies (Faine and Tornabell 2001; Fandos et al. 2011).

Section 2 will show that, despite the above, many firms implement these strategies but are not able to improve customer loyalty (Day and Van den Bulte 2002). There is evidence that points toward internal causes for the limited success of these strategies (Iglesias et al. 2011). The following section of the paper highlights the increasing connections between CRM strategies and total quality management (TQM) models. The basic goal of both approaches is to create customer value and, thus, customer loyalty (Mele 2007). Services are an especially good sector in which to witness these overlapping goals (Horovitz 2005). Within these, financial institutions are an ideal example of how service quality can contribute to a firm's differentiation (Faine and Tornabell 2001; Fandos et al. 2011).

Finally, in Sects. 5 and 6 the authors offer the results and conclusions of a survey to measure the relative influence and development level of the component elements of TQM models on CRM strategies to improve Spanish financial institution customer's loyalty. For this survey, a questionnaire was mailed to marketing directors of 53 Spanish banks and savings banks.

14.2   Relationship Marketing and Client Loyalty

The relevance of relationship marketing was reaffirmed in 2007, when the leading professional association in the field—the American Marketing Association (AMA) (2007)—defined marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large." Relationship marketing is a customer-centered approach that studies the subset of a firm's activities that relate to the establishment of relationships with clients or other agents. In order to do this effectively, the client's needs and perceived value structure must be known (Reinares and Ponzoa 2002). Loyalty is a result or consequence of this process. If a firm knows its clients, establishes strong connections with them, and offers them what they are looking for in a way that adds value they will reward the firm with loyalty (Reichheld 1996; Weinstein and Johnson 1999).

On the other hand, as shown by Sheth (2002), efforts to implement relationship marketing have evolved toward "customer relationship management" (CRM). Teo et al. (2006) define CRM as the strategy of identifying, understanding, and predicting customer behavior in order to create long-term relationships. Similarly, Sheth and Parvatiyar (2002) indicate that CRM is a global process and strategy for specific client acquisition, retention, and association that should lead to a greater level of loyalty.

Nevertheless, implementation of CRM strategies does not always lead to improved customer loyalty and retention (Day and Van den Bulte 2002). According to a 2006 study by Forrester Research, just 10 % of participating executives were fully satisfied with the way CRM strategies had helped them achieve their goals (Richards and Jones 2008). Furthermore, according to research by the Gartner Group in 2001, just 3 % of firms are successfully implementing CRM projects (Mendoza et al. 2007). These factors point to the fact that despite CRM's popularity, success is not guaranteed. Even those that clearly define its benefits or methods or investing in the necessary technology do not always see the intended results. Internal organizational factors are affecting these firms' successful implementation of CRM strategies (Garrido and Padilla 2011).

In this sense, Day (2003) indicates that the best results are obtained by integrating the three components of customer relationship: a global "orientation" toward making customer retention a top priority, quality "information" on the relationship, and finally an "internal configuration" geared toward creating customer relationships. On the other hand, Renard and Cabré (2005, 2008) lay out four necessary steps to implement a CRM strategy: (a) define the firm's mission, values, and culture; (b) design the strategy itself; (c) design and implement CRM processes—the types of services, privileges, or benefits that the customer has access to through his relationship with the firm; (d) acquire the human and technical means to implement each of the CRM processes. Iglesias et al. (2011) add that it is also necessary to have an organizational culture that shares these

two values: customer orientation and employee caring. Several authors agree with Iglesias; the importance of an organizational culture that shares these values has been noted by Gronroos (1997), Winklhofer et al. (2006), and Chakravorti (2011), among others.

Finally, in the specific case of Spanish financial institutions, internal marketing is of paramount importance. Employee competition, motivation, and involvement are crucial in order to achieve differentiation, competitiveness, and customer loyalty (Aguirre and Aparicio 2002; Huete et al. 2003; Barnes et al. 2004).

14.3   Relationship Marketing (CRM) and Total Quality (TQM)

The concept of quality has evolved over time. Currently, it incorporates multiple organizational requirements for creating products and services that satisfy customer's needs. The idea of "quality vision" (Mele 2007) defines quality not just as a lack of errors, but as the creation of value through a system of continuous improvement throughout the organization—including its human resources—with the goal of satisfying the explicit and implicit expectations of customers and other stakeholders (Dean and Bowen 1994; Curry and Kadasah 2002). This evolution has led to the idea of TQM. TQM is a global and systematic management approach that emphasizes continuous improvement in order to satisfy the explicit and implicit expectations of consumers and other stakeholders. This is widely seen as the only way to assure long-term success (Dean and Bowen 1994; Summers 2000; Mele and Colurcio 2006).

There is significant overlap between this evolved understanding of quality and the new approach to relationship marketing. Both TQM and CRM derive from the same business philosophy: customer satisfaction and long-term profitability. These are achieved by integrating and coordinating all organizational activities and resources around these two goals (Zineldin 1999; Mele 2007). Noting this coincidence, several researchers have studied the synergies between both approaches. For them, prior implementation of TQM is a key factor for a CRM strategy to succeed (Morris et al. 1999). The importance of TQM is evident both at the operative level—the tools and techniques used in this approach to quality may be useful in implementing a CRM strategy (Morris et al. 1999; Barnes et al. 2004)—as well as a more global level—relationship marketing strategies may be enhanced by the cultural, strategic, and operational dimensions of TQM (Curry and Kkolou 2004). A TQM approach helps align all organizational resources (human and physical), business processes, and the organizational structure itself with the development of satisfactory, value-creating customer relationships (Webster 1994).

To summarize, the overlap between CRM strategies and TQM models mostly makes itself evident from an operational perspective. TQM tools and techniques may contribute to create the internal conditions that favor CRM strategies, as mentioned in Sect. 2 (Morris et al. 1999; Barnes et al. 2004); so both approaches may be considered as complementary (Mele 2007).

14.4   Empirical Research

14.4.1   Goals

The first goal of the study is to analyze the influence of the different elements of a total quality management (TQM) system on the successful implementation of relationship marketing (CRM) strategies. A CRM strategy is successful if customer loyalty is improved.

The second goal is to analyze how developed these TQM elements are in the Spanish financial institutions under scrutiny. This allows the authors to observe gaps between the importance and development of each of the elements and make recommendations toward the successful implementation of CRM strategies.

14.4.2   Sample and Methodology

In the Spanish financial sector, banks and saving banks have a market share of more than 94 % for the majority of industry benchmarks. A selection of these institutions was made with data from a 2008 statistical release by Banco de España. Several entities were excluded for lack of penetration in the retail banking market since CRM strategies and TQM models are more pervasive in this type of banking. The final selection includes 53 banks and savings banks that manage more than 92 % of the industry's assets.

Data was obtained through "primary" information sources. A questionnaire was sent physically and electronically to the marketing directors of the selected financial institutions and built around the seven criteria used by one of the most prominent TQM approaches, the 1997 version of the Malcolm Baldridge National Quality Award. The different Total Quality models were originally developed as a way to measure criteria for various Quality Awards. Eventually, these models started to be used as tools for implementing TQM. Forty financial institutions returned their questionnaires, representing 72.7 % of the sample and 90 % of total assets for banks and savings banks (Table 14.1).

Table 14.1 Technical specifications

Universe	Spanish financial institutions (banks and savings banks) with presence in retail banking
Geographic area	Spain
Sampling method	Probability: the questionnaire is sent to all the entities in the universe
Data collection method	Online and mail questionnaire
Person surveyed	Marketing Director of the financial institution
Population	53
Sample size	40
Confidence level	95 % ($z=1.96$; $p=q=0.5$)
Sampling error	7.7 %
Information collection period	December 1, 2009 to February 28, 2010

14.5 Results

Results on the primary analysis of the influence of TQM elements on CRM strategy success and customer loyalty toward Spanish financial institutions, based on the Malcolm Baldrige National Quality Award 1997 criteria, are shown in Table 14.2.

According to Table 14.2, over 90 % of participating institutions consider that it is "quite" or "very important" that all of the TQM model components are previously implemented, in order for CRM strategies to succeed. The only exception is "information and analysis systems that provide global and permanent insight into the firm's operations," with just 70 % of participants stating that it is "quite" or "very important."

The "customer and market orientation of all firm activities and components" component showed unanimous agreement, with 100 % of participants marking it as "quite" or "very important." Furthermore, 87.5 % of responding Directors considered this to be "very important," as opposed to a range between 30 and 57.5 % for the other options.

Regarding the second goal of analyzing how developed these TQM elements are in Spanish financial institutions, results are shown in Table 14.3.

As shown in Table 14.3, 85 % and more of participating institutions' representatives agreed with the statement that the three first model components ("leadership," "planning and internal organization," and "customer and market orientation") are "quite" or "very developed." On the other hand, "human resource management policies," "process management geared toward continuous improvement," and "evaluation system using wide-ranging indicators" are just "quite" or "very developed" in 60 % of the sample. "Information and analysis systems that provide global and permanent insight" meet this criteria in 72.5 % of participating firms, an intermediate value between the two previous groups. Finally, "customer and market orientation" is "quite" or "very developed" in 95 % of respondent's institutions.

If attending to just those institutions that responded that the different elements are "very developed," a different picture emerges. Among the last three model elements, not one (0 %) thought this applied to their financial institution, and 35 % or less thought this applied to their institution on the first four. It is remarkable that just 10 % consider that their "customer and market orientation of all firm activities and components" is "very developed."

To complete the *second goal of the study*, we compare the importance that each participating institution assigns to the different elements with how developed they consider these elements to be with data from Tables 14.2 and 14.3.

Figure 14.1 shows a comparative analysis of how many respondents mark that each TQM element is "quite" or "very important" for a successful implantation of CRM strategies, comparing it to how many reply that it is "quite" or "very developed" inside their organization.

Figure 14.1 shows that the level of importance and the level of internal development is balanced for the first four model characteristics and that a substantial gap exists for the last three (from 33 to 45 %).

Table 14.2 Importance TQM components on customer loyalty for Spanish financial institutions

Number of participating institutions that selected each option (as a percentage)	*Top management leadership and commitment to CRM strategies*			
	Not important	Somewhat important	Quite important	Very important
	2.5 %	0.0 %	52.5 %	45.0 %
	Adequate planning and internal organization for CRM strategies			
	Not important	Somewhat important	Quite important	Very important
	0.0 %	15.0 %	30.5 %	55.0 %
	Customer and market orientation of all firm activities and components			
	Not important	Somewhat important	Quite important	Very important
	0.0 %	0.0 %	12.5 %	87.5 %
	Information and analysis systems that provide global and permanent insight into the firm's operations			
	Not important	Somewhat important	Quite important	Very important
	0.0 %	30.0 %	40.0 %	30.0 %
	HR management policies that favor involvement with CRM strategies			
	Not important	Somewhat important	Quite important	Very important
	5.0 %	2.5 %	42.5 %	50.0 %
	Process management geared toward continuous improvement; always from the customer's perspective			
	Not important	Somewhat important	Quite important	Very important
	0.0 %	5.0 %	55.0 %	40.0 %
	Establishing a system to evaluate results using wide-ranging indicators to measure CRM strategies			
	Not important	Somewhat important	Quite important	Very important
	0.0 %	7.5 %	35.0 %	57.5 %

Finally, to complete the analysis of the difference between how important different aspects are considered to be and how well implemented they are, Fig. 14.2 shows percentage values for the institutions that marked each element as "very important" for successful implementation of CRM strategies and how many consider it is "very developed" in their organizations.

Figure 14.2 makes evident the divergence in all the TQM model elements. "Leadership," "planning and internal organization," and "information and analysis systems" show gaps of between 15 and 20 %, while the other elements show significant differences of between 40 and 78 %. "Customer and market orientation" must be noted as having the largest divergence. Eighty-seven percent of respondents believe that it is a "very important" element, while just 10 % think it is "very developed" in their organizations.

Table 14.3 Level of development of TQM model components

| Number of participating institutions that selected each option (as a percentage)	*Top management leadership and commitment to CRM strategies*			
	Not developed	Somewhat developed	Quite developed	Very developed
	2.5 %	5.0 %	67.5 %	25.0 %
	Adequate planning and internal organization for CRM strategies			
	Not developed	Somewhat developed	Quite developed	Very developed
	0.0 %	12.5 %	52.5 %	35.0 %
	Customer and market orientation of all firm activities and components			
	Not developed	Somewhat developed	Quite developed	Very developed
	0.0 %	5.0 %	85.0 %	10.0 %
	Information and analysis systems that provide global and permanent insight into the firm's operations			
	Not developed	Somewhat developed	Quite developed	Very developed
	2.5 %	25.0 %	57.5 %	15.0 %
	HR resource management policies that favor involvement with CRM strategies			
	Not developed	Somewhat developed	Quite developed	Very developed
	2.5 %	47.5 %	50.0 %	0.0 %
	Process management geared toward continuous improvement; always from the customer's perspective			
	Not developed	Somewhat developed	Quite developed	Very developed
	2.5 %	47.5 %	50.0 %	0.0 %
	Establishing a system to evaluate results using wide-ranging indicators to measure CRM strategies			
	Not developed	Somewhat developed	Quite developed	Very developed
	0.0 %	40.0 %	57.5 %	2.5 %
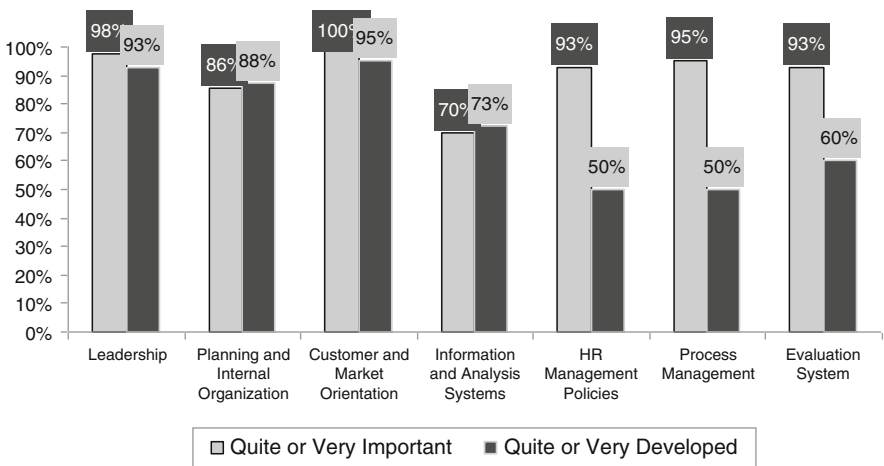
Fig. 14.1 Comparative analysis of the "importance level" of TQM model components in creating customer loyalty for Spanish financial institutions and their "development level"
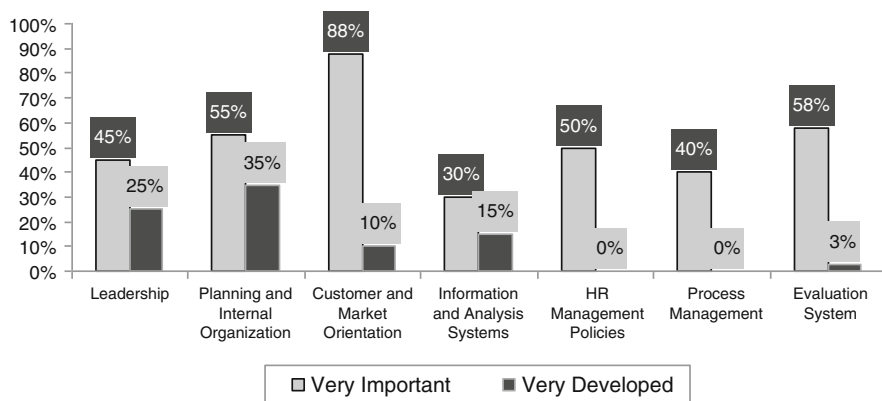
Fig. 14.2 Comparative analysis of the "importance level" of TQM model elements for customer loyalty in Spanish financial institutions and their "development level"

14.6 Conclusions and Implications

Concerning the *first goal* of the study, results shown in Table 14.2 are evidence that all TQM model elements are perceived as relevant for CRM strategies to be successfully implemented, creating greater customer loyalty. All seven elements are "quite," or "very important" for over 90 % of the entities, except for implementing an "information and analysis systems that provide global and permanent insight into the firm's operations" at 70 %. It is logical that to implement a relationship marketing strategy a "customer and market orientation" would be important for 100 % of the respondents. 87.5 % considered that this was a "very important" element, versus a maximum of 57.5 % for the other TQM model components.

With regard to the *second research goal*—development levels for each of the TQM elements in each organization—there is greater disparity among the results. Table 14.3 depicts how the first three factors ("leadership," "planning and internal organization," and "customer and market orientation") are seen as "quite" or "very developed" by 85 % of the responding directors; this being the case for only between 50 and 72.5 % of the institutions for the other four elements. Once again, "customer and market orientation of all firm activities and components" shows the highest values. Ninety-five percent consider that it is "quite" or "very developed," although only 10 % thought their institutions were "very developed" in this sense. Overall, there is a large difference between "quite developed" and "very developed" percentages of self-identification.

In conclusion, by comparing how different institutions consider that each TQM elements is and how developed they are, it is evident that Spanish financial institutions still have work to do, especially, in actual economic context. There are four areas that have already seen significant advances: "leadership," "planning and

internal organization," "customer and market orientation," and "evaluation systems," as shown in Figs. 14.1 and 14.2. Thus, the study shows that Spanish financial entities have an opportunity to continue developing these organizational elements in order to successfully implement their CRM strategies and in this way improve their customer's loyalty after the recent financial crisis.

To move forward in this line of research, it would be necessary to analyze the influence of each of the different TQM model elements on the effectiveness of different customer loyalty strategies implemented by Spanish financial institutions, during and after the economic crisis.

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