

## **Total Quality Management Practices in the Islamic Banking Industry : Comparison between Bangladesh and Malaysian Islamic Bank**

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### **Abstract**

*Bangladesh, being a Muslim country needs to expedite its Islamic banking services to uphold her Islamic values. This study aimed to provide a deeper understanding of the applicability of TQM in the Islamic banking sector in Bangladesh by identifying and matching as well as comparing (the successful implementation of) the unique factors that affect the applicability of TQM in Malaysian Islamic banks. Malaysia was chosen as Malaysian Islamic banking is considered as the pioneer in Islamic banking sector. Therefore, identifying and examining most established Islamic banking industry would make this study a more consistent, reliable and resourceful one for the Bangladeshi Islamic banking sector. A convenient sampling approach was adopted for sample employees of Maybank Islamic Berhad of Malaysia (MIB) and Islami Bank Bangladesh Limited (IBBL). The data was collected via self-administered close ended questionnaires distributed to the respondents. Total of 300 questionnaires were distributed (150 each for both the banks) and a total of 203 (86 from Maybank Islamic Berhad and 117 from Islami Bank Bangladesh Limited) completed questionnaire returned which were found valid for further analysis. Results show that the knowledge in the basic principles of TQM practices among the employees in Malaysia is very high in contrast to the relative ignorance of Bangladeshi Islamic banks regarding the practices and implementation of TQM. This study suggests some future actions that need to be carried out within Bangladeshi Islamic banks to improve service quality and productivity.*

**Keywords:** *TQM, Islamic Banking, Quality, Service Sector, Islamic Knowledge*

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## **1. Introduction**

In the International business community the pursuit of and quest for quality have become essential concerns and trends (Aksu, 2002). Managers and employees increasingly get convinced of the necessity to adopt the Total Quality Management (TQM) principles within their organization. Hence, organizations are trying their best to elaborate policies and strategies to introduce and implement TQM in the hope to improve their overall performance. Applying TQM will enhance the overall quality and success of any businesses in the service industry. Besides, as the quality of service in Islamic banking industry is a unique one, there is a need to apply TQM principles in this industry with an aim to achieve customer satisfaction. Therefore, studying the unique factors in the Islamic banking industry on the applicability of TQM will help both the academicians and researchers involved in the Islamic banking industry to get more knowledge in improving quality services.

Bangladesh is a Muslim country. Bangladeshi Islamic banks are yet to realize its full potential in supporting the country's overall development in the Islamic banking sector. Furthermore, the awareness towards quality among Bangladeshi Islamic banks is not clear. In addition, Islamic banks in Bangladesh are facing huge competition in the global marketplace without full understanding the importance and how to implement TQM approaches. Malaysia being the leader in the Islamic banking sector, this study aims to provide a deeper understanding of the applicability of TQM in the Islamic banking sector in Bangladesh by comparing the unique factors that affect the applicability of TQM in the Malaysian Islamic banks and how TQM applications can ensure competitive advantage for Islamic banks in Bangladesh.

## **2. Objectives Of The Study**

The objectives of this study are; (1) to highlight the main factors in the Islamic banking industry that affects the applicability of TQM, (2) to identify the areas of improvement that should be addressed in the Islamic banking industry in order to successfully apply TQM and (3) to identify the difficulties in the Islamic banking industry that could obstruct the applicability of TQM and find ways to get over them.

## **3. Literature Review**

The history of TQM is dated back in 1950's when Japanese manufacturing industry introduced the concept (Hashmi, 2007). When Japanese people realized that there is a need to introduce some special technique through which the overall operational process might improve, they gave birth of the concept of TQM. According to Brocka and Brocka (1992), TQM is a continuous management process where a whole lot of deliberation is needed in improving the performance of every level of operation by proper management of the both

resources; human as well as capital. Mullins (1999, p. 37) further described TQM as “a way of life for an organization as a whole, committed to total customer satisfaction through continuous process of improvement and the contribution and involvement of people.” Toremeh, Karakus and Yasan (2009) stated that, organizations are the places that have a defined set of aims and objectives to be achieved. As such, they cannot be thought of separate from the outside world. Therefore, to remain competitive, there is always a need to monitor every change that took place inside the organization. This helps in achieving better output for the overall organization. Hence, TQM has become the most vital tool that ensures the organization’s goals are achieved and performances are improved (Capezio & Morehouse, 1993; Cartin, 1993; Charles, 1991; Gu’nbayı & Cevik, 2004).

Furthermore, many studies in the past developed and validated TQM critical factors or practices in both manufacturing and service sectors (Al-Shobaki, Fouad & Al-Bashir, 2010; Balcı, 2001; Cartin, 1993; Charles, 1991; Gunbayı & Cevik, 2004; Hashmi, 2007; Lezotte, 1992). According to Waldman (1993), these are called “elements”, whereas Dean and Helms (1996) described them as “practices”, Hellsten and Kelfsjo (2000) named them as “techniques”, Reed, Lemak and Montgomery (1996) identified them as “processes” and Sitkin, Sutcliffe and Schroeder (1994) mentioned them as “principles”. As such, in the Islamic banking sector, these should be taken care of to get the best results in practicing the proper TQM.

### **3.1 Total Quality Management in Banking Sector**

As a modern management approach, TQM can be used successfully in Islamic banking sectors that are mainly focused on increasing the customer satisfaction (Croker et al., 1996; Tribus, 1993; Munoz, 1999). Recent researches on TQM have brought a widely updated plan for the Islamic banking sector’s reforms and modernization of Islamic banking. The TQM principles have broad applications in Islamic banking sectors and have produced desirable outcomes. Deploying these applications, service improvement has become a continual process for any organizations in their way to achieve customers’ loyalty (Terry, 1996). On the other hand, there is a considerable proximity between the principles of TQM and the principles of an effective banking system (Balcı, 2001; Lezotte, 1992). Many people involved in the banking industry consider them as the part of the financial sector rather than the service industry. As such, they concentrate more on to compete in terms of financial prowess rather than service quality (Al-Shobaki et al., 2010). However, to be successful in applying TQM in the Islamic banking sector, indentifying on how to evaluate the quality of service are very important. According to Evans (1993), service can be evaluated on the basis of cost, flexibility, acquirability, totality, and response time. Ramadan (1995) considered the nature of services that the banks provide. Tokan (1995) mentioned that as banking sector is a part of the

overall service industry, therefore, meeting customers' need will help them to retain their customers with satisfaction.

### **3.2 Work Pressure & Tight Deadlines**

Besides the misunderstanding regarding and the change in design problems, there is an additional serious issue which is the customers' increased expectations (Carroll, 1995). This makes it really hard to meet the production deadline and have a product with a quality high enough to impress the client (Bunse et al., 1998). Nowadays due to changing environment of Islamic banking sector and the nature of its operation and pressure are increasing the circumstances which in turn affect on total quality management (TQM) as well as the personal life of an employee which also creating a major predicament. Work pressure and tight deadlines for the employees creates workplace stress whereby Sager (1991) referred stress using various terms which include strain, burnout, ambiguity, conflict, and anxiety, among others. This stress derives from work pressure and tight deadlines have a significant impact on individuals' behaviors and actions. Job stress is a growing problem which is experienced by both employers and employees of any industrialized societies. Likewise, in banking industry if employees reside with such state of affairs, there raises a question on quality management issues. However, it has been argued that the total quality management incorporates various dimensions that relate to both core and augmented service offerings (Bitran&Lojo, 1993; Lewis, 1993). Perhaps, Islamic bank itself has no problem with tight deadlines but employees those who are dealing in the front desk may have the dilemmas while it comes to the quality services. So it can be thought in a way that work pressure and tight deadlines is a mental state, visible on employee's behavior and created mostly from job pressure which has a significant effect on TQM applicability in the Islamic banking sector. Furthermore, in most of the times, the employees of Islamic banks sacrifice one thing for the other, where they have to choose whether to meet the deadline or exceed the customers' expectations.

H1: There is a significant effect of work pressure and tight deadlines on the TQM applicability in the Islamic banking sector.

### **3.3 Lack of Standards & Tasks' Complexities**

The absence of standards in the implementation process also creates differences in the way employees work, resulting in issues of Islamic banking quality delivery. Poor documentation of the Islamic banking development process, in turn, makes Islamic banking difficult to maintain and to improve (Mezher et al., 1998). In order to apply TQM successfully, Islamic banks need to create a cooperative culture that will create the environment towards self

belongingness among employees. Therefore, management should ensure that every employee participates in the organizational activities. This in turn will increase the overall productivity of the Islamic banks.

However, in the Islamic banking industry, the basic Islamic banking service and end products vary from customer to customer. Therefore, Islamic banks should work towards understanding their customer's needs (Carroll, 1995). Most of the times, people who work on a certain Islamic banking development product, are too afraid to spend two or three more hours a day to stick into their standards (if any) and to discuss the tasks to be handed out to the team members (developers). They actually believe that this might increase the development life cycle, while in fact not doing so is the thing that will definitely increase the life cycle, and will decrease the quality of their product. This eventually will make it impossible to exceed or even meet the customer's requirements. In addition, handing out tasks to the team members without discussing them, and without having specific standards to stick to while accomplishing the task, will lead to suffering from task complexities which in turn will affect the quality of the Islamic banking.

H2: There is a significant effect of lack of standards and tasks' complexities on the TQM applicability in the Islamic banking sector.

### **3.4 TQM Ignorance**

Total quality management (TQM) ignorance begins with clear, equipped characterization from both the customer and the banking sector. Fundamentally it refers the lack of knowledge or unawareness to apply TQM to the banking activities (Arthur, 1993). However, Islamic banks have a consent that extends beyond simply serving its clientele by securing funds in the various kinds of portfolios as well imposing quality management. While ignoring TQM in their operations, there has a considerable impact for TQM applicability in the Islamic banking sector.

H3: There is a significant effect of TQM ignorance on the TQM applicability in the Islamic banking sector.

## **4. Research Methodology**

This study selected two Islamic banks, namely, Maybank Islamic Berhad of Malaysia (MIB) and Islami Bank Bangladesh Limited (IBBL). This study has attempted to identify some unique factors that affect the applicability of TQM in the Islamic banking sector. Malaysia was chosen as Malaysian Islamic banking is considered as the pioneer in Islamic banking

sector. Therefore, identifying and examining most established Islamic banking industry would make this study a more consistent, reliable and resourceful one for the Bangladeshi Islamic banking sector.

A convenient sampling approach was adopted for data collection from the employees of MIB and IBBL. The data was collected via self-administered close ended questionnaires distributed to the respondents. The target respondents were of MIB and IBBL employees. Data collection started on December 18<sup>th</sup> 2013 and was completed on March 20<sup>th</sup> in the year 2013. In total, 300 questionnaires were distributed (150 each for both the banks), 203 (86 from Maybank Islamic Berhad and 117 from Islami Bank Bangladesh Limited) completed questionnaires were returned which were found valid for further analysis. Thus, rate of return was quite impressive (67.67%). In line with the guidelines by researchers (Hair, Anderson, Tatham & Black, 2010), 203 sample sizes for this study was more than enough.

Reliability of the questionnaire was assessed by computing the Cronbach's alpha ( $\alpha$ ) value (Sekaran, 2000). The result suggests that the reliability is acceptable (Cronbach's alpha ( $\alpha$ ) = .941). Though, validity can be divided into several types such as face validity, content validity, criterion validity and construct validity (Hair et al., 2010), however, this study only addressed the content and construct validity as both were deemed to be sufficient in analyzing the validity of its measurements (Pallant, 2005). The content validity in this study was assessed by thoroughly reviewing the available literature on TQM.

On the other hand, for construct validity, factor analysis with principal component and Varimax rotation were used in this study to assess the construct validity of the measurements. The critical assumptions underlying the factors analyses were examined. The two measures which quantify the degree of inter-correlation among the variables supported the suitability of PCA to extract the factor loadings from the data for the variables. These two measures are the Bartlett's Test of Sphericity and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (MSA). Bartlett's Test of Sphericity is an index to indicate inter-variables correlations whiles Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy (MSA) is used to indicate whether the sample is sufficient to support PCA. For this study, the KMO value is .723 which is acceptable with the significance at .0000.

## **5. Findings**

A multiple regression analysis is carried out in order to determine which factor(s) that described in hypothesis have significant impact on TQM applicability in the Islamic banking sector. Regression analysis was performed for testing the hypothesis after extracting the three independent variables from factor analysis. Results from Malaysia indicates that, 77.3 percent of variance of TQM applicability in the Islamic banking sector was explained by these three

independent variables with a significant ‘F’ value of 68.938 being significant at  $p < .000$  (Table 1 and Table 2). Therefore, there is an evident that these three factors significantly affect the TQM applicability in the Islamic banking sector.

On the other hand, results from Bangladesh indicates that, only 24.5 percent of variance of TQM applicability in the Islamic banking sector was explained by these three independent variables with a significant ‘F’ value of 5.954 being significant at  $p < .000$  (Table 3 and Table 4). Therefore, there is an evident that these three factors significantly affect the TQM applicability in the Islamic banking sector.

**Table 1: Regression Analysis (Malaysia) Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.864(a)	.773	.752	.49752489

a. Predictors: (Constant) Work Pressure & Tight Deadlines, Lack of Standards & Tasks’ Complexities, TQM Ignorance

**Table 2: ANOVA<sup>b</sup> (Malaysia)**

Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	103.068	6	17.178	68.938	.000 <sup>a</sup>
Residual	31.932	129	.248		
Total	135.000	135			

a. Predictors: (Constant), work pressure & tight deadlines, lack of standards & tasks’ complexities, TQM ignorance.

b. Dependent Variable: TQM applicability in the Islamic banking sector

**Table 3: Regression Analysis (Bangladesh) Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.495(a)	.245	.204	.44831

a. Predictors: (Constant) Work Pressure & Tight Deadlines, Lack of Standards & Tasks’ Complexities, TQM Ignorance

**Table 4: ANOVA<sup>b</sup> (Bangladesh)**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig</b>
1 Regression	3.590	3	1.197	5.954	.001 <sup>a</sup>
Residual	11.054	55	.201		
Total	14.644	58			

a. Predictors: (Constant), work pressure & tight deadlines, lack of standards & tasks' complexities, TQM ignorance.

b. Dependent Variable: TQM applicability in the Islamic banking sector

The hypotheses for this study are disturbed with the individual outcome of the three variables on the TQM applicability in the Islamic banking sector. The effectiveness of influence of each of the independent variables would have on the TQM applicability in the Islamic banking sector been dealt with and results are shown in the following tables (Table 5 and Table 6).

**Table 5: Coefficients<sup>a</sup> (Malaysia)**

<b>Model</b>	<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	(Constant)	-4.283E-16	.071	.000	1.000
	Work pressure & tight deadlines	.309	.071	.309	7.210
	Lack of standards & tasks' complexities	.341	.071	.341	7.953
	TQM ignorance	.421	.071	.421	9.826

a. Dependent variable: TQM applicability in the Islamic banking sector

**Table 6: Coefficients<sup>a</sup> (Bangladesh)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.542	.058		60.693	.000
1 Work pressure & tight deadlines	.195	.059	.389	3.319	.002
Lack of standards & tasks' complexities	-.149	.059	-.296	-2.525	.014
TQM ignorance	.041	.059	.081	.688	.494

a. Dependent variable: TQM applicability in the Islamic banking sector

**H1: There is a significant effect of work pressure & tight deadlines on the TQM applicability in the Islamic banking sector.**

The result in table 1 and table 2 show that, work pressure and tight deadlines place as an important factor affecting the TQM applicability in the Islamic banking sector in both Malaysian and Bangladeshi context. A significant positive effect of work pressure and tight deadlines on TQM applicability in the Islamic banking sector is seen from the above mentioned tables. This result supports the first hypothesis of this study. Based on this positive coefficient of the work pressure and tight deadlines, this study concludes that there is a significant positive effect exists between the work pressure and tight deadlines and TQM applicability in the Islamic banking sector. Work pressure and tight deadlines would include dissatisfaction, which means an individual might get frustrated in their work if so much pressures are felt and a tight deadline is imposed. In order increase the work efficiency, management should allocate the work resources in such a way that all the employees working in the bank do not feel much pressure which in turn will increase the work efficiency and will ease the applicability of TQM practices among the employees.

**H2: There is a significant effect of lack of standards and tasks' complexities on the TQM applicability in the Islamic banking sector**

Lack of standards and tasks' complexities is another important determinant established to be statistically significant at  $p < .05$  level, thus proves that, this has positively influenced the TQM

applicability in the Islamic banking sector both is Malaysia and Bangladesh. This indicates that setting definite standards and having strong management among the work processes at the Islamic banks will ease the applicability of TQM practices among the employees. Due to the above, both banks have to solve the problem of poor documentation and flowing of information among the team members. Hence, from the result, we can conclude that lack of standards and tasks' complexities has a significant positive impact on the TQM applicability in the Islamic banking sector.

**H3: There is a significant effect of TQM ignorance on the TQM applicability in the Islamic banking sector**

The result regarding TQM ignorance also proved to be statistically significant at  $p < .000$  level which confirms that it has positive impact on TQM applicability in the Islamic banking sector in Malaysia. Thus, we accept the hypothesis that, TQM ignorance has a positive influence on TQM applicability in the Islamic banking sector in Malaysia (see table 5). However, in Bangladeshi context, this is not true. From table 6, we can see that,  $p > .05$ , hence, accept the null hypothesis which is, there is no significant effect of TQM ignorance on the TQM applicability in the Islamic banking sector. This indicate that the knowledge in the basic principles of TQM practices among the employees are not properly practiced and implemented in the Bangladeshi Islamic banks, thus, will not ease the process of applying TQM in the work place.

**Table 7: Findings for MIB and IBBL**

Items	Maybank Islamic Berhad (MIB)	Islami Bank Bangladesh Limited (IBBL)
KMO	0.897	0.662
Factors Extracted	3	3
R <sup>2</sup>	0.773	0.245
F	68.938	5.954
P	0.000	0.001
H1	P < 0.05	P < 0.05
H2	P < 0.05	P < 0.05
H3	P < 0.05	P > 0.05

### **Results and Findings for Maybank Islamic Berhad and Islami Bank Bangladesh Limited**

Table 7 concluded the findings for Maybank Islamic Berhad and Islami Bank Bangladesh Limited on the application of TQM at the workplace in Malaysia and Bangladesh respectively. In most of cases, the study found similar results except the third hypothesis of the study where in Malaysia the hypothesis of this study is accepted, while in Bangladesh the hypothesis is rejected. This may be due to lack of awareness of the benefits of TQM at the work place. Further efforts are extremely required to explore and examine the needs to improve on the quality services in Islamic banking sectors.

### **6. Conclusion**

This study focus on work pressure and tight deadlines, lack of standards and tasks' complexities, and TQM ignorance in the Islamic banking sector where there is significant relationship towards TQM applicability in the Islamic banking sector. The study also suggested significant TQM applicability in the Islamic banking sector in Malaysia. On the other hand, the results show that knowledge in the basic principles of TQM practices among the employees in Malaysia is very eminent, while in Bangladesh are not similar and this is due to inappropriate practices and implementation of TQM in the Bangladeshi Islamic banks. The study shows that there is a positive and statistical significant relationship exists between work pressure and tight deadlines on the TQM applicability in Islamic banking sector. This result confirms the findings with Mezher et al. (1998), which highlights on the fact that TQM applicability in Islamic banking sector is affected by the tight deadlines, which in turn will reduce the level of TQM applicability in the work place. Moreover, it also found similarities with the study of Issac et al. (2004), that a pressure-free work environment motivates an employee to innovate, develop, and be more empowered to apply the TQM practices in the work place. Hence, we can conclude that work pressure and tight deadlines in the Islamic banking industry considered as one of the decisive factors that affect negatively on the applicability of TQM, specifically on the continual improvement and customer focus practices.

There is also a statistical significant relationship exists between lack of standards and task complexities on the applicability of TQM in the Islamic banking sector. This result is consistent with Carroll (1995) and Mezher et al. (1998) that, lack of standards and task complexities will hamper the TQM implementation in the banking industry. The lack of standard working procedures and task complexities in the Islamic banking industry will hamper negatively on the applicability of TQM. On the other hand, there is a statistical significant relationship exists between TQM ignorance on the applicability of TQM in the Islamic banking industry in Malaysia. This result is consistent with the findings of Issac et al.

(2004), which suggested that, everyone involved in the work place should clearly understand the basic principles of TQM so as to increase the ability to apply TQM in the work place. We can further conclude that the TQM ignorance among the employees in the Islamic banking industry is considered one of the critical factors that affect negatively on the applicability of TQM. However, this research was carried limited to two Islamic banks one from Malaysia and the other from Bangladesh, thus further research is needed to examine these factors in other Islamic banks both in Malaysia and Bangladesh. Furthermore, the sample size is significant small to generalize the findings and issues.

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Total Quality Management Practices in the Islamic Banking Industry : Comparison between Bangladesh and. Malaysian Islamic Bank. Ahasanul Haque<sup>1</sup>, Abdullah Sarwar<sup>1</sup>, Ferdous Azam. 1. In addition, Islamic banks in Bangladesh are facing huge competition in the global marketplace without full understanding the importance and how to implement TQM approaches. Malaysia being the leader in the Islamic banking sector, this study aims to provide a deeper understanding of the applicability of TQM in the Islamic banking sector in Bangladesh by comparing the unique factors that affect the applicability of TQM in the Malaysian Islamic banks and how TQM applications can ensure competitive advantage for Islamic banks in Bangladesh. With the development of modern banking, banking industry is facing a new evergoing affiliation called "Islami Banking" which has earned enormous popularity in recent times. Noticing the popularity and lower default rate of islami banking, many conventional banks has started to open their respective "Islami Banking" department. Consequently the competition become extensive with growing popularity. The Islamic bank was found to perform better than conventional banks in terms of liquidity and risk measurement (less risky). Page 2 of 53. Although this study is based only upon one Islamic bank in Malaysia, the result has given some insight on the example from outside the Middle East area. Islamic banking refers to a banking system that is based on the principles of Islamic law (Sharia law) and guided by Islamic economics. Beginning in the 1960s, Islamic banking resurfaced in the modern world, and since 1975, many new interest-free banks have opened. While the majority of these institutions were founded in Muslim countries, Islamic banks also opened in Western Europe during the early 1980s. One of the primary differences between conventional banking systems and Islamic banking is that Islamic banking prohibits usury and speculation. Shariah strictly prohibits any form of speculation or gambling, which is referred to as maisir. Shariah also prohibits taking interest on loans. A comparison between malaysia and indonesia in islamic banking industry. Purpose- This paper aims to compare Malaysia andIndonesia in terms of current circumstances in the Islamic banking industry.This is very interesting because of several factors. Firstly these twocountries are neighbors. Secondly, both countries have expressed theiraspiration to be the center for the Full description. Kazarian (1993) compared Islamic banking with conventional banking in Egypt, with emphasis on the innovativeness of the Islamic bank's financial products. In the context of comparative financial performance of Islamic Banks and conventional banks, some studies have been done in Malaysia. Samad (1999) evaluated BIMB's productivity and managerial efficiency in the sources and uses of the bank's funds and compared to that of mainstream (conventional) banks.