Introducing ISO 9000 to the Kazakhstan Banking Industry : A Case Study

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Abstract

Banks in Kazakhstan have experienced a lengthy period of political stability and economic growth. Together with rational approach to banking and finance policy, this has helped to push Kazakhstan's banking system to a higher level of development. It is now widely known that the Kazakh market is highly attractive to foreign investors. The scope for profits is growing, and country risk is comparatively low. As the Kazakh banks face a shortage of long-term funds and access to existing resources is influenced by political factors, capital drawn from the international markets will play a decisive role in their growth.

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I. Introduction

Banks in Kazakhstan have experienced a lengthy period of political stability and economic growth. Together with rational approach to banking and finance policy, this has helped to push Kazakhstan's banking system to a higher level of development. It is now widely known that the Kazakh market is highly attractive to foreign investors. The scope for profits is growing, and country risk is comparatively low. As the Kazakh banks face a shortage of long-term funds and access to existing resources is influenced by political factors, capital drawn from the international markets will play a decisive role in their growth. At the same time heavy competition in the domestic market is forcing Kazakh banks to actively seek out opportunities in other CIS countries (World Bank, 2008). Given this trend, investments in the Kazakh banking sector are to some extent "transitory". For international investors this has two negative implications. The first is that Kazakhstan country risk is compounded by other, less well-defined risks, when investors prefer to choose their own level of risk. The second negative implication is that Kazakhstan Banks have only limited experience in managing risk outside their country's borders, and in the past their response to crises has been weak.

According to the Spero News Kazakhstan has been hit hard by the recent banking and real estate crisis. Kazakhstan's GDP grew by 10.6 percent in 2006 but slowed to 8.7 percent in 2007, and according to the forecasts of local analysts, will slow even further to 6 percent in 2008. Inflation at the same time grew from 8.6 percent in 2006 to 18.8 percent in 2007. The main factor that led to worsened economic conditions was the local credit factor triggered by the summer's sub prime woes in the United States and the subsequent global liquidity crunch. The crisis has hit hard Kazakhstan's praised banking sector and exposed its reliance on cheap foreign credit and overexposure to the speculative construction and real estate sectors. As the market boomed and reached its peak in the summer of 2007, the presence of the bubble was obvious and widely discussed (Spero News, 2007).

After the crisis hitting the country H.E. Nursultan Nazarbayev, President of Republic of Kazakhstan, stressed on the need of an establishment of an effective mechanism for systematic and prompt government responses to any threats of financial instability and the severe need of bolstering the international markets' confidence in Kazakhstan's economy. He continued his speech by listing some major corrections and needs in the system. One of the most important issue was that as well as the National Bank and the Ministry of Finance, the Financial Supervision Agency should be improving the competitiveness and stability of the Nation's financial system, particularly in banking sector. Meanwhile, the process of regulatory intervention should be extremely transparent and predictable to the entire banking sector. The President continued his speech by stressing the importance of developing a system of rapid response measures for contingencies (Turkish Weekly, 2008).

This paper aims to explore the best practice for Kazakhstan Banking industry. According to the research the banks in Kazakhstan face two major problems; one is the level of satisfaction of customers and the second problem is deterioration of service quality. Both of these problems lead to a huge loss in the bank's quality and continuous improvement. This paper reports on the results of a pilot stuffy conducted among a sample of banks within the city Almaty. This paper aims to answer the following questions:

1. Which quality management practices determine the bank's quality strategy?

2. What is the relationship between implementation of quality management practices and ISO 9000 certification?

3. What is the relationship between implementation of quality management practices and believing that ISO 9000 certification guarantees the quality of the product or service supplied?

II. Analysis Of Method

In order to achieve a proper understanding of the current situation of Kazakhstan banking sector a literature review has been carried out. In addition to the literature a questionnaire was constructed and used in this study. The questionnaire was adopted from the article written by Quazi and Padibjo (1998), which report on SME's in Singapore. The questionnaire uses the "5-Lickert Scale". The sample group for this paper was chosen to be the banking industry of Kazakhstan. The questionnaires where translated to Russian language to help better understanding of the questions and to increase the respondent rate and quality of data. Fifteen banks out of eighteen banks were reached. Using primary data techniques and face-to-face interviews with key personnel within the banking industry collected total of 38 questionnaires. The questionnaire is structured in three parts. The first part is related to the general position of the bank, the second on 42 variables associated with quality management practices, which were also divided into eight subheadings, and the last part on information concerning the respondent. A factor and reliability analysis is used for the analysis of the 42 variables associated with quality management practices. Factor analysis; is a method of transforming the original variables into new, non-correlated variables, called factors

(Malhotra, 2007). This is used to identify key points emerging from the questionnaire; the reliability analysis tests the validity of these key points, which are then used to formulate a number of hypotheses. In addition, regression analysis is also used to evaluate the direction and effect of the relationship between ISO 9000 and the key points resulting from the factor analyses relating to the quality management practices.

III. Methodology

General Profile of the Banks Included in the Research The general profile of the banks included in the research is given in Table I. Unfortunately none of the banks have experienced the ISO certificate. Even though no bank has the certificate 89.5% of the responses show that they to believe in that ISO 9000 standard guarantees the quality of service supplied in banks. The quality management practice criteria had a general reliability (cronbach α), which relates to the variation of 76.47%.

3.1 Results of the Factor Analysis related with Quality Management Practices

The 42 variables associated to quality management practices were reduced into a new set of salient variables by the factor analysis. Factors with eigenvalues greater than 1.0 are retained. Inspection of scree plot and eigenvalues enabled the analysis to reduce the 42 quality management variables into 11 factors. The factors and corresponding quality management practices are shown in Table II.

Variables	n	%	Variables	n	%
Certification Date			**Certification Time**		
1998-2000	0	0.0	Less Than 1 Year	0	0.0
2001-2003	0	0.0	1-2 Year	0	0.0
2004-2006	0	0.0	2-3 Year	0	0.0
No certification	38	100.0	More Than 3 Years	0	0.0
Missing Answer	0	0	No Certificate	38	100.0
Total	**38**	**100.0**	Missing Answer	0	0.0
			Total	**38**	**100.0**
Variables	n	%	Variables	n	%
Quality Certificate			ISO 9000 Guarantees quality		
ISO 9001	0	0.0			
ISO 9002	0	0.0	Yes	34	89.5
ISO 9003	0	0.0	No	4	10.5
ISO 14000	0	0.0	Missing Answer	0	0
No certificate owned	38	100.0	**Total**	**38**	**100**
Total	**38**	**100.0**			
Variables	n	%	Variables	n	%

Table I: General Profile of the Responding Firms

FACTOR	QUALITY MANAGEMENT PRACTICES
Factor 1	MPQ6 (0.805) I always incorporate quality factors in my product/service design
	CS1 (0.731) I collect data to monitor changes in my customer satisfaction
	CS2 (0.737) I systematically ask a customer what they expect in my product/service
	CS3 (0.848) I systematically ask my customers if they are satisfied with the product/service they purchased from me
	CS5 (0.725) I look for the cause when I lose a customer
Factor 2	SP3 (-0.913) My strategic plan is linked to quality values
	HR4 (0.665) I reward staff who help improve my product and service quality

	QR2 (0.693) If we implement a new business/operational procedure, we collect and monitor information to determine the extent to which it is better that the previous procedure
	QR4 (0.672) I can document the financial performance of my business compared to otherbusinesses in the same industry
Factor 3	In1 (0.613) I carefully collect data on all facets of my business
	MPQ1 (0.771) I continually make improvements in my products and services
	MPQ2 (0.672) In the past year I have introduced at least one new product/service to my customers
	MPQ3 (0.790) I have improved at least one feature of my product/service in the past year
	MPQ4 (0.801) I monitor all production processes and introduce continuous improvement whenever possible
Factor 4	L3 (0.750) I enforce total quality commitment to all my staff in all operations
	SP2 (0.770) My business has clear quality goals
Factor 5	SP1 (0.874) I do regular strategic planning
	QR1 (0.615) I can document the technical quality of my product/service as compared to other competitors
Factor 6	HR3 (0.738) I encourage personal growth of my staff
	HR5 (0.706) Each member in my business is encouraged to develop new ways to do theirjob better
	HR6 (0.625) All staff in my business understand how their tasks fit into an overall plan of things
	HR7 (0.686) I ensure that all my staff are focused on continuous improvement effort in all areas
Factor 7	Bus1 (0.884) The profitability of my business has increased in the past three years primarily due to our quality consciousness
Factor 8	L5 (-0.803) I am trained in total quality management
	MPQ5 (0.666) I use statistical control to monitor my production processes
Factor 9	L1 (0.615) I personally conduct regular reviews of quality performance on my product/service
	In3 (0.781) Key performance figures are always available to my managers for decision making
Factor 10	L4 (0.779) I give quality issues top priority as criteria when making decisions
Factor 11	HR8 (0.767) All my staff receive appropriate training and are able to do more than one task

Table II. Quality Management Practices and Corresponding Factors

According to the rotated component matrix and the table Quality Management Practices Corresponding Factors (Table II) the factors were formalized as follows:

Factor 1: Customer Satisfaction

As shown in Table II the most frequent components are piled up under the customer satisfaction topic. Also the highest loading is given to CS4 (refer to Table II.), which indicates that the employees in the banking sector systematically ask their customers if they are satisfied with the product/service they have purchased from them. On the other hand the second highest loading was given to the component related with the management process quality and states that they always incorporate quality factors in their product/service design.

Factor 2: Quality Results

The highest loading is given to the statement "if we implement a new business/operational procedure, we collect and monitor information to determine the extent to which it is better than the previous procedure". The interesting point with this factor is that there is a negative loading, which refers to an adverse relationship with the factor. That is while taking care of the quality results the strategic planning is not linked to it.

Factor 3: Management Process Quality

The third factor is related with the management process quality as four highest loading s where given under this topic. The highest loading is stating that the respondents monitor all production processes and introduce continuous improvement whenever possible.

Factor 4: Strategic Planning and Leadership

This factor has only two components, where one is related to strategic planning and is the highest load. The second one is related with leadership. The components of this factor state that their business has quality goals plus they enforce total quality commitment to all the staff in all operations.

Factor 5: Strategic Planning and Quality Results

The fifth factor also mentions about strategic planning but this time it is supporting the quality results.

Factor 6: Human Resources

This factor states that they encourage personal growth of the staff, each employee is encouraged to develop new ways to do their job better, all staff understand how their tasks fit into an overall plan of things, they ensure that all staff are focused on continuous improvement effort in all areas.

Factor 7: Business Outcome Comparative

The seventh important factor is related with the business outcome comparative. There is only one component included in this factor, which is stating that the profitability of the business has increased in the past three years primarily due to their quality consciousness.

Factor 8: Leadership

In the eighth factor the leaders point out that they are trained for total quality but there is no evidence for that training.

Factor 9: Information Analysis:

The information analysis is mentioned in the ninth factor where it is clear that this topic is supported by the leadership. As the components included in this factor are "I personally conduct regular reviews of quality performance on my product/service" and "key performance figures are always available to my managers for decision making".

Factor 10: Leadership2

This factor is supporting Factor 8. There is only one component listed in this factor. The factor stresses on that they give quality issues top priority as criteria when making decisions.

Factor 11: Human Resources 2

This is a support to Factor 6. Similar to Factor 10 this factor also has only one component listed which infer that all their staff receive appropriate training and are able to do more than one task.

3.2 Multiple Regression Analysis

Multiple regression analysis was used to figure out the relationship between implementation of quality management practices and believing that ISO 9000 certification guarantees the quality of the product or service supplied. So the dependent variable used in this analysis is the idea that ISO certification guarantee's quality and the independent variables are the resulting factors.

The hypothesis tested in this paper is listed and analyzed as follows:

Hypothesis 1:

H_0: There is no relationship between implementation of quality management practices and believing that ISO 9000 certification guarantees the quality of the product or service supplied.

H_1: There is a relationship between implementation of quality management practices and believing that ISO 9000 certification guarantees the quality of the product or service supplied.

Hypothesis 2:

H_0: There is no relationship between implementation of quality management practices and ISO 9000 certification.

H_1: There is a relationship between implementation of quality management practices and ISO 9000 certification.

3.2.1 Evaluation of Hypothesis 1:

According to Table III (ANOVA table)) the significance value (0.068) is slightly greater than 0.05, which means that the independent variables (factors) do not explain the total variation very well according to the dependent variable (belief in ISO guaranteeing quality).

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.650	11	.150	2.022	.068[a]
	Residual	1.929	26	7.419E-02		
	Total	3.579	37			

a. Predictors: (Constant), REGR factor score 11 for analysis   1 , REGR factor score 10 for analysis   1 , REGR factor score 9 for analysis   1 , REGR factor score 8 for analysis   1 , REGR factor score 7 for analysis   1 , REGR factor score 6 for analysis   1 , REGR factor score 5 for analysis   1 , REGR factor score 4 for analysis   1 , REGR factor score 3 for analysis   1 , REGR factor score 2 for analysis   1 , REGR factor score 1 for analysis   1

b. Dependent Variable: beleif in ISO

Table III: ANOVA Table for banks' belief in ISO certificate guaranteeing quality.

According to the coefficients table shown in Table IV, factor 5, factor 9 has a t-value greater than +2 and factor 8 has a t-value greater than –2. Factor 5 relates to strategic planning and quality results, which infer that they do strategic planning, and they do compare their quality results with their competitors. Factor 9 is related with information analysis and it states that they regularly review quality performance of their

service. On the other hand factor 8 is related with leadership, which indicates that they are trained for total quality management. These three factors are contributing to the 11.946% variance totally.

The estimated regression equation for banks believing in ISO certificate guaranteeing quality is:

Belief in ISO= 1.105+ (0.111F5-9.12E-02F8+0.119F9)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.105	.044		25.015	.000
	REGR factor score 1 for analysis 1	4.927E-02	.045	.158	1.100	.281
	REGR factor score 2 for analysis 1	1.724E-02	.045	.055	.385	.703
	REGR factor score 3 for analysis 1	5.935E-02	.045	.191	1.325	.197
	REGR factor score 4 for analysis 1	-4.97E-02	.045	-.160	-1.110	.277
	REGR factor score 5 for analysis 1	.111	.045	.355	2.469	.020
	REGR factor score 6 for analysis 1	-5.77E-03	.045	-.019	-.129	.898
	REGR factor score 7 for analysis 1	-1.66E-02	.045	-.053	-.371	.714
	REGR factor score 8 for analysis 1	-9.12E-02	.045	-.293	-2.036	.052
	REGR factor score 9 for analysis 1	.119	.045	.382	2.656	.013
	REGR factor score 10 for analysis 1	-2.87E-02	.045	-.092	-.640	.528
	REGR factor score 11 for analysis 1	8.746E-03	.045	.028	.195	.847

a. Dependent Variable: beleif in ISO

Table IV: Coefficients table for banks belief in ISO certificate guaranteeing quality.

3.2.2 Evaluation of Hypothesis 2:

The second hypothesis was tested by using multiple regression analysis but unfortunately as there is no bank certified by ISO the test was deleted and the statistics could not be computed.

IV. CONCLUSION AND IMPLICATION FOR FURTHER RESEARCH

The aim of this paper was to explore the best practice for Kazakhstan Banking industry. In order to follow the aim three important questions were analyzed. These were to determine which quality management practices determine the bank's quality strategy, to figure out the relationship between implementation of quality management practices and believing that ISO 9000 certification guarantees the quality of the product or service supplied and to find the relationship between implementation of quality management practices and ISO 9000 certification.

The first question was answered by using the factor analysis. Factor analysis reduced the 42 quality management practices into 11 important factors, which were used to determine which quality management practices determine the bank's quality strategy. Customer satisfaction was the first and most important factor and Human resources and leadership the least. This was not a common result

in quality management. As it is clear that leadership should be in highest priority.

The second and third questions were answered by the multiple regression analysis. Two hypotheses were used to evaluate each relationship stated in the paper.

The first evaluation from multiple regression analysis identified that application of the quality management practices slightly depend on the belief of ISO certificate guaranteeing quality. There were three factors, which were found to have relation with this belief. These factors were strategic planning and quality results, leadership and information analysis. The rest had no relationship, where this was not that surprising as none of the banks had the ISO certificate which means that they are not aware of its advantages.

The last question unfortunately could not be tested, as there is no bank certified by ISO the test was deleted and the statistics could not be computed. That is why this paper could not answer whether if there is a relationship with ISO certificate and application of quality management practices.

According to the findings above there could only be a recommendation to the banks in Kazakhstan should at least start to learn about quality by getting the appropriate ISO 9000 certificate. This will be the first step for understanding, learning and meeting the term

quality. Even though customer satisfaction was found to be the most explained factor still it had no relationship with application of quality management practices. Another interesting finding was that leadership factor was listed down below the list of factors as it can be said that leadership is not also well defined and supportive in this industry. For any company to compete in the world market they should at least have the initial process of quality. So this paper recommends the banking industry to at least start climbing the quality steps to satisfy the external and internal customers with the help of ISO certificate.

Regarding implication for further research the findings can be compared with other world banks that are certified and see if there is any difference between each type.

V. REFERENCE LIST

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