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## Impact of Total Quality Management on Innovation in Service Organizations: Literature review and New Conceptual Framework

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### Abstract

Purpose of this paper is to review the literature on the relationship between total quality management TQM and innovation in services organization, and to develop a research conceptual framework on this relationship. The most recent studies investigated the TQM-innovation relationship and involved service industries in its scope have been reviewed. A discussion on the TQM practices in service organization is presented and conceptual framework and model are proposed.

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*Keywords:* TQM, innovation, relationship, service organization.

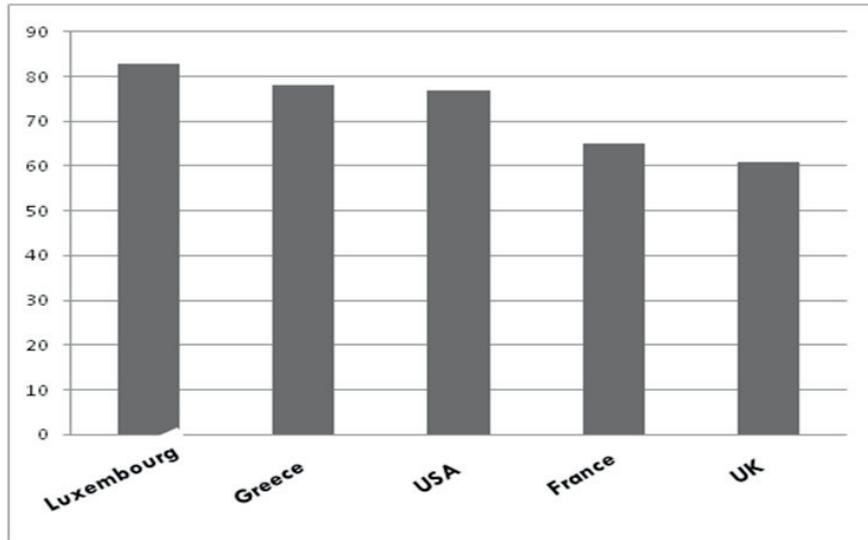
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### 1. Introduction

Importance of services industry is significantly increasing in local and international economics. During the last two decades contribution of the service industry to the Gross Domestic Product GDP has been a significantly increasing. According to Directorate for Science, Technology and Industry (STI, 2008) of the Organization for Economic Co-operation and Development (OECD), by 2008 service industry allocated in some countries more than 70 percent of GDP (e.g. Luxembourg 82%, Greece 78%, and USA 77%) (STI, 2008), see figure 1. The increase of competition in local and global markets determined the importance of service innovation as a key source supports firms' growth and development. STI OECD stated "*the importance of service innovation is well-established but many firms are seeking new ways to develop the type of service innovation necessary for success in global value chains.*"

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Source: STI, OECD (2008), *R&D and innovation in services*

Fig. 1. GDP, services as percentage of total industry, 2008.

Similar to OECD countries, services industry and services business in none OECD countries have vital and crucial role in the local economics. Taking Malaysia as an example, in 2009 the Malaysian services industry contribution was 55% of GDP. It has the largest share of GDP and faster growth rate Malaysian Investment Development Authority MIDA, (Malaysian investment performance report, 2011). In 2011, the contribution of services industry increased to be 58.6% of the GDP with growth rate of 6.8 percent and accommodated employment of 6.5 million persons which is 53.3% of total employment in 2011 (Malaysian investment performance report, 2011).

Such a huge economic activity by the service industry involves countless number of organizations, enterprises and firms. For example health care, transportation, education, government service, hotels and restaurants, telecommunication, financial services, social and personal services, retail and wholesale organizations. To compete well and increase their competitive advantage, these organizations need to be providing high quality and innovative services. Implementation of a Total Quality Management (TQM) system enhances the innovation process in organizations due to TQM elements such as continual improvement or customer focus (Baldwin & Johnson, 1996; Flynn, Schroeder, & Sakakibara, 1994, 1995).

Both TQM and innovation have the same purposes and importance in organizations performance, especially in service industry. Both of them seek to integrate organization objectives and functions to satisfy the customers and increase competitive advantage (Kaynak, 2003). They involve all employees within an organization to be apart from the management process and business process. Furthermore, both provide a continual improvement and sustaining development (Oke, 2007; Singh & Smith, 2004; Talib, Rahman, & Qureshi, 2012). Continuous improvement, achieving customer satisfaction and open culture are main shared goals of TQM and innovation (Kaynak, 2003; Kim, Kumar, & Kumar, 2012; D. Prajogo & Sohal, 2003). Thus relationship between TQM and innovation can determines the organization performance and its development.

In the new context of economics and business excellence, TQM and Innovation became core elements in founding and increasing competitive advantage (Abrunhosa & Moura E Sá, 2008; Hurmelinna-Laukkanen, Sainio, & Jauhiainen, 2008; Mushtaq, Peng, & Lin, 2011). TQM and innovation have vital role on service business success. Importance of the relationship between TQM practices and innovation emerges from the importance of TQM and innovation in creating and strengthening competitive. Besides, both of them affect customer satisfaction which is top targeted goal of service organizations' business (Mushtaq, et al., 2011; Pekovic & Galia, 2009).

The need for quality and innovation in services organizations became vital for their business excellence and to compete through strengthen their competitive advantage (Juneja, Ahmad, & Kumar, 2011; Karani & Bichanga, 2012). This has driven and motivated many researchers to conduct studies in the relationship between TQM practices and innovation. The existing literature has provided fresh views and various approaches from different prospective into TQM practice-innovation

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