



**ADDIS ABABA UNIVERSITY  
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**The Effect of Total Quality Management on Organizational  
Effectiveness: The Case of Nile Insurance Company S.C**

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**The Effect of Total Quality Management on Organizational Effectiveness: The Case of Nile Insurance Company S.C**

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## **DECLARATION**

I, the undersigned, declare that this thesis entitled “Total Quality Management Practice on the Organizational Effectiveness: The case of Nile Insurance Company S.C”, is my original work and has not been presented for a Master’s Degree in any other university or organization, and that all sources of materials used for the thesis have been duly acknowledged.

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## **Abstract**

*Over the last few decades, many studies have reported on the implementation of total quality management (TQM) principles and methods in organizations around the world. However, there have been only a few attempts to empirically establish the link between TQM practices and organizational effectiveness in the Insurance sector, especially in Ethiopia. The paper's aim is to determine how the Total Quality Management practices affect an overall effectiveness of Nile insurance company. The study type is descriptive and explanatory and in line with this both qualitative and quantitative methods were employed. The data has been taken from a sample of 100 employees from selected branches including the head office in Addis Ababa. The data is analysed by using a structural equation modelling methodology. The results indicate that the level of awareness regarding TQM practices and the role found at moderate level. Concerning the dimensions of TQM practises, strategic planning effectiveness and customer orientation found to be in low category whereas dimension to communication, leadership and employee's involvement were in moderate category. Consequently, an overall dimension of TQM practices endeavoured categorized under moderate category. As the descriptive findings indicate that all TQM Practices (Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership) are found to have significant and positive association with both employee's satisfaction and profitability. As the regression finding depicted, except communication other four namely strategic planning, employee's involvement, customer orientation and leadership are found to be significant in employee's satisfaction. On the other hand, except employee's involvement, all variables were significant concerning about company's profitability. Therefore, organizational effectiveness has been positively impacted by TQM practices. Finally, appropriate remedial measures/recommendations have been forwarded for identified gaps such as communication, employee's involvement, strategic planning as well as related to information technology usage, rewarding mechanisms and on job trainings.*

*Keywords: Total Quality Management Practice, Organizational Effectiveness, Nile Insurance Company Share Company*

## Acronyms

BPR:	Business Process Re-Engineering
COQ:	Cost of quality
JIT:	Just-In-Time strategies
KII:	Key informant interview
OE:	Organizational effectiveness
PLC:	Private Limited Company
ROA:	Return on asset
ROE:	Return on equity
ROIC:	Return on invested capital
SPSS:	Statistical Package for Social Studies
TQM:	Total Quality Management

## **CHAPTER ONE: INTRODUCTION**

### **1.1. Background of the Study**

Regarding historical background, total quality origins can be drawn back almost eighty (80) years to the first use of statistical tools to improve the quality of manufactured products partly in the USA and partly in Japan as well. Chen and Wong (2004) emanated that it was primarily adopted by some Japanese companies in the decades immediately after World War II with the greater successes of Japanese companies during the 1980s. In line with this, with the blossoming of the public sector in almost every economy, quality imperative is no longer the sole concern of manufacturing. As a result, any service organizations are facing the same ground realities as those that confronted their manufacturing counterparts in the past. This led to quality moving from its manufacturing origins into public organizations (Naveed et al., 2011).

Fulfilling customers' need satisfaction is expected from organizations that engaged in the production of goods and services (Hamdan, 2008). Business organizations that produce poor quality goods are at the risk of consumer loyalty loss. Despite the capital outlay input in an organization, if the employees are not empowered to correct quality inadequacies or are not trained enough for effective and efficient productive output, companies' competitiveness and share in the world market would remain in skeptical conditions (Belayneh, 2011).

According to Naveed et al., 2011, consistent processes of enhancement in the activities of an organization and in the quality of the products and services, which are the productions of those processes, are the bases for the concept of TQM. Professional who advocates quality have proposed several principles for successful TQM practices, namely process improvement, benchmarking, zero-defects, customer focus, supplier relationship, quality measurement, employee focus, top management commitment as well as quality- oriented training (Naveed et al., 2011).

The core TQM principles are mainly focuses on capacity building of employees in relation to the main statistical techniques and problem-solving. Unlike machines which depreciate over time, employees should be considered as an asset which escalates in value in training. Ana and Ghiorghe (2014) accepted this fact when they wrote that in Japan, TQM produced among others managerial innovations as quality circles, equity circles,

supplier partnerships, cellular manufacturing, quick production and effective planning strategies. These TQM principles were found to be employed in various fields of human endeavor for effective implementation of any objective (Ana and Ghiorghe, 2014).

Recently, different firms across the globe have been followed the way of rapidly changing business environment. To bear new global challenges some business has adopted new philosophies (Adam et al., 1997). According to Prajogo and Sohal (2006), the practical and theoretical sphere of organizational effectiveness has attracted special attention of many scholars. Beyond the domain of the TQM literature, there are several fields, which have contributed to the development of current knowledge, namely organizational theory, strategic management, project management, production & operation management and finance. However, we can see, most of these fields have been studied separately, which has resulted in fragmented and disputed findings. Organizational effectiveness (OE) is one of the most extensively researched topics from the early phase of development of organizational theory. Organizational effectiveness & performance measurement is integral part of all management processes and traditionally has involved management accountants through the use of budgetary control and the development of financial indicators such as return on investment.

Scaling up in different areas of productivity is the main goals of organizations. For organizations to successfully attain their growth objectives products must be well planned and their quality must be ensured to meet up with the needs of consumers. Effective satisfaction on the needs of final consumers is total quality management approach to ensure that the service and/or product (Naveed et.al. 2011).

The kind of insurance offered in Ethiopia is limited that makes the sector an early stage of development. Reinsurance and auxiliary services, such as actuaries, are hardly available in Ethiopia. Besides, insurance companies have limited capacities in premium setting is based on outdated methods. Capacity limitations are also affecting regulation of the sector with insurance supervision being largely ineffective.

Nile Insurance Company (S.C) is one of the pioneer private insurance companies in Ethiopia. According to its annual magazine (2015), the company was established in April 1995 with a capital of birr 12.5 million. Over the past 20 years, the subscribed capital of the company has grown to birr 200 million, out of which birr 157 million is

paid up. And it has 36 branches throughout the country with more than 28,500 customers. Now days, the total asset of the company is 650 million (Nile Insurance Annual Report, 2015). To this end, the researcher has inspired to investigate the effectiveness of TQM practices on satisfaction and profitability in relation to the performance of the company.

## 1.2. Statement of the Problem

Currently, as Das et al. (2006) discusses, the focus of companies, due to competition in global market, is to study and analyses the leading examples of quality. Significance of improvement and excellence is the key factor identified for success. According to the study by Wu, et al., (2007), one of the determinants of success of a firm is how the customers perceive the resulting service quality provided. It is the perceived value which determines organizational effectiveness. Thus, the concept of Total Quality Management (TQM) is the dynamic factor behind the changes taking place within any organization.

In addition to this, effective TQM implementations improve organizational effectiveness, long-term profitability and financial returns. Similarly, higher intensity of TQM implementations results in enhanced quality activities (Das et al., 2006). In this regard, it is clear that TQM acts as a platform for any service sector to enhance their competitiveness. Regardless of this, still many organizations have been dissatisfied in the extent to which TQM has been associated with constant improvements in organizational effectiveness.

These days, there are increasing developments of different sectors throughout the world, insurance companies are the one that play significant role in the economy and its services are now being integrated into wider financial industry. Insurance companies (both private and public) consisting the organizations which provides life, fire, accident, causality and many other forms of insurance. The main objective of all insurance companies is maximizing their profit because one goal of financial management is to maximize the owner`s wealth and profitability is very important determinants of performance (Ngoyen, 2006; Hailu (2007). Though it is affected with firm-specific factors, external factors too play crucial role in influencing insurance companies` profitability. Therefore, it is essential to identify what are these factors and how they help insurance companies to take actions that will increase their profitability and investors to forecast the profitability of

insurance companies. Therefore, the attainment of organizational goals without the considerations of the satisfaction and interests of employees' is not accomplished.

In Ethiopian context, insurance companies which characterized by a limited market and the prevailing identical service delivery could be challenging to maintain and attract new customers. Accordingly, customers usually complain about efficiency and lack of service quality in the insurance sector and this made the researcher to be interested on the issue. Moreover, Hailu (2007) discussed that the government policy unfairly favored to the only state owned insurance company and challenging to other companies to be competent enough in the sector.

According to Hailu (2007) and Belayneh (2011), the quality of insurance services in Ethiopia is not satisfactory. In connection to this, the most significant and usually observed hindrances that affect organizational performance of the Insurance sector are unavailability of spare parts, shortage of hard currency, reliability of police report and no practice of actuary. In line with this, to get advantage in competitive market, the impact of total service quality management would be so important. Therefore, this motivates the researcher to investigate the impact of total quality management practices on organizational effectiveness, in this case on profitability and employee's satisfaction of Nile Insurance Company Share Company.

### 1.3. Research Questions

- To what extent employees are aware of TQM practices endeavored and their role in organizational profitability and employee's satisfaction in Nile Insurance Company?
- To what extent TQM practices are implemented in Nile Insurance Company Share Company?
- What is the relationship between TQM practices with employee's satisfaction and organizational profitability?
- What are the impacts of TQM practices on employee's satisfaction and organizational profitability in Nile Insurance Company Share Company?

### 1.4. Hypothesis

H1= TQM practices have an impact on employee's satisfaction

H2= TQM practices have an impact on organizational profitability

## 1.5. Major Objective

The major objective of the study is to determine the Effect of Total Quality Management on Organizational Effectiveness, the Case of Nile Insurance Company S.C.

### 1.5.1. Specific Objectives

In order to achieve the aim of the study, the following specific objectives of the study are developed:

- Examine employee's awareness of TQM practices endeavored and their role on organizational effectiveness (employee's satisfaction and profitability) in Nile Insurance Company S.C
- Examine the extent of which practices of TQM that are implemented in Nile Insurance Company Share Company
- To examine the relationship between TQM practices, and organizational profitability and employee's satisfaction
- Determine the effect of TQM practices on employee's satisfaction and organizational profitability

## 1.6. Scope of the Research

This study has intended to focus on the impact of total quality management practices on organizational effectiveness (profitability and employee's satisfaction) with particular reference to Nile Insurance Company Share Company. The goal is not only to enhance customer satisfaction but also to manage the business effectively. This study has applied five principles of total quality management to assess the extent to which TQM has been implemented and its effect on overall Insurances' performance.

The research is conducted in Addis Ababa; head office and selected branch offices in the city. A sample of senior level managers, branch managers, senior officers and underwriters have involved in the study.

## 1.7. Significance of the Study

This study has examined the impact of TQM practices on effectiveness in Nile Insurance Share Company. In this regard, the study is significant to yield to data and information that are useful to insurance sector management in assisting them on implementing quality

management. In line with that, the top management will be able to elucidate implementation of quality management in all levels and activities.

The study will also assist in policy formulation, revision and implementation towards quality management. In addition, the study will enable other sectors to understand the concept of quality management to improve their services. The research findings will also seek to extend knowledge in the world of academics in the same area of the study and will be useful as literature in the area of study. Generally, it will benefit other researchers and academicians who will borrow ideas from the study which will be served as a basis for further research.

### 1.8. Limitation of the Study

While conducting this research, the researcher has encountered some limitation with respect to the accessibility of data, time and financial constraints. In addition, lack of similar research papers in the specific area is also one of the limitations observed in course of undertaking the research.

### 1.9. Organization of the Study

The study is organized into five chapters. Chapter one addresses the introduction part of the study. This chapter discusses in detail about the background of the study, statement of the problem, research questions, objectives of the study, scope of the study, limitation of the study, significance of the study and organization of the study. The second chapter deals with review of related literature. This has a theoretical framework on which the study is based. It also reviews different literature in the areas of TQM. Chapter 3 is deals with methodology of the study. It explains the research type adopted, sampling methods, tools used for data collection and methods of data analysis. Presentation and discussion of research findings are included in chapter 4 of the paper. Finally, the last chapter discusses about summary, conclusions and recommendations of the study.

### 1.10. Definition of Terms

- Quality: the standard of something as measured against other things of a similar kind; the degree of excellence of something.



- Total Quality Management: is a business approach that seeks to improve quality and performance which will meet or exceed customer expectations.
- Employee's satisfaction: quite simply, how content or satisfied employees are with their jobs.
- Profitability: is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company's capability of high performance.
- Organizational Effectiveness: is the concept of how effective an organization is in achieving the outcomes the organization intends to produce.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1. Theoretical Review

#### 2.1.1. Concept and Definition of TQM

Total quality management is a technique that facilitates the efforts of improving the product or service quality (Powell, T.C, 1995). The main focus of TQM is mostly is on refining the quality of an organization products and services. It is also emphasis on the overall activities of an organization to achieve its objectives that requires the whole organization-wide participation and commitment to TQM. Similarly, the active participation and collaboration of managers at different levels of the organization is necessary for the fulfillment of different goals (Bayazit and Karpak, 2007).

“TQM is a management philosophy that focuses on the processes of integrating all organizational functions that includes marketing, finance, design, engineering, and production, customer service, to focus on meeting customer needs and organizational objectives as well” (www.isixsigma.com). It views an organization as a collection of processes in all levels. The use of workers’ knowledge and experience is crucial for the continuous improvement of the processes in the organization (Boone, et al., 1995).

TQM has been defined, with various theories and principles, by different scholars in different ways. Among many some of them are the following.

- Kanji (1990): “the constant way of being committed to continuous improvement to satisfy customers’ needs”.
- Besterfield, Besterfield- Michna, and Besterfield (2003): “TQM as philosophy and principles aim to ground the continuous improvement process in an organization”.
- Wolkins (1996): “TQM as a mixture of different managerial techniques and technical tools focused on continuous improvement of organization”.
- Ahire and Ravichandran (2001): “TQM as a philosophy of management that in quest of improving process and product quality that leads to customer satisfaction”.
- Dean and Bowen (1994): “TQM as management philosophy characterized by techniques, principles, and practices”.

- Steingrad and Fitzgibbons (1993): “TQM from the approach of manufacturing and production. Their definition describes TQM as procedures and techniques aim to reduce defects of a production process/service delivery”.

As mentioned above and many other definitions provided, an author called Kanji, G. and Moura S (2002) has summarized and argued that TQM definitions have five major approaches: (i) product-based approach; (ii) marketing, and operations management approach; (iii) manufacturing-based approach and (iv) operation management value-based approach.

### 2.1.2. Theories and Principles of TQM

Since 1950 the development of total quality management is credited mainly to the works of various American experts such as Edward Deming, Joseph Juran and Philip Crosby (Ortiz, J.P. et al., 2006).

Deming’s Theory: Deming identified fourteen points of management in his theory of Total Quality Management. He also developed a system of “profound knowledge” which consists of the following four points (Ortiz, J.P. et al., 2006)

- System Appreciation - an understanding of the method a company’s procedures and structures work;
- Variation Knowledge - an understanding of the variation happening and the causes of the Difference;
- Knowledge Theory - the understanding of what can be known;
- Psychology Knowledge - the understanding of human nature from the above points of view;

Furthermore, Deming has forwarded the 14 management principles that facilitate the role of managers to enhance the quality of organizations. While Deming’s principles were stressing on the internal role of the organization was more interested on the customer’s point of view of products’ fitness for use or purpose. A product can satisfy with all the Deming’s specifications and still not be appropriate for use or purpose (Ortiz, J.P. et al., 2006).

Deming's 14 management principles are:

- Create constancy of purpose
- The new philosophy
- Cease dependence on inspection
- End 'lowest tender' contract
- Continually seek out problems
- Institute training on the job
- Institute supervision
- Drive out fear
- Break down barriers
- Eliminate exhortations
- Eliminate targets
- Permit pride of workmanship
- Institute education
- The transformation is everyone's job

Juran's Theory: Joseph Juran is forwarded for what has become known as the "Quality Trilogy." The quality trilogy is made up of quality planning, quality improvement, and quality control. If a quality improvement project is to be successful, then all quality improvement actions must be carefully planned out and controlled. Juran's 10 Quality improvement steps are the following:

- Create awareness of the need and opportunity for improvement
- Set goals for improvement
- Organize to reach the goals (establish a quality council, identify problems, select projects, appoint teams, designate facilitators)
- Provide training
- Carry out projects to solve problems;
- Report progress
- Glaise recognition
- Communicate results
- Keep score

- Maintain momentum by making annual improvement part of the regular systems and processes of the company

Similarly, if both Deming and Juran were in favor of using statistical procedure control for the understanding of total quality management, Crosby (1982) on the other hand was not keen to accept quality which related to statistical procedures.

Crosby's Theory: According to Crosby, quality is conformance to requirement and can only be measured by the cost of non-conformance. Crosby provides four "absolutes" and 14 steps for the quality improvement process. The Crosby's four absolutes are follows:

- Quality is adherence to requirements
- Prevention is the best way to ensure quality
- Zero Defects (mistakes) is the performance standard for quality
- Quality is measured by the price of nonconformity

From the above, Crosby explained fourteen phases for steady rise in quality.

- Management commitment: to make it clear where management stands on quality
- Quality improvement team: to run the quality improvement process
- Measurement: to provide a display of current and potential nonconformance problems in a manner that permits objective
- Cost of quality: to define the ingredients of the cost of quality (COQ) and explain its use as a management tool
- Quality awareness: to provide a method of raising the personal concern felt by all employees toward the conformance of the product or service and the quality reputation of the company
- Corrective action: to provide a systematic method for resolving forever the problems which are identified through the previous action steps
- Zero defects: to examine the various activities that must be conducted in preparation for formally launching zero-defects day
- Employee education: to define the type of training all employees need in order actively to carry out their role in the quality improvement process
- Planning and zero-defects day: to create an event that will let all employees realize, through a personal experience, that there has been a change

- Goal setting: to turn pledges and commitments into action by encouraging individuals to establish improvement goals for themselves and their groups
- Error-cause removal: to give the individual employee a method of communicating to management the situations which make it difficult for the employee to meet the pledge improve
- Recognition: to appreciate those who participate
- Quality councils: to bring together the appropriate people to share quality management information on a regular
- It all over again: to emphasize that the quality improvement process is continuous.

## 2.2. Empirical Review

### 2.2.1. Total Quality Principles

TQM practices have been investigated by different studies with regard to their criticality on business enactment and business reasonable benefits with developing frameworks involved various numbers of quantifiable TQM practices. In this regard, after intensive literature reviews the researcher has selected the following five assess the impact of TQM endeavor on performance of insurance industry.

#### Strategic planning

Customer-driven quality, according to the principles of TQM, is a significant strategic structural concern which is essentials to be fundamental of total organizational planning. Any organizations that provide quality services can charge more for products or services, with resulting high customer satisfaction. Data shows that improvement in product or service quality has a stronger relationship to increases in market share and customer satisfaction as well (Bayazit et al., 2007).

The vital emphasis areas of TQM are based on quality enactment in different activities of the organization. The Strategy begins with a decision, a decision that can only be made by top management, and that decision simply put, is a decision to compete as a world class organization (Curak, et al., 2011).

According to Curak (2011), TQM becomes part of the organization's strategy when "methods and goals are so widely deployed throughout the company that all its processes

are pointed in the same direction”. The concept of strategy is a plan that integrates an organization’s major goals, policies, and action sequence into a cohesive whole.

Consequently, the processes of integrating quality control with organizational strategy to ensure that quality efforts reflect the long-term goals of the organization are essential for the successes of an organization. Rooted in systems theory, TQM invokes the inescapable inter-relationship of all units of the organization. The focus of TQM is on the importance of cross-functional relationships. TQM has considerable influence, when the systems approach is considered, on all aspects of the organizational functioning, from human resources to organizational politics (Naveed et al., 2011).

### Communication

The TQM component of communication is one of the fundamental parts of all management functions. In order to lead, plan, organize, and control, managers have to communicate with their subordinates (Amal, Y., 2012). The term communication has a wide range of meanings. Bell and Marais define communication as “a two-way process by which certain information is conveyed or transmitted from a communication source to a receiver”. Lowe defines it as “a purposeful process, which involves sources, messages, channels, and receivers”. Davis and Goetsch state that “communication is the transfer of a message, information, idea, emotion, intent, feeling that is both received and understood”. The importance of communication becomes more visible than merely defining the term (Adler & Elmhorst, 1996).

The effectiveness of communication is measured by the degree to which that message is understood by others. However, by itself, communication is not necessarily effective communication. Effective communication means the message is received, understood, and acted on in a desired manner (Davis & Goetsch, 1994). This indicates that in a TQM environment may require persuasion, motivation, monitoring, and leadership on the part of managers for the existence of effective communication (Amal Y., 2012).

### Leadership

The concept of leadership incorporates different procedures and activities. As Yuqi L. (2007) “The application of the principle of leadership typically leads to: considering the needs of all interested parties including customers, owners, employees, suppliers, financiers, local communities and society as a whole; establishing a clear vision of the

organization's future; setting challenging goals and targets"; creating and sustaining shared values, fairness and ethical role models at all levels of the organization; establishing trust and eliminating fear; providing people with the required resources, training and freedom to act with responsibility and accountability; inspiring, encouraging and recognizing people's contributions (Evans, et al, 2008).

Members of upper management have to exhibit leadership by exercising unity of purpose. This can be implemented through appropriate quality policy, ensuring that measurable objectives are established, and demonstrating that they are fully committed to developing, sustaining and improving the quality management systems. Leadership of an organization has the capacity and authority to create and maintain the internal environment of an organization. The top management needs to establish a clear vision of the organizations future and probably set challenging goals and targets to achieve them. They should also provide the requisite resources including training and development of staff; inspire, encourage and reward people's contributions. The management must ensure that the quality management system is effectively implemented and maintained and they are responsible for ensuring that actions are taken without undue delay to eliminate and detect non-conformities (Hansan T., 2011).

#### Employee's Involvement

The participation of employees, according to Nair (2006), is required for the success of quality programs and this has achieved through using of work teams, looking for opportunities to raise the level of employee's competence, sharing information and experiences between the teams and groups and focusing on employee's motivation and loyalty. Research focused on the following quality enhancement activities such as: education, employee suggestions, employee commitment, training and teamwork (Ebrahimi & Sadeghi, 2013).

#### Customer Orientation

Satisfying customer is crucial to TQM in different business activities throughout the world. It is expressed by the organizational attempt to design and deliver products and services that fulfill customer needs. The rationale for this principle is the belief that customer satisfaction is the most important requirement for long-term organizational success. In other words, to realize this satisfaction, it requires that the entire organization should focus on customer needs (Ebrahimi et.al. 2013).



Business performance of the organization is highly influenced by customer satisfaction. The needs of the customer are the major driving thrust; not just the external customer (in receipt of the final product or service) but the internal customer's (colleagues who receive and supply goods, services or information). Perfect service with zero defects in all that is acceptable at either internal or external levels. Too frequently, in practice, TQM implementations focus entirely on the external customer to the exclusion of internal relationships; they will not survive in the short term unless they foster the mutual respect necessary to preserve morale and employee participation (Evans et.al. 2008).

### 2.2.2. TQM and Organizational Effectiveness

The successes of business sector in general and any firm in particular plays the role of increasing the market value of that specific firm coupled with the role of leading towards the growth of the whole industry. This ultimately leads to the overall success of the economy at large. Measuring the performance of financial institutions has gained the relevance in the corporate finance literature because as intermediaries, these companies in the sector are not only providing the mechanism of saving money and transferring risk, but also helps to channel funds in an appropriate way from surplus economic units to deficit economic units so as to support the investment activities in the economy (Agus et al., 2009).

Applying TQM has an influence on organizational activities and customer's satisfaction. In recent years, organizational effectiveness in the practical and theoretical spheres has attracted special attention. Organizational effectiveness & Performance measurement are integral part of all management processes and traditionally has involved management accountants through the use of budgetary control and the development of financial indicators such as return on investment and employees satisfaction as well. Furthermore, the satisfaction of customers has been based on the quality the service provided by an organization (Adams et al., 2000).

The applications of TQM principles on customers' satisfaction as well as organizational effectiveness (profitability and satisfaction) there are a statistically significant impact of. TQM as a platform for organizations, the research found to enhance organizational competitiveness; still many organizations have been disappointed in the extent to which TQM has been associated with constant improvements in organizational effectiveness.

Customer focus, leadership and employee's involvement and continuous improvement are crucial, according different studies, the accomplishment of excellent organizational performance (Forbes et al., 2011).

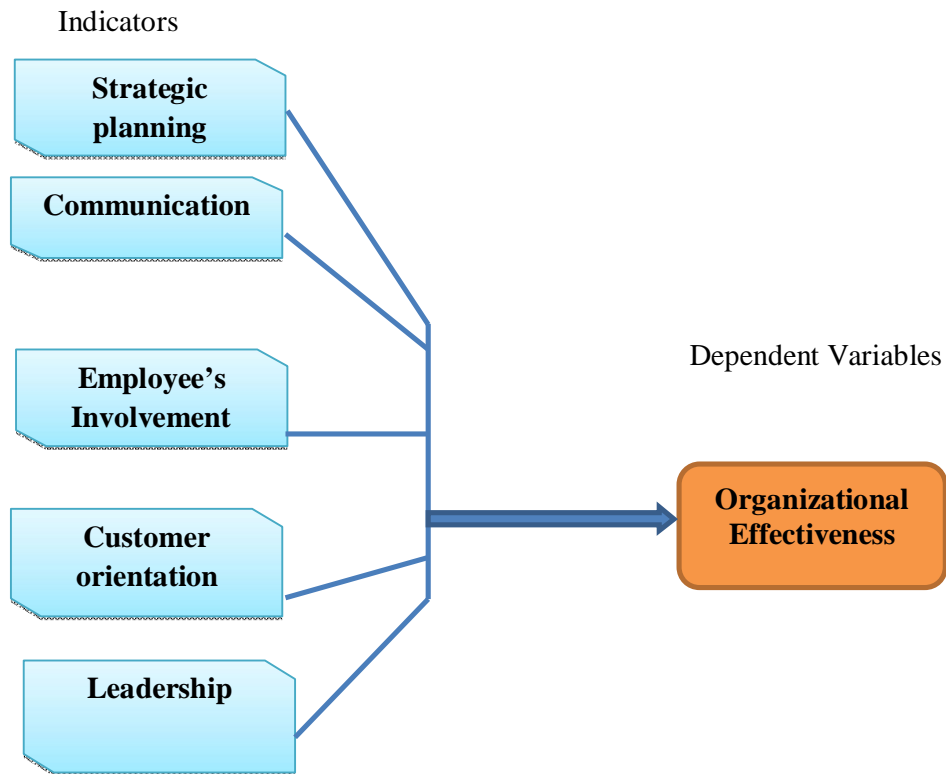
### 2.2.3. Company's Profitability and Employees Satisfaction

The profitability of an organizational is mostly determined by employee's commitment and satisfaction that basically acquiring from enabling organizational environment. The term profit can take either its economic meaning or accounting concept which shows the excess of income over expenditure viewed during a specified period of time. Koller (2011) argued that profitability is the most important and reliable indicator as it gives a broad indicator of the ability of an insurance company to raise its income level. The activities and contribution of employees are indispensable for the successful performances of organizations.

According to Hamdan, (2008), profitability is measured in different ways to measure including: return on asset (ROA), return on equity (ROE), and return on invested capital (ROIC). ROA is an indicator of how profitable a company is relative to its total assets. Whereas ROE measures a company's profitability which reveals how much profit a company generates with the money shareholders have invested ROIC is a measure used to asses a company's efficiency in allocating the capital under its control in profitable investments. This measure gives a sense of how well a company is in using its money to generate returns. However, most researchers in the field of insurance and their profitability stated that the key indicator of a firm's profitability is ROA defined as the before tax profits divided by total assets (Hamdan, 2008). There is significant and negative relationship between loss ratio and leverage ratio and profitability. Hifza, (2011), examined the factors that mostly affect financial effectiveness of Jordanian Insurance Companies.

#### 2.2.4. Conceptual Framework

**Fig.1. Conceptual Framework developed based on previous literatures**



The conceptual framework has developed by the researcher based on theories and previous works in the area of the study. In this regard, theoretical and empirical studies have addressed very well about their relationship. Accordingly, the mentioned major TQM practices thought to have impacts on organizational effectiveness.

## **CHAPTER THREE: METHODOLOGY OF THE STUDY**

### **3.1. Research Design**

Research design shows the different phases of a research with the corresponding activities. This research is designed to investigate and explain the effects of total quality management implementation on organizational effectiveness in the insurance sector. The researcher used research design for descriptive and explanatory studies as for the description of particular variables. In line with this, both qualitative and quantitative methods were employed. A cross-sectional study design is conducted at Nile Insurance in Addis Ababa. It is a onetime data collection method among the selected sample of the study. This research design incorporates design research instrument- questionnaire and check list- and pilot testing; data collection; data presentation, analysis and discussion; conclusion; and recommendations.

### **3.2. Data Collection Methods and Research Instruments**

**Target Population:** The study populations were employees of Nile insurance company in Addis Ababa and the samples were selected. The selected sample of respondents are composed different parts of target population. In this regard, respondents were senior level managers, branch managers, underwriters, senior underwriter, surveyors, claim officers and business development officers.

**Sampling Design and Sample Size:** Sampling is the process of selecting a number of individuals for a study in such a way that the individual selected represents the large group from which they were selected (Mugenda & Mugenda, 2003). Since sampling technique determines the reliability of generalization and conclusion of the study; the researcher gave utmost attention to the study design and sample size. Accordingly, systematic sampling was employed to select branches from various areas in the city. The researcher has also employed stratified sampling method for employees, Nile Insurance, from different positions namely managers, underwriters and/or officers and senior officers. This enables to obtain adequate data from different levels and positions of the organization.

In relation to sample size determination, the researcher has followed scientific procedures and criteria. Mugenda and Mugenda (2003) states where time and

resources allow a big sample should be taken. This enables findings to be a true representative of the whole population. According to Kothari (2004) for the target population which is not large in number from 5%-10% of the total could be enough. Although there are more complex formulae, the general rule of thumb is that not less than 50 participants for a correlation or regression are required. Accordingly, 30% of the targeted population was therefore picked for the study.

In line with that, among 20 Nile insurance branches in addition to the head office in Addis Ababa, 30% of the staffs were selected randomly to collect the information through survey. As per the information obtained from the company, the total numbers of employees which were more familiar to the system and be able to understand the matter were 358. Out of those legible respondents, 30% (107) in which 58 males and 49 females were selected by employing systematic and random sampling method; though the analysis was relied on only valid questionnaires. In addition to this, as key informant 3 from managerial position and 3 non-managerial positions were participated in the interviews. Accordingly, from both survey and key informant interviews, a total of 113 respondents were involved in this study.

**Data Collection Methods and Techniques:** The researcher has considered two sources for data collection namely primary and secondary sources of data. Secondary sources by referring to prior researches, books, journals and the like. Beside to that, desk review has also been done. Regarding to primary sources, the researcher used the structured and self-administered questionnaire technique to collect data required for the research and the interview as well. In line with this, the main instrument in data collection was through questionnaires targeting employees of the insurance company. The respondents have been given adequate time to give well thought answers.

**Data Collection Instruments and Procedures:** The researcher used questionnaires as the primary data collection tool which was self-administered by the respondents. A questionnaire is a research tool that used to gather data over a large sample (Kombo et al., 2006). With the questionnaire, the information gathered from individual respondents remained confidential. It has the advantages for saving time and money. Thus, it enables researchers to cover large sample with short period of time. Prior to the actual data collection, the researcher liaised with the relevant authorities to allow the study to be carried out and conducted a pilot study to familiarize with the respondents. Furthermore,

so as to get detail information on some vital issues key informant interviews were conducted among selected interviewees.

Pilot Survey: In order to obtain the required information from informants, the identification of the informants has been done. The aim of pilot survey was to point out weakness in the questionnaire which was then reviewed and rectified. A pilot survey was done prior to the actual study in some branches. Questionnaires were administered to six selected employees. Thus, based on the feedbacks from the pilot study, the final instruments have been revised and used for the final stage of data collection.

### 3.3. Data Processing, Regression Model and Method of Analysis

The data collected from the field for the purpose of the study has been edited and coded for completeness and accuracy of information at the end of every field data collection day. The quantitative data and descriptive statistics were analyzed by the use of statistical package for social scientists (SPSS) and results have been reported in the tables showing percentages, frequency distributions, mean and standard deviation. Beside to this, multivariate analysis has fitted. Accordingly, ANOVA analysis in order to find out the connection between independent variables and dependent variables of the study has been done.

The best fitted model selected, for the purposes of fulfilling the objectives of the study, is Multiple Regression Model. Multiple regression attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable  $x$  is associated with a value of the dependent variable  $y$ . The multiple regression formulas adopted for this study are presented as follows.

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Model 1 Where;

$Y_1$  = Employee's satisfaction of Nile Insurance

$X_1$  = Strategic Planning

$X_2$  = Communication

X3 = Employees Involvement

X4 = Customer Orientation

X5 = Leadership

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = the coefficient of the variables and

e = the error term

Model 2, Where;

Y2 = Profitability of Nile Insurance

X1 = Strategic Planning

X2 = Communication

X3 = Employees Involvement

X4 = Customer Orientation

X5 = Leadership

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = the coefficient of the variables and

e = the error term

#### 3.4. Description of Variables

This study aimed to determine the effect of total quality management practices on organizational effectiveness by taking the case of Nile Insurance Company. In this regard, independent and dependent variables are listed as follows.

##### Indicators of Independent Variables

1. Strategic Planning
2. Communication
3. Employees involvement
4. Customer orientation
5. Leadership

##### Dependent Variables

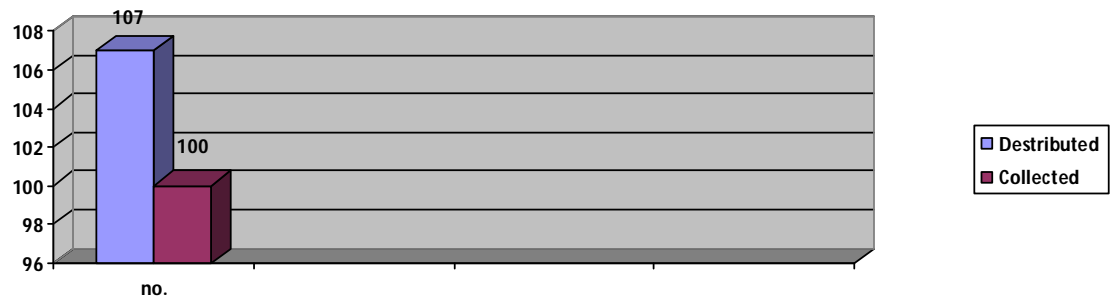
1. Employee's Satisfaction
2. Company's Profitability

## CHAPTER FOUR: FINDINGS AND DISCUSSION

The main purpose of this study is to examine how the total quality management practices can affect organizational effectiveness; employee's satisfaction and profitability of Nile insurance company. This chapter deals with presentation of data, findings and discussion of the quantitative and qualitative data collected from the sample of the study. The analysis has been done to answer the research questions on the bases of research objectives. The analysis has been based on the responses of respondents of employees of Nile insurance company. The chapter consists the socio-demographic characteristics of respondents, reliability test, descriptive analysis of the findings, correlation analysis of TQM practices and employee's satisfaction, regression and correlation analysis of TQM practices and employee's satisfaction, correlation analysis of TQM practices and Nile Insurance's profitability, and discussion.

### 4.1. Response Rate

*Fig 2. Response Rate*



*Source: Own survey, Addis Ababa, 2018*

As mentioned in the methodology of the study, the sample size has been determined to be 107. Accordingly, 107 questionnaires were administered among 107 respondents of Nile insurance company S.C. It is found out that 7 questionnaires were invalid; therefore, the response rate became 93.5%. Accordingly, the analysis has been done on the responses of 100 valid questionnaires.



#### 4.2. Socio-Demographic Characteristics of Participants

**Table 1: Socio-demographic Characteristics of Respondents**

Variables	Category	No.	(%)
Sex	Male	54	54
	Female	46	46
	Total	100	100
Age	18-29	27	27
	30-45	47	47
	46-60	26	26
	Above 60	-	-
	Total	100	100
Marital Status	Single	39	39
	Married	49	49
	Divorce	5	5
	Widowed	7	7
	Total	100	100
Education	Diploma/Certificate	4	4
	BA/BSc	78	78
	MA/MSc	18	18
	PHD /Other	-	-
	Total	100	100
Position	Manager	15	15
	underwriter/claim Officer	68	68
	Senior underwriter	17	17
	Other	-	-
	Total	100	100
Monthly Income	Less than 3,000	-	-
	3,001-5,000	4	4
	5,001-10,000	25	25
	Above 10,000	71	71
	Total	100	100
Duration in the agency	Less than a year	11	11
	1-3 years	28	28
	3-5 years	49	49
	Above 5 years	12	12
	Total	100	100

*Source: Own survey, Addis Ababa, 2018*

Table 1 reveals the socio-demographic characteristics of respondents. When we see sex of the respondents, majority of the respondents were males, i.e. 54% representing the largest part of the sample group. In relation to age distribution of respondents, majority of

respondents were found to be under the age category of 30-45 (47%), followed by age category of 18-29(27%) and the rest respondents' age category was found between 45-60 (26%).

Regarding marital status, as the data conveys the majority (49%) of respondents found to be married and this is followed by single (39%). In addition to this, widowed and divorced respondents have accounted 7% and 5% respectively. Concerning to educational status, the majority of respondents who have achieved their first and second degree were accounted 78% and 18% respectively.

With regard to the position of respondent's, majority (68%) of them were found to be underwriter/claim officer and followed by respondents who are senior officer and manager represented by 17% & 15% of the respondents respectively. Then again, about monthly income majority (71%) of respondents have earned more than 10,000 followed by 25% of respondents who have earned 5,000-10,000. To this end, in relation to service year in their organization, the majority (49%) of respondents have stayed in this company from 3 to 5 years followed by 28% who have been serving from 1 to 3 years.

#### 4.3. Reliability Test

Table 2: Reliability Test, Nile Insurance company S.C

Factor name	Variance Explained (KMO)	Item no.	Cronbach's
Strategic planning	46.50	5	0.79
Communication	42.80	4	0.83
Employee's Involvement	58.12	5	0.87
Customer orientation	62.22	5	0.77
Leadership	61.25	5	0.79
Average	54.18	-	0.81
Total number of Items		24	

Source: Own survey, Addis Ababa, 2018

In addition to the reliability of the individual items, we need to study the composite reliability of the constructs. To investigate the internal consistency for a given block of indicators, their coefficient developed by Werts, Linn, and Joreskog can be calculated (Chin, 1998). To design constructs with high internal consistency, researchers have suggested that the value of r should be greater than 0.70. All coefficients are higher than the proposed threshold of 0.70, and this supports the ability of the measures used in this

research to operationalize the various latent constructs. To check the validity of the model, the Average Variance Extracted (AVE) is used (Fornell & Larcker, 1981).

The AVE measures the amount of variance that is captured by the constructs in relation to the amount of variance due to measurement error (Fornell & Cha, 1994). To ensure discriminant validity of the constructs, the AVEs of the latent variables should be greater than the square of the correlations among the latent variables (Chin, 1998). In line with this, as can be seen in Table 2, the model shows good discriminant validity.

#### 4.4. Descriptive Analysis of the Finding

The descriptive analysis has been done according to the research questions of the study mentioned earlier. It deals with awareness on TQM practices endeavored and their role, implementation of TQM principles endeavored, regression and correlation analysis of TQM practices, employee's satisfaction and Nile insurance profitability. Accordingly, the findings and discussions of the study are presented as follows.

##### 4.4.1. Awareness on TQM Practices Endeavored and Their Role

The first research question has focused on whether respondents were well aware of TQM endeavored in the company and their role on organizational effectiveness. In this regard, five questions were forwarded in order to determine their awareness level about the implementation of TQM in the company and their role related to organizational effectiveness that should be fetched from organizational mission and vision.

**Table 3: Organizational vision/mission and TQM, Nile Insurance company**

No	Awareness on TQM Practices Endeavored	Mean	Std. Dev	Level
1	The Nile Insurance company S.C has initiated the process of clarification of the companies' vision, mission and values with the a view to implementing TQM	2.77	0.791	Moderate
2	The Nile Insurance company .S.C has clarified its vision, mission and values and Identified the critical success factors and Developed Measures and Metrics to Track them the implementation of TQM	2.56	0.854	Moderate
3	The Nile Insurance company S.C has clarified its vision, mission and values and Identified the critical success factors, developed monitoring measures and metrics and embarked on management and employees empowerment, stakeholders consultation	2.59	0.824	Moderate
4	The Nile Insurance company S.C has implemented TQM and is in the process of reviewing the implementation process	2.99	0.998	Moderate
5	The Nile Insurance company S.C has implemented, reviewed TQM process and implemented TQM improvement initiatives	3.41	1.941	High
Sub-Total		2.86		Moderate

*Source: Own survey, Addis Ababa, 2018*

Table 3 shows about employee's awareness on TQM practices endeavored and their role related to organizational vision and mission. The average value (mean) is 2.86 that lay in moderate category but ranging from 2.56 to the least and 3.41 to the highest. Regarding to single variables, the highest mean found for a variable about an extent of implementation and revision of TQM process and implementation of TQM improvement initiatives in the company. In this regard, the average level of awareness on the issue is found to be moderate. It implies the level of awareness concerning TQM implementation and the role in the company seems to be good.

#### 4.4.2. Implementation of TQM Principles Endeavored

The second research question deals with the extent in which the practices of TQM are implemented at Nile Insurance Company. Accordingly, the level of TQM principles implementation have been examined and discussed as follows.

The extent of service quality provided by the company mainly determined an overall organizational effectiveness. The data related to the TQM principles endeavored in Nile Insurance, according to the perception of employees has been analyzed using descriptive statistical methods. An interval class has been developed as follows: Very low=0-1.4, Low=1.4-2.4, Moderate=2.4-3.4, High=3.4-4. The interval of level of implementation was applied based on several relevant studies based on four categories of Likert scale (Wu, D. et.al. 2007).

##### 4.4.2.1. Strategic Planning

**Table 4: Strategic Planning, Nile Insurance company S.C**

No	Strategic Planning	Mean	Std. Dev	Level
1	Operational personnel understand the interface between their task and strategic plans and objectives of the Company	2.12	0.272	Low
2	A hierarchy of committees have been established that are responsible for quality service improvement	2.14	0.913	Low
3	Company's personnel have been empowered to reach their full potential	2.01	0.484	Low
4	Top management delegates decision making to lower levels	2.62	0.144	Moderate
5	I feel fully responsible for the work I do and believe that my work	2.25	0.170	Low
Sub-Total		2.23		Low

*Source: Own survey, Addis Ababa, 2018*

The above table portrays the implementation of strategic planning in Nile Insurance Company. As a result, the average value (mean) is 2.23 which is categorized under low category, but the mean ranging from the least 2.01 to 2.62 to the highest. It implies strategic planning endeavor in the company has a gap.

4.4.2.2. Communication

**Table 5: Communication, Nile Insurance company S.C**

No	Communication	Mean	Std. Dev	Level
1	Measurements of performance are based on defined standards	3.12	0.760	Moderate
2	The company is managed as a system for continuously improving the quality of service delivery	3.17	0.816	Moderate
3	The company communicates regularly to its stakeholders	2.98	0.712	Moderate
4	What the company management aims to achieve is clearly communicated	2.92	0.442	Moderate
Sub-Total		3.05		Moderate

*Source: Own survey, Addis Ababa, 2018*

According to table 5, related to communication as TQM principle, the average value (mean) is 3.05 which puts down in the moderate category. Along the line, variation of standards deviation was found low. It implies communication as TQM practice implemented in the company is encouraging.

#### 4.4.2.3. Employee Involvement

**Table 6: Employee Involvement, Nile Insurance company S.C**

No	Employees Involvement	Mean	Std. Dev	Level
1	Employees are provided the opportunity for involvement in quality management practices development and implementation	2.62	0.456	Moderate
2	Employees are motivated to improve on quality management practices implementation through rewards and incentives	3.33	0.978	High
3	Employees effectively look for chances to improve their fitness, learning and experience	2.79	0.773	Moderate
4	Employees are encouraged to be innovative and implement their valuable idea in a way to attain institutional objectives	2.89	0.391	Moderate
5	Quality management systems promotes the freedom of employees to use their initiative in matters of customer delivery	3.01	0.954	Moderate
Sub-Total		2.93		Moderate

*Source: Own survey, Addis Ababa, 2018*

Table 6 portrays the implementation of employee's involvement in Nile Insurance Company. Thus, the average value (mean) is 2.93 which is placed in moderate category, but the mean ranging from 2.62 to the least and 3.33 to the highest. It implies employee's involvement as TQM practice endeavor found better.

#### 4.4.2.4. Customer Orientation

**Table 7: Customer Orientation, Nile Insurance company S.C**

No	Customer Orientation	Mean	Std. Dev	Level
1	The company assume that ensuring customer satisfaction is its major responsibility	2.49	0.750	Moderate
2	The company link customer satisfaction with the internal performance indicators	2.66	0.656	Moderate
3	The company use Customer complaints as an input to improve the processes	2.33	0.911	Low
4	The company use various methods to build relationships with customers and to increase repeat business and positive referrals	2.22	0.668	Low
5	The company reset standards whenever customer needs and expectations change	2.25	0.472	Low
Sub-Total		2.39		Low

*Source: Own survey, Addis Ababa, 2018*

Table 7 describes respondent's perception about the implementation of customer orientation in the company. As a result, the average value (mean) is 2.39 that lays in low category. It implies customer orientation as TQM practice endeavor implemented has a gap.



4.4.2.5. Leadership

**Table 8: Leadership, Nile Insurance company S.C**

No	Leadership	Mean	Std. Dev	Level
1	Management of the company takes the responsibility for quality performance	2.82	0.890	Moderate
2	Management of the company offers incentives to achieve quality goals	3.16	0.916	High
3	Management of the company ensures that each service meets customer expectations	2.58	0.994	Moderate
4	Management of the company has tried to obtain the trust of employees	2.82	0.148	Moderate
5	Management of the company promote the customer satisfaction	3.25	0.940	Moderate
Sub-Total		2.93		Moderate

*Source: Own survey, Addis Ababa, 2018*

Table 8 depicts that the implementation of leadership in Nile Insurance Company. Accordingly, the average value (mean) is 2.93 which is found in moderate category, but the mean ranging from 2.58 to the least and 3.25 to the highest. It implies leadership as TQM practice that has been implemented found to be efficient.

AS mentioned earlier, levels of TQM practices implementation have been discussed. Then, the following table summarized the implementation levels of all TQM principles.

**Table 9: Summary**

No	Summary	Mean	Level
1	Strategic Planning	2.23	Low
2	Communication	3.05	Moderate
3	Employee involvement	2.93	Moderate
4	Customer orientation	2.39	Low
5	Leadership	2.93	Moderate
Total		2.71	Moderate

*Source: Own survey, Addis Ababa, 2018*

As table 9 indicates, the total average of all dimensions of TQM is 2.71, which means the level of implementation categorized under moderate category. Along with this, the level of implementation regarding communication followed by employee involvement found to be high. Generally, moderate level implementation means nearly sufficient but not absolutely effective.

#### 4.4.3. Correlation analysis of TQM practices and Employee's Satisfaction

The third and fourth research questions are intended to determine the relationship between TQM practices and organizational effectiveness as well as impacts of TQM principles on organizational effectiveness (employee's satisfaction and profitability). In this regard, the test has been made against the first dependent variable, employee's satisfaction.

Pearson correlation has been used in order to determine whether there is significant relationship between TQM practices and Employee's satisfaction. Accordingly, the following table presents the result and followed by the analysis.

**Table 10: Pearson Correlation between TQM practices and Employee's Satisfaction**

TQM Practices		Employee's Satisfaction
Strategic Planning	Pearson Correlation	0.222
	Sig. (2-tailed)	0.021
Communication	Pearson Correlation	0.175
	Sig. (2-tailed)	0.024
Employees Involvement	Pearson Correlation	0.164
	Sig. (2-tailed)	0.014
Customer Orientation	Pearson Correlation	0.137
Leadership	Pearson Correlation	0.167
	Sig. (2-tailed)	0.001

*Correlation is significant at 0.05 level (2- tailed)*

(Source: Own survey, Addis Ababa, 2018)

Table 10 describes the Pearson's correlation coefficient between TQM practices and Employee's Satisfaction, which is found using the SPSS. As the results indicate, all TQM Practices, namely Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership/Management have significant and positive association with employee's satisfaction in Nile Insurance. Therefore, it implies that the proper implementation of TQM practices enhance organizational efficiency and vice versa.

#### 4.4.4. Regression Analysis of TQM Practices and Employee's Satisfaction

Before using multiple regression, part of the process involves checking to make sure that the data can actually be analyzed using multiple regression. Therefore, it is important to do because it is only appropriate to use multiple regression if the data "passes" five assumptions that are required for multiple regression to give us a valid result.

Assumption 1: There needs to be a linear relationship between (a) the dependent variable and each of independent variables, and (b) the dependent variable and the independent variables collectively. Whilst there are a number of ways to check for these linear relationships, here creating scatterplots and partial regression plots using SPSS Statistics has been implemented. Consequently, visually inspected these scatterplots and partial regression plots to check for linearity. Consequently, the relationship displayed in the

scatterplots and partial regression plots are linear. Therefore, it is possible to run multiple regression.

Assumption 2: The data has showed homoscedasticity, which is, where the variances along the line of best fit remain similar as move along the line.

Assumption 3: The data must not show multi-collinearity, which occurs when we have two or more independent variables that are highly correlated with each other. This leads to problems with understanding which independent variable contributes to the variance explained in the dependent variable, as well as technical issues in calculating a multiple regression model. Therefore, in this case the data not showed multi-collinearity through an inspection of correlation coefficients and Tolerance/VIF values.

Assumption 4: There is no significant outlier, high leverage points or highly influential points. Outlier, leverage and influential points are different terms used to represent observations in data set that are in some way unusual. Thus, it was possible to perform a multiple regression analysis.

Assumption 5: Finally, residuals (errors) were checked. It showed that the residuals (errors) were approximately normally distributed this enhanced multiple regression. The method to check this assumption was a histogram (with a superimposed normal curve) and a Normal P-P Plot.

On the other hand, multivariate analysis has done to calculate the influence variables TQM practices (x) Employee's Satisfaction (y). The 0.05 level of significance was used to determine the strength of the relationship between the independent and dependent variables.

The linear regression equation of employee's satisfaction is:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Model 1 Where;

Y1 = Employee's satisfaction of Nile Insurance

X1 = Strategic Planning

X2 = Communication

X3 = Employees Involvement

X4 = Customer Orientation

X5 = Leadership

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = the coefficient of the variables and

$e$  = the error term

The following tables and analysis deals with these factors.

**Table 11: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.741	0.675	0.582	0.32442

a. Predictors: (Constant), Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership  
b. Dependent variable: Employee's Satisfaction

As table 11 indicates, the model summary which specifies employee's satisfaction as a function of TQM practices: Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership/Management. R square of the model is 0.675 which entails that 67.5% of the variation in the dependent variable i.e. employees' satisfaction is accounted for by this model is good.

**Table 12: ANOVA**

Model 1	Sum of Squares	Df	Mean Square	F	Sig.
Regression	25.665	6	5.133	49.764	.000
Residual	19.894	189	.105	---	---
Total	45.559	194	---	---	---

a. Predictors: (Constant), Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership  
b. Dependent variable: Employee's Satisfaction

As table 12 points out, the ANOVA test of the model which specifies employees' satisfaction as a function of TQM practices: Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership/Management. ANOVA tells the overall goodness of fit of the model. F-statistic of the model is 49.764, which is quite good and the "Sig." column in the Coefficients table shows which variables are significant.

**Table 13: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig. (P-value)
	B	Std. Error	Beta		
(Constant)	.623	.324	---	1.923	.056
Strategic Planning	.413	.032	.387	3.537	.049
Communication	.523	.035	.131	2.778	.064
Employees Involvement	.161	.062	.193	2.592	.025
Customer Orientation	.141	.060	.133	2.687	.012
Leadership	.352	.056	.243	1.673	.035

a. Predictors: (Constant), Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership  
b. Dependent variable: Employee's Satisfaction

Table 13 depicts that the results of the model predicting in which Employee's satisfaction through the variables of Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership/Management have been presented. In that line, all the

variables have a positive and significant relationship with employee's satisfaction except communication. Different to that in regression analysis as showed above, the variable of Strategic Planning, Employees Involvement, Customer Orientation and Leadership are found to be significant at 0.049, 0.025, and 0.012 and 0.035 respectively.

Generally, the third and the fourth research questions have been answered as discussed above. Therefore, H1 (hypothesis 1) that says TQM practices have an impact on employee's satisfaction has been confirmed.

#### 4.4.5. Correlation analysis of TQM Practices and Nile Insurance's Profitability

The third research question is intended to determine the extent of TQM principles; which means the level of significant that expected to have strong tie with impact. In this regard, the test has made against the second dependent variable, profitability. Primarily, in order to determine whether there is significant relationship between TQM practices and Nile Insurance's Profitability, Pearson correlation is used. Accordingly, the following table presents the result and followed by the analysis.

**Table 14: Pearson Correlation between TQM practices and Nile Insurance's Profitability**

TQM Practices		Nile Insurance's Profitability
Strategic Planning	Pearson Correlation	0.154
	Sig. (2-tailed)	0.012
Communication	Pearson Correlation	0.234
	Sig. (2-tailed)	0.044
Employees Involvement	Pearson Correlation	0.152
	Sig. (2-tailed)	0.031
Customer Orientation	Pearson Correlation	0.128
	Sig. (2-tailed)	0.021
Leadership	Pearson Correlation	0.155
	Sig. (2-tailed)	0.027

*Correlation is significant at the 0.05 level (2- tailed)*

Table 14 shows the Pearson's correlation coefficient between TQM practices and Nile Insurance's Profitability. As the table indicates, all TQM Practices, Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership have significant and positive association with Nile Insurance's Profitability.

#### 4.4.6. Regression analysis of TQM practices and Nile Insurance's Profitability

Based on the correlation test, the regression test has been done. Accordingly, multivariate analysis has been done to calculate the influence variables TQM practices (x) and Nile Insurance's Profitability (y). The 0.05 level of significance is used to determine the strength of the relationship between the independent and dependent variables.

The linear equation of profitability is

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Model 1 Where;

Y2 = Profitability of Nile Insurance

X1 = Strategic Planning

X2 = Communication

X3 = Employees Involvement

X4 = Customer Orientation

X5 = Leadership

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4, \beta_5$  = the coefficient of the variables and

e = the error term

The following tables and analysis deals with this as follows.

**Table 15: Model Summary**

Model 2	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.741	0.483	0.681	0.21411
a. Predictors: (Constant), Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership				
b. Dependent variable: Nile Insurance's Profitability				

As table 15 indicates the model summary which specifies Nile Insurance's Profitability as a function of TQM practices: Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership. R square of the model is 0.483 which



entails that 48.3% of the variation in the dependent variable i.e. Nile Insurance's Profitability is accounted for by this model which is good has employed for this study.

**Table 16: Regression Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig. (P-value)
	B	Std. Error	Beta		
(Constant)	1.157	.400		2.892	.005
Strategic planning	.326	.078	.413	4.163	.000
Communication	.206	.102	.246	2.022	.046
Employees Involvement	.098	.109	.106	.899	.371
Customer orientation	.237	.104	.215	2.286	.025
Leadership	.341	.046	.233	1.572	.036

a. Predictors: (Constant), Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership  
b. Dependent variable: Nile Insurance's Profitability

As table 16 depicts, the results of the model predicting Nile insurance's profitability through the variables of Strategic Planning, Communication, Employees Involvement, Customer Orientation and Leadership have been tested. Accordingly, the regression analysis as showed above, variables such as Strategic Planning, Communication, Customer Orientation and Leadership are found to be significant. To this end, the forth research question has been answered as discussed above once again.

Generally, the third and the forth research questions have been answered as discussed above. Therefore, H2 (hypothesis 2) that says TQM practices have an impact on profitability of the organization has been confirmed.

#### 4.4.7. Discussion

In this part, the information collected from qualitative data has been incorporated so as to triangulate and cross check the credibility of the quantitative finding. Most of the interviewees have been discussed that the impact of implementing TQM practices on company's effectiveness both in employee's satisfaction and profitability found to be

significant. Furthermore, it has contributed a lot for organizational competency and sustainability so far.

Beside to this, all interviewees have confirmed that TQM principles strongly affected Company's effectiveness (employee's satisfaction and profitability) through improving service quality and vice versa. In this regard one respondent said:

*"...one of the company's strong side is a firm stand not to compromise quality deliverable, by any means so far; and it helps to meet the clients need in most aspects".*

In addition to this, they have discussed that there is a certain gap related to employee's competency and automated service provision.

As the results show, as per both qualitative and quantitative findings, that organizational effectiveness is highly influenced by providing quality service. These findings also indicate that TQM practices produce competitive advantage to the organization and intended to improve the organizational effectiveness. In connection to this one respondent added:

*"...our strong and persistent effort that intended to deliver quality service that has been contributed to put our company on better position in the competitive market".*

Generally, top management and quality managers in this company considered TQM as the first priority for the survival of the company. Quality management is defined as one element of operations management and as a management method designed to reach organizational objectives more efficiently, thus enhancing the quality of business resources as well as the competitiveness and vitality of the organization (Krajewski et al., 2006).

If TQM practices are implemented properly, it produces variety of benefits such as understanding employee needs, improved customer satisfaction, employee's satisfaction, improved internal communication, better problem solving and fewer errors. The success of TQM program can increase when its implementation is extended to the overall company. Thus, effective implementation of TQM is valuable asset in each organization. Related to these, the key informant participants have discussed that the organization has been learned well on understanding the needs and interests of the employees.

These findings are in line with previous studies in the literature, TQM practice, mostly have been linked directly to organizational effectiveness (Terziovski and Samson, 1999). Most of

the results found from quantitative findings have been supported by the qualitative one through interview and desk review. Accordingly, the findings from interviews showed that factors such as information technology usage, rewarding mechanisms and on job trainings have been not satisfactory and it is also intended to influence the profitability and employee's satisfaction.

Moreover, government's policy discussed as a major problem that has prolonged the agony of the private insurance sector resulted from biasness to state owned, Ethiopian Insurance Corporation. Furthermore, there are several factors which were mentioned by interviewees as factors that have determined the Nile insurance effectiveness. In this connection, efforts to meet employee's need discussed as insufficient. Furthermore, the leadership attention towards employees is discussed as not sufficient enough too.

Concerning the company's concern to the employees, one respondent said:

*"... the company has been striving to meet our demand and need persistently as per our enquiry as much as possible. But, still there is a limitation related to promotion and rewarding".*

The most common determinants found includes variables such as lack of innovative products or investment opportunity and fear of risky investments by insurance company themselves, technical reserve, company age, size, competitors and tangibility. Moreover, they have discussed that competitor companies have an impact on the profitability of their company and there are active competitor companies. Further leverage ratio of insurance companies has significant impact on performance.

In relation to company's profitability, all of the respondents (100%) have agreed that the company attained the target profit for 2017. Moreover, as the 2017 annual report of the company showed, the total revenue of the company was higher than that of the expense. It implies the qualitative findings supported the quantitative one. Generally, the findings confirmed that the dimensions of TQM have impacts on organizational performances.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### 5.1. Summary and Conclusion

The main objective of this study is to examine how the total quality management practices can affect effectiveness of organization by taking the case of Nile Insurance Company Share Company. The descriptive statistics shows that TQM practices (Strategic planning, Communication, Employees Involvement, Customer Orientation, and Leadership) have significant and positive relationship with employee's satisfaction and company's profitability.

Regarding to the overall implementation of TQM principles, the findings reveal that the average value (mean) is 2.71 which is found in moderate category. However, the least implementation showed to strategic planning whereas the highest to communication. Consequently, the first research question has been answered. On the other hand, implementing total quality management found to have significant impact on organizational effectiveness; employee satisfaction and company's profitability.

Regarding the dependent variable, profitability, although the quantitative findings indicate that the relation between TQM practice implementation and profitability is positive and significant; strategic planning and customer orientation have more impact than the other to insurance's profitability. Moreover, other things held constant, if current assets pay the firm's current liabilities, it would have a direct positive impact on profitability.

According to the qualitative result, the major causes of inadequate provision problems are lack of optional reserve arrangement such as claims fluctuation reserve, absence of reserve for made or moral hazard and this may lead to overstatement of current year's profit but actually not for this case. On the other hand, unmeet customer's need competitor companies have an impact on the profitability.

On the other hand, related to the other dependent variable, employee's satisfaction, empirical evidences with regard to TQM principles found to have statistically significant relationship. Although the interviewees said that insufficient management's attention towards employees needs affects the employee's satisfaction. Moreover, limitations on the use of information technology, rewarding mechanisms and on job trainings are identified as a gap. Generally, the overall findings clearly depict that TQM can significantly affect the organizational effectiveness of Nile Insurance Company. To this end, both hypothesis one and two have confirmed with the findings. In other words, TQM practices have an impact on employee's satisfaction and profitability.

## 5.2. Recommendations

The conclusion of the study has revealed that TQM practices have an impact on employee's satisfaction and profitability. The study is also indicated that limitations on the use of information technology, rewarding mechanisms and on job trainings are identified as a gap. On the bases of the findings and conclusion of the study, the following feasible recommendations are forwarded.

- Strategic planning has a strong impact on the overall performance of a company. In line with this, the Nile insurance company should revise and implement the strategic plan appropriately so as to enhance employee's satisfaction and profitability.
- Even though the existing situation is fair, the management should improve their effort in considering total quality management as a priority for the efficiency of their company. This can be realized in the future by involving the company's employees to TQM implementation at all levels through consolidating mentoring, monitoring and providing on job training as well.
- The existing market competition is too stiff and the finding confirmed that it could affect company's profitability. Therefore, the company should be well organized to obtain the necessary information for the identification of customer requirements to broaden customer base to scaling up profitability through the use periodic surveys.

- Employee motivation plays a vital role to enhance employee's satisfaction. Motivated employee can perform better than non-motivated ones. Therefore, more attention to employees in all aspects should be improved through developing various rewards and promotions.
- Information technology usage, rewarding mechanisms, on job trainings are identified as a gap. Therefore, promoting and consolidating ICT usage, developing various rewarding mechanisms and providing on job trainings should be addressed.

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## Annex: Questionnaire

Addis Ababa University  
College of Business and Economics  
School of Graduate Studies

*Survey Questionnaire for the purpose of Master's Thesis on*

Total Quality Management Practices on organizational Effectiveness: The case of Nile Insurance Company Share Company

### Consent Statement

You are being asked to participate as a volunteer in a research study conducted by Mr. Betremariam Melese, a post graduate student at Addis Ababa University. The aim of this study is to describe the Impact of Total Quality Management Practices on organizational Effectiveness: The case of Nile Insurance Company Share Company.

Please be assured that information provided in this questionnaire is purely for academic purpose and therefore would be treated with utmost CONFIDENTIALITY.

### I. Demographic and Related variables

1. Sex  Female  Male
2. Age  18-29  30-45  46-60  Above 60
3. Highest level of education attained  
 Diploma/Certificate  B.Sc  MA/MSc  
PHD/Other
4. Your current occupational position/working in the organization  
 Manager  underwriter /Officers   
Supervisor/Senior officer  other
5. Monthly salary  
 Less than 3,000  3,001-5,000  5,001-10,000  Above  
10,000
6. Years of service in this company  
 Less than 1 year  1-3 years  3-5 years  above 5 years

**II. Total quality Related Variables**

Please indicate the extent to which you agree with the following statements related to TQM practices. Using a scale of 1-4,

Where 4= Strongly Agree; 3= Agree; 2= Disagree; 1= Strongly Disagree,

No.	Statements	1	2	3	4
<b>A. Organizational Vision/Mission and TQM</b>					
1	The Nile Insurance Company Share Company has initiated the process of clarification of the insurance vision, mission and values with the a view to implementing TQM				
2	The Nile Insurance Company Share Company has clarified its vision, mission and values and Identified the critical success factors and Developed Measures and Metrics to Track them the implementation of TQM				
3	The Nile Insurance Company Share Company has clarified its vision, mission and values and Identified the critical success factors, developed monitoring measures and metrics and embarked on management and employees empowerment, stakeholders consultation				
4	The Nile Insurance Company Share Company has implemented TQM and is in the process of reviewing the implementation process				
5	The Nile Insurance Company Share Company has implemented, reviewed TQM process and implemented TQM improvement initiatives				

### III. Principles of TQM

No.	Statements	1	2	3	4
<b>B. Strategic Planning</b>					
1	Operational personnel understand the interface between their task and strategic plans and objectives of the Company				
2	A hierarchy of committees have been established that are responsible for quality service improvement				
3	Company's personnel have been empowered to reach their full potential				
4	Top management delegates decision making to lower levels				
5	I feel fully responsible for the work I do and believe that my work				
<b>C. Communication</b>					
1	Measurements of performance are based on defined standards				
2	The company is managed as a system for continuously improving the quality of service delivery				
3	The company communicates regularly to its stakeholders				
4	What the company management aims to achieve is clearly communicated				
<b>D. Employees Involvement</b>					
1	Employees are provided the opportunity for involvement in quality management practices development and implementation				
2	Employees are motivated to improve on quality management practices implementation through rewards and incentives				
3	Employees effectively look for chances to improve their fitness, learning and experience				
4	Employees are encouraged to be innovative and implement their valuable idea in a way to attain institutional objectives				
5	Quality management systems promotes the freedom of employees to use their initiative in matters of customer delivery				
<b>E. Customer Orientation</b>					
1	The company assume that ensuring customer satisfaction is its major responsibility				

2	The company link customer satisfaction with the internal performance indicators				
3	The company use Customer complaints as an input to improve the processes				
4	The company use various methods to build relationships with customers and to increase repeat business and positive referrals				
5	The company reset standards whenever customer needs and expectations change				
<b>F. Leadership</b>					
1	Management of the company takes the responsibility for quality performance				
2	Management of the company offers incentives to achieve quality goals				
3	Management of the company ensures that each service meets customer expectations				
4	Management of the company has tried to obtain the trust of employees				
5	Management of the company promote the customer satisfaction				
<b>G. Satisfaction</b>					
1	Are you satisfied as being company's employee	Yes	No		
<b>H. Profitability</b>					
1	Company has earned more than total annual expense in 2017(profited)	Yes	No		

Thank you for your cooperation!

## Interview Guide Questions

1. How do you explain the impact of implementing TQM practice on company's performance (profitability and employee's satisfaction)?
2. Are there any factors in which affects company's performance (profitability and employee's satisfaction) how?
3. What are major hindrances in implementing TQM practice in the company? Why?
4. What do you recommend to make TQM implementation effective in a way to profitability and employee's satisfaction?