

*Full Length Research Paper*

# Modeling link between internal service quality in human resources management and employees retention: A case of Pakistani privatized and public sector banks

Muhammad Asif Khan<sup>1\*</sup>, Kashif-Ur-Rehman<sup>2</sup>, Ijaz-Ur-Rehman<sup>3</sup>, Nadeem Safwan<sup>4</sup> and Ashfaq Ahmad<sup>5</sup>

<sup>1</sup>National University of Modern Languages, Islamabad, Pakistan.

<sup>2</sup>Iqra University Islamabad, Pakistan.

<sup>3</sup>Shaheed Zulfikar Ali Bhutto Institute of Science and Technology Islamabad, Pakistan.

<sup>4</sup>Foundation University, Pakistan.

<sup>5</sup>University of Sargodha, Pakistan.

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The purpose of this research study is to establish link between perceived human resources internal service quality practices with employee retentions in mediating environment of employee job satisfaction. This study was conducted in twin cities of Rawalpindi and Islamabad. For the analyses of research work, the data has been collected about the employees of public and privatized banks' employees. A total of 550 copies of the questionnaire were distributed to different bankers of selected areas and 400 copies of the same were collected back. The study finds that employee selection, employee training and development, work design, job definition employee rewards and compensation report high, positive and significant dimensionality to internal service quality in human resource management. The study further finds that internal service quality in human resource has positive and significant effect on employee job satisfaction and employee job satisfaction has positive and significant effect on employee retention. Based on findings of the study that the human resource development departments should review and enhance the motivation, training, and retention of good employees and that employee should support the concept of the ISQ. The employees' selection and their rewards and recognitions, their training and development, work design and job definition all are the most important human resource management areas in enhancing the employees' job satisfaction and the retention of prospective employees.

**Key words:** Internal service quality in HRM, employee job satisfaction, employee retention.

## INTRODUCTION

The potential employees are more demanding in the modern era especially in the banking sector to understand the requirements of changing needs of customers. Banking industry may flourish due to the focused approach on internal service quality considering because the important dimensions of human resource management. The world realize that employees are because of all development in the organizations and we must consider them the main pillars of outcomes and performance in productive way. Competitions/rivalry

they should be properly placed in the organization along-with conducive environment which enables them to come up with full invoke potentials to augment organizational progression and technological development in the service delivery structure have resulted in a steady shift in the planned focus from price to service quality in the banking industry. Dubravka and Nina (2007) stated that ascendant businesses confine ample momentousness to human resource management and internal communications; hence they are observant of the worth of those efforts and of strategic furtherance they can impart to the organization. They should also identify that it is imperative to continue subjective marketing doctrine,

\*Corresponding author. E-mail: [asifmughal1973@yahoo.co.uk](mailto:asifmughal1973@yahoo.co.uk).  
Tel: +923218565678.

if they offer to assist potential products and services to either businesses: internal and external. The doctrine of gratified employees for the endowment of satisfied clients is prevalent and conceived by both academicians and practitioners, infact the considerations of internal marketing, internal communications, and human resource management. Despite all the recent excitement about the quality services, however, one bit of old advice is still new, the goal of quality system is to help improve quality. Simply measuring quality costs would not ensure the job done. To get things improved, organization machinery needs its reengineering which originally divides quality into the categories of prevention, appraisal, and failure. Recent human resources professionals are formally engaged in strategic planning to get maximum outcome form the employees by recognizing their potentials and efforts. Stershic (1990) identified that the particular relevance in this regard was the contribution to the organizational performance. She claimed that as obvious as it might seem to recognize employees as the critical link in delivering service quality and customer satisfaction. She further explained that obtaining and understanding the employee perspective was a critical tool in managing customer satisfaction. To her it enabled managers to exercise internal marketing meeting the needs of the employees so they could meet the needs of the customer.

The aim of the evolution of globalization have brought many changes in the economic and business settings all over the world and almost all industries including the banking and financial sector, one way or other, are affected by this trend. In turn, the banking sector in Pakistan gradually is becoming more and more competitive. The commercial banks in Pakistan, like in the developed countries are laying more emphasis on providing facilities and services to their internal customers. The banking business has undergone changes for the regulation of the sector, customers' stipulation for services, industrial changes and the access of new entrants from the outside businesses. Due to this, an open and competitive framework has been developed, in which many financial entities are switching on to show their concern to develop defensive strategies to avoid indiscriminate loss of internal customers. The financial and banking sectors in Pakistan have undergone significant reforms since the government announced its policy to privatize the commercial banks. It further stimulated the liberalization and financial sector deregulation In 1990s, with the view to employing structural reforms plan and strengthening the financial operations. This started with the privatization of public commercial banks and orientation of new ones from the private sector to establish a market-based banking system (Akhtar, 2002). In the era of globalization the stipulation of effective and quality services to business the customers is becoming a key factor in the growth and success of banking sector in Pakistan day by day. Due to

all these reforms, the Pakistani banks are offering a wide range of services to accommodate the needs of the touchy and ever-demanding customers.

The banking industry in Pakistan has been characterized by many problems that have badly affected the loyalty of the customers and employees. The employee's satisfaction and retention are critical to the conduct of business in the competitive marketplace and business environment today, and the banks enjoy no exception to it. The commercial banks have thus embarked on different management strategies as resorts to promote employees job satisfaction and thus employee retention. A continuous development in the service quality is considered a precondition in the banking and financial services industry at a time when it is experiencing an odd rate of change in the business, products, and the delivery methods.

Employee retention is contestably the biggest upshot encountering corporate administrators as a sequence of the fragmentation of agile employees, economic development and employee turnover. Employee retention confounds netting measures to drive them to continue in the organization for the maximum time period. The essential to employee retention is to presume the employees' apprehensions and secure proper alignment of their needs with those of the organization. Today, there is high competition in to banking sector in Pakistan for customer patronage so that relationship internal marketing becomes an imperative for gaining external customer satisfaction and retention for smooth business excellences. To deliver excellent quality services to the customer and strive for the business excellence, the employee satisfaction, productivity, and retention within the organization is of much importance. All these can be achieved if the top level management takes extra care while developing internal services quality bases starting from selection and recruitment process to recognizing employees with their core expertise and setting up tremendous work design for the employees. But, unfortunately, in Pakistani financial and banking sector all these human resource practices are too difficult due to which the employees are dissatisfied and they are unable to deliver what is expected of them. The purpose of this research study is to establish link between perceived human resources internal service quality practices with employee retentions in mediating environment of employee job satisfaction. This research will signify a bottom line solution for management to retain skillful human resources. This study seeks to answer the following questions:

1. Do internal service quality (ISQ) practices in human resources management drives employee job satisfaction followed by employee retention?
2. To what extent perceived internal service quality practices in human resource management in public and privatize banks varies?

## LITERATURE REVIEW

In the presence of competitive era it is enormous pressures for the corporate managements to bring down prices and improve the quality of services provided by banking sectors. This needed a strict compliance along with internal services quality regarding human resources management as many researchers are of the view that the organizational profitability due to the potential employees and the management must put them in the center of development of all process to enhance the sense of ownership and to retain the assets employees. Different researchers have described internal service quality in different way. Bridging retention and preserving the turnover rate under objective and business moulds is one of the dominant encountering issues braving enterprises now a day. From all manifestations, the issue will blend in future eventuality, even as economic caveat modulates in current scenario. Employee retention will extend to be consequential problem for most working categories in the first decade of the 21st century. Employee turnover persists to be one of the most unappreciated and underestimated issues faced by corporate leaders. True cost of employee turnover has long been underappreciated and underestimated by human resource managers and all stakeholders entangled in the issue (Mohanty, 2009).

Internal marketing concept in organization has long been viewed by several researchers. Garvin (1988) and Zemke (1989) examined internal service quality from different perspectives; they shared a fundamental underlying belief that the organizations attempting to deliver service quality to their external customers must do so by serving the needs of their internal customers first. Berry (1981); Gronroos (1990) and Gummesson (1990) stated that if a management wanted its employees to deliver an outstanding level of service to customers, it must be prepared to do a great job with its employees. Gronroos (1981) stated that internal marketing should create an internal environment which supports customer consciousness among staff. Wolf and Zwick (2008) found that employee involvement and financial incentives and inducement were often honored as efficient way for increasing the organizational productivity. They revealed that employee job involvement lifted up the organizational productivity, but monetary incentive scheme did not do so. Knowles and Stewart (2000), Zhu and Dowling (2002) argued that the organizations focused on potential employees' "hard" practical skills and also their soft behavioral skills. Therefore, it was argued that most often organizations' staffing processes emphasize potential employees' hard skills and focus very little on their soft skills (Ahmad and Schroeder, 2002). Though employees could normally be educated in tools and techniques within a shorter time period, the development of soft skills required a relatively longer time period. The facts suggested that effective communication, leadership, motivation, analytical skills, and organizational ability

were among the important qualities that had been sought during the selection process. Schneider and Schmitt (1986) argued that the process of staffing employees in the organization consisted of finding, evaluating, and assigning individuals to work to accomplish the organizational objectives in an effective manner. Recruitment and selection procedures had to be evolved in such a way that the right person for the right job was selected. Schneider and Bowen (1993) postulated that by recruiting and selecting right people, training them to work in the market segment allocated to them, rewarding them according to the objective achieved by them would get benefits to the organization.

Kennedy and White (1997) found that the employee training programs within the organization for the particular job were revealed to be significant in improving and developing the level of service rendering by an organization as the skills of employees boosted with the particular training and ultimately it increased customer satisfaction and attachment with the business. Schneider et al. (1994) put more stresses on the importance of executive support of training. For the organizations to expect their employees offer quality customer service for business process, the management has to build a long-term commitment to training for the employees as it needed. They further suggested that management required to support and maintain the employees training program, but they also needed to mock-up the performance they expected from their employees by the performance evaluation system of employees, in order to derive that the employees are productive or still there was room for training. Susan (2003) found that employee development is an important factor of service strategy in customer summation what they called high-contact environment. Efficient service deliveries were the result of the quality of employee improvement and welfare, including environment for work, training and development, job design, and attention to the employee interests. The outcome of the analysis pointed out that the service approach reflecting the magnitude of employee development derived employee outcomes such as efficiency and productivity and employee job satisfaction. The outcomes of employees due to such activities were significantly correlated with the customer satisfaction and, thus, with the business performance, but only some associations to financial performance were significant. Delaney and Huselid (1996) categorized the human resource management practices into the factors that improved employee skills, motivated and inspired the employees, and arrangement design of the workplace. They concluded that at least the following four human resource management dimensions could be acknowledged in his work, these were, employee feedback, their training and development, workplace design, and the employee pay system.

Heskett et al. (1994) presented "service-profit chain" model by indicting internal service quality components like work place design, job design, employee's selection and

development, employee rewards and recognition and tool for serving customers. They linked internal service quality with employee job satisfaction that further navigate employee job satisfaction, employee retention and employee productivity that leads to the external service values of organization. Reichheld (2000) stated that the customer and the employee are two critical links in the service-profit chain model. The organizations that won employees' and customers' loyalty activated a righteous cycle which was increased in customer loyalty improved profitability, that enabled the organization to better pay, attracted and retained the best employees. These employees' performance not only improved further the productivity but also provided the best deliverable customer service and that ultimately won still higher profits and greater customer loyalty. Reichheld further explained that the organization must identify and retain loyal customers with structure offerings that promoted loyalty by targeting and meeting the customer's needs and recruit, and retain loyal and to potential employees. Mohanty (2009) presented specialized practices for retaining employees within organization. He stated that practices like open communication, employee rewards programs, career development programs performance-based bonus, Recreation facilities and gifts at some occasion can help organization to retain potential human resources. He further added that open communication keep employees up-to-date on key issues and enable them to know that their opinions and that management is fully interested in their inputs, likewise, recreation facilities help staff away from stress.

A repeatedly exonerated demeanor of service delivery in enterprise is service extent among interior organizational bodies. Although in real scenario numerous organizational departments are providing service initially to internal customers (Marshall et al., 1998). Samuel and Chipunza (2009) observed the degree to which determined intrinsic and extrinsic motivational variables persuaded the retention and lowering of employee turnover in organization. Their result demonstrated that employees in organizations to a very capacious degree led to refrain in their respective organizations by a composite of intrinsic and extrinsic causative factors. The motivational factors were identified to have denotatively empowered employee retention in both the public and private sector organizations. These factors are training and development, challenging/ interesting work, freedom for innovative thinking, and job security Hong and Kaur (2008) studied the correlation between organizational climate, employee nature and their intention to leave an organization. Four organizational climate measurements were judged for this study, i.e. features, responsibility, incentives, and assistance. All the four organizational climate measurements had explicit negative connections with employees' intention to quit. For the time being, both the supremacy and amicability natures were determined explicitly mitigating the connection between organizational climate and employees' conception to discontinue. With the

reverences of above theoretical underpinning, this study attempted to derive different dimensions which derive internal service quality in human resources management hence leads to employee's job satisfaction and retention within organization. These factors are shown in Appendix; Figure 1. Limited research has been conducted in the field of internal marketing in Pakistan and internal service quality in human resource management have not been empirically tested in developing countries like Pakistan and no study has focused exclusively on internal service quality in HRM (ISQ-HRM) within banking industry of Pakistan. The focused objectives of this study cover the following:

1. To investigate internal service quality in human resource management in banking industry of Pakistan
2. To investigate relationship between ISQ-HRM in employee retention in Banking industry of Pakistan
3. To provide effective recommendations for employee retention to corporate leaders.

This research will try to discuss on internal service quality in human resources management (ISQ-HRM) in financial service industries perspective which will be favorable to the banking industry in Pakistan. The outcomes and conclusions captivated may be used to vouch higher levels of human resource management internal service quality in banking industry of Pakistan denoted by the five dimensions developed for the study. The findings of this research could also conceive a greater circumspection among Pakistani banks management that sound internal service quality practices in human resources management hold for the enterprise and research areas for the beginning of a positive internal service quality precinct. It is hence intended that this article will contribute to the academic and empirical knowledge on Internal Service Quality in Human Resource Management (ISQ-HRM) in Pakistani banking environment.

## **RESEARCH MODEL AND HYPOTHESES DEVELOPMENT**

### **Research hypotheses**

H<sub>1</sub>: Internal service quality in human resource management has positive and significant effect on employee job satisfaction

H<sub>2</sub>: Employee job satisfaction has positive and significant effect on employee retention.

## **METHODS**

### **Sample**

This study was conducted in twin cities of Rawalpindi and Islamabad. Almost all the major Pakistani banks have their branch offices in these cities duly controlled by their regional offices/area offices. For the analysis of research work, the data has been

collected about the employees of public banks i.e. National Bank of Pakistan, First Women Bank and privatized banks which included Muslim Commercial Bank Limited, United Bank Limited, Allied Bank Limited, and Habib Bank limited, operating commercially in the aforesaid selected areas. Random sampling techniques were adopted. The sample was mainly categorized into six banks which consist of 120 branches including their controlling offices in the twin cities respectively. The data for the study was collected from 400 employees of the above mentioned banks through a specifically designed questionnaire covering various attributes that the employees recognized and experienced /practiced as important in their choice of a bank, they were working with. A total of 550 copies of the questionnaire were distributed to different bankers of selected areas and 400 copies of the same were collected back. The sample size of 400 respondents meet the minimum requirement of different statistical tests like regression analysis, factor analysis, t-test and analysis of various and ultimately of structural paths.

### **Instrument and measures**

Employee selection scale by Singh (2004) used with modification for measuring the response. It consists of four items which measure the employee selection. These items are to provide ideas for the improvements of the organization, attitude, or desire to work, managers participation in selection, and standardization and knowledge requirement for job. Five point likert scale is used as 1 for strongly disagree and 5 for strongly agree. Scale used by Singh (2004) is adopted for employee training. It has six items for measuring the employee training. The items include extensive training programmes, performance appraisal mechanism, and required skills for jobs. Five point likert scale is used as 1 for strongly disagree and 5 for strongly agree. Scale of Campion (1988) is used for measurement of work design. The items include high specialized materials and procedures, work performed interaction with people, and specialized skills, tasks significance, task automation, and skills simplification. Five point likert scale is also used in this measurement as 1 for strongly disagree and 5 for strongly agree.

Scale used by Singh (2004) is adopted for the measurement of job definition. It also consists of four items. These items measures that the duties of the job should be clearly defined, up to date job description, the job description should contain job duties, and the actual Job duties are shaped more by the employee than by the formal job description. Five point likert scale is used as 1 for strongly disagree and 5 for strongly disagree. Reward and recognition measurement items were adopted from Singh (2004). It has also five measurement items which includes determining the incentive compensation and reward of employees, compensation is decided on the basis of competence or ability of employees, salary and other benefits are comparable to the market, Pay and benefit package is well above industry or community norms for work of comparable values. Five point likert scale is used as 1 for strongly disagree and 5 for strongly agree.

The constructs of employee satisfaction were adopted from Dunn and Vlosky (2009). The items include satisfaction with fair treatment, variety of activities, satisfaction with freedom, opportunities that job offer, independency, and general satisfaction. There is Five Scale of rating Starting with 1 strongly Disagree onto strongly agree 5. Employee retention dimension were adopted from Kemelgor and Meek (2008). Employee retention was measured at three dimensions (i.e. Positive work environment, employee freedom and flexibility, employee involvement and growth. Each employee retention dimensions items are measured at five point Likert scale as 1 for strongly disagree and 5 for strongly agree.

### **Procedures**

Questionnaires were distributed randomly to the public and

privatized banks employees in the capital city of Islamabad and Rawalpindi. Questionnaire contained three sections, first section covers demographic profiles of the respondents and second part encompassed ISQ-HRM dimensions (Employee selection, Training and development, work design, job definition and reward and recognitions, whereas, third section cover employee job satisfaction and employee retention. Pakistan's official language is English; therefore, the questionnaire was not translated in native language but to reduce the bias in response where necessary, oral translation was made in vernacular languages.

## **RESULTS AND DISCUSSION**

The response rate 72.7% of survey instrument is reported. Demographic information is reported in Table 1. The result in Table 1 demonstrates that study captures 82% (328) male subjects and 18% (72) female employees of privatized and public banks. The Table 1 shows that 17.8% (71) bank's employees fall under the age category of less than 30, whereas, 16.3% (65) employees fall in the age category of 30 - 39 years. The Table 1 further signifies that study captures 53.5% (214) respondents that belong to age group of 40 - 49 years, whereas 12.5% (50) survey subject belongs to age group of above 50 years. The outcomes of Table 1 additionally exhibit those 67% (268) banks employee's earned master degree, whereas, 33% (132) subject hold bachelor qualification. The results further denotes that 21.3% (85) employees of public and privatized banks holds 6 - 10 years work experiences, whereas 12% (48) staff members holds 11 - 15 years work experiences. The result in the Table 1 also describes that 48.8% (195) survey subjects engross 16 - 21 years experiences and representation of above 22 years work experience are 17.9% (71) of total sample.

The result in Table 2 shows mean, standard deviation, and Levene's test for equality of variances of internal service quality dimensions of human resource management in both public and privatized banks. The results signifies that both banks employees prefer employee selection criteria and they tends toward agreement regarding fair selection, attitude, managers participation in selection, standardization and knowledge requirement for job. The mean values of public bank ( $n = 286$ ,  $\mu = 3.7323$ ,  $SD = 0.70573$ ) depicts that recognition of fair selection, attitude, managers participation in selection, standardization and knowledge requirement for job is comparatively less than that of privatized banks ( $n = 114$ ,  $\mu = 3.8333$ ,  $SD = 0.80833$ ). Table 2 also reports that employees training, development, and work design do exist in both privatized and public sector banks and survey of respective banks engrosses accords and acknowledge that extensive training programmes, performance appraisal mechanism, required skills for jobs, specialized materials and procedures, interaction with people, tasks significance, task automation, and skills simplification operates in work settings, however privatized bank employees perceives ( $n=114$ ,  $\mu=3.8281$ ,

**Table 1.** Frequency distribution of demographic profile of the respondents (N=400).

Demographic	Category	Frequency	Percent
Gender	Male	328	82.0
	Female	72	18.0
	Under 30	71	17.8
Age	30-39	65	16.3
	40-49	214	53.5
	Above 50	50	12.5
Qualification	Graduate	132	33.0
	Master	268	67.0
Work Experience	6-10	85	21.3
	11-15	48	12.0
	16-21	195	48.8
	22 years and above	71	17.9
Type of bank	Public Bank	286	71.5
	Privatized Bank	114	28.5
Total		400	100

**Table 2.** Descriptive statistics and Levene's test for equality of variance for HRM-ISQ constructs.

HRM-ISQ Construct	Public bank (N=286)		Private bank (N=114)		Levene's test for equality of variance	
	Mean	SD	Mean	SD	F-Stat	Sig
Employee Selection	3.7322	0.70573	3.8333	0.80833	1.747	0.187
Employee Training and Development	3.7601	0.82591	3.8281	0.97113	0.653	0.316
Work Design	3.9399	0.52451	4.1404	0.53011	0.046	0.983
Job Definition	3.8357	0.60197	3.8860	0.54462	1.918	0.167
Rewards and Compensation	3.4615	0.86059	3.6404	0.86349	0.420	0.517

SD=.97113) more extensive training programmes, performance appraisal mechanism and general trainings in their work setting as compared to public sector bank (n=286,  $\mu=3.7601$ , SD=.82591).

The above Table 2 further demonstrates that both privatized and public banks employees are tend towards agreement in conversance with job definition and employees rewards and compensations. The analysis documents that actual job duties, proper job profile, and up-to-date job descriptions, competency-based rewards, salary and other benefits comparison with market are at par in both public and privatized bank. It is evident from the results that actual job duties, proper job profile, and up-to-date job descriptions, con with market in privatized banks (n = 3.8860,  $\mu = 0.8860$ ,SD = 0.54462) are relatively more than public banks (n = 286,  $\mu = 3.8357$ ,SD = 0.60197). Leven's (1960) used Levene's test for equality of variances to access equality of variance for

normal distribution of the sample drawn. The Levene's test for equality of variances indicates that variances of HRM-ISQ constructs are equally distributed across groups since the F statistics and associated probability values are greater than level of significance ( $P>.05$ ).

The results in the above Table 3 table signifies there is no significant mean difference in employee selection (t = 0.143,  $P>.05$ ), employee trainings and development (t = 1.371,  $P>.05$ ), work design (t = 0.008,  $P>.05$ ), job definition (t = 0.775,  $P>.05$ ), reward and recognition (t =1.874,  $P>0.05$ ) in both public and privatized banks. The results indicates that perceived selection criteria, attitude toward fair selection, managers participation in selection, standardization and knowledge requirement for job, extensive training programmes, performance appraisal mechanism, required skills for jobs, specialized materials and procedures, interaction with people, tasks significance, task automation, and skills simplification operates

**Table 3.** Independent sample T-test for mean difference of HRM-ISQ constructs.

HRM-ISQ construct	t-value	Sig
Employee selection	0.143	0.989
Employee training and development	1.371	0.171
Work design	0.008	0.993
Job definition	0.775	0.439
Rewards and compensation	1.874	0.062

Level of significance = 0.05.

**Table 4.** Regression paths of research model, estimates, critical ratio and P-value.

Paths	Estimate	S.E.	C.R.	P	Label
EJS <--- ISQHRM	0.557	0.084	6.647	0.000	Supported
ES <--- ISQHRM	0.636	0.094	6.736	0.000	Supported
ETD <--- ISQHRM	0.607	0.114	5.318	0.000	Supported
WD <--- ISQHRM	0.509	0.067	7.649	0.000	Supported
JD <--- ISQHRM	0.583	0.074	7.886	0.000	Supported
ER <--- EJS	0.292	0.049	5.959	0.000	Supported
ERC <--- ISQHRM	0.915	0.108	8.486	0.000	Supported

(EJS = Employee Job satisfaction, ES = Employee selection, ETD, employee trainings and development, WD= Work Design, JD= Job Definition, ER= Employee Retention, ERC, Employee Reward and compensation).

in work settings are at equivalence in both public and privatized banks. In the proceeding, section structural equation model is carried out by means of AMOS 18.0 for model testing purpose.

The result in Table 4 reports regression paths, regression estimates, standard error, critical ratio, significance values, and label of hypothesized relationship. The results reveal positive and significant relationship between internal service quality in human resource management and employee job satisfaction ( $\beta = 0.557$ ,  $P < 0.05$ ). It is evident from the analysis that internal service quality in HRM intensifies employee job satisfaction by 56% approximately. The critical ratio (CR = 6.647) indicates that ISQ-HRM is perceived as an important determinants in ensuring employee job satisfaction in both public and privatized banks. The results further demonstrate that employee selection ( $\beta = 0.636$ ,  $P < 0.05$ ), employee training and development ( $\beta = 0.607$ ,  $P < 0.05$ ), work design ( $\beta = 0.509$ ,  $P < 0.05$ ) and Employee rewards and compensation ( $\beta = 0.915$ ,  $P < 0.05$ ) lingers high, positive and significant dimensionality to internal service quality in human resource management.

It is evident from the analysis that employee job satisfaction is positively and significantly playing a role of mediator in retaining employees in both public and privatized bank in Pakistan. The results reveal that employee job satisfaction is intensifying employee retention in organization and there is strong and positive

relationship between employee job satisfaction and employee retention ( $\beta = 0.292$ ,  $P > 0.05$ ). The critical ratio (CR = 5.959) indicates that professed employees job satisfaction is denotational factor that drives employee retention in public and privatized banks in Pakistan. The regression estimates engross positive and significant relationship between regression paths, however, ISQ-HRM model acceptance and rejection decision is carried out in model indices discussed below in Table 5.

The results in the above Table 5 signifies model fitness index, as significant regression paths does not necessarily mean model is fit, researcher have to go through model fit index provided by AMOS output. Table 5 reveals seven (7) model fitness criteria. The model chi-Square (Chi) and associated significant value indicates that this criteria does not fulfill the minimum requirement of model fitness as the significant value is less than level of significance ( $P < 0.05$ ) indicating discrepancies factors in the model, whereas, the corresponding Chi-Square value is also greater than 2 as suggested by (Tabachnick and Fidell, 2007) to as low as 2.0 (Wheaton et al, 1977) as high as 5.0. Chi-square lack of it might be one of the possible reasons indicated by (Bentler and Bonnet, 1980; Joreskog and Sorbom, 1993) that Chi Square is sensitive to sample size and nearly always reject model when sample size is large. Another fitness measure is goodness of Fit index (GFI), by convention the value of GFI equal to or greater 0.90 is acceptable (Schumacker

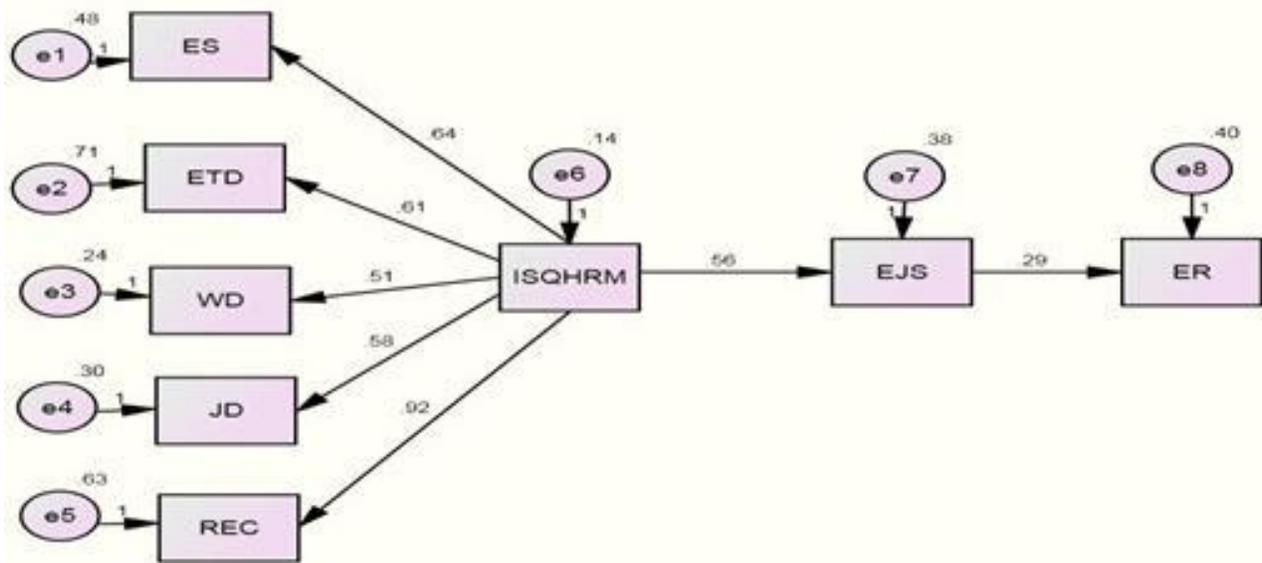


Figure 1. Path diagram of the research model.

Table 5. ISQ-HRM model fit indices.

Chi	Df	Sig	Chi/Df	GFI	AGFI	CFI	NFI	RMSEA
253.09	21	0.000	12.05	0.943	0.930	0.899	0.917	0.0423

(GFI = goodness of fit index, AGFI = adjusted goodness of fit index, CFI= comparative fit index, NFI = norms fit index, RMSEA = root mean square of approximation).

and Lomax, 2004). This criterion fulfills the minimum acceptance level of Model Fit (GFI> 0.90) and AGFI is variant of goodness of fit which adjusted goodness of fit index for degree of freedom. Further criteria includes CFI (comparative fit index) is revised form of NFI (norm fit index). The suggested value for NFI and CFI is equal or greater .90 Hooper et al (2008). RMSEA (root mean square error of approximation) tells about optimally chosen parameters would fit the population co-variance Matrix (Byrne, 1998). According to MacCallum et al., (1996) RMSEA value below 0.08 show good fit of the model. Based upon the aforementioned criteria five model fit indices fulfill the criteria of HRM-ISQ Model fitness. According to Jackson and Schuler (1995), when HRM term is used as umbrella that incorporates specified human resource practices like recruitment, selection, formal appraisal system, formal developmental practices along with standardize procedures that partially constrains specific development practices and specify values in organization that enlighten organization policy and practices. The results find that employees job satisfaction is positively related with internal service quality in human resource management which comprised of standardize practices if being followed by organization.

The findings of this study are consistent with those perceived by Heskett et al. (1994). They formulated internal service quality components like work place design, job design, employee's selection and development, employee rewards and recognition and tool for serving customers which derives employee's job satisfaction and hence further direct employee retention. The results of this study are in line with Mohanty (2009). He stated that practices like open communication, employee rewards programs, career development programs performance-based bonus, Recreation facilities, and gifts at some occasion can help organization to retain potential human resource.

Examples from successful organizations demonstrate that they have gone a long way to design effective human resource system. It includes effective manpower planning, recruitment and selection process, realistic performance plans and development-oriented performance appraisal, effective learning system providing ample learning opportunities with the help of training, performance guidance, and other mechanisms such as effective implementation of the internal service quality in its proper essence which ultimately leads to the employee retention. It also consists of such mechanisms as

inculcate a sense of pride in the work.

## **Conclusion**

The human is the most important asset for organizations, especially in the era of competitiveness where management cannot be able to afford the loss of potential employees. It is pragmatic challenge for HR practitioners to make it possible by utilizing the human potential in a way to make them knowledgeable worker and productive for organization and society as well. The proposed model considering the requirements of that times not only useful for the regulators but also provide a guideline to HR professional to devise a standardize procedure. This study is conducted on banking sector of Pakistan to check the relationship between employee retention and internal service quality in human resource management practices to offer sound theoretical and empirical support to corporate leaders of banking industry of Pakistan. The results of the study finds that internal service quality in human resource management has positive and significant effect on employee retention by assigning mediating role to employee job satisfaction. The study further concludes that there is no evidence of perceived variations in employee selection, employee training and development, work design, job definition and employee rewards and compensation difference in both public and privatized banks. However, if both banks are comparatively analyzed public banks in term of internal service quality dimensionalities are lagging behind privatized banks indicating that relatively less attention has been given to employee selection, employee training and development, work design, job definition and employee rewards and compensation. The results of this study provide managerial professionalism to integrate systems which should be designed and implemented to support the employees in high service environments and show as to how influential these systems are in predicting the employees' outcomes including the internal service quality (employee selection, employee rewards and recognitions, employee training and development, work design and Job definition) employees' satisfaction and employee retention.

## **RECOMMENDATIONS AND LIMITATIONS**

After extensive discussion and in-depth analysis this study offers several recommendations for corporate leaders and banking industry of Pakistan for designing internal service quality in human resource management. Based on findings, the study recommends that the success of banks is dependent on the HR practices, procedures/applications, and implementation towards their (employees') internal customers. It is known that the relationship with employees' satisfaction is considered one of the most important drivers of the perceived

internal service quality and it is strongly associated with the employee retention but unfortunately this relationship in its real essence is hardly taken notice of. Therefore, it is necessary for the bank management that they must satisfy the employees first to make them highly motivated with good working morale, and they will work more effectively and efficiently. The aspects of job-related attitudes enhanced as the ISQ practices increase. The study recommends that the human resource development departments should review and enhance the motivation, training, and retention of good employees and that employee should support the concept of the ISQ. The employees' selection and their rewards and recognitions, their training and development, work design and job definition all are the most important human resource management practices in enhancing the employees' job satisfaction and the retention of prospective employees. The greater the extent of internal service quality, the greater the enhancement and effect on the employee retention. To the extent that the ISQ also involves senior management, it is important that the senior management is highly committed to and engaged in the HR practices.

The study further recommends that to deliver excellent internal service quality to the employees and strive for business distinction, the employees' satisfaction and employees' retention within the organization is very important. These all can be achieved if the top level management takes extra care while developing the internal services quality bases starting from selection and recruitment process, recognizing the employees with their core expertise and setting up tremendous work design for the employees. So, it is recommended that it should be conducive to enable the human resource to deliver what is expected of them. This study has several limitations which need to incorporate in future research. This study did not incorporate external customer's satisfaction in the model testing due to particular focus on internal customers and organizational internal service quality with respect to HRM. The scope of this study is limited to banking industry of Pakistan, however we strongly encourage researchers to extend this model to other industry to test the relationship to lay down guidelines for corporate leaders and in further research impact of internal service quality in human resource management on external customers is need to research.

## **IMPLICATIONS FOR MANAGERS**

This study provides qualitative insight of professionalism for the policy makers to devise a conducive environment considering the philosophy of HRM in the organization

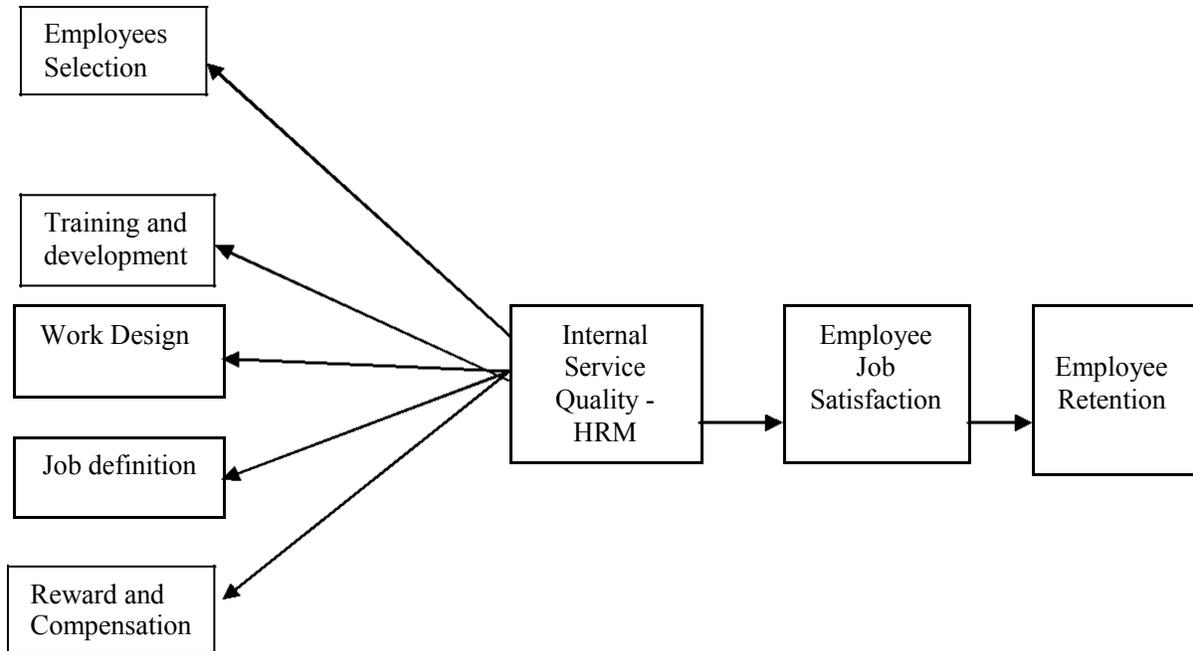
.The proposed and tested internal service quality model itself in unique nature in Pakistan especially in terms of HRM practices considering it five basic facet such as employee recruitment, employee reward and recognitions, employee training and development, job definition and work design. The study has practical implications for

the regulators and the banks management in particularly HR professional to devise and regulate the frame work on standardize basis to improve the HR practices in banking sectors of Pakistan.

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**APPENDIX**



**Figure 1.** Research model.