

An Empirical Investigation into the Role of Internal Service Quality in Fostering Organizational Performance

Khawaja Fawad Latif*, Qadar Bakhsh Baloch** and Umer Farooq Shahibzada***

ABSTRACT

The study seeks to evaluate the role of ISQ in improving organizational performance. The sample included 80 bank branches, the data was collected from the employees working in different bank branches located within the city of Peshawar. Banks selected as part of the population required to have more than five branches. Stratified random sampling technique was utilized to collect the data from different banks operating in the city of Peshawar. A total of 564 questionnaires were distributed in 80 different branches of medium and large sized banks. In the present study 404 questionnaires were returned, constituting the response rate of 71.63%. A total of 63 questionnaires were rejected. The total number of questionnaires usable for the study was 341. The objective measures for bank performance used in the present study included Return on Equity (ROE), Earnings per Share (EPS) and Return on Assets (ROA). The study ascertains that ISQ has a significant influence in predicting both subjective and objective organizational performance measures. The present research strengthens the theoretical assertions that unless ISQ is not strengthened, the organization will not be able to attain external service quality, growth and profit. The effect of ISQ is important to top management, implying their responsibility for investing to create an environment that nurtures trust, understanding, commitment, provision of timely service, and positivity in attitude and behavior. Management which expects to reap benefits of service quality must understand the need of better ISQ and should invest in the intangible factors that have been proven to affect the tangible profits. The research study affirms that it is not only external service quality that adds to the profitability of the organizations. Therefore, it is found imperative for the banks to foster ISQ in their workplace environment.

Keywords: Internal Service Quality, Subjective Organizational Performance, Objective Organizational Performance

INTRODUCTION

Organizations operate in an extremely competitive, vibrant, challenging, and dynamic business environment. In response to the pressures of running business in such an environment, organizations seek ways to add value to the services offered and improve their service quality. One way to achieve optimal level of service quality is through focus on the human resources. Lack of attention towards human resources can seriously hamper the value of service. This is because in customer contact businesses, quality of

*Assistant Professor, COMSAT Institute of Information & Technology, Attock.

**Associate Professor, HoD Management Sciences Department, NUML University Peshawar

***Lecturer, Department of Management Sciences, Abasyn University, Peshawar.

service delivered is strongly linked with the quality of service providers. It is for this reason that the need for quality improvement continues unabated both in the manufacturing and service sector (Longenecker & Scazzero, 2000). The challenge to provide efficient and effective service is dictated by the fact that today's customers are more informed, knowledgeable, and experienced about the variety of products and services being offered in the market. This awareness about product quality, shape customers' expectations about the product, and compels the business world to meet the expectations and anticipations of the customers (Prakash & Mohanty, 2012). Parasuraman (2002) stressed that scholarly literature attests to the benefits of providing superior customer service. Emphasis is laid on the business to create meaningful, memorable customer experiences (Prakash & Mohanty, 2012). This user satisfaction will come from service quality (Hernon & Whitman, 2001; Wang & Shieh, 2006). Service quality is an important tool that not only ensures survival but growth in the extremely competitive business environment. Service quality has been identified as one of the key features that ultimately leads to organizational success; however a decline in service quality leads to deterioration in the level of customer satisfaction (Frost & Kumar, 2000) which adversely affects organizational performance. However, increased level of service quality has been found to produce greater satisfaction amongst customers that could lead to patronage intentions and increased sales (Prakash & Mohanty, 2012).

Service Quality takes two different forms i-e, external and internal. External service quality relates to assessment based on what the customers' value and what they are willing to pay for (Dinitzen & Bohlbro, 2010). External service quality is strongly contingent to internal service i-e, employees receiving high quality internal services would strive to provide higher quality external service. Internal service quality (ISQ), on the other hand, points to services provided by distinctive organizational units or the people working in different departments to other departments or employees within the organization (Stauss, 1995). Thus, in order to achieve optimal level of ISQ, organizations will have to focus on its employees. This is imperative for most services, as the delivery of services occurs through human interaction (Boshoff & Mels, 1995). While human factors are significant in all quality enhancement initiatives, they are critical in service industries (Longenecker & Scazzero, 2000). Extensive research is available on service quality from the external customer perspective, however, relatively few studies have concentrated on the relationship between (Internal Customers) service quality especially in commercial banks and its relationship with organizational performance. It is important to note that business organizations have been complacent in recognizing the severe repercussions of their sluggish ISQ and its influence on organizations' overall performances (Vanniarajan & Subbash, 2011). Hence, the present study is operationalized among banks. The banking sector is a demand driven industry and represents a vital section of the services industry in any country (Mishkin, 2001). The current rapidly changing environment is compelling the attention of banking institutions towards service quality, and retail banks are striving towards increasing customer satisfaction through improved service quality (Choudury, 2014). This is because growth in the banking sector and the ever increasing competition among banks has clearly highlighted the need for customer

satisfaction and optimization of customer service for a surge in market shares and profitability (Anderson et al., 1994). It is however important to note that for many organizations, quality means meeting customers' requirements. However, customer may not refer to people outside the organization only, Juran (1988) defined customers as persons who are not only the organization's customers but also its employees. He included all persons in customers who are affected by an organization's processes and products. Organizations understanding of how a person working within the organization is affected by the activities within the organization can not only aid in designing strategies and practices that would offer a more congenial business environment but also make employee reciprocate with level of performance desired by the organization.

LITERATURE REVIEW

Two main streams of literature have been utilized for building our model and hypotheses. The first stream relates to internal service quality, the second stream relates to organizational performance.

Internal Service Quality (ISQ)

Employees working in an organization can only produce fruitful results for the business if the communication, coordination, and relationship among them is efficient and effective. Employees are strongly reliant on each other to produce the required level of service, this service delivered and received is referred to as ISQ. ISQ is defined as the quality of service delivered by different departments or the people working in these departments, to other departments or to workers within the organization . The person delivering the service is referred to as the supplier, while the person receiving the service is the internal customer. Hammer (2001) defined ISQ as “an organized group of related activities that together create a result of value to customers.” (p. 52). It can be asserted that the former definition highlights the system of ISQ while the latter identifies the ultimate objective of ISQ. The concept of ISQ used in this research reflects Heskett et al.'s (1994) statement that ISQ is determined by the attitudes employees have towards each other and the way people serve each other within the organization. In simple terms, ISQ refers to the quality of interaction, support, and level of communication between different individuals working in an organization.

Management and staff in organizations rarely understand that employees and functions are actually customers of each other. Acknowledging the view that employees are also customers involve managing people's skills to make each person feel valued and communicating the importance of each job role across the team. There must be a feeling of reliability among staff and they shall share mutual respect. This will lead to an attitude of satisfaction. When the internal customers are completely satisfied, the workforce is ready to satisfy its customers (Papasolomou & Vrontis, 2006). This satisfactory service received by the internal customers (Employees) within the organization translates into the business ability to please the external customers. This argument is supported by various researchers who have argued that both internal and external customers are equally important, and successful quality of service received by the internal customers

would lead to efficient and effective external service as it would result in more effective performance, lower waste and lower costs (Marshall, Baker, & Finn, 1998; Stanley & Wisner, 2001). The kind of treatment the internal customers receive severely affects the external customers; managements' inconsiderate behavior towards employees (Poor working conditions, Low pay, limited career opportunities, lack of training and development) can stimulate negative attitude in staff that would result in negative behavior towards the external customer (Christensen et al., 2007). The indecent behavior by the management towards the employees can also lead to hostile relations between the coworkers, resulting in retaliation from employees in the form of delays in completion of tasks, sharing of incorrect information, lack of willingness to help and cooperate with coworkers. Bouranta, Chitiris and Paravantis (2009) assert the view that if managers wish to improve the external service quality they should focus on ISQ issues.

Business has laid much of their focus on the external service quality. Hays (1996) highlighted the ground for this management behavior and further observed that the excitement and passion surrounding the drive and excellence to serve external customers often outdo the internal activities and processes. The management must understand that if staff in one department fails to provide timely service to their coworkers in another department, this will surely result in delayed service to external customers, thus resulting in negative credibility and loss of reputation. This slowness in focus towards ISQ is changing. Business organizations are realizing the fact that an adequate level of service received within the organization would translate into satisfactory external service quality. Thus the ultimate objective of ISQ is to provide quality service to external customers that actually relies on delivering service quality across internal units (Brandon-Jones & Silvestro, 2010).

Heightened level of internal service experience between the employees can help in creation of an improved service experience for the customer. It is thus important to note that an organization that wants to better serve its customer cannot only focus its energies on spending time and money on finding ways to provide enhanced service to its customers, but on its internal service units as well (Hays, 1996). Cook (2004) endorsed the assertion that many businesses invest their time and effort in measuring external customer perception, but they fail to recognize that external service is a reflection of what is happening in the organization between staff and different functions, different departments provide service to each other, the type of service they provide each other. It is anticipated that similar type of service would be provided to external customers, thus if a poor internal service exists, the final service to the customer will be damaged (Kang, James, & Alexandris, 2002).

ISQ has its imprints on the success of the business that comes from service performance, while service performance comes from the quality of service (Zailani, Din, & Wahid, 2006). This quality of service is not only the external service quality but also the ISQ, since the quality of external service is dictated by the quality of internal service (Cook, 2004). Not only that ISQ results in external service quality, but also benefit the organization in a variety of other ways, for instance employee retention is based on ISQ (Cook, 2008; Dinitzen & Bohlbro, 2010; Suganthi & Samuel, 2004). Furthermore the focus on ISQ is important for business growth (Little & Marandi, 2003), it's critical in

determining the success of an organization in today's competitive environment (Anosike & Eid, 2011; Frost & Kumar, 2001), it is crucial in the effective implementation of the organizational objectives (Anosike & Eid, 2011). The need for effective ISQ is further enhanced by the fact that it is the first step in the service-profit chain (Williams, 2007), since service quality delivered early in the production chain sets an absolute limit on the potential quality of the final good/service to the external customer (Hays, 1996). The importance of providing excellent service to internal customers is evident despite its far reaching benefits in serving external customers and helping business attain competitive advantage, the area has received little attention (Jun & Cai, 2010). Hence, the present research endeavors to enrich the existing literature on ISQ and highlight the role it can play in attainment of improved organizational performance.

Measuring ISQ

Service Quality is not easily classifiable and quantifiable owing to the characteristics of services that differentiate it from goods, this actually poses a problem with the management of service quality in service firms. The reason for this difficulty is highlighted by Parasuraman, Zeithaml, and Berry (1985) who noted that goods have tangible cues to assess quality, they may include style, hardness, color, label, feel, package, and fit. However, in case of service fewer tangible cues exist. Similar to the measurement of quality perceived by customers in the form of sets of dimensions or criteria, the quality of internal service that employees receive from other departments can be meaningfully categorized and measured (Reynoso & Moores, 1994). One of the approaches to measure ISQ is a gap-based measure, this is achieved through the utilization of the SERVQUAL scale (Parasuraman et al. 1988).

One of the earliest attempts, on modelling service quality came from Parasuraman, Berry and Zeithaml (1985). Parasuraman, Zeithaml, and Berry (1985) identified ten determinants of service quality, as identified in table 3. Parasuraman, Berry and Zeithaml (1988) measured customers perception of service quality through development of a multi-item scale from the original ten determinants. Zeithaml, Parasuraman and Berry (1990) claimed that,

“SERVQUAL, with appropriate adaptation can be used by departments and division within a company to ascertain the quality of service they provide to employees in other departments and divisions”

Similarly Kang, James, and Alexandris (2002) also assert that it seems reasonable to modify SERVQUAL instrument to measure ISQ. A number of attempts have been made to utilize servqual instrument to measure ISQ. Young and Varble (1997) used SERVQUAL, the results indicated that SERVQUAL is a useful method for obtaining feedback from internal customers. The study found reliability to be the most important dimension, while tangibility was found to be less important by the internal customers. Reynoso and Moore (1995) studied ISQ at two hospitals in England. They found ten dimensions of ISQ. It was concluded that transferability of the SERVQUAL dimensions from the external to the internal customer appeared to be well justified. Similarly, Brooks, Lings, and Botschen (1999) compared dimensions of ISQ with the SERVQUAL dimensions of external service quality which have been proposed by

Parasuraman et al. (1988). They found Eight of the ten dimensions recognized by Parasuraman et al. (1985) to be important internally and two additional dimensions, proactive decision making and attention to detail were found to be important in the internal customers' evaluation of the service received. Tangibility was found to least important to the internal customer. This is in fact similar to the study by Young and Varble (1997) who also found tangibles to be least important dimensions for the internal customers.

Kang, James, and Alexandris (2002) used the SERVQUAL questionnaire (Parasuraman, Zeithaml, & Berry, 1988) to develop an instrument that would measure ISQ. They found that ISQ had similar dimensions, namely assurance, tangibility, reliability, responsiveness, and empathy. Bouranta, Chitiris, and Paravantis (2009) in their study of restaurant industry in Greece measured ISQ by developing a new scale based on SERVPERF. On the suggestions of a focus group consisting of five experienced waiters, the initial instrument was supplemented and improved; the final instrument included 23 items and exhibited good internal consistency. The dimensions of ISQ included empathy, responsiveness, professionalism, safety, tangibles, interest and reliability.

There is a great amount of commonality among the dimensions revealed from different studies. With some studies proposing dimensions different from the others, almost all of the studies are unanimous in suggesting that Reliability, Tangibles, Assurance, Responsiveness, and Empathy are key dimensions of measuring service quality. It can also be observed that all other dimensions stem from the original parasuraman, Zeithaml & Berry (1985) scale, since all the dimensions measure the level of different positive behaviours people share at work.

Table 1. Measuring Internal Service Quality

S. No	Study	Dimensions
1	Parasuraman, Zeithaml & Berry (1985)	Responsiveness, Competence, Reliability, Courtesy, Access, Credibility, Communication, Security, Tangibles, Understanding/Knowing.
2	Young & Varble (1997)	Reliability, Tangibles, Assurance, Responsiveness, and Empathy
3	Reynoso & Moores (1995)	Reliability, Tangibles, Flexibility, Promptness, Professionalism, Confidentiality, Communication, Helpfulness, Preparedness and Consideration.
4	Lings and Brooks (1998)	Reliability, Credibility, Responsiveness, Courtesy, Competence, Understanding the Customer, Communication, Proactive Decision Making, Attention to Detail, and Access.
5	Bouranta, Chitiris, & Paravantis (2009)	Responsiveness, Empathy, Professionalism, Tangibles, Reliability, and Interest.

Source: Author

Banks and Internal Service Quality

The current study is concentrated in the banking sector. Banks can significantly contribute to the economic development of a country. In the contemporary world the area of service quality management is experiencing a number of improvements and especially in the banking sector, it is hard to identify a single bank that has not instigated any kind of service quality improvement program. In view of the increasing similarity of product characteristics, service quality has become indispensable in keeping ahead of

competitors. The focus on service quality is dictated by the expectations that banking operations would be more dynamic and competitive, since there is increased deregulation, liberalization, and globalization (Taap, Chong, Kumar, & Fong, 2011). This is also necessitated by the fact that although the contact time between employees and customers may be short, but this contact happens quite regularly, service provided to the customers most of the times come from variety of employees working together, data and information are exchanged amongst the employees to produce quality service to the customer, it could be argued that workers who effectively manage internal customers would establish similar and suitable behavior when interacting with external customers (Bellou & Andronikidis, 2008). It is thus asserted that employee's failure to coordinate among themselves will lead to poor quality of service that will affect the financial performance of the bank since the service quality of banks rely over the ISQ (Vanniarajan & Babu, 2011). This assertion is validated by Anosike and Eid (2011), who found a positive influence of ISQ on customer orientation. Thus to improve high quality of internal service in banks, administration shall prioritize the monitoring and management of quality initiatives (Bellou & Andronikidis, 2008).

Service Quality has been studied in banking sector. Mukherjee, Nath and Pal (2003) studied a total of 27 public sector banks and their customers in India. They evaluated the influence of service quality on financial performance. The results revealed that banks with higher level of service have an improved resource transformation to performance using superior service delivery as the medium. The outcome of the study endorsed the linkage between resources, service quality and performance. Similarly, Sobhy and Megeid (2013) found positive and direct nexus between customer service quality, profitability and liquidity. Although, the importance of ISQ in banks is vividly highlighted, there has been very little research on how ISQ influences bank's performance.

Organizational Performance

The ultimate criterion variable of interest for researchers in any area of management is organizational performance (Richard, Devinney, Yip, & Johnson, 2009). Organizational performance is an indicator which measures how well an organization attain their objectives (Hamon, 2003). Organizational performance alludes to financial performance in economic terms such as profits and return on investment (Homburg & Pflesser, 2000). Organizational survival is determined by performance, which is at the core of all the activities that are undertaken by the organization (Abdalkrim, 2013; Bani-Hani, Al-Ahmad, & Alnajjar, 2009; Choudhary, Akhtar, & Zaheer, 2013). Organizations aim to sustain competitive advantage and attain high performance. Performance of an organization is the result of its activities and processes (Robins & Coulter, 2007) and is a reflection of how well the organization exploits its tangible and intangible resources (Wheelen & Hunger, 2010).

Research has described OP as a multi-dimensional concept (Hamdam, Pakdel, & Soheili, 2012; Ouakouak, Ouedraogo, & Mbengue, 2013). There are different aspects on which organizational performance can be evaluated (Choudhary, Akhtar, & Zaheer, 2013). Measures for OP can be divided into two categories: financial or non-financial (Abdalkrim, 2013; Akdemir, Erdem, & Polat, 2010; De Waal, 2012; Nzuve and Omolo,

2012). Organizational performance may be measured using objective or subjective (i.e. Perceptual) measures. Hancott (2005) revealed that, a number of objective indicators have been adopted to measure OP, such as net or total asset growth rate, profit growth rate, shareholder return, return on sales, growth in market share, return on net assets, and number of new products, etc. In 1990, return on net assets and return on capital have been applied in performance measurement as well. Tippins and Sohi (2003) propose that OP is measured on four dimensions: relative profitability, return on investment, customer retention, and total sales growth. In the present study, for the present study the focus is on both objective and subjective performance.

Subjective data involve perceptual judgement, however, traditionally objective data have been believed to be less biased, but the problem is that it is not always available, when this is the case subjective data may be a reasonable alternative (McCracken, McIlwain, & Fottler, 2001). Subjective measures ask supposedly well-informed respondents (key informants) about organizational performance. According to Singh (2004) a disadvantage of a perceptual measure is that it can be highly subjective, both in the judgment of organizational performance itself and in the selection of a competing organization.

The present study also takes into account the objective data pertinent to organizational performance. The objective data that are incorporated in the present study includes the following Earning per Share (EPS), Return on Equity (ROE), and Return on Assets (ROA).

Service Quality and Organizational Performance

Deming (1982) noted that quality initiative within the organization results in enhanced productivity that ultimately leads to improved competitiveness. Organizational performance fundamentally depends on its key resource “people”. For Quality is the responsibility of everybody ranging from top management to the unskilled worker (Feigenbaum, 1983). Feigenbaum, further identified that it is the total participation of all employees and the total integration of all the company's technical and human resources that will lead to long-term business success. Juran (1988) highlighted that the involvement of the management can become visible through the establishment of the Quality Policy. In the banking industry, the importance of relationship development and maintenance with key customers has previously been investigated (Madill, Feeney, Riding, & Haines, 2002). Hawke and Heffernan (2006) identified increased profit through reduced risk, improved communication links, and referrals to be some of the benefits of strong relationships with key customers. Although, it is noted in the context of external customers yet repeatedly the same is recorded for the internal customers as well. The bank needs to maintain cordial relationship within the bank, which would positively influence bank performance.

Provision of quality service to external customers is only possible through significant improvement in organizations' improvement of quality service to internal customers. Better performance, combined with improved attitudes, transfers itself in quality service delivery. Improved service and empathy from employees results in willingness of external customers to purchase the service, which results in improved financial performance (Getty & Getty, 2000). Provision of service by employees to their

coworkers is an important dimension of ISQ. Adequate service provided would help the employees in performing their duties in an acceptable manner without any strain of delay or errors, thus, the quality of internal services affects employee satisfaction (Zhen-You, 2003). Bellou and Andronikidis (2008) conducted a study on 16 big banks in Greece found that banks' performance eventually improved through improved ISQ that influenced the behavior and satisfaction of the external customers.

RESEARCH METHODOLOGY

Population and Sample

The population frame for the study was drawn from the banks listed in Karachi Stock Exchange (KSE) having over five branches operating in Pakistan and the city of Peshawar. Out of 24 banks listed in KSE, banks with more than five branches in the city were included in the study. The list of sample frame is tabulated below.

Table Sample Frame

S.No	Banks	Total No of Branches operating in Peshawar	Total No . of Employees in Peshawar
Large Banks			
1	Allied Bank Limited	34	238
2	Bank Al-Falah	13	137
3	Habib Bank Limited	27	201
4	National Bank Limited	21	262
5	United Bank Limited	27	159
6	MCB Bank	27	323
	Subtotal	149	1320
Medium Banks			
7	Bank Al-Habib	9	97
8	Askari Bank	7	104
9	Faysal Bank	9	130
10	Meezan Bank Limited	11	144
11	Bank of Khyber	14	161
	Subtotal	50	636
		199	1956

The stratified random sampling technique is utilized. The banks were divided into two strata, Medium and Large Banks, since smaller banks had less than or equal to 5 branches in Peshawar they were excluded from the study. Banks with total assets in excess of Rs. 500 billion is categorized as "Large Banks", banks with total assets in between Rs. 100 billion to Rs. 500 billion is categorized as "Medium Size Banks". The research adopted the stratified random sampling technique, distributed population in homogeneous groups of medium and large banks.

Measurement

In order to investigate the role of ISQ in fostering organizational performance, both primary and secondary data has been collected. A questionnaire has been used to collect primary data from bank employees, while financial performance data has been collected

from annual bank reports. Three years data relating to financial performance were taken from the financial reports of the banks submitted available on the bank's website. Return on Equity (ROE), Earning per Share (EPS), and Return on Assets (ROA) were the objective measures of organizational performance used in the study. ISQ was measured by a scale developed by Kang, James and Alexandris (2002). Five dimensions were identified from ISQ scale, namely Reliability, Assurance, Tangibles, Empathy and Responsiveness. Tangibles dimension was not included in the study. A total of 18 items made up the ISQ scale. Subjective organizational performance was measured using the scale developed by Tseng (2010).

Data Collection

The research setting for this study was Public and Private Sector Banks in KPK. The research primarily focused on the primary sources of data collected through research questionnaire. A total of 564 questionnaires were distributed in 80 different branches of medium and large sized banks. In the present study 404 questionnaires were returned, constituting the response rate of 71.63. A total of 63 questionnaires were rejected. The total number of questionnaires usable for the study was 341. The following table summarizes the banks selected as sample, questionnaires distributed, questionnaires returned and questionnaires usable.

Table Questionnaires Response Details

S.No	Bank	No. of Branches	No of Employees	Questionnaires Returned	Usable Questionnaires
1	Allied Bank Limited	10	57	37	30
2	Bank Al-Falah	7	46	35	32
3	Habib Bank Limited	9	57	37	34
4	National Bank Limited	7	54	41	36
5	United Bank Limited	10	55	38	33
6	MCB Bank Limited	7	50	36	29
7	Bank Al-Habib Limited	5	35	22	10
8	Askari Bank	5	46	36	33
9	Faysal Bank Limited	5	35	23	18
10	Meezan Bank	7	51	38	32
11	Bank of Khyber	8	78	61	54
	Total Number of Branches	80	564	404	341

DATA ANALYSIS AND RESULTS

Profile of the Respondents

The demographic profile of respondents showed that average age of respondents was 33.58, minimum age of a respondent was 20 years while the oldest bank worker in the study was 59 years old. Majority of the respondents in the study belonged to the age group 30-39 consisting of 144 (42.2%) respondents. Gender distribution of the respondents showed that majority of the respondents were male (n = 289) representing 84.8 % of the sample, while females were (n = 52) constituting 15.2% of the total sample. Subjects were also asked to identify their job rank. Majority of the respondents were middle ranked (206) representing 60.4% of the total sample, followed by junior rank employees, which were 91 (26.4%). A total of 45 (13.2%) senior level employees were part of the study. Banking system in Pakistan is either conventional or Islamic.

Data was collected from both Islamic and conventional banks. 266 (78%) of the respondents were from conventional banks while 75 (22%) of the respondents were employed at Islamic banks.

Table 1. Demographics Profile of Respondents

<i>Age Group</i>	Frequency	Percent
20-29	128	37.5
30-39	144	42.2
40-49	41	12.0
50-59	28	8.2
<i>Gender</i>		
Male	289	84.8
Female	52	15.2
<i>Job Rank</i>		
Junior	90	26.4
Middle	206	60.4
Senior	45	13.2
<i>Banking System</i>		
Conventional	266	78.0
Islamic	75	22.0

Factor Analysis

Factor analysis was performed to identify the underlying factors. Before factor analysis it is important to check if the data meets the required assumptions. To check sample adequacy, Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was used. The data are judged to be factorable if the KMO measure of sampling adequacy is greater than .60 (Huck, 2012). The results for KMO measure of sampling adequacy revealed values for all constructs close to 1, indicating that the sampling condition was satisfied for the analysis.

To evaluate multicollinearity the determinant statistics was examined. Field (2005) suggests that determinant of R-matrix should be greater than .00001. In case the value of determinant is less than the prescribed value, variables that correlate highly shall be eliminated ($r > .8$). Inter-variable correlation and determinant statistic for each construct was examined. Items depicting multicollinearity were deleted from further analysis. Summary of items removed due to multicollinearity is summarized in table 2. Bartlett's test of sphericity was utilized to examine if the correlation matrix fit's an identity matrix. A significant Bartlett test indicates that correlation matrix is significantly different from an identity matrix. For factor analysis in the present study principal component analysis with varimax rotation is used. The most commonly used approach for factor analysis is principal components analysis (Pallant, 2011; Huck, 2011). The most popular rotation method used is varimax rotation (Huck, 2012). The minimum factor loading criteria was set 0.50 which is considered higher (Leech, Barrett, & Morgan, 2005).

Table 2. Multicollinearity Analysis

Construct	No. of Items	Multicollinearity	Item(s) removed	Items remaining	
Internal Service Quality	18	ASR1-ASR2 ASR3-ASR4 RES4-RES3 EMP4-EMP5	ASR2 ASR4 RES3 EMP5	14	
Organizational Performance	5	OP4-OP5	OP5	4	
Construct	DCM	KMO	BTS	Variance Extracted	
Internal Service Quality	.00002	.935	3553.091	.000*	67.551
Organizational Performance	.087	.804	825.139	.000*	75.551

Component Matrix

Factor analysis results for each construct are described in this section. A total of six items were part of the collaborative culture. All items loaded onto a single factor with all loading over .70. No items were removed, and all items represented the underlying factor organizational collaborative culture. Theoretically internal service quality is made of four dimensions, however in the present study factor analysis extracted two factors, reliability and empathy & responsiveness. First factor had a total of six items. Seven items loaded onto the second factor. One item cross loaded and hence was removed from further analysis. The results of factor analysis of the criterion variable organizational performance reveal a uni-factorial solution.

Table 4. Factor Analysis Results

Construct/Variables	Loadings
Internal Service Quality	
<i>Reliability</i>	
REL1	.728
REL2	.808
REL3	.789
REL4	.797
REL5	.807
ASR1	.733
<i>Empathy & Responsiveness</i>	
EMP1	.708
EMP2	.729
EMP3	.744
EMP4	.749
RES1`	.707
RES2	.703
RES4	.710
<i>Item Removed (Cross Loading)</i>	
In my bank Coworkers are polite and kind.	
Organizational Performance	
OP1	.827
OP2	.916
OP3	.880
OP4	.851

Reliability and Validity

Cronbach Alpha test has been used to test the reliability of the constructs. The results of the Alpha Reliability are shown in Table 5. The reliability of the construct in the present study range between .896 and .938. Results indicate that reliability of all the constructs is well above .8 (Field, 2005) which indicates good reliability is attained. Further to the reliability, validity of the measures is also established. Both convergent and discriminant validity is established. Convergent validity is established when the concepts that should be related to each other are in fact related. The uni-factorial nature of variables and constructs confirms the construct validity of the dimensions under study. Convergent validity is established if an AVE of .50 or greater is achieved for the constructs. Organizational Performance construct is uni dimensional hence convergent validity is established. Furthermore AVE is calculated, the results revealed that convergent validity for all constructs is established since the statistics for AVE for all the factors is greater than .50.

Table 5. Reliability analysis of the constructs

Constructs	Cronbach's Alpha	AVE
Internal Service Quality	.938	
Reliability	.913	.60
Empathy & Responsiveness	.907	.52
Organizational Performance	.890	.75

Discriminant validity determines the extent to which sufficiently distinct constructs are not strongly correlated with each other. Discriminant validity is established if square root of AVE for each construct is greater than inter-correlations of other constructs. Table 6 compares AVE square roots and inter-construct correlations.

Table 6. Square root of AVE and Inter-Construct Correlations

	REL	OP	EMPRES
REL	(.77)		
OP	.607**	(.86)	
EMPRES	.720**	.618**	(.72)

Evaluations of Measurement Models

The present study involves a total of eight different constructs. This section tests subjects each of the construct to confirmatory factor analysis (CFA) to test if the data fits the measurement and structural model.

Internal Service Quality

Exploratory factor analysis revealed two factors for ISQ namely reliability and Empathy and Responsiveness. Only one item was removed since it failed to load substantially. Final ISQ construct had a total of 12 items. The initial and final attained factor structure is shown in figure. The loadings and indices for initial and final attained model are shown in table

Table . Summary of initial and attained findings: Internal Service Quality

	Initial Loadings	Final Standardized Loadings	C.R. (t)		
<i>Reliability</i>					
REL1	.725	.707	---		
REL2	.760	.748	13.35		
REL3	.819	.809	14.42		
REL4	.856	.877	15.44		
REL5	.864	.867	15.43		
ASR1	.773	.805	14.16		
<i>Empathy & Responsiveness</i>					
EMP1	.796	.799	---		
EMP2	.499	---	---		
EMP3	.818	.777	15.86		
EMP4	.829	.793	16.30		
RES1	.755	.764	15.54		
RES2	.862	.872	18.58		
RES4	.846	.864	18.36		
<i>Attained Fit Indices</i>					
	CMIN/DF (χ^2/df)	SRMR	CFI	TLI	RMSEA
Initial	4.09(262.144/64)	.04	.93	.92	.09
Final	2.56(131.025/51)	.03	.97	.96	.06
Composite Reliability: For Reliability: .91 For Empathy and Responsiveness: .91					

One item (EMP2) that measures if the bank has convenient working hours were removed from the analysis. On deletion of EMP2, the resultant model manifested significant enrichment to the overall fit of the model as shown in the attained fit indices. It was not a problem for the six item factor to attain content and face validity. Finally the composite reliability score for reliability is .91 and empathy & responsiveness was found to be .91 which is deemed to be reliable for the measurement of reliability and empathy & responsiveness. ASR1 for further analysis is referred to as REL6.

Organizational Performance

Originally organizational performance construct had a total of five items. One item was removed due to multicollinearity. The four items left were subjected to CFA. The results showed all items load substantially well onto the construct. The fit indices are indicate an adequate fit for the construct since RMSEA is a little higher. The initial and final loadings are compared in table 5.54. The model is shown in figure.

Table . Summary of initial and attained findings: Organizational Performance

	Initial Loadings	Final Standardized Loadings	C.R. (t)		
OP1	.77	.77	---		
OP2	.91	.96	17.53		
OP3	.82	.77	15.88		
OP4	.78	.73	15.07		
Attained Fit Indices					
	CMIN/DF (χ^2/df)	SRMR	CFI	TLI	RMSEA
Initial	15.38(30.769/2)	.03	.96	.89	.20
Final	3.10(3.10/1)	.00	.99	.98	.07
Composite Reliability: .88					

Hypotheses Testing

Further to the evaluation of the measurement model for each construct, Structural equation model was tested. Three different structural models are proposed. First seeks to investigate the influence of ISQ on Organizational Performance while the second model seeks to evaluate the influence of ISQ objective measures of organizational performance.

Structural Model A: ISQ and organizational performance

Structural model A evaluates the relationship between ISQ and organizational performance. The initial model revealed acceptable fit indices for SRMR, CFI and TLI, however RMSEA showing mediocre fit. The modification indices and standardized residual covariances were analyzed. One item, RES1 was removed and covariances were drawn between items of the similar latent construct. The final attained model showed acceptable fit indices. Table 5.62 shows the comparison between initial and final model.

Table .Summary of initial and attained findings: Structural Model D

CMIN/DF (χ^2/df)	SRMR	CFI	TLI	RMSEA	Path	Loading	C.R	P	Label
2.485(208.70/84)	.03	.968	.960	.06	ISQ → OP	.711	10.276	.000	Supported

The table ascertains if ISQ had a significant influence on organizational performance. The hypothesis is evaluated based on the standardized coefficient, its critical ratio, significance level. The estimation of hypotheses demonstrated that the hypothesized link between ISQ and organizational performance was significant.

Structural Model B: ISQ and Objective Organizational Performance

Structural model B evaluates the relationship between ISQ and objective measures organizational performance. The initial model did reveal good fit indices for SRMR, TLI, and CFI; however the value of RMSEA showed mediocre fit. All items loaded substantially well onto their factors. Any changes to the initial models did not significantly improve the models, hence no changes were made to the model Table 5.64 shows the final model.

Table Summary of initial and attained findings: Structural Model B1-2-3

CMIN/DF (χ^2/df)	SRMR	CFI	TLI	RMSEA	Path	Loading	C.R	P	Label
3.37(212.878/63)	.03	.95	.94	.08	ISQ→EPS	.153	2.307	.021	Supported
3.34(210.423/63)	.03	.95	.94	.08	ISQ→ROE	.269	4.221	.000	Supported
3.29(207.465/63)	.03	.95	.94	.08	ISQ→ROA	.216	3.425	.000	Supported

The table shows if ISQ had a significant influence on objective measures of organizational performance. Contrary to the influence of internal organizational factors, ISQ did have a significant influence on objective measures of organizational performance. The hypothesis is evaluated based on the standardized coefficient, its critical ratio, significance level. The estimation of hypotheses demonstrated that the hypothesized link between ISQ and financial measures of organizational performance were significant.

DISCUSSION AND CONCLUSIONS

The study evaluated the influence of ISQ on both financial and non-financial performance. In order to evaluate the influence of ISQ on organizational performance, different hypotheses were proposed. The analysis revealed a significant influence of ISQ on both POP and Financial performance indicators (EPS, ROE, & ROA). Hence, the entire four hypotheses were substantiated. Study by Bellou and Andronkidis (2008) has shown significant positive influence of ISQ on organizational performance. The results reveal a higher degree of responsiveness in bank employees. The results reveal a significant level of responsiveness by the employees towards their coworkers, this is a significant factor of ISQ (Zhen-You, 2003), and this improved attitude towards coworkers helps in attaining improved organizational performance. Responsiveness corresponds to the fact that bank employees deliver timely

service, since operations in bank are interconnected to each other, provision of timely service to coworkers can significantly enhance quality of service provided to the customers, and subsequently would lead to the customer retention, as well as help in achieving maximum profits. The study started with extensive review of relevant theoretical literature that focuses on ISQ, and Organizational Performance. There is a significant lack of research that investigates the role of ISQ in fostering organizational performance. The study was a survey based research with a positivist research paradigm with a deductive approach that utilized quantitative approaches (Blaxter, Hughes, & Tight, 2006). The population of the study was drawn from Karachi Stock Exchange (KSE) with banks having more than five branches in the city of Peshawar. Stratified random sampling technique was utilized with banks divided into two strata of medium and large banks. Questionnaire was drafted based on the existing constructs from previous studies and was tested using Dillman (2000) four stages of validation. The study evaluated the influence of ISQ on both objective and subjective measures of organizational performance. The results indicated that ISQ had a significant influence on both the subjective and objective measures of organizational performance. The finding strengthens the assertion that unless organizational focus on the service received by coworkers, the organization cannot attain adequate level of profitability and may not be able to ensure external service quality that would ultimately harm business performance.

Limitations and Delimitations

Research is constrained by schedules, resources and scope. These constraints limit the research. Every research is restricted by a number of constraints; the present research is no exception. In terms of the research methodology, the study uses cross-sectional data and hence causality of the relationships between predictor and criterion variables should not be implied from results of this study (Barczak, Lassk, & Mulki, 2010). There may be many aspects and findings that a longitudinal study can reveal. Bank workers work under tight time schedules with multitude of customers waiting to be served, extracting time to complete a detailed questionnaire can be a tough task as well as a challenging endeavor. Thus, a number of questionnaires were half filled, and a number of time repeated reminders and visits were made to collect the questionnaires. Another limitation is that the data collected was confined to one city. Peshawar is the capital of one of four provinces in the country and is a big city with all banks operating in the city. This may limit the generalizability of the research. The present study is limited to large and medium sized banks listed in KSE, the study may be extended to other international and small banks.

Directions for Future Research

There is always room for the researcher to improve the research and delve into

new directions. The future research may consider more than one city for data collection with the inclusion of small and other international banks operating in the country. The present study addresses an area that has significant implications for banking services theory and practice. Continued refinement of the scale for measuring internal service quality in retail banking, proposed in this study, is certainly possible based on further research and trends in retail banking. The current study evaluates the direct influence of internal service quality on organizational performance, future research may include other factors in the Heskett (1994) service profit chain.

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