Examining the Links Between Employee and Customer Variables of Service Profit Chain: A Case of Pakistani Banks

Ishfaq Ahmed, Raima Razzaque and Muhammad Ramzan

1 Ph.D. Scholar, Universiti Teknologi Malaysia, Johor Bahru, Malaysia.
2 MPhil Scholar Hailey College of Commerce, University of the Punjab.
3 Assistant Professor, Hailey College of Commerce, University of the Punjab, Pakistan.

Abstract: The purpose of this paper is to test the links between employee and customer variables of service profit chain in banking sector of Pakistan. This is an analytical study based mainly on the primary data collected through scientifically developed questionnaires. The questionnaires have been personally administered on a sample size of 188 in case of employees and 192 in case of customers, chosen on a random sampling basis from top five banks of Pakistan, i.e. NBP, HBL, MCB, UBL, ABL. SPSS was used to analyze the data. Findings of the study suggest that significant relationship was found between internal service quality perceived by employees, employee satisfaction and loyalty and service quality perceived by customers, customer satisfaction and loyalty. The study also concludes that private banks’ customers and employees are more satisfied with the service quality than that of public banks’.

Key words: Service Profit Chain, Service quality, Employee satisfaction, Customer satisfaction, Banking, Pakistan.

INTRODUCTION

Banks play a very vital role in the economic life of the nation. The vigor of the economy is intimately allied to the reliability of its banking system. Although banks generate no new wealth but their borrowing, lending and related activities facilitate the process of production, distribution, exchange and consumption of wealth. So for a vigorous economic system of a country it is essential that banks of this country must be profitable enough to generate enough funds necessary for economic growth. Whereas, profitability of the banks is largely influenced by the trust of its customers that can only be sustained by efficient working of banks. Efficiency of banks can only be achieved if employees are satisfied enough to satisfy the customers. As, Herb Kelleher, founder of Southwest Airlines states that “There is one key to profitability and stability during either a boom or bust economy: employee morale.” The employee morale would be boost up by high support quality services that drive profitability in the new service paradigm: investment in people, revamped recruiting and training practices and compensation linked to performance for employees at every level (Heskette et al., 1994). According to Heskett et al. (1994), internal service quality components consisted of workplace design, job design, employee’s selection and development, employee rewards and recognition and tool for serving customers. They linked internal service quality with employee satisfaction that further navigate employee loyalty and commitment that leads to the external service values of organization i.e. customer perception of service quality. In addition to gaining high levels of employee satisfaction, the importance of achieving high levels of customer satisfaction has also gained the attention of researchers and practitioners. This is especially the case in the service sector, where many companies are focusing upon service quality improvement issues in order to drive high levels of customer satisfaction which ultimately leads to increased profitability. Perceived service quality is regarded as the feeling customers have regarding the superiority and inferiority of the service provider (Tsoukatos and Rand, 2006). Chau and Kao (2009) emphasize that perceived service quality and its dimensions have a direct impact on customers’ assessment of a company and the willingness to choose the service provider. Cavana et al. (2007) reported that service quality dimensions (tangibles, responsiveness, empathy, assurance and reliability) should be considered in order to see its impact on customers of the service provider. Thus, perceived service quality becomes a crucial competitive bludgeon in banking sector for the banks’ survival and growth as they compete in the marketplace with generally undifferentiated products, so, only thing through which banks can gain customers is the service quality (Stafford, 1996).

These interlinks that started from internal service quality up to organization’s financial performance are referred to as Service Profit Chain. The Service Profit Chain Model provides an integrative framework for examining how employee satisfaction variables are related to customer satisfaction variables and how they ultimately results in profit (Xu and Goedegebuure, 2005). According to Richheld (2000), the two main variables that form different links in the service-profit chain model are customer and employee.
The past decade has witnessed a series of studies on the relationship among these drivers for successful service delivery (Schneider and Bowen, 1985; Hallowell et al., 1996; Prichard and Silvestro, 2005). These studies focused on the partial relationships between employee satisfaction and customer satisfaction. Heskett et al., (1997) addressed more comprehensive relationships with the service profit chain and presented a conceptual model for including the linkages of management practices with service companies. However, they did not consider perceived service quality that affects customer satisfaction. Furthermore, in Pakistan numerous researches have been undertaken to look at the relationship between employee satisfaction and customer satisfaction but no study yet conducted to unearth the links of service profit chain at one place.

The purpose of this research study is to determine all the possible links involved in service profit chain and to investigate an integrated model for the relationships among internal service quality, employee satisfaction, and employee commitment, employee loyalty, perceived service quality, customer satisfaction and customer loyalty. This study seeks to answer the following questions:

**Literature Review:**

**The Service-Profit Chain:**

The Service Profit Chain Model provides an integrative framework for examining how employee satisfaction variables are related to customer satisfaction variables and how they ultimately results in profit (Xu and Goedegebuure, 2005). The service profit chain states that satisfied and motivated employees are productive in a sense that they give rise to satisfied and loyal customers and loyal customers incline to purchase more, thus, escalating the revenue and profits of the organization (Gelade and Young, 2005).

According to Richheld, (2000), the two main variables that form different links in the service-profit chain model are customer and employee. The organizations activated a righteous cycle that won employees' and customers' loyalty. This cycle was: increased in customer loyalty enhanced profitability that facilitated the organization to better pay, fascinated and retained the best employees.

L. Heskett, UPS Foundation professor of Business Logistics at Harvard’s graduate school of business administration, and his colleagues also proposed employees and customers as two main variables in the Service Profit Chain. In a notable Harvard Business Review article, “Putting the Service-Profit Chain to Work,” they write, “To excel in a service economy, you must devote most of your time and attention to your customers and the front-line workers who interact with them. Why? Because the lifetime value of a customer can be astronomical.” (Heskette et al., 1994). Based on the two variables (employees and customers) the links in the chain (which should be regarded as propositions) are as follows:

“Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers”. (Heskett et al., 1994). These links are described as below:

**Customer Loyalty and Financial Performance:**

Satisfied employees not only produce satisfied customers but also lead towards increased profitability as employee satisfaction has a strong influence on employee turnover intention, employee loyalty and also customer satisfaction (Xu and Goedegebuure, 2005). Several authors suggested that the positive relationship prevails between customer loyalty and business performance (Reichheld, 1993; Sheth and Parvatiyar, 1995). Loyal customers in addition to increase the value of the business also enable it to sustain lower costs than those attached with attracting new customers (Barroso Castro and Marti' Armario, 1999).

Reichheld and Sasser (1990) also emphasized that the positive relationship exists between customer loyalty and business performance. They argued that increased loyalty of customers means that more customers will repurchase in the future. Strong Customer Loyalty base of a firm should be reflected in firm’s financial returns because a stable stream of future cash flows is guaranteed by it.

Often Management theorists argued that superior financial performance of an organization heavily relies on customer loyalty and customer loyalty depends on how much the customers of that organization are satisfied (Heskett et al., 2008). Thus, the banks in order to increase their profitability and performance should try to make their employees satisfied which leads to more satisfied customers and strong loyal customer base.

**Internal Service Quality, Perceived Service Quality and Employee Satisfaction:**

Internal service quality refers to the attitude that people have towards their jobs, colleagues and companies (Heskette et al., 2008). Whereas, Perceived service quality is regarded as the feeling customers have regarding the superiority and inferiority of the service provider (Tsoukatos and Rand, 2006). Many authors are of the view that the strategy that is considered essential and indispensable for success and survival in today's competitive and cutthroat environment is delivering service quality (Dawkins and Reichheld 1990; Parasuraman, Zeithaml, and Berry, 1985; Reichheld and Sasser 1990; Zeithaml, Parasuraman, and Berry, 1990). An important determinant of employee satisfaction is internal service quality perceived by the employee (Xu and Goedegebuure, 2005; Heskette et al., 1994).
Different authors have suggested different dimensions of internal service quality. According to Hallowell et al., (1996) there are eight components of internal service quality, which are tools, teamwork, management, training, reward/recognition, goal alignment, policies/procedures, and communication.

Susan (2003) argued that a vital element of service strategy in customer summation what they called high-contact environment is the employee development. The quality of employee improvement and well-being, including environment for work, training and development, job design, and attention to the employee interests resulted in efficient service deliveries. The outcome of the analysis indicated that the internal service quality reflecting the enormity of employee development consequent employee outcomes such as efficiency and productivity and employee job satisfaction.

According to the “service-profit chain” model presented by Heskett et al. (1994), internal service quality components consisted of 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 satisfaction that further navigate employee loyalty and employee commitment that leads to the external service values of organization i.e. customer perception of service quality.

Hallowell et al., (1996) argued that service organizations which are attempting to increase external customer satisfaction must initiate by delivering high service quality to internal customers. It was reported that internal service quality is strongly related to job satisfaction and external customer satisfaction. Lee and Park (2008) also found significant relationship between internal service quality and perceived service quality.

Pritchard and Silvestro (2005) identified that internal service quality correlates positively with employee satisfaction. Findings of Lee & Park (2008) also support the relationship between internal service quality and employee satisfaction. These results lead to the following hypotheses:

- H1. Internal Service Quality directly influences Employee Satisfaction
- H2. Internal Service Quality directly influences Perceived Service Quality
- H3. Internal Service Quality directly influences Employee Loyalty

**Employee Satisfaction, Employee Commitment and Employee Loyalty:**

According to the model presented by Vilares and Coehlo (2001), there are links between employee satisfaction, employee commitment and employee loyalty. According to them the employee loyalty refers to the employee’s intention to remain with the company and willingness to recommend the company as a good place to work. They argued that the success and growth of the business entail more than just satisfied and loyal employees. Instead, it demands such kind of employees who are willing, enthusiastic and eager to serve as campaigner and advocate for the organization, i.e. committed employees. So, employee commitment corresponds to employee allegiance and devotion to help the company to achieve its goals. It includes manifests like dedication to doing work of high quality, spending sufficient time and effort in the work, commitment to resolving customers’ problems and the will to suggest the company’s products and services. According to Heskette et al., 2008 if employees feel they are committed to their organization; they are dedicated to do work of high quality, this means they are productive enough to provide valued services which results in customer satisfaction.

The model presented by Vilares and Coehlo (2001) not only supports the relationship between employees Satisfaction and employee commitment but also suggests that there is a direct relationship between employee satisfaction and employee commitment and employee loyalty.

Rayton, (2006) found associations between employees’ commitment to their organizations and satisfaction and postulated that still there seemed little orthodoxy about the fundamental associations between these two significant employee attitudes. Understanding these approaches was imperative because they had significant and considerable impact on business performance, and these approaches could be prejudiced by human resource strategies and practices.

The 1991 proprietary study of a property-and-casualty insurance company acknowledged the links between employee satisfaction and loyalty. The study showed that 30% of all the employees who are dissatisfied, registered an intention to leave the company. And potential turnover rate was three times higher than that for satisfied employees. Those who felt they did fulfill customer needs indexed job satisfaction levels more than twice as high as those who felt they didn't (Heskette et al., 2008). These results lead to the following hypotheses:

- H4. Employee Satisfaction directly influences Employee Commitment
- H5. Employee satisfaction directly influences Employee Loyalty
- H6. Employee Loyalty directly influences Employee Commitment

**Employee Satisfaction and Customer Satisfaction:**

When internal customers are happy they will try to make external customers happy. As Dick Clark, Group Leader of Financial Services at Monsanto said, “its common sense. When people feel great about the place where they work…they provide better customer service.”
According to Rucci et al., (1998), the service profit chain is thought to involve an association between employee satisfaction and customer satisfaction. Reported correlations between customer satisfaction and a wide range of employee perceptions provide ample evidence to suggest that favorable employee experiences, as reflected by attitudes such as satisfaction and commitment, and by positive evaluations of organizational climate, are associated with elevated levels of customer satisfaction. As Bulgarella, C.C. (2005) stated that: “Employees that interact with customers are in a position to develop awareness of and respond to customer goals and needs. Satisfied employees are empowered employees; in other words, they have the resources, training, and responsibilities to understand and serve customer needs and demands.”

Heskett et al., (2008) also proposed that there is an association between employee satisfaction and customer satisfaction.

Explicit measures of this relationship have been provided by some researches. A study at Sears Roebuck & Co., for example showed that a five-point enhancement in employee attitudes led to a 1.3 boost in customer satisfaction which, in turn, engendered a 0.5 increase in revenues.

Two methodological strong studies empirically confirmed the relationship between employee satisfaction and customer satisfaction. Specifically, a recent meta analytic investigation (Harter, Schmidt, & Hayes, 2002), based on 7,939 business units in 36 companies, found generalizable relationships between unit-level employee satisfaction-engagement and business-unit outcomes such as customer satisfaction, productivity, profit, employee turnover, and accidents. Benhardt, Donthu, and Kennett (2000) also found a strong relationship between employee satisfaction and customer satisfaction at any point in time. These results lead to the following hypothesis:

H7. Employee Satisfaction directly influences Customer Satisfaction

**Perceived Service Quality By Customers And Customer Satisfaction:**

As businesses endeavor to uphold a comparative advantage in the marketplace, the topic of service quality remains a significant one in service industries internationally. Service quality becomes a crucial competitive bludgeon in banking sector for the banks’ survival and growth as they compete in the marketplace with generally undifferentiated products, so, only thing through which banks can gain customers or can attain high customers’ satisfaction levels is the service quality (Stafford, 1996).

The literature relating to service management has argued that customer satisfaction is the result of a customer perception of value received by them (Hallowel, 1996). The service management literature also argues that customer satisfaction depends on how customers perceive the value they receive in relation to a transaction or relationship – where value equals perceived service quality relative to the value expected from transactions or relationships with competing suppliers (Zeithaml et al., 1990).

Previous research has indicated that high levels of customer satisfaction are related to the service quality provided through customer interactions (Wiele et al., 2002; Vilares and Coehlo, 2001). Similarly some research findings indicate that the effect of perceived quality on satisfaction is positive and significant but low. (Afsar et al., 2010; Lauren, 2003)

Anderson et al., (2007) advocated that customers would be more prone to switch to competing businesses when the perceived value was low so as to increase perceived value, thus contributing to a decline in loyalty.

Findings of the studies conducted by Woodside et al., (1989), Reidenbach and Sandifer-Smallwood (1990), Cronin and Taylor (1992), Fornell, (1992) and Anderson and Sullivan (1993), indicate that when perceived quality and satisfaction are measured in a global perspective, satisfaction is an antecedent of perceived quality. Carman (1990), Bitner (1990) and Parasuraman et al., (1988) also proposed the same relationship. Cavana et al. (2007) reported that service quality dimensions (tangibles, responsiveness, empathy, assurance and reliability) should be considered in order to see its impact on customers of the service provider Naeem and Saif (2009) also found that customer satisfaction is the outcome of service quality. Chau and Kao (2009) also emphasized that perceived service quality and its dimensions have a direct impact on customers’ assessment of a company and the willingness to choose the service provider. These results lead to the following hypothesis:

H8. Perceived service quality directly influences Customer satisfaction

**Employee Commitment and Perceived Service Quality by Customers:**

Haskette et al., (1994) presented a “service profit chain” which indicated that customer perception of service quality strongly affected by the employee commitment. They argued that the customers perceived the service provided by the employees qualitative when the employees are committed to do productive work in an efficient manner.

Vilares and Coehlo (2001) argued that employee commitment has important direct impact on perceived product quality and perceived service quality for both Super markets which derives perceived value but the impact of employee commitment on perceived service quality is stronger, although the difference between the two impacts is non-significant. As banking sector is service oriented and services are provided to the customers so the perceived service value comprised only perceived service quality and the impact of employee commitment on perceived service quality is empirically tested in the present scenario. These results lead to the following hypothesis:

H9. Employee Commitment directly influences Perceived Service Quality
**Customer Satisfaction And Customer Loyalty:**

Acquiring a new customer is always expensive because it costs higher in the acquisition of a customer than in retention of customers. This prompted business decision makers and executive to look for new innovative strategies and policies to keep their existing customers loyal towards their products and services, and also to further amplify the base of loyal customers (Darrell K. Rigby, Frederick Reichheld & Chris Dawson, 2003). Xu and Goedegebuure (2005) also suggested that customer satisfaction leads to positive word of mouth and has positive influence on customer loyalty.

A study conducted by Beeri, Martin & Quintana (2004) support the strong and significant relationship between customer satisfaction and customer loyalty. Findings of the study conducted by Afsar et al., 2010 also purport that there is a strong and significant relationship between customer satisfaction and customer loyalty.

Often Management theorists argued that superior financial performance of an organization heavily relies on customer satisfaction and customer loyalty depends on how much the customers of that organization are satisfied (Heskett et al., 2008). Thus, customer satisfaction is the indispensable factor of sustainable competitive advantage because it is an important determinant of repeat purchasing behavior (Van Montfort et al., 2000).

According to Srinivasan (2007) loyal customers can be satisfied and un-satisfied customers. He argued that the satisfaction is not an indispensable or vital requirement for loyalty, so satisfied customers need not necessarily be loyal but there is a correlation between the satisfied customers and loyal customers. So there are mixed findings regarding the relationship between customer satisfaction and customer loyalty.

Prabhataran (2003) mentioned that the customer is the king. High customer satisfaction is important in maintaining a loyal customer base. To link the service quality, customer satisfaction and customer loyalty is important. Kumar et al. (2009) stated that high quality of service will result in high customer satisfaction which in turn increases customer loyalty. These results lead to the following hypothesis:

H10. Customer Satisfaction directly influences Customer Loyalty

**Employee Loyalty and Customer Loyalty:**

Reichheld and Sasser (1990) postulated that employee loyalty has a positive impact on customer loyalty, which, in turn, is an important determinant of profitability in companies. As Syrett (1997, p. 49) points out “Staff loyalty is not a new business concern. What makes the current debate different is that in the age of stakeholder management and total quality management, companies have started to make links between the loyalty of their staff and the corresponding loyalty of their customers and investors.”

However, Vilares and Coelho (2001) emphasized that there can be a possible direct impact from perceived employee loyalty on customer loyalty but their findings show that this effect of perceived employee loyalty on customer loyalty is non-significant; thus results indicate no empirical evidence to uphold the assumption that there is a potential direct effect between these two variables for the companies studied. They further argued that this impact may exist, mainly in companies where employees have direct contact and dealings with the customers. Their findings are in contrast with other researchers. This might possibly be because they measured employee loyalty from the perspective of customers while others measured the employee loyalty from the perspective of employees and this seemed more reasonable. These results lead to the following hypothesis:

H11. Employee Loyalty directly influences Customer Loyalty

**Research Design and Methodology:**

**Target Population and Sample:**

Target Population is the Commercial Banks of Pakistan. Commercial banks are targeted because they are major part of Pakistan’s financial sector. In the economic development of a country commercial banks play an important role. Top 5 banks of Pakistan on the basis of their market share are selected as sample because they contributed more than 50% of total market share of Banks (SBP. 2010). These Banks include: National Bank of Pakistan, Habib Bank of Pakistan, Muslim Commercial Bank, United Bank Limited and Allied Bank Limited. Thus, 1 public and 4 private a banks are selected for testing the hypotheses. The data for the study was collected through personally administered questionnaires. A total of 250 copies of the questionnaires were distributed to the employees out of whom 188 copies were collected back. Likewise, 250 copies of the questionnaires were distributed to the customers of selected banks and 191 copies were collected back.

**Instruments and Measures:**

**Internal Service Quality:**

Internal service quality is predicted by 5 dimensions which are: workplace design, job definition, employee development and training, employee rewards and compensation, and employee selection (Heskette et al., 1997; Singh, 2004; Khan et al., 2010).

Scale adopted by Singh (2004) used for measuring the Employee Selection. It consists of four items. For measuring the response of employee training the scale used by Singh (2004) is employed. It has six items. Scale of Campion (1988) is used for measurement of work design. It consists of 5 items. Scale used by Singh (2004) is
adopted for the measurement of job definition. It consists of four items. Reward and recognition measurement items are adopted from Singh (2004). It has also five measurement items. Five point likert scale is used as 5 for strongly agree and 1 for strongly disagree for measuring these dimensions.

**Employee Satisfaction, Employee Commitment and Employee Loyalty:**

Employee satisfaction, commitment and loyalty are measured through survey questionnaires from the employees of the respective banks whether directly deal with the customers or indirectly. The constructs of employee satisfaction are opted from Dunn and Vlosky (2009). It comprised of 8 items. Scale opted by Gary and Young, 2005 and Vilares and Coelho, 2001 are combined for measuring employee commitment. Employee loyalty is measured through the scale used by Vilares and Coelho, 2001. Five point likert Scale is used with 5 as strongly agree and 1 as strongly disagree for measuring all these responses.

**Perceived Service Quality:**

Perceived quality is measured based on an overall assessment as the result of collective experience of the customer, using a 20-item SERVPERF scale adapted to the banking industry. Although this scale has a high number of items, it is not abridged because it is considered to be important to uphold the original SERVPERF scale. This scale has five components:
1. Tangibles
2. Reliability
3. Responsiveness
4. Assurance
5. Empathy

**Customer Satisfaction and Customer Loyalty:**

Customer Satisfaction and customer loyalty are measured through survey questionnaire. For measuring customer satisfaction the scale adopted by Abdullah, 2011 is used. Customer Loyalty is measured by combining the scales adopted by (Lin and Wang, 2006 and Beerli et al., 2002). Five point rating scale is used to serve the purpose. This questionnaire is served to the both regular and walk-in customers of the selected banks.

**Results and Findings:**

**Descriptive Analysis:**

The response rate 75% of employee survey instrument is reported. Demographic information is reported in Table 1. The result in Table 1 demonstrates that the survey respondents were: 38% (71) female and 62% (117) male. The Table 1 shows that 53.2% (100) bank’s employees fall under the age category of less than 30, whereas, 33.5% (63) employees fall in the age category of 30 - 39 years. The Table 1 further signifies that study captures 7.5% (14) respondents that belong to age group of 40 - 49 years, whereas 5.8% (11) survey subject belongs to age group of above 50 years. The outcomes of Table 1 additionally exhibit those 68% (128) banks employee’s earned master degree, whereas, 32% (60) subject hold bachelor qualification. The results further denotes that 47.9% (90) employees of public and privatized banks holds less than 6 years of experience, 23.4% (44) employees had 6 -10 years work experiences, whereas 11.17% (21) staff members holds 11 - 15 years work experiences, while 17.5% (33) employees hold work experience of greater than 15 years.

<table>
<thead>
<tr>
<th>Demographic Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender Male</td>
<td>71</td>
<td>38.0</td>
</tr>
<tr>
<td>Female</td>
<td>117</td>
<td>62.0</td>
</tr>
<tr>
<td>Age Less than 30</td>
<td>100</td>
<td>53.2</td>
</tr>
<tr>
<td>30-39</td>
<td>63</td>
<td>33.5</td>
</tr>
<tr>
<td>40-49</td>
<td>14</td>
<td>7.5</td>
</tr>
<tr>
<td>Above 50</td>
<td>11</td>
<td>5.8</td>
</tr>
<tr>
<td>Qualification Masters</td>
<td>128</td>
<td>68</td>
</tr>
<tr>
<td>Graduate</td>
<td>60</td>
<td>32</td>
</tr>
<tr>
<td>Work Experience Less than 6 years</td>
<td>90</td>
<td>47.9</td>
</tr>
<tr>
<td>6-10</td>
<td>44</td>
<td>23.4</td>
</tr>
<tr>
<td>11-15</td>
<td>21</td>
<td>11.17</td>
</tr>
<tr>
<td>Above 15</td>
<td>33</td>
<td>17.5</td>
</tr>
<tr>
<td>Total</td>
<td>188</td>
<td>100</td>
</tr>
</tbody>
</table>

The response rate of customer survey instrument is reported to be 76%. Demographic information is reported in Table 2. The result in Table 2 demonstrates that the survey respondents were: 37% (71) female and 63% (120) male. The Table 2 shows that 57.6% (110) bank’s customers fall under the age category of less than 30, whereas, 26.2% (50) customers fall in the age category of 30 - 39 years. The Table 2 further signifies that study captures 11% (21) customer respondents that belong to age group of 40 - 49 years, whereas 5.2% (10)
survey subject belongs to age group of above 50 years. The outcomes of Table 2 additionally exhibit that 66.5% (127) banks customers earned master degree, whereas, 25.7% (49) subject hold bachelor qualification, 2.1% (4) customers hold Intermediate degree and 1% (2) customers hold Matriculation qualification. The results further denotes that 34% (65) customers of public and privatized banks fall under the income category of less than Rs. 25000, 20.4% (39) customers fall in the income group of Rs.25001-35000, whereas 18.3% (35) customers belong to the income category of Rs. 35001-50000, while customers having income of greater than Rs.50000 were 27.2% (52).

Table 2: Frequency distribution of demographic profile of the Customers (N=191).

<table>
<thead>
<tr>
<th>Demographic Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>71</td>
<td>37.0</td>
</tr>
<tr>
<td>Female</td>
<td>120</td>
<td>63.0</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 30</td>
<td>110</td>
<td>57.6</td>
</tr>
<tr>
<td>30-39</td>
<td>50</td>
<td>26.2</td>
</tr>
<tr>
<td>40-49</td>
<td>21</td>
<td>11.0</td>
</tr>
<tr>
<td>Above 50</td>
<td>10</td>
<td>5.2</td>
</tr>
<tr>
<td>Qualification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Masters</td>
<td>127</td>
<td>66.5</td>
</tr>
<tr>
<td>Graduate</td>
<td>49</td>
<td>25.7</td>
</tr>
<tr>
<td>Intermediate</td>
<td>13</td>
<td>6.8</td>
</tr>
<tr>
<td>Matriculation</td>
<td>2</td>
<td>1.0</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
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<tr>
<td>Less than Rs.25000</td>
<td>65</td>
<td>34.0</td>
</tr>
<tr>
<td>25001-35000</td>
<td>39</td>
<td>20.4</td>
</tr>
<tr>
<td>35001-49000</td>
<td>35</td>
<td>18.3</td>
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<tr>
<td>Above 50000</td>
<td>52</td>
<td>27.2</td>
</tr>
<tr>
<td>Total</td>
<td>191</td>
<td>100</td>
</tr>
</tbody>
</table>

Reliability Analysis:
The reliability of employee variables has been tested and following results were obtained. Cronbach’s alpha for workplace design is 0.699, for training is 0.785, for job definition is 0.755, for rewards is 0.847, for selection is 0.799. All these are the dimensions of Internal Service Quality for which the value of Cronbach’s Alpha is 0.889. Cronbach’s Alpha for Employee Satisfaction is 0.870, for Employee Commitment is 0.841 and for Employee loyalty is 0.886. The value of Cronbach’s Alpha for complete Employee questionnaire is 0.940. Similarly the reliability of customer variables has also been tested and the results so obtained are as follows. Cronbach’s Alpha for Tangibles is 0.817, for Reliability is 0.813, for Responsiveness is 0.786, for Assurance is 0.667, for empathy is 0.777. All these are the dimensions that represent Perceived Service quality Cronbach’s Alpha for Perceived service quality is 0.938. Cronbach’s Alpha for Customer Satisfaction is 0.802, for Customer Loyalty is 0.908. Overall Cronbach’s Alpha for Customer Survey Instrument is 0.955.

Equality of Variances Test Analysis:
The result in Table 3 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 of private banks 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 private bank (n = 159, μ = 3.6321, SD = 0.72850) depicts that recognition of fair selection, attitude, managers participation in selection, standardization and knowledge requirement for job is comparatively greater than that of public banks (n = 29, μ = 3.2069, SD = 0.90896). Table 3 also reports that that employees training, development work design do exist in both privatized and public sector banks and survey of respective banks engrosses accords and acknowledge that extensive training programs, 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 = 159, μ = 3.72451, SD = 0.61032) Work place design more enchanting as compared to public sector bank (n = 29, μ = 3.6276, SD = 0.59215).

Table 3: Descriptive statistics and Levene’s test for equality of variance for HRM-ISQ constructs.

<table>
<thead>
<tr>
<th>HRM ISQ</th>
<th>Private Bank (N= 159)</th>
<th>Public Bank (N= 29)</th>
<th>Levene's test for equality of variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work Place Design</td>
<td>Mean: 3.7245</td>
<td>Mean: 3.6276</td>
<td>F-stat: 0.015</td>
</tr>
<tr>
<td></td>
<td>SD: 0.61032</td>
<td>SD: 0.59215</td>
<td>Sig: 0.903</td>
</tr>
<tr>
<td>Employee Training and development</td>
<td>Mean: 3.6740</td>
<td>Mean: 3.3736</td>
<td>F-stat: 0.264</td>
</tr>
<tr>
<td></td>
<td>SD: 0.67444</td>
<td>SD: 0.59538</td>
<td>Sig: 0.608</td>
</tr>
<tr>
<td>Job Definition</td>
<td>Mean: 3.6289</td>
<td>Mean: 3.5086</td>
<td>F-stat: 0.100</td>
</tr>
<tr>
<td></td>
<td>SD: 0.72307</td>
<td>SD: 0.70863</td>
<td>Sig: 0.752</td>
</tr>
<tr>
<td>Employee Rewards and Compensation</td>
<td>Mean: 3.3774</td>
<td>Mean: 2.8793</td>
<td>F-stat: 0.150</td>
</tr>
<tr>
<td></td>
<td>SD: 0.90702</td>
<td>SD: 0.95343</td>
<td>Sig: 0.699</td>
</tr>
<tr>
<td>Employee Selection</td>
<td>Mean: 3.6321</td>
<td>Mean: 3.2069</td>
<td>F-stat: 2.074</td>
</tr>
<tr>
<td></td>
<td>SD: 0.72830</td>
<td>SD: 0.90896</td>
<td>Sig: 0.151</td>
</tr>
</tbody>
</table>

1640
The Table 3 further demonstrates that both privatized and public banks employees are tend towards agreement in conversance with job definition. 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 = 159, μ = 3.6289, SD = 0.72307) are relatively more than public banks (n = 29, μ = 3.5086, SD = 0.70863). Table 3 also exhibits that employees of privatized banks (n = 159, μ = 3.3774, SD = 0.90702) satisfied with their rewards and compensation system while employees of Public banks are not satisfied with their rewards and compensation system (n = 29, μ = 2.8793, SD = 0.95343). Levene’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 > 0.05).

The results in the Table 4 table signifies there is no significant mean difference in work place design (t = 0.790, P > 0.05) and job definition (t = 0.826, P > 0.05) in both public and privatized banks. But there is a significant difference in selection (t = 2.776, P < 0.05), rewards and compensation (t = 2.698, P<.05), training and development (t = 2.238, P < 0.05) in public and privatized banks.

The results in Table 5 show mean, standard deviation, and Levene’s test for equality of variances of perceived service quality dimensions of in both public and privatized banks. The results exhibit that the customers of privatized banks are satisfied with all tangibles, reliability, responsiveness, assurance and empathy, whereas, the customers of public banks are not satisfied with tangibility of bank materials, responsiveness and reliability of bank employees, assurance and empathy. The mean scores for these dimensions in privatized banks are greater than that of public banks.

Table 5 also indicates the results of the Levene's test for equality of variances. These results demonstrates that the variances for all the constructs of perceived service quality are not distributed equally among the groups since the F statistics and associated probability values are less than level of significance (P < 0.05).

Table 6 signifies that there is a significant mean differences in tangibles (t = 5.372, P < 0.05), reliability (t = 4.504, P < 0.05), responsiveness (t = 4.212, P < 0.05), assurance (t = 5.288, P < 0.05) and empathy (t = 4.367, P < 0.05) in private and public banks. In the proceeding section, regression analysis is used to test the hypotheses.

Regression Analysis:
Regression analysis was performed to test the model presented in figure-1. The regression coefficients and t-values are shown on the model. As shown in figure 1, internal service quality directly and significantly influences employee satisfaction (t-value = 13.107), perceived service quality (t-value = 2.803), and employee loyalty (t-value = 9.739) at 1% level of significance. Hypothesis 1, 2 and 3 are therefore supported. These findings (Hypothesis 1 and 2) are consistent with previous findings (Hallowell et al., 1996; Prichard and Silvestro, 2005; Lee and Park, 2008) whereas according to Lee and Park the relationship between internal service quality and employee loyalty is not significant. Figure 1 also shows that there is a direct and significant relationship between employee satisfaction and employee commitment (t-value = 10.384), employee satisfaction and employee loyalty (t-value = 11.680) and employee loyalty and employee commitment (t = 13.644) at 1%
level of significance. Hypothesis 4, 5 and 6 are therefore supported. These results show that employee satisfaction acts as a mediator between internal service quality and employee commitment. It also acts as a mediator between internal service quality and employee loyalty. Although there is a direct relationship between internal service quality and employee loyalty but employee satisfaction as a mediator strengthens this relationship because regression coefficient in case of hypothesis 5 (0.653) is slightly greater than that of hypothesis 3 (0.650).

Hypothesis 7 contends that employee satisfaction directly influences customer satisfaction (t = 1.979). And Hypothesis 8 contends that perceived service quality is directly related to customer satisfaction (t = 10.617). Thus the results indicate that employee satisfaction mediates the relationship between internal service quality and customer satisfaction. Perceived service quality also acts as a mediator between internal service quality and customer satisfaction. But Hypothesis 7 is significant at 5% level of significance while hypothesis 8 is significant at 1% level of significance. Also the regression coefficient in case of hypothesis 8 (0.611) is greater than that of hypothesis 7 (0.144) so it can be concluded that the perceived service quality is a stronger mediator of the relationship between internal service quality and customer satisfaction than that of employee satisfaction.

The relationship between employee commitment and perceived service quality is not significant at 5% level of significance (t = 1.046). However, customer satisfaction directly influences customer loyalty at 1% level of significance (t = 15.836). Thus, hypothesis 9 is not supported but hypothesis 10 is supported. The relationship between Employee Loyalty and Customer loyalty is also insignificant at 5% level of significance (t = 1.181). Hypothesis 11 is also not supported. These results indicate that employee commitment do not act as a mediator between internal service quality and perceived service quality. However, customer satisfaction mediates the relationship between perceived service quality and customer loyalty.

Discussion and Conclusion:
This paper investigated a link between employees and customers variables that is core in a service profit chain. The result shows that internal service quality directly and positively affects employee satisfaction, perceived service quality and employee loyalty. Employee satisfaction, in turn, directly influences employee loyalty and employee commitment. Employee satisfaction also indirectly influences employee commitment through employee loyalty. Perceived service quality in turn, positively affects customer satisfaction and employee satisfaction also directly influences customer satisfaction. Finally, customer satisfaction directly influences customer loyalty. And since customer loyalty results in elevated profits, so banks should devise such policies and HR practices that result in increased employee satisfaction that lead to increased customer satisfaction. The findings of the study further conclude that employees of private banks are comparatively more satisfied with the internal service quality provided to them than that of the public bank employees. Similarly, the customers of private banks are more satisfied with the service quality dimensions (tangibility, responsiveness, reliability, empathy and assurance) of their banks than that of the customers of public banks. And since significant and empirically tested relationships found between internal service quality, employee satisfaction, employee commitment and employee loyalty and perceived service quality, customer satisfaction and customer loyalty and literature supported relation between customer loyalty and banks profitability and performance. So, the need of the hour for the banks especially for the public banks of Pakistan is to integrate systems that design
and implement such HR practices and policies to support the employees and customers in high service environments.

**Limitations:**

a. This study covers the customers of Government and Private Banks in Pakistan. The Foreign banks that have a role in the retail banking industry in Pakistan were excluded from this study.

b. Structural equation modeling was not used to test the model.

c. The link between customer loyalty and bank profitability is not hypothesized and empirically tested.

**Recommendations for Future Research:**

The issues associated with the limitations inherent in this study require further research considerations. Future research should consider some mediation test and should use structural equation modeling for model testing purposes. Research is also needed to empirically test the relationship between customer loyalty and bank profitability.

**REFERENCES**


