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### **The Influence of Human Resource Practices on Internal Customer Satisfaction and Organizational Effectiveness**

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#### **Abstract**

It is generally believed that the impact of Human Resource Practices on internal customer satisfaction can create comparative advantage for the organizational performance. The main objective of this study was to find out the impact of Human Resource Practices on internal customer satisfaction and organizational effectiveness. The impact of human resource practices on the overall performance of organizations has been a leading subject of research and the results have been encouraging, indicative of positive relationship between Human Resource practices and organizational effectiveness. Data was collected through personally administered questionnaire-based survey from 290 banking personnel of Pakistan. Structural equation modeling was used to examine the anticipated model. The results showed that some Human Resource Practices appear to be linked to internal customer satisfaction and organizational effectiveness. The implications for practitioners were to modify and emphasize certain human resource practices, and to emphasize the role of internal customers for

organizational effectiveness enhancement. These findings revealed the importance of internal customers in enhancing employee morale, organizational commitment, employee productivity, turnover rate and the organization's ability to attract talent.

**Keywords: Human resource practices, internal customer satisfaction, organizational effectiveness.**

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## INTRODUCTION

The human being is the most important asset for organizations. In the age of competitiveness, organization cannot be able to bear the loss of prospective human resource. It is realistic challenge for Human Resource professionals to make it possible by exploiting the human potential in a mode to make them educated employee and creative for business and society as well. Organizations devote considerable resources to attract, develop, and inspire capable individuals. These firms do not want their proficient employees to leave (Cascio 2000; Glebbeek & Bax, 2004).

Much concern has been exposed for the deliberate participation of the Human Resource and its impact on organizational effectiveness (Lahteenmaki *et al*, 1998; Rangone, 1999; Analoui, 2002). The contest has directed to the establishment of a resource-based model of human resource management (Boxall, 1996), recognizing human resource as being accountable for increasing organizational effectiveness (Kakabadse & Kakabadse, 2000) and a rational cursor for the improved organizational success (Analoui, 2002). The resource-based shift toward strategic management regards human resource as a matchless source of competitive benefits of the organization (Baird & Meshoulan, 1998; Lahteenmaki *et al*, 1998). It has been recommended that there is a relation between an organizational effectiveness and the utilization of its human resources (Lorange & Murphy, 1984; Boxall, 1991; Lundy, 1994; Storey, 1998; Guest, 2002; Hansson & Jensen, 2004; Caliskan, 2010).

Customer and their expectation are important subject to organizations and businesses. To survive in highly viable marketplace, businesses require offering goods and services that need extremely satisfied and loyal customers. The satisfied customers are probable to return to those who facilitated them, whereas dissatisfied customers are expected to exit in a different place. The retention of satisfied customers is vital to the survival of an organization (Jones & Sasser, 1995). Accordingly, firms have challenges to produce demand for their goods or services through excellent customer support. To conquer persistent excellence, external customer support needs internal structures, which are lined up to serve the external customer, with each internal subsystem through adding value to others in the firm because the other subsystems were its customers (Deming, 1986; Pransky *et al.*, 2005; Urbano & Yordanove, 2008).

The concept of an internal customer advocates that every employee is both a seller and a buyer to other people within the organization (Money & Foreman, 1995).

The value of service distributed to external customer is often established by the value of service that internal customer – employees – provide each other (Cook, 2000). If any business desires to improve the quality of its service, it desires to conquer the “them and us” attitude established in several organizations among administration and employees. The value of service provided to employees in a company often establishes how well the external customer is served up (Osman, *et al*, 2004).

The appropriate use of human resource develops the performance of an organization. Without employee assistance, it is not possible to find out whether human resource practices are constructive to workforce, or whether these merely append to workload of workforce and anxiety intensity (Pass, 2002). Organizations contribute major resources to create a center of attention, and motivate capable groups that may not leave them later, particularly in a rigid marketplace (Cascio 2000; Glebbeek & Bax 2004). If these capable people leave the organization soon, the result will be interruption to the regular functions and lesser performance of an organization (Huselid 1995; Kacmar *et al*. 2006; Morrow & McElroy 2007).

Organizational departments provide services to their customers, such as management information system, HRs and purchase section, maintain the workforce (Marshall *et al.*, 1998). There are two thoughts, which have been discussed in relationship to internal customer satisfaction. These thoughts are from total quality management and from marketing. Comparison between these thoughts showed that service of internal customer is different from internal marketing, because the earlier spotlights on how the people serve up the business, while the second emphasizes how a business serves the people.

Human resource practices on their behalf attempt to transfer organizational routine and traditional practices into the shape and need of current scenario. Human resource practices and internal customer satisfaction strongly influence different problems of the organizations. These problems consist of turnover, safety, productivity, effectiveness, and product and service quality. By satisfying and empowering workforce, organizations would be capable to resolve these problems (Appelbaum *et al*. 2000; Connor & Becker, 2003; Singh, 2004; Haines, Jalette, & Larose, 2010)

This research investigates the relationship between human resource practices, internal customer satisfaction and organizational effectiveness. It aims to observe the impact of these practices on internal customer satisfaction and organizational effectiveness.

## **LITERATURE REVIEW AND RESEARCH MODEL**

Resource- based view narrates that practices, competencies, skills or strategic assets of an organization are a foundation of aggressive benefit (Mabey *et al.*, 1998). These resources are rare, valuable, and non-alternatable (Barney, 1991).

### **Human Resource Practices**

Practice is the process of an organization by which available resources are developed, combined, and transformed into value offerings (Teece, Pisano & Shuen 1997). Practice is a talent of an organization to set up its real or insubstantial assets, to execute the duty, and a commotion to advance productivity (Amit & Schoemaker, 1993).

HR practice is supported going on carrying, increasing or replacing knowledge in the organization (Saa-Perez & Garcia-Falcon, 2002). The HR Practices are deep-rooted in the skill to recombine and reconstitute the resources of the organization. Background specificity, tacitness and temporality are their solution possessions (Bhatt, 2000).

For an organization to sustain in competitive environment effectively, the researchers have exclaimed that human resource practices repeatedly perform comparative activities (Arthur, 1994; Delery & Doty, 1996). If it is the holder, a set of appropriately extended human resource practices may offer a significant basis of sustained aggressive improvement. Prior investigations have revealed numerous human resource practices, for instance, Huselid (1995) observed how persons selection, performance evaluation, inducement reward, job design, complaint actions, information sharing, behavior judgment and labor-management participation influence performance of a company. Likewise, Delery and Doty (1996) observed that the mainly significant human resource practices consist of the usage of internal career path, formal training and development system, result-oriented evaluation, performance based reward, job safety, worker voice and extensive job description. Moreover, Pfeffer (1998) recognized seven human resource practices, involving job protection, selective employment, self-managed groups, provision of high salary contingent on firm performance, widespread training, decline of position dissimilarity, and information sharing.

Moreover, several diverse categorizations of human resource practices have been devised into more common human resource magnitude. For example, Cunningham and Rowley (2010) clustered human resource practices into organization planning, recruitment, compensation, development, performance evaluation and communication. In the meantime, Schuler and Jackson (1996) analyzed five elements: performance appraisal, recruitment and selection, planning, compensation and development. Ulrich and his classmates (1989) established a model comprising of selection, strategic planning, training and development, organization development and transform, performance appraisal, a compensation system, and organizational behavior and theory. Human resource practices have been progressively more controlled through the prospects of stakeholder incorporating recruitment and selection, training and development, performance management, employee participation, and compensation that are adopted as elements of human resource practices in this research. The existence of these best practices reveals the rank of human resource expert knowledge and resource allocation competence.

### **Recruitment and Selection**

Recruitment is the process to identify and attract a group of prospective individuals from outside and within the company to assess for employment. When these individuals are acknowledged, the procedure of selecting suitable individuals for job can commence. This means gathering, quantifying, and estimating information about the qualifications of individuals for particular positions. Companies utilize these approaches to enhance the probability of appointing persons who possess the right expertise and capabilities to be winning in the target post.

Selection is a procedure of selecting such applicants who have the exact and necessary qualification to realize the requirement of the leaving jobs and prospect job opportunities.

Selection is the main and foremost aspect, which plays a significant part in the excellence, survives. Administration must be more vigilant while hiring new candidates for specific work selection.

The major purpose of recruitment and selection is to select the right individual for the right post (Dale, 1999). The penalties of bad selection may very disastrous for the organization. The individual, who is unable to understand the aims and philosophy of the firm, may cause to have bad impact on customer satisfaction, relationship with suppliers and production. Maslow's need hierarchy theory describes the importance of financial rewards (Maslow, 1943). The wrong compensation would demotivate. Good compensation would maintain performance levels, not increase them. The available rewards must be in a 'currency' that the individual values, and if this were money, so be it (Herzberg, Mausner & Snyderman, 1959; Peters, 2005).

### **Training and development**

Training and development formulates a significant role in organization. Training and development can advance the level of self-awareness of a person, enhance talent of an individual and enhance the motivation of an employee (Wexley & Latham, 2002). Because the activity of an organization turns into more knowledge-driven, training and development performs an eternally supplementary significant function to meet the education desires of persons as well as tactical essentials of the organization (Harrison & Kessels, 2004). Training and development smooth the progress of superior altitudes of inspiration and inventiveness in support of workforce (Marchington & Wilkinson, 2002). From the viewpoint of an organization, training and development is the key relationship involving the human resource policy of an organization and in general company policy (Mabey, Salaman & Storey, 1998). Cast-off in a planned way, training and development can provide organization a viable circumference in the comfortable and release of goods and services (Mabey et al, 1998).

### **Performance appraisal**

Performance appraisal is important in the organizational setting. According to Jennifer and Jones (1996), it gives two major functions; it enhances high level of job satisfaction and organizational performance, and it provides accurate information to be used in decision-making.

The primary goal of performance appraisal is to assist business in executing administrative decisions pertaining to promotions, dismissals, layoffs and salary increases. For instance, the current job performance of a worker is often the most important reflection for determining whether to promote the individual. Managers must identify that a worker's development is a continuous series of defining performance objectives, presenting training essential to accomplish the objectives, appraising performance as to the achievement of the objectives and then setting new, and higher objectives.

### **Compensation benefits**

Milkovich and Newman (1999) defined compensation as all types of monetary incomes and substantial remunerations that a worker receives as a component of employ agreement. A more precise meaning is given by Flippo (1984 p. 281), who has described compensation as the satisfactory and reasonable compensation of employees

for their contribution to organizational goals.

The writer has recognized three components of compensation as base pay (to attract eligible entrants); variable pay (to stimulate work performance) and additional extreme benefits (to retain capable employees).

Steven, Appelbaum and Mackenzie (2000) also gave explanation that other results are more positive, on the other hand the challenge of aligning a company's inducement compensation essentials to generate the behaviors that assist the accomplishment aspect in improving a firm's strategic effectiveness. A satisfied internal customer would be an efficient and effective service giver who would chase a customer centric pattern (Comm & Mathaisel, 2003). Founded on these results, scholars have started to highlight internal customer satisfaction with intend of achieving an organizational perception of what comprises quality in the business.

Compensation (Wages, rewards, medical and transport facility) is a key concern in HR administration. These are basic requirements and provide workforce remuneration for working (Bohlander, Snell & Sherman, 2001). It is exposed that recompense remuneration stimulate as well as direct manners in the direction of accomplishment of an exacting task (Milkovich & Newman, 2002).

### **Employee Participation**

Participation by various names includes collective management, worker empowerment, worker involvement, participatory decision-making, discrete management, open-book administration, or industrialized equality (Steinheider, Bayerl, & Wuestewald, 2006). The fundamental conception entails any power-sharing arrangements in which place of work manipulate is allocated among persons whose are not equal in hierarchical levels. Such types of Power-sharing arrangement might involve several worker participation designs consequential in co- determination of running circumstances, problem resolving, and decision-making (Locke & Schweiger, 1979).

Participation also involves, Information sharing with workers, employee suggestion program, Self-directed work groups, Problem-solving teams and flexible job design (Haines, Jalette, & Larose, 2010).

An employee suggestion program comprises worker analysis feedback. Information sharing contains, for instance, with respect to company's effectiveness, colleagues' salary, technical or managerial transformation etc. This means that workers have some feedback on strategies. Problem-solving teams are teams whose tasks are restricted to definite parts, for example quality or workflow. Self-directed work groups are semi-autonomous work teams or mini-enterprise work teams that have an elevated altitude of liability for an extensive series of decisions. Flexible job design comprises job rotation, job enrichment/redesign (broadened job definitions), and job enrichment (increased proficiency diversity or autonomy of work).

Firms gain from the supposed inspirational influences of workers in Participatory decision-making. When workforce involves themselves in the process of decision-

making, they enhance appreciative and awareness among social groups and seniors, and improve employees value in the firm (Probst, 2005).

When every person in a business involves in the process of decision-making, business communication is supplementary efficient and each generates more well organized outcomes (Walker, 2007). If employees are involved in the process of decision-making, then they ultimately attain organizational goals that influence them. In this procedure, participation may be exercised as a device that develop business relations, discover motivation of workforce and enhance the pace of information transmission across the company.

### **Work Environment**

Several studies have tried to explicate work environment in different areas for instance employee turnover, job satisfaction, employee turnover, job involvement and organizational commitment (Jong & Hartog, 2010). In the study of Zeytinoglu and Denton (2005), it has been revealed that work environment is one of the aspects that influence employees' choice to stay with the business. Fay, Bjorkman and Pavlouskaya (2000) exclaimed that it is very essential to identify the rising wants of people to keep them dedicated and provide the work atmosphere when needed. Individuals like working, and attempt to work in those companies that present constructive work atmosphere where they consider they are making diversity and where most individuals in the company are capable and pulling together to move the business forward (Milory, 2004). Workplace design has a deep influence on employees and tends to stay with work as long as satisfied (Brown & Metz, 2009). To retain employees, the workplace design should generate atmosphere that is supportive for employees of poor eyesight, supply tools that require less strength and appropriate position for old employees (Samantha & Dahling, 2009).

### **Internal Customer Satisfaction**

The value of service conveyed to external customer is often identified by the value of service that internal customers give each other, (Connor, 2003). It is very essential to keep in mind that, every person within a firm offers a service. There are internal as well as external customers. Internal customer is the employee in a company who is responsible to manufacture products. Every employee obtains materials or services from other employee in the procedure of manufacturing their own products. It is essential that, in order to satisfy external customers, internal customers be delighted first. Customer service guides to customer satisfaction whereas internal customer service guides to employee satisfaction.

In Total Quality Management systems, all employees are persuaded to observe each other like vital customers during the manufacture and service delivery procedures (Marshall & Miller, 1991). In an organization, all employees are both the receivers and providers of products or services. George (1994) exclaims that as several workers do not make contact with external customers directly, so what they act or do not manipulates the excellence of service rendered. In order to deal with this matter, the employees of such types want to acknowledge value and treat other workers as internal customers.

On the other hand, it is essential to recognize that internal customers are as diverse and varied in their personnel distinctiveness as external customers.

While the common people may be a confusing generalization, similarly it is significant to recognize and react optimistically to diversity in the interior customer foundation (Joanna, Riordan, Peter & Humphreys, 2003). It is also declared that it is essential to recognize diverse forms of internal customer service associations, some of which might be very vital and work important in their disposition rather than others. Moreover, it is essential not to suppose that internal and external consumer service associations are openly comparable in nature. For instance, internal customers are compensated customers of the services they utilize. Because they are generally more knowledgeable and educated about the services offered than external customers. Consequently, they might be added challenging consumers than normal customers (Joanna *et al.*, 2003).

### **Organizational effectiveness**

Organizational effectiveness capture organizational performance advantage the countless internal performance results generally linked with more effective or efficient processes and other external measures that transmit to deliberations that are broader than those merely linked with economic evaluation (either by managers, shareholders, and customers), for example corporate social responsibility (Richard *et al.*, 2009).

Organizational effectiveness is an intangible notion and is principally not possible to measure. Rather than measuring organizational effectiveness, the firms tend to determine proxy measure that will be utilized to signify effectiveness. Proxy measures utilized might involve such matters like number of individuals served, kinds and sizes of population fragments served, and the demand within those fragments for the services the firm provides.

Organizational effectiveness refers to how a business accomplishes its tasks effectively. Organizational effectiveness procedures are apprehensive with considering the inimitable potentials that firms build up to guarantee the achievement. This contains determining the worth of human resources of organization (Jamrog & Overholt, 2004). In the past, researchers had a tendency to employ the phrase 'organizational performance' to signify monetary and economic measures for example, revisit on investment, earnings per share, profitability, and almost immediately (Harel *et al.*, 2003). Accordingly, company performance might be evaluated in conditions of their involvement to biased psychosomatic well being (commitment, attachment and happiness), relatively in provisions of purposive criterion (Jansen *et al.*, 2001), because the company utilizes not just one element of a an individual but moderately the entire individual, as well as professional, personal and societal traits (Harnesk, 2004).

This study used a different inconsistent appraise to detect by this newer meaning of organizational effectiveness, which integrates the HR phases of organizational effectiveness: employee self-esteem, efficiency, turnover rate attraction of talent and organizational commitment.

### **Conceptual Model**

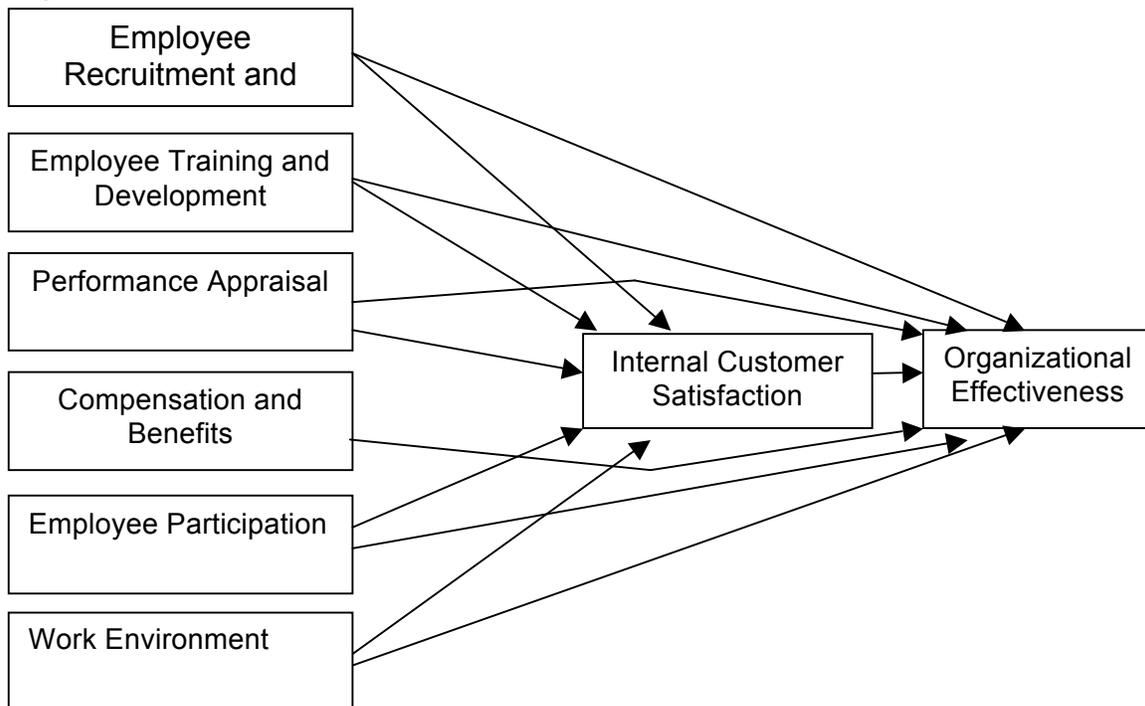
Human resource practices donate to employee satisfaction and organizational ability, which in line persuade customers and shareholders satisfaction. Anyone could evaluate human resource practices through studying the customers of an organization. For instance, Tsui (1990) observed how administrators, managers and line managers ranked the significance and usefulness of human resource function. Ulrich (1997) recommended

performing a human resource assessment as element of a balanced scorecard advance to appraising the effectiveness of human resource function.

One phase of this audit is the customer value study, in which workers, as end users of The Human Resource program and practice, point out their assessments of the value of this practice.

Total Quality Management philosophy narrates that internal customer satisfaction is one of the vital matters. Through internal customer satisfaction, hr practices have an optimistic effect on organizational objectives. There is pragmatic proof to sustain this argue. For example, the key forecasters of the enhancement in the overall effectiveness of human resource were modifications in internal customer satisfaction altitude (Teo & Crawford, 2005). According to Molina and Ortega (2003), more training may definitely influence on organizational effectiveness through elements like internal customer satisfaction and external customer faithfulness. Moreover, Hoque (2003) recommended that by implementing a balanced scorecard an organization that has implemented Total Quality Management could enhance employee satisfaction and consequently effectiveness of an organization. Wright *et al.* (1994) also narrated that HR practices entrenched in human resource system of an organization may influence employee performance by manipulating worker expertise and motivation.

**Figure 1: Theoretical Model**



Researchers have also observed the association between internal customer satisfaction and diverse HR results. For example, Matzler *et al.* (2004) originated that internal customer satisfaction compels efficiency. Vora (2004) studied vital elements to generate an atmosphere for internal customer satisfaction, directing to enhance internal customer morale to attain enterprise -wide victory in an international market. Maylett (2009) exclaimed that organizations have to devise different employee retaining policies,

comprising compensate increases, additional benefits, profit sharing and compensated time off, in order to reduce turnover rate of employees.

HRM can directly manipulate firm effectiveness in the appearance of high performance job practice. This scheme has developed into attach within the human resource management text at the hypothetical stage. Pfeffer (1994) and Guest (2002) recommended that universal Human resource practices must be considered as predecessor to firm effectiveness. Several researchers have emphasized human resource as a determining factor of organizational performance (Morrow *et al.*, 2007), and an association between core competencies and organizational performance is projected, principally with a particular focus on the association between human resource capability and organizational effectiveness. Numerous researches have constantly originated a statistically considerable correlation between human resource and organizational effectiveness, which incorporates employee efficiency, turnover, confidence, organizational environment, organizational loyalty and job satisfaction (Chang & Chen, 2002; Pfeffer, 1994; Arthur, 1994; Huselid, 1995; Lindberg, 2006; Chang & Huang, 2010). Accordingly, the subsequent hypotheses are projected:

**Hypothesis 1:** *Employee Recruitment and Selection practice have a positive impact on internal customer satisfaction.*

**Hypothesis 2:** *Employee Training and Development practice have a positive impact on internal customer satisfaction.*

**Hypothesis 3:** *Performance Appraisal practice has a positive impact on internal customer satisfaction.*

**Hypothesis 4:** *Compensation and Benefit practice have a positive impact on internal customer satisfaction.*

**Hypothesis 5:** *Employee Participation practice has a positive impact on internal customer satisfaction.*

**Hypothesis 6:** *Work Environment has a positive impact on internal customer satisfaction.*

**Hypothesis 7:** *Internal customer satisfaction has a positive impact on organizational effectiveness.*

**Hypothesis 8:** *Employee Recruitment and Selection practice has a positive impact on organizational effectiveness.*

**Hypothesis 9:** *Employee Training and Development practice has a positive impact on organizational effectiveness.*

**Hypothesis 10:** *Performance Appraisal practice has a positive impact on organizational effectiveness.*

**Hypothesis 11:** *Compensating and Benefit has a positive impact on organizational effectiveness.*

**Hypothesis 12:** *Employee Participation has a positive impact on organizational effectiveness.*

**Hypothesis 13:** *Work Environment has a positive impact on organizational effectiveness.*

## **METHODOLOGY**

### **Instrument**

The research was carried out using a questionnaire-based survey. The questionnaire was adopted from the literature of Chang and Huang (2010), Singh (2004), Moos (1994) and Haines, Jalette, and Larose, (2010). The instruments that were utilized by this questionnaire were a five-point Likert scale. The questionnaires were distributed among different banks in Islamabad and Rawalpindi and had two different parts.

The first part of the questionnaire comprised of demographic information. The second part included the questions related to different independent variables (employment recruitment and selection, training and development, performance appraisal, compensation and benefits, employment participation), mediate variable (internal customer satisfaction), and the dependent variable (organizational effectiveness). All of these questionnaires were measured on a five-point Likert scale.

### **Measures**

#### **Human resource practices**

Six human resource practices were included: employee recruitment and selection, employee training and development, performance appraisal, compensation, and employee participation. Each HR practice was calculated using different sub items. The items of recruitment and selection, employee training and development, performance appraisal, compensation and benefits were adopted from the scale of Singh (2004). The scale of Haines, Jalette, & Larose (2010) was used to measure employee participation. The scale of Moos (1994) was used to measure work environment. Based on the scale exercised by Singh (2004), Moos (1994) and Haines, Jalette, and Larose (2010), to appraise human resource practices through the amount of their application, the HR managers and line managers were requested to point out the frequency of human resource practices execution on a five-point Likert scale having range from 'Strongly agree' (5) to 'Strongly disagree' (1).

#### **Internal customer satisfaction**

Thirteen items were used to measure internal customer satisfaction. The scale of Chang & Huang (2010) was used for measuring internal customer satisfaction. Respondents were requested to signify the level of their satisfaction with recruitment, selection, training for newcomers, and training for current employees, career planning, promotion system, performance management, compensation, benefits, and participation. The responses were measured by means of a five-point Likert scale having range from 'strongly agree' (5) to 'strongly disagree(1)'.

#### **Organizational effectiveness**

To measure organizational effectiveness a scale composed of five items was used. The scale of Chang & Huang (2010) was used for measuring organizational effectiveness. Respondents were requested to compare employee morale, attraction to talent,

employee productivity, organizational commitment and employee turnover rate with competing organizations. A five-point Likert scale was used to evaluate the response ranging from 'much better than competitors' (5) to 'much worse than competitors' (1).

### **Pilot testing**

Pilot testing is essential to check questionnaire reliability, questionnaire items and language used in the items (Ticehurst & Veal, 2000). There are several advantages of carrying out pilot testing before doing actual survey. For instance, to test the questionnaire wording, to check sequence of items, achieving familiarity with respondent, and estimating response rate of the targeted sample.

Primarily, for evaluating reliability of the questionnaire, Cronbach's alpha was analyzed. For pilot testing, 60 questionnaires were distributed to different banks. With the help of pilot testing researcher was able to adjust questionnaire and its language accuracy. Pilot testing permits to test several phases of a questionnaire with regard to simplicity of completion and usefulness of data collection.

### **Reliability**

Reliability of the scale variables varied from .657 to .781. This depicts that each variable had internal consistency among items used to measure that particular variable (Field, 2006). Overall reliability of measurement scales was .701. Reliability results greater than 0.6 were considered acceptable (Jolibert & Jourdan, 2006). Therefore, the survey questionnaire was reliable for examining the impact of Human resource practices on internal customer satisfaction and organizational effectiveness.

**Table 1: Reliability of Scale items**

<b>Variable</b>	<b>Cronbach's Alpha</b>	<b>Items</b>
Recruitment and selection	.696	4
Employee training and Development	.710	6
Compensation and benefits	.657	5
Performance Appraisal	.762	6
Employee Participation	.775	8
Work Environment	.702	9
Internal customer satisfaction	.781	13
Organizational effectiveness	.704	5

## **MAIN STUDY**

### **Population and Sample**

Population is a set of all elements (Gilbert, 2001). From the population, sample was selected to collect data that can be representative of the whole target population. Sampling is important for an empirical study that uses a positivistic approach (Hussey, 1997). It is a fraction of subjects drawn from a population. Sampling offers detailed information that deal with small number of units (Sekaran, 2006). This study was carried out in banking sector of Pakistan.

The target respondents for this study were Human Resource managers and Line managers. The reason for selecting this population stands on the fact that they are professionally working and experiencing these practices. They are also aware about the

importance of implementation of such practices. Banking sector of Pakistan is comprised of 36 commercial banks (including 25 local private banks, 4 public sector commercial banks and 7 foreign banks) and 4 specialized banks. This study was conducted in twin cities of Rawalpindi and Islamabad. Almost all the major Pakistani banks have their branch offices in these cities duly controlled by their regional offices. The data was collected about the employees of public banks i.e. National Bank of Pakistan, First Women Bank and privatized banks which included Muslim Commercial Bank Limited, United Bank Limited, Allied Bank Limited, and Habib Bank limited, operating commercially in the aforesaid selected areas.

Random sampling techniques were adopted. The sample was mainly categorized into six banks, which consist of 120 branches including their controlling offices in the twin cities. 400 questionnaires were distributed among human resource managers and line managers of various units of banks in Pakistan. Of these questionnaires, 290 questionnaires were returned. The sample size of above-mentioned respondents meets the minimum obligation of diverse statistical analysis for example regression analysis, factor analysis, and analysis of diverse and ultimately of structural path.

### **Procedure**

The questionnaire was personally distributed among human resource managers and line managers of banking sector of Pakistan. Before giving the questionnaire to the respondents, all the questions were explained to the respondents so that they could easily fill up the questionnaire.

The feedback of the respondents was quantitatively analyzed. Different numbers were specially assigned to the options on the nominal scale and to the options on the five point Likert scale. After assigning the numerical values, they were specially added to the Statistical tool for management Sciences Software (SPSS).

To review the characteristics of respondents and collected data descriptive statistics were performed and to test hypothesis regression test was applied. This study employed descriptive statistics, factor analysis, and regression. Descriptive statistics was used for gaining a descriptive overview of collected data. This study used the structural equation modeling method to institute the model. Regression analysis was used to identify the relationship of HR practices, internal customer satisfaction and organizational effectiveness.

### **Confirmatory factor analysis**

Table 2 demonstrates the estimates of the variable of the study such that the estimates, which were significant, were considered well for further model fit.

**Table 2: Estimates of constructs of study**

<b>Constructs</b>	<b>Items</b>	<b>Estimates</b>
Recruitment and Selection	RS1	Recruitment and selection .548
	RS2	Recruitment and selection .512
	RS3	Recruitment and selection .823

	RS4	Recruitment and selection	.675
	TD1	Training & Development	.751
	TD2	Training & Development	.559
Training and Development	TD3	Training & Development	.598
	TD4	Training & Development	.834
	TD5	Training & Development	.466
	TD6	Training & Development	.451
	PA1	Performance Appraisal	.838
	PA2	Performance Appraisal	.485
Performance Appraisal	PA3	Performance Appraisal	.673
	PA4	Performance Appraisal	.961
	PA5	Performance Appraisal	.775
	PA6	Performance Appraisal	.693
	CB1	Compensation and Benefits	.765
	CB2	Compensation and Benefits	.850
Compensation and Benefits	CB3	Compensation and Benefits	.949
	CB4	Compensation and Benefits	.875
	CB5	Compensation and Benefits	.903
	EP1	Employee Participation	.519
	EP2	Employee Participation	.853
	EP3	Employee Participation	.973
Employee Participation	EP4	Employee Participation	.799
	EP5	Employee Participation	.864
	EP6	Employee Participation	.527
	EP7	Employee Participation	.483
	EP8	Employee Participation	.519
	WE1	Work Environment	.517
	WE2	Work Environment	.491
	WE3	Work Environment	.548
	WE4	Work Environment	.621
Work Environment	WE5	Work Environment	.602
	WE6	Work Environment	.454
	WE7	Work Environment	.615
	WE8	Work Environment	.673
	WE9	Work Environment	.545
	ICS1	Internal Customer Satisfaction	.916
	ICS2	Internal Customer Satisfaction	.830
Internal Customer Satisfaction	ICS3	Internal Customer Satisfaction	.805
	ICS4	Internal Customer Satisfaction	.621
	ICS5	Internal Customer Satisfaction	.581

	ICS6	Satisfaction Internal Satisfaction	Customer	.432
	ICS7	Internal Satisfaction	Customer	.665
	ICS8	Internal Satisfaction	Customer	.558
	ICS9	Internal Satisfaction	Customer	.610
	ICS10	Internal Satisfaction	Customer	.589
	ICS11	Internal Satisfaction	Customer	.636
	ICS12	Internal Satisfaction	Customer	.524
	ISC13	Internal Satisfaction	Customer	.831
	OE1	Organizational Effectiveness		.517
	OE2	Organizational Effectiveness		.528
Organizational Effectiveness	OE3	Organizational Effectiveness		.861
	OE4	Organizational Effectiveness		.556
	OE5	Organizational Effectiveness		.788

## RESULTS

### Analysis of Demographics

The sample included 290 respondents who were working in different departments of different branches in the banking sector of Pakistan. Table 3 illustrates the composition of respondents. According to table, there were 290 respondents, out of them 87 were female and 203 were male. That is, sample consists of 30% of female and 70% of male respondents. Age distribution of respondents is presented in table. The table explains that most of respondents were in age category of 31-40, 42.8% of respondents. 15.9% were in age category of 21-30. In the age category of 41-50, there were 41.4% respondents. Married and unmarried both respondents were included into the sample. Marital status of respondents of the sample is illustrated in the table. Table shows that 56.9% respondents were married and 43.1% were unmarried employees. Employees were asked to indicate their highest education qualification. Collected data on the highest education qualification is presented in the table. According to the given data in the table, Graduation has recorded as the highest education qualification of most of the respondents in the sample. That is, 48.6% employees were Graduate. 30.7% were Master, 19% were MS/M. Phil and 1.7% were Ph. Ds. Table indicates that most of the respondents had more than ten year experience in the present bank. As a percentage, 34.5 % had more than ten years of service in the present bank and 26.2% had 6-10 years service.

**Table 3: Frequency distribution of demographic profile of the respondents**

Demographic	Category	Frequency	Percent
Gender	Male	203	70.0
	Female	87	30.0
Age	21-30	46	15.9
	31-40	124	42.8
	41-50	120	41.4
Marital Status	Married	165	56.9
	Unmarried	125	43.1
Qualification	Graduate	141	48.6
	Master	89	30.7
	MS/M. Phil	55	19.0
Service Period	PhD	5	1.7
	1-2	64	22.1
	3-5	51	17.6
	6-10	76	26.2
	More than ten years	99	34.1
Total		290	100

**Note.** N=290.

### Hypothesis Testing

The result in table 4 reports regression path, regression estimates, standard error, critical ratio, significance values, and label of hypothesized relationship.

The result describes positive and significance impact of recruitment and selection on internal customer satisfaction ( $\beta=.56$ ,  $P < 0.05$ , Hypothesis 1). It shows that recruitment and selection intensifies internal customer satisfaction by 56% approximately. The critical ratio (CR=6.647) reveals that recruitment and selection is considered as an important determinant of internal customer satisfaction. The analysis further demonstrates that employee training and development ( $\beta=.61$ ,  $P < 0.05$ , Hypothesis 2), performance appraisal ( $\beta=.59$ ,  $P < 0.05$ , Hypothesis 3), compensation ( $\beta=.51$ ,  $P < 0.05$ , Hypothesis 4), employee participation ( $\beta=.64$ ,  $P < 0.05$ , Hypothesis 5), and work environment ( $\beta=.57$ ,  $P < 0.05$ , Hypothesis 6) have positive and significant impact on internal customer satisfaction.

As predicted, internal customer satisfaction is positive and significantly related to organization effectiveness ( $\beta=.76$ ,  $P < 0.05$ , Hypothesis 7).

To test the effect of human resource practices on organizational effectiveness, all HR practices were found to have a positive and significant impact on organizational effectiveness. The analysis further demonstrates that employee recruitment and selection ( $\beta=.42$ ,  $P < 0.05$ , Hypothesis 8), employee training and development ( $\beta=.56$ ,  $P < 0.05$ , Hypothesis 9), performance appraisal ( $\beta=.44$ ,  $P < 0.05$ , Hypothesis 10), Compensation and benefits ( $\beta=.64$ ,  $P < 0.05$ , Hypothesis 11), employee participation ( $\beta=.57$ ,  $P < 0.05$ , Hypothesis 12), and work environment ( $\beta=.49$ ,  $P < 0.05$ , Hypothesis 13) have positive and significant impact on organizational effectiveness.

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

Hypotheses	Effects	Estimate	S.E.	C.R.	P	Remarks
H1	Satisfaction <--- Staffing	.557	.084	6.647	***	Supported
H2	Satisfaction <--- Training	.607	.114	5.318	***	Supported
H3	Satisfaction <--- Appraisal	.586	.074	5.651	***	Supported
H4	Satisfaction <--- Compensation	.509	.067	5.231	***	Supported
H5	Satisfaction <--- Participation	.636	.094	6.736	***	Supported
H6	Satisfaction <--- Workenv	.568	.053	16.877	***	Supported
H7	Effectiveness <--- Satisfaction	.761	.056	16.665	***	Supported
H8	Effectiveness <--- Staffing	.418	.051	5.421	***	Supported
H9	Effectiveness <--- Training	.561	.056	14.665	***	Supported
H10	Effectiveness <--- Appraisal	.440	.046	7.019	***	Supported
H11	Effectiveness <--- Compensation	.638	.058	5.850	***	Supported
H12	Effectiveness <--- Participation	.571	.055	6.306	***	Supported
H13	Effectiveness <--- Workenv	.491	0.49	5.924	***	Supported

**Note:** \*\*\*p<.05

Putting the entire model simultaneously, the result shows that employee participation is the most important determinant ( $\beta=.64$ ) of internal customer satisfaction, followed by employee training ( $\beta=.61$ ), performance appraisal ( $\beta=.59$ ), work environment ( $\beta=.57$ ), employee recruitment and selection ( $\beta=.56$ ) and compensation ( $\beta=.51$ ). They share almost the same influence in terms of enhancing internal customer satisfaction. On the other hand, internal customer satisfaction exerts the greatest impact on organizational effectiveness ( $\beta=.76$ ), while the subsequent predictors of organizational effectiveness are compensation ( $\beta=.64$ ), employee participation ( $\beta=.57$ ), employee training and development ( $\beta=.56$ ), work environment ( $\beta=.49$ ), performance appraisal ( $\beta=.44$ ) and recruitment and selection ( $\beta=.42$ ). Compensation exerts the greatest effect on organizational effectiveness and the least impact on internal customer satisfaction among the six human resource practices.

**Table 5: Structural Equation Model fit Measures of constructs of the study**

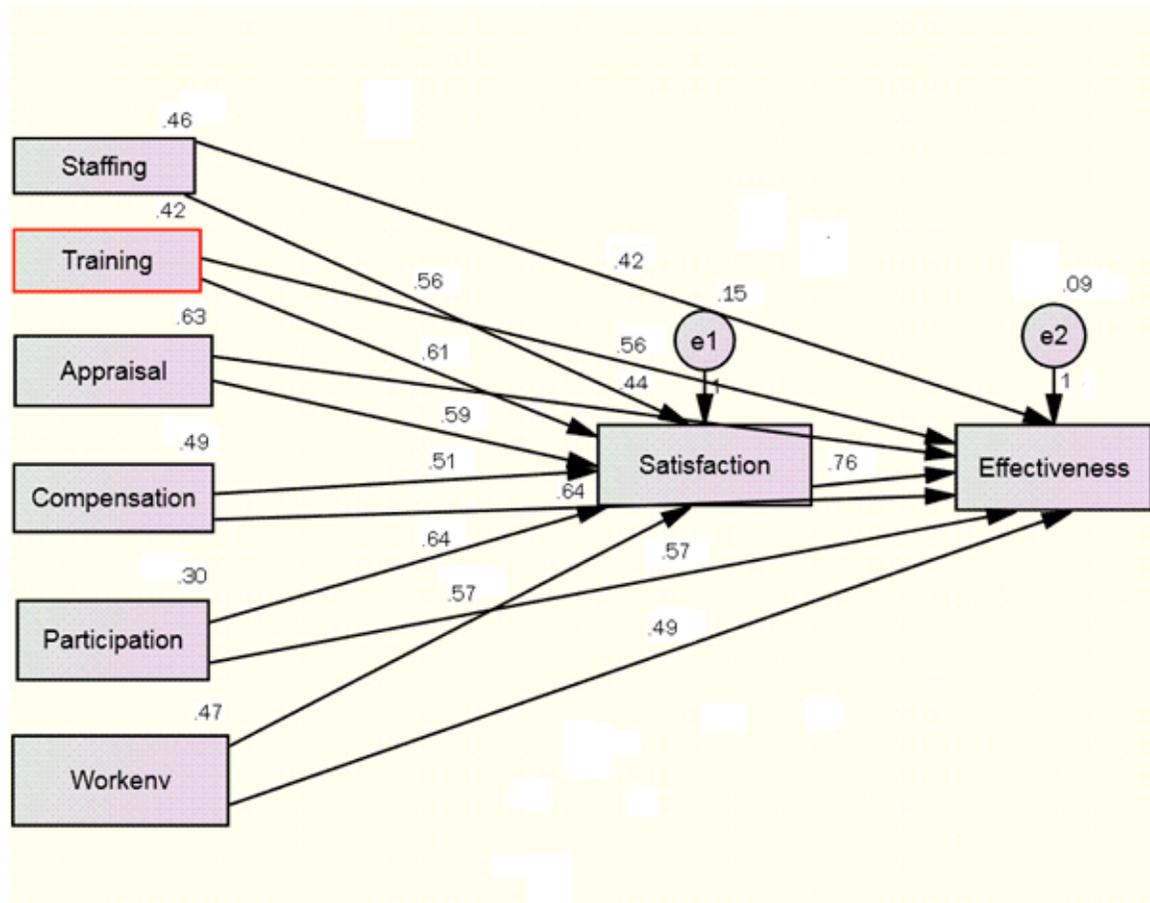
Constructs	Chi	D.F	Chi/D.F	GFI	IFI	CFI	NFI	AGFI	RMSEA
Model	92.537	23.13	4	.914	.923	.922	.918	.910	.056
Traditional			≤5	≥0.90	≥0.90	≥0.90	≥0.90	≥0.90	≤0.08
Cut off									
Criteria									

**Note.** D.F — Degree of Freedom, GFI — Goodness of Fit Index, IFI — Incremental Fit Index, CFI —Comparative Fit Index, NFI — Normated Fit Index, AGFI—Adjusted Goodness of Fit Index, RMSEA—Root Mean Square Error of Approximation

The results in the Table 5 signify model fitness index, as significant regression paths necessarily means model is fit, researcher have to go through model fit index provided

by AMOS output. Table 5 reveals seven (7) model fitness criteria. The model chi Square (Chi) and associated significant value indicates that this criterion fulfills the minimum requirement of model fitness, as the significant value is less than level of significance ( $P < 0.05$ ) indicating discrepancies factors in the model (Tabachnick & Fidell, 2007). Another fitness measure is goodness of Fit index (GFI), by convention the value of GFI equal to or greater 0.90 is acceptable (Schumacker & Lomax, 2004). This criterion fulfills the minimum acceptance level of Model Fit ( $GFI > 0.90$ ) and AGFI is variant of goodness of fit, which adjusted goodness of fit index for degree of freedom. Further criteria includes CFI (comparative fit index) is revised form of NFI (norm fit index). The suggested value for NFI and CFI is equal or greater .90 (Hooper *et al*, 2008). RMSEA (root mean square error of approximation) tells about optimally chosen parameters would fit the population co-variance Matrix (Byrne, 1998). RMSEA value below 0.08 shows good fit of the model. Based upon the aforementioned criteria, model fit indices fulfill the criteria of Model fitness.

**Figure 2: Path Diagram**



## DISCUSSION

The paper contributes to understanding of influence of HR practices on internal customer satisfaction and organizational effectiveness in Pakistan. The results of the study presented empirical support for the existence of a positive and statistically significant

influence of HR practices on internal customer satisfaction organizational effectiveness in Pakistan. Our study of Banking Sector in Pakistan presented support for the hypothesized positive effects of HR practices on organizational effectiveness. The results indicate statistically significant relationship of recruitment and selection, training and development, performance appraisal, compensation and rewards, and employee participation with organizational effectiveness. Together with earlier studies on HR practices, the result of present study indicate that extensive use of an integrated approach to efficient HR practices yield positive results in term of their effects on organizational effectiveness.

In context of Pakistan, it would be pertinent to substantiate these results through empirical studies of other industries of the economy.

Recruitment and selection may consequence commencing the various accents of Human Resource experts as well as executives. The focal point of Human Resource experts is to see whether the recruitment map fits recruitment effectiveness, company policy and the fit between the business and candidates. It is also apprehensive regarding the multi-methods, as well as applicable, consistent assortment devices. From the users' point of view, line executives may be bothered supplementary regarding the duration of time essential for hiring the exact individual, with the supportive capability as well as solidity of newcomer. Hence, the capabilities of Human Resource departments have established by the recruitments and selections have no influence on internal customer satisfaction Attitudes and dedication of employees are improved, once internal customers are satisfied with HR practices, selection, recruitment, promotion, compensation, benefits, and training of employees. This satisfaction increases employee behaviors and reduces turnover rate. This constructive circle also helps in enhancing the capability of an organization to draw talent (Jyothi & Venkatesh, 2006).

The results of studies illustrate that employer-provided training might in fact rise intended earnings rate (Batt, 2002; Kalleberg & Lincoln, 1996). Therefore, the easiness of association rationalization appears supplementary appropriate than the firm dedication case toward description of the manipulation of employer-provided training on intended turnover. The alternates that entail lessening in training reserves or employ faculty from rivals might have bad penalty. For example, the place of work might languish or practice retribution from rivals (Gardner & Timothy 2005).

As regards compensation and benefit, frontline executives are pleased when HR department expresses potentials in marketplace study, compensate for- concert scheme, job appraisal and aggressive compensation packages in labor marketplace. A market study tails external equity whereas job evaluation tails internal equity. Equity theory recommends that an individual estimate himself with others. Rewards may improve the financial well-being of people through wages, bonuses, or profit sharing, or indirectly, through employer-subsidized benefits for instance retirement plans, paid vacations, paid sick leaves, and purchase discounts (Sue Shellenbarger, 1999). Consequently, the reward issue cannot be disregarded, as it will generate a "situation in which the anticipation or the actual goal-directed behavior of an individual or group are infertile or are about to be fruitless (Steers & Black, 1994). Rewards promote efforts, performance and there is lot of support that they often do (Gibbons, 1997).

Regular monitoring of the performance and constant feedback about performance is essential to get the desired results. Researchers established that employees'

participation in setting performance goals, clarity about performance standards, flexibility of the system to respond to the changing needs, and employee right to appeal against performance evaluation are vital attributes of an effective performance appraisal that contributes toward superior performance by workforce (Islam & Rasad 2006; Sidin et al., 2003; Webb, 2004; Wu, 2005).

Employee participation is characterized by wide ranging HRM related activities primarily focused on employee management. These practices include employees sharing schemes, cooperatives, industrial democracy, unions, employees' involvement, HR and high commitment work practices, team working, collective bargaining, employee empowerment, employee partnership in providing input in strategic decision making, and employees' right of information sharing at all levels (Summers & Hyman, 2005). The results of present study concur with results of earlier studies that HR practice of employee participation is positively and significantly associated with organizational effectiveness (Amable, 2003; Hall & Soskice, 2001; Hartcourt & Wood, 2007; Rizov & Croucher, 2008).

The results of study demonstrated that perceived adequacy or inadequacy of work environment, both physical and psychosocial, extends noticeable effect on employees' job satisfaction and performance, and perception of effectiveness of an organization. The employees who perceive and feel the work environment as to be adequate, safe and congenial, develop positive attitude towards various job components, which ultimately results in higher job satisfaction and job involvement among these employees. Sayeed and Mehta (1981) reported positive correlation between Q.W.L. and employees' job satisfaction. The positive relationship between adequate and favorable work environment and performance noted in the present study may be attributed to the physical convenience, facilities and comfort, feeling of safety and security, and congenial and motivating climate prevailing in the work environment. After pioneer formulations of Frederik Taylor in second decade of twentieth century, numerous empirical investigations revealed that adequacy or appropriateness of various features of physical condition at work, such as; illumination, temperature, noise and atmospheric conditions help in enhancing industrial productivity. Fine and Kobrik (1978) noted negative effect of high temperature on performance of mental as well as physical task. Increasing illumination level has also been found to result in some improvement in performance. The studies have also demonstrated positive relationship between perceived work environment and organizational effectiveness (Hansson & Jensen, 2004; Pransky et al., 2005; Lindberg, 2006). The observation may be attributed to the fact that adequate and favorable features of physical and social environment of the organization are major constituents and as well as determinants of overall effectiveness of the organization.

## **CONCLUSION**

Placing the entire hypothesis simultaneously, the consequence of standardized whole belongings illustrates so as they share nearly the similar impact in provisions of enhancing internal customer satisfaction. Conversely, internal customer satisfaction exercises the greatest impact lying on organizational usefulness, whereas the consequent predictor of organizational effectiveness is compensation. Compensation has the highest impact on organizational effectiveness, the slightest effect on internal customer satisfaction.

Compensation is the slightest significant manipulate for employees on their satisfaction. It might reveal the detail to facilitate workforce have previously acknowledged the reward presented prior to joining the organization. On the contrary, these are provided by supplementary HR practices in anticipation that these turned out to be the members of organization. Accordingly, compensation is not the only factor influencing satisfaction. Conversely, compensation influences organizational effectiveness generally among six HR magnitudes.

It illustrates that compensation is the ultimate result efforts of employees, and so directly manipulates organizational effectiveness (Haines, Jalette, & Larose, 2010).

## **MANAGERIAL IMPLICATION**

Overall, the consequence of this research is reliable in the midst of the projected speculation. Moreover, this assumed model is a fine robust. The learning reveals a few important inferences. Those inferences are argued by changing and highlighting definite Human Resource practice, as well as by giving focus on the function of internal customers for organizational usefulness improvement.

Concerning the Human Resource practices, a few HR practices based on customer necessities might require to be evaluated. For instance recruitment and selection the robust between employment map and company policy, employment usefulness, different employment techniques, consistent and compelling assortment procedures, as well as the robust flanked by candidates and the organization with which the Human Resource expert is apprehensive might contain minor precedence than supplementary aspects for example the duration of occasion essential for hiring the right individual, the collaboration capability of newcomers and solidity which may be means apprehensions for interior customers.

Further Human Resource practice may contribute a significant part into improving organizational effectiveness. For instance, majority of the employees have issues regarding compensation and benefits. Human Resource experts should assign huge hard work to signifying their competence in work valuation, market analysis, a pay-for-performance scheme, aggressive compensation & benefits within the labor marketplace. All These pains may help to oblige the customers, as well as strengthen the potentials in order to improve organizational effectiveness.

Human Resource experts must identify and stay close up to their customers to improve the satisfaction of internal customers. Conversely, Human Resource experts might exercise diverse techniques to study about the organization and its customers. For instance, they may drive HR experts to technological conventions, attract talented people like, marketer, investor, engineer and R& D expert to convene with Human Resource groupings, make sure that Human resource experts connect trade groups, and give out to Human Resource experts photocopy of tactical policy, technological information and buyer evaluation of goods and services. Moreover, at workforce meeting, the company plan may be talked about as often as recompense, evaluation, and T& D. These negotiations may necessitate that customers are recognized, occupied, and essential to the function of the Human Resource division.

Alternatively, HR expert is accountable for running groups interconnected performs as well as tend to take care of employee troubles. Moreover determining Human Resource performs, Human Resource expert can entail front line executive into Human Resource tasks. Several of these practices and troubles may be successfully grasped by frontline executive due to having nearer relationships and better considerate of worker desires and troubles. The primary role of HR experts should be as serving managers advance management excellence and helping them hold with employee troubles. Human Resource experts can better develop service excellence by highlighting the meticulous function of boss in-group organization.

## **RECOMMENDATIONS**

Subsequent to extensive discussion and comprehensive analysis, this study suggests a number of recommendations for business leaders and banking industry of Pakistan for designing human resource practices.

Based on results, the study recommends that the victory of banks is reliant on the Human Resource practices, procedures, applications, and implementation towards their internal customers. It is acknowledged that the association with employees' satisfaction is believed one of the most important drivers of the perceived internal service quality and it is strongly related to employee retention but unfortunately, this association in its real spirit is hardly taken notice of. Hence, it is essential for the bank management that they must satisfy the internal customers first to make them extremely motivated with good working morale, and they will effort more effectively and efficiently. The facets of job-related attitudes improved while the quality of Human resource practices enhance. The study recommends that the human resource development departments should evaluate and increase the motivation, training, and retention of good employees. The employees' selection and their compensation and rewards, their training and development, and participation all are the most imperative human resource practices in increasing the employees' satisfaction and the retention of potential workforce.

The study further recommends that to deliver outstanding internal service quality to the employees and endeavor for company characteristic, the internal customer satisfaction is very important. These all aspects may be attained if the management takes extra care as developing the human resource practices launching from selection and recruitment, identifying the employees with their core capability and arranging remarkable work environment. Therefore, it is suggested that it must be encouraging to facilitate the employees to deliver what is projected of them.

Management should treat internal customers since they would like them to treat their external customers. Satisfy employees, prepare them, respect them, and make champion of them because the mode human resources are treated by the organization has a direct influence on the way those human resources treat the business' customers. If the businesses treat the employees properly, they will treat the customers' correctly.

## **LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH**

This study has several limitations, which should be incorporated in future research. The anticipated model focuses on only a small number of important variables influencing organizational effectiveness. To study the sound effects of several further variables, the structural equation modeling method may be used. Therefore, future research can consider different sophisticated models. Here in this research, Organizational effectiveness incorporates behavior and attitude variables. Attitude-behavior-performance judgment may be exercised for developing further imminent in the black box. Many clusters of internal customers might be examined, for the moderate association; these internal customers may be Managers, Chief Executive Officers and employees. Having possession of the diverse disposition of their everyday jobs, this is rational to believe that the link connecting Human Resource Practices and organizational effectiveness through internal customer satisfaction may fluctuate according to the objective customers.

This study did not include external customer satisfaction in the theoretical model test because of particular concentration on internal customer and organizational effectiveness with respect to human resource management. External customer satisfaction should be incorporated in future research.

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