

# **Service Quality Value Alignment through Internal Customer Orientation in Financial Services – An Exploratory Study in Indian Banks**

*Prof. Tapan K.Panda\**

## **Introduction**

A high level of external customer satisfaction largely depends upon the level of internal customer satisfaction and corresponding nature of service quality delivered by internal customers to the external customer in financial services industry. Customer satisfaction for financial services industry is also dependant upon the amount of trust the customers place with the organization which is again dependant on the relationship of the customer with the employees of the organization i.e. for our purpose they are internal customers.

A good relationship is a reflection of greater propensity to buy the services from the financial institution. The customers view their financial institution to be professional par excellence in service quality delivery which can be explained through verbatim like professional dealings, friendly staff, being open, trust worthy, honest and finally delivering reliability what they have been asked to do. So it is important on the part of the internal customer to understand and communicate the explicit and tacit knowledge about the financial service delivered to customers.

---

\* Faculty Member, Indian Institute of Management Lucknow

The financial institution in the process should make an attempt to enhance the confidence of their staff about their brand building roles. Higher level of staff motivation and job satisfaction shall lead to greater consistency in service delivery. High level of service delivery will increase the customer satisfaction level reflected ultimately with higher sales, greater market share and good brand image. This research paper looks at the key issue of service quality management and internal customer satisfaction issues for creating sustainable competitive advantage in financial services.

The questionnaire survey conducted in the loans department and corresponding branches of a nationalized bank shows that different groups perceive service quality as a dependant on various conditions. If there is a necessity for homogeneity in views of the people for service quality delivery, then policy planners in financial services should look in to these key issues while designing customer satisfaction programs.

The success of a business enterprise is guided by the strategic orientation of the organization towards its customers, competitors and internal customers (employees) and the relationship between these significant components. External marketing addresses the relationship between the firm and its customers. Interactive marketing refers to the front end of the firm and the customer. Internal marketing refers to the relationship of the firm with its employees through its internal policies and interaction methods including the expectation – matching behavior and compensation planning. Substantial amount of research effort has been expended for understanding external customer behavior and developing tools and techniques for testing and interpreting the external consumer behavior (Parasuraman, A., Berry, L and Zeithaml(19998)).

The research work highlighting the importance of supportive relationship between the organization and role of various groups working within the organization and individual employees is of very recent origin (Berry, L. L, 1981)

.The need for effective internal marketing as an integral and effective tool for satisfying external customer need is recognized only in the 80s. It is not possible for an individual to know everything about the organization and its offerings in today's multilayered and multi location enterprises. So there is a need for internal customer relationship management.

A good internal customer relationship management program makes the employees feel about their job, the relative significance their job holds for the enterprise and how their performance affects the whole chain of external marketing delivery in an organization. Any gap in the process of realizing significance of the job done by an employee and strategic relevance of his contribution to the over all customer satisfaction has to be attended by top management while planning for internal customer satisfaction program.

This understanding can also help in avoiding duplicity of effort and strains on functional relationships across departments in the organizations. Satisfied internal customer and their attitude is a prerequisite to satisfied external customers

[ Gemler , D D , Bitner M J (1994) ; Schiml , MJ, Allscheid, S. P (1995) ]. Without integrating the service provision process across the whole organization one can not achieve strong customer relationship management through internal customer orientation. The importance of the value and service supply chain and analysis of intra organizational value flows are receiving increasing attention in financial services sector. The financial services industry has understood the process of service value delivery integration through effective intra-organizational communication [Lawrence, HV and Wiswell, AK (1998)]

Customer satisfaction with quality and its link with service delivery has been explored in previous researches resulting in the identification of number of gaps. (Zeithml, VA, Parasuraman A and Berry L L (1990)).Zeithml and Bitner (1996) have analyzed these gaps and have identified a number of service

deficiencies or inadequacies within the service provider that would significantly contribute to sub optimization of the services and a higher probability of customer defection. . Kasper (1999) examined various alternative strategies for service marketing and gave emphasis to the need of a right service mix of services (product), people, system and technology. Many factors were identified as demanding attention in the triad of services, particularly the need of continuous interaction between the front office, the back office and the external customer. From the review of the literature it can be said that delivery of the intended service to the customer is dependant upon the extent of integration of values and behavior of the employees in an organization.

Internal consistency in delivery can be a powerful factor in what the external customer perceives from the number of interactions he gets in the process of receiving the service. Present research in the area of customer relationship management is searching for new yet critical links by questioning the concept of value and approach to value delivery mapping through value chain analysis. The objective of this research paper is to undertake a survey of the bank employees and thereby comparing the responses to a number of dimensions related to service quality delivery among internal service providers and to extent the extent to which they have similarity across the organization.. Banks in India differ in size, structure, ownership, coverage, staffing strength and degree of automation and technical sophistication.

There are two key aspects of banking operations where the service delivery can be looked at. One is the customer contact point (front end) and the other is the back end operation where customer requirements are processed.. These back offices are more mechanistic with prefixed standards on service delivery for example the timing of processing a loan application form is fixed with certain degree of reliability; interaction of the staff being more technology driven and within the departments only. In many of the cases the back office need not

be close to the customer contact point due to technological up gradation and interactive communication possible between the front end and the back end.

On the other hand the front office staff are close to the customers and are a part in the three way process of interaction i.e. customer, technology and internal customer that require a different set of tools, technology and process of transfer. So some differences in the front end and back end of a banking operation are expected but their focus areas are to be identified and extend of their responses are to be measured.

## **Methodology**

There is not significant research literature or findings available on comparison of service delivery standards and customer orientation in Indian banking sector. The data collections were restricted to one of the large public sector banks having highest number of banks across the country. This bank constitutes the back bone of Indian banking industry, particularly in the context of small investor banking. This bank has a multiple product basket catering to individual savings bank account holders as well as the corporate sector customers. This bank with its branch spread across the country in itself a large organization to study. Furthermore the differences in responses due to differences in institutional characteristics and culture were minimized by selecting multiple branches of this bank. This choice, though may restrict the possibility of generalization of the findings across all the public sector banks in the country but the response differences was of greater concern for the researcher. Convenience sampling was followed for selecting respondents for the survey across three states of India.

The internal service encounter is examined in terms of the interaction between different constituencies in an organization by means of analyzing the customer complaints and critical incidents in the bank [Gremier (1994)]. It is inferred that internal customers can be managed by following the same approach

as for external customers. With this assumption literature on customer satisfaction surveys were reviewed for developing a questionnaire as the instrument for data collection.[Lin(1997)]. The research work of Wuthrich (1989) was used for identifying fourteen quality parameters for internal measurement in the financial institution selected for the study.

Emphasis was led on the factor to identify the relative degree to which the front office and back office staff treat each other as internal customer and see their main job function as providing services to them. It was decided to pretest the items for understanding purposes and to adopt a five point scale, values ranging from definitely agree to definitely disagree. The questionnaire also collected demographic data including the place of posting, seniority level, number of years in service and gender. The second part of the questionnaire focused on the key service delivery issues related to quality dimensions like tangibility, reliability and responsiveness within the organization. The survey was carried at the branch level (the front end) and also at the loan department of the regional office level (the back end). The questionnaire was administered personally. Out of the 200 questionnaire surveyed, 145 responses were returned back, out of which 23 were unusable leaving 122 sample responses for analysis.

## **Results and Discussions**

The sample distribution on demographic variables is shown in Exhibit-I. It is observed that for the over all samples of 121, there is no spastically significant relationship between the variables of gender, position and length of service (Chi square, 2 tail,  $p < .05$ ). Subsequently on verification with the human resource department of the bank, it was confirmed that the distribution obtained was an over all representation of the employee profile. A test of independence(Chi square, 2 tail,  $p < .05$ ) for employees working at the branch level and employees at regional office loan departments has also shown that there is no statistically significant difference between the demographic variables between employees in

the two work places selected for the study. The responses of the whole sample members (122), of the branches (62), of regional offices (60) to the fourteen items selected for the study are shown in Exhibit-II. The over all profile of the responses between branches and regional offices was similar (Karl Pearson coefficient on the means =.839; Spearman=.897; both  $p < .001$ ).

Employees in branch offices scored higher means than those in the regional branch offices over all, also showing higher score in twelve out of fourteen items listed in the questionnaire. The t- test on each pair of responses shows that the differences between responses of employees in branches and regional offices was not statistically significant ( t test,  $p < .05$ ) It is also observed that the responses from the regional office were less wide spread than from other branches, in which this set of samples showed lower standard deviation in eleven out of fourteen items.

Cross tables were prepared between the demographic characteristics of the samples (length of service, position, gender) and the responses to the fourteen items. These are shown for the total samples and also separated between branches and regional office data. Of the hundred twenty six cross tabs possible, only seven shown in Exhibit-III yielded statistically significant result (Chi square, 2 tail,  $p < .05$ ). This inconsistency can be explained by the fact that although there were no statistically significant differences between the responses of employees in branch and regional offices as a whole, the different demographic categories of employees within the branches and within the regional office did respond differently to the fourteen items listed in the questionnaire.

A matrix of correlation coefficient was calculated between the responses to the fourteen items by the whole sample, by the regional office, by the branch employees. Exhibit-IV shows that each of the fourteen items in the questionnaire showed a statistically significant correlation with another item( Karl Pearson, 2

tail,  $p < .05$  and  $p < .01$ ). It is observed that responses from branches resulted in a much lower number of significant relationships between the responses than in the case of the regional offices. The difference in number of statistically significant correlations between branches and loans is itself significant. This indicates more consistency in responses between items by individuals within regional office than those with branches, even though the range of the responses obtained was wider in the case of latter as seen in Exhibit-II.

In considering the attempt to study the service quality orientation in this paper, items 10(service orientation) and 14(internal customer) in the questionnaire were isolated as dependant variables. The correlation coefficients between these two selected variables were high among regional office employees (Karl Pearson,  $.60$ ,  $p < .001$ ) but low in branches (Karl Pearson,  $.066$ ; not significant).

Stepwise regression equations were calculated by treating the remaining twelve items as explanatory variables. Exhibit-V shows that for the dependant variable service orientation, the same independent variable 9 (correction at the first instances) provided the highest explanation for responses for both regional office ( $R = .7668$ ) and branches ( $R = .4429$ ). The level of explanation increased ( $R = .8307$ ) in regional offices by inclusion of the item number fourteen' internal customer'. Given the high correlation coefficient between these two items for regional offices, this additional variable should not have been included in the regression.

As shown in exhibit-V, additional inclusion of this variable for the branches did not increase the level of explanation. However a different composition was achieved when the dependent variable became the 'internal customer'. In the case of regional offices 'trust and confidence in colleagues' was the largest explanatory variable ( $R = .6658$ ). In the case of responses from branches, only the variable 'response from colleagues' entered the equation with



a high explanation ( $R^2 = .5908$ ). This explanation was not improved significantly by inclusion of the additional variables.

The front office and the back office of the financial service providing institution should hold similar values on various dimensions of service quality delivery standards to the customers. A consistent pattern should emerge within the organization for providing quality service to the external customers. The findings from this exploratory study show that employees in the branch offices and regional offices in the nationalized public sector bank respond in similar pattern. There is a high level of correlation between profiles of the responses to the fourteen quality dimensions studied in the survey.

The employees from the branches scored higher than the regional offices but their responses were also widespread. More significantly there is not a statistically significant difference between the responses of both the groups, so there is no apparent gap between both the groups. This seems to be proof that this institution is showing a singular face to the external customers. In the survey some differences were observed across the positions held by sample members. Managers defined quality by identifying a value proposition that stands for coming up with solutions to customer problems and relevance of staff training. In the regional office people identified quality service with a value proposition of being correct in the first time, longer serving employees' emphasized reliability and competence to the job with service value proposition. . At the branch level the longer serving employees put emphasis on internal communication and use of proper internal channel.

There were interesting observations related to the over all idea of 'service quality'. In both branch and regional offices, being correct at the first time was treated as the most important component of the service quality. In the regional office quality related to confidence and trust, where as in the branches staff training was perceived as the most important contributor to the service quality

due to the higher probability of external customer contact and interaction, demand for knowledge on customer management and the lesser probability of peer guidance in front of the external customer at the branch for responding to customer service requirement.

## **Conclusion**

This study tested the commonality of interest and service quality perception of employees at the branch (front end) as well as at the regional office (back end) level. This study can be replicated across other financial services units like insurance, mutual fund management, merchant banking and allied areas to find out the differences in perception related to service quality delivery proposition of the organization and internal customer orientation. This kind of study will hold significance in cases where there is a visible distance between the external customer and various internal level service providers (back end operators). It will significantly contribute in explaining the relationship between the internal alignments of the financial services provider and the customer along the service value chain which shall help in building effective customer retention strategies by internal customer orientation to face competition of tomorrow.

## **References**

1. Berry, L.L (1981) '*The employees as a customer*', **Journal of Retail Banking**, Vol-3 No-1, pp-33-40
2. Gremlar, D D , Bitner M J and Evans, K R (1994) '*The internal service encounter*' **International Journal of Service Industry Management**, Vol. 5 No-2 pp 34-56
3. Kasper, H Van Helsdingen P and de Vries Jr W (1999) '*Service Marketing Management*' Wiley, Chichester
4. Lawrence, H V and Wiswell, A K (1998) '*How to make internal customers cooperators*' **Training and Development**, Vol 52, No-3 pp 45-48

5. Lin B and Jones C A (1997) ‘ *Some issues in conducting customer satisfaction surveys*’ **Journal of Marketing Practice: Applied Marketing Science**, Vol 3, No-1, pp 4-13)
6. Parasuraman. A , Berry, L and Zeithamal, V(1988) ‘ *SERVQUAL: A multiple –item scale for measuring consumer perception of service quality*’ **Journal of Retailing** . Vol 64. No-1 pp 12-40
7. Schimt, M J and allscheid, S P ( 1995) ‘ *Employee attitude and consumer satisfaction: Making theoretical and empirical connections*’ **Personnel Psychology**, Autumn, Vol-48, No-3 pp 521-37
8. Zeithaml, V A , Parasuraman, A and Berry, L. L.(1990) ‘ *Delivering quality Service*” The Free Press, NY
9. Zeithaml, V A and Bitner, M J (1996) ‘ *Service Marketing*’ Mc GrawHill, NY

## EXHIBIT-1

:the Demographical Characteristics

<b>Characteristic</b>	<b>Regional Office</b>	<b>Branch</b>	<b>Total</b>
Male	24	38	62
Female	36	24	60
Managers	2	10	12
Non Managers	58	52	110
Length Of Service( Tenure)			
1 year	2	4	6
<4 years	22	20	42
4 years+	36	38	74
Total	60	62	122

<b>EXHIBIT-II : Mean Response From Total Sample, Response</b>		<b>Branch and Total Sample</b>		<b>Regional Branch</b>		<b>Offices Branch</b>		<b>Regional Office</b>		<b>t value</b>	<b>Sign</b>
		<b>Mean</b>	<b>s.d.</b>	<b>Mean</b>	<b>s.d.</b>	<b>Mean</b>	<b>s.d.</b>	<b>Mean</b>	<b>s.d.</b>	<b>Branch vrs Regional</b>	
1	We have modern and up to date equipment In our work place	3.49	0.93	3.471	1.029	3.564	0.87	0.35	0.73		
2	There are no barriers between internal departments	3.029	0.886	3.158	0.819	2.891	0.957	-0.98	0.33		
3	Communication is clear, appropriate and accurate in our division	3	0.88	3.228	0.799	2.829	0.907	-1.99	0.06		
4	My colleagues understand my problems and help me in solving them	3.27	.896	3.256	.87	3.165	.96	-.43	.669		
5	we develop relevant solutions in our division	3.339	0.789	3.42	0.76	3.27	0.829	-0.819	0.42		
6	Information is obtained through official channel	3	0.88	3.16	0.82	2.83	0.91	1.54	0.13		
7	There is a feeling of confidence and trust in our division	3.16	0.92	3.23	0.76	3.1	1.03	-0.68	0.5		
8	We practice team work in our division	3.37	0.92	3.46	0.93	3.31	0.95	-0.52	0.6		
9	We perform the service right the first time so as to avoid to make corrections in our division	3.07	0.72	3.08	0.76	2.98	0.689	-0.33	0.74		
10	Our division is service oriented and we aim to please	3.39	0.74	3.28	0.71	3.49	0.77	1.26	0.17		
11	Colleagues in branch/regional offices are known to be very reliable	3.59	0.63	3.67	0.56	3.57	0.65	1.14	0.26		
12	We believe in the competence of our colleagues to produce quality work in our division	3.48	0.82	3.46	0.56	3.56	0.67	1.14	0.256		
13	The training program available help me in my daily work	3.24	0.88	3.34	0.87	3.11	0.89	-1.06	0.3		
14	My colleagues treat me like a customer	2.87	0.86	2.96	0.89	2.75	0.85	-0.96	0.34		

### EXHIBIT-III Responses by Demographic Characteristics

Response	Total Sample		Regional	Branch
	Position	Gender	Tenure	Tenure
4. Communication in clear, appropriate and accurate in our division				p<.03
5. We develop relevant solutions in our division	p<.03			
6. Information is obtained through official channel				p<.03
9. We perform the service right the first time so as to avoid having to make corrections in our division		p<.03		
11. Colleagues in branch/regional offices are known to be vary reliable			p=.000	
12. We believe in the competence of our colleagues to produce quality work in our division			p=.000	
13. The training program available helps me in my daily work		p<.03		

( THOSE RELATIONSHIPS ARE SHOWN THAT WERE FOUND TO BE STATISTICALLY SIGNIFICANT ON CHISQUARE, 2 TAIL, AT P<.05)

## EXHIBIT-IV Number of Significant Correlations between Responses in Questionnaire

Response	Total Sample		Regional Office		Branch	
	P<.01	P<.05	P<.01	P<.05	P<.01	P<.05
1 We have modern and up to date equipment In our work place	0	0	1	2	0	0
2 There are no barriers between internal departments	4	7	10	10	4	7
3 My colleagues understand my problems and helps me solve them	5	7	13	15	4	7
4 Communication is clear, appropriate and accurate in our division	6	10	10	13	5	8
5 we develop relevant solutions in our division	6	7	9	11	6	8
6 Information is obtained through official channel	6	10	10	13	5	7
7 There is a feeling of confidence and trust in our division	6	11	12	1	1	3
8 We practice team work in our division	8	12	14	14	5	7
9 We perform the service right the first time so as to avoid to make corrections in our division	10	7	5	9	0	2
10 Our division is service oriented and we aim to please	4	6	5	11	0	3
11 Colleagues in branch/regional offices are known to be vary reliable to be very reliable	5	8	9	11	0	2
12 We believe in the competence of our colleagues to produce quality work in our division	5	10	7	12	3	5
13 The training program available help me in my daily work	7	9	9	12	1	2
14 My colleagues treat me like a customer	5	9	9	13	2	5

NOTE: SHOWING ONLY THOSE RELATIOSHIPS THAT WERE STATISTICALLY SIGNIFICANT (PEARSON, 2 TAIL) WITH OTHER ITEMS IN THE QUESTIONNIARE

## EXHIBIT-V Responses Included in Regression Equation

Dependant Variable	Regional	Branch
Variable 10 (Service Orientation)	MODEL1= Independent Variable 9 (Right First time) R= .7668	Model 1= Independent variable 9 (Right First Time) R=.4429
	MODEL-2 = Independent variable 9+14 (Right First time + internal customer Orientation) R= .8307	MODEL 2 = Independent Variable 9 +4 (Right First time + Clear Communication)  R=.580
Variable 14 (Internal Customer Orientation)	MODEL 1= Independent variable 7 (Trust and Confidence) R=.6658	
	MODEL 2 = Independent variable 7+10 (Trust and confidence+ Service Orientation) R= .748	MODEL 1 = Independent Variable 3 (Response from colleagues) R=.5908

NOTE: STEP WISE REGRESSION COEFFECIENT