

During the last one and a half decades the financial and banking sector in Pakistan has observed a substantial transformation from a sluggish government subjugated sector to a more receptive and competitive one. Today, many financial services, especially the Banks are organizing themselves to become customer centered. In the modern and competitive era the internal services quality is getting more importance in all areas of service industry like banking sector and it has received an ever-increasing interest among the scholars and practitioners especially during the ongoing decade. The purpose of this study was to establish a framework for the internal service quality considering the basic dimensions of the human resources management and the impact of the organizational performance.

The data were collected through a cross-sectional field study of the frontline employees and management of both the public and the privatized commercial banks located in Rawalpindi/Islamabad, Pakistan (N=450, the response rate was 88 %). A particular banking sector was selected because of the perceived poor human resources management climate and the high running amounts of deficiency in the organizational performance.

The internal services quality in the banking sector is found to relate positively to the organizational performance, with partial mediation by the employees' selection, training and development, rewards and recognition, work design and job definitions . The regression analysis shows that two factors, namely the internal services quality and the employee job satisfaction contribute a great deal to the banks' performance, but unexpectedly, the employees' retention and productivity did not contribute, however.

This study demonstrates the important effects of the internal services quality in general and HRM in particular on the frontline employees and management in the banks. The management of both the public and privatized banks should benefit themselves from noting the links and the like service quality outcome for the organizational performance.