

ENHANCING CUSTOMER PERCEIVED SERVICE QUALITY THROUGH IMO DIFFUSION

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ABSTRACT

This study integrates the social identity, the social learning and the psychological contract perspective in order to explore branch manager's role for diffusing internal market orientation philosophy across store employees in a retail banking context. As branch managers constitute the main linking pin between contact employees and top management, we stress some employee-related gains from their IMO adoption as well as some contact employees' behaviours which enhance customers' perceptions of service quality.

INTRODUCTION

Due to a highly competitive environment in retail services, growing attention is attracted to drivers of desirable customer outcomes such as contact employees' behaviours during the service encounter, as customers often evaluate service providers on the basis of their performance (Liao and Chuang 2004; Bitner et al. 1990). The importance of internal market orientation (IMO) as a mean of enhancing employees' performance is heavily displayed among scholars (Tortosa 2008; Lings and Greenley 2010). Despite that several employee-level gains from IMO adoption are highlighted by the extant literature (Gounaris 2008), manager's role for generating positive employee behaviours still remains unexplored (Wieseke et al. 2009). This issue deserves further attention especially in retail services where due to employees' dispersion branch managers constitute the main linking pin between employees and top management and, as a result, their influence on subordinates is critical in terms of signalling behaviours expected of them (Lam et al. 2010; Lichtenstein et al. 2010). Moreover, although contact employees' manifestation of IMO-congruent behaviour is associated with positive customer outcomes (Opoku et al. 2009; Gounaris et al. 2010), most internal marketing studies adopt an introverted perspective of IMO and ignore its impact on firm's external marketing goals (Greene et al. 1994; Dabholkar and Abston 2008).

The following discussion extends present knowledge by providing a more complete understanding of how branch managers can diffuse IMO philosophy across branch employees and provides some empirical evidence of the extroverted role of IMO adoption. In this context, we develop a three-level model with nested data drawn from branch managers, contact employees and customers using a hierarchical linear modelling approach so as to focus on three issues: (1) the potential benefits of branch manager's IMO for contact employees' empowerment, organizational identification (OI) and IMO; (2) whether contact employees' behaviours, when aggregated to the branch level, influence customers' perceptions of service quality and (3) the moderating effect of organizational tenure on the aforementioned relationships. In next, we provide the theoretical background for the hypothesized relationships, establish our conceptual framework, analyze the research design and present the results. Finally, we discuss the implications of our findings and some insights for future research.

THEORETICAL BACKGROUND

In order to provide the theoretical background of this study, evidence from the "psychological contract" perspective, the "social identity" and the "social learning" theory is drawn. In first, we integrate the **psychological contract** perspective, defined as "the set of beliefs held by the employees regarding the reciprocal obligations existing between them and their managers" (Rousseau 1990), which suggests that employees evaluate their jobs by comparing their inputs and associated outputs (Huseman & Hatfield 1990). As a consequence, managers face the challenge of balancing employees' perceptions of inputs and their outputs from their work in order to generate extra value for branch employees (Simberova 2007) and enhance their performance levels (Latham, 2007). In this avenue, acknowledging that the psychological contract perspective is the theoretical cornerstone of the internal marketing philosophy (Gounaris 2010), we argue that branch manager's strong manifestation of IMO-congruent behaviour is expected to increase employees' perceptions of work-related value, render them more willing to respond to the firm's internal marketing efforts and more motivated to reciprocate with higher individual performance.

Branch manager's influence on contact employees can also be actualized through a personal identification with the former, based either on his referent power or the display of role-modelling behaviour. On the basis of the **social identity** perspective,

(Turner et al. 1987), we propose that managers with a high level of IMO are likely to exert influence on contact employees by using their positional power in order to diffuse IMO philosophy. Thus, contact employees are more likely to be encouraged to adopt values congruent with those of the manager's (Kelman 1958) and adopt similar behavioural patterns. The social identity perspective argues that the higher the internalization of group's aims and goals, the more one will work towards achieving its goals (van Knippenberg and Ellemers 2003). On these grounds, when employees adopt IMO-congruent behaviours (i.e. higher customer focus) they become more susceptible to the achievement of customer related goals.

We complementarily argue that branch manager's behaviour can be diffused to subordinates through the social learning process. The **social learning** perspective suggests that individuals learn from others by observing their behavior (Bandura 1977), as monitoring others performing successfully can raise perceptions of self-efficacy (Bandura et al. 1980). Thus, branch manager's manifested IMO is particularly susceptible to adoption through the social learning process as managers are considered as highly potent role models for subordinates (Weiss 1977). As a result, the contact employees adopt their manager's behavioural patterns because of their impression that managers engage in behaviours which enhance effectiveness (Sosik and Dworakivsky 1998).

LITERATURE REVIEW AND MODEL DEVELOPMENT

Given that the diffusion of IMO philosophy is a top-down process in which manager's role is indispensable (Harris and Piercy 1999), traditional internal marketing approaches ignore whether managerial actions can influence employees' responsiveness towards the firm's efforts (Lings and Greenley 2010). In this regard, the use of a nested data structure is essential in the sense that it overcomes concerns related to single-level analyses, as examining one level at a time prevents one from knowing whether factors at one level remain important in explaining cross-level outcomes after factors at the other level are accounted for (Kozlowski and Klein 2000; Raudenbush and Bryk 2002). In this vein, we explore the branch manager IMO-contact employee IMO relationship in order to assess whether interpersonal cross-level influences shape IMO adoption. Moreover, we propose branch manager IMO as a level-3 predictor of contact employee outcomes i.e. organizational identification (OI) and empowerment (level-2) after accounting for employee-level IMO in order to highlight that cross-level influences between branch manager and employees remain significant after accounting for the impact of individual effects. In addition, we investigate the impact of all level-2 outcomes (i.e. employee empowerment and organizational identification) on branch customers' perceptions of service quality (level-1). Finally, we address the moderating effect of organizational tenure on the aforementioned relationships. Having presented the hypothesized model of the study we introduce the conceptual model (as depicted in [figure 1](#)).

Branch manager IMO and contact employee outcomes

The prevalent research design in the internal marketing literature focuses on gains from IMO implementation at the single-level of analysis (Gounaris 2006), despite calls to draw data from multiple organizational levels in order to identify customer-related consequences (Gounaris et al. 2010). Additionally, the role of branch managers for rendering contact employees more motivated to achieve customer related goals is largely ignored (Wieseke et al. 2011), given that their actions represent the firm's management in employees' eyes. Despite normative assessments suggesting that manager's manifestation of IMO can generate positive employee outcomes (Ahmed and Rafiq 2003; Tansuhaj et al. 1988), evidence regarding this relationship is scarce, although employees must be well-attuned to the mission, goals and strategies of the company (Gunnarsson 1987). We argue that IMO diffusion within bank branches can be actualized through two routes. The main one is through the social learning process (Bandura 1977), as managers with a strong manifestation of IMO can facilitate contact employees' adoption of IMO philosophy and drive them towards developing behaviours consistent with their personal orientation. We complementarily employ the social identity theory (Tajfel 1981) which also accounts for the IMO diffusion process. In this regard, scholars argue that the more an employee identifies with a group the more one will work towards achieving its goals (Ashforth and Mael 1989). Extending the idea of leaders' communicating by deeds in the internal marketing literature (Berry et al. 1976), we argue that branch manager's strong manifestation of IMO-congruent behavior through their positional or referent power will render employees more prone to the adoption of customer-related goals. On these grounds, we hypothesize that *branch manager's level of IMO will enhance contact employee IMO adoption (H1)*.

Acknowledging that the internal marketing literature considers the formation of a corporate identity as an ultimate goal of IMO adoption (Wieseke et al. 2009; Ahmed and Rafiq 2002), a potential benefit of manager's IMO adoption lies on raising contact employees' organizational identification levels (OI). OI is defined as "the perception of oneness with or belongingness to an organization, where the individual defines him or herself in terms of the organization" (Mael and Ashforth 1992). The ground for this relationship can be attributed to the social identity theory as well (Tajfel and Turner

1979), as branch managers who strongly display IMO are perceived by contact employees as being more committed to organizational mission and values and thus the latter become more motivated to raise their level of OI in line with their role model's behaviour. Hence, *we suggest that branch manager IMO will positively influence OI (H2) after accounting for contact employee IMO (H4).*

Scholars indicate that internal marketing programs entail a significant amount of employee empowerment (Varey and Lewis 1999; Gounaris 2006). Actually, employees derive value from their work when allowed to deal with customer problems and when restrained, the result is their disappointment (Kelley 1993) particularly when the management attempts to increase the value for the company's customers (Harris and Ogbonna 2000). Scholars also consider contact employees' empowerment as a mean of developing their own abilities and self efficacy (Hartline and Ferrell 1996). However, specific managerial behaviours that can raise contact employees' perceptions of empowerment are still not identified (Webber 2011). As the extant literature considers IMO as a driver of employees' empowerment (Gounaris 2008) which can enhance their interaction quality with customers, we hypothesize *a positive influence of branch manager IMO on contact employee empowerment (H3), after accounting for individual IMO (H5).*

The contact employee-customer link

Service firms depend heavily on rendering contact employees conducive to the delivery of high-quality services (Hartline et al. 2000). Despite evidence indicating benefits from IMO adoption in terms of customer satisfaction (Tortosa et al. 2008), focusing on an ongoing raise in customers' satisfaction is becoming difficult to achieve (Homburg et al. 2009) whereas the role of IMO for raising levels of delivered service quality is rarely considered (Opoku et al. 2009; Greene et al. 1994). In this context, we investigate the impact of employee empowerment and OI, when aggregated to the branch level, on customer perceptions of service quality.

Empowerment is defined as "one's belief in his/her ability to exercise choice" (Velthouse 1990). When contact employees are provided with the discretion and authority they raise levels of service quality; however, few studies investigate the link between employee feelings of empowerment and customers' perceptions of service quality (Hartline and Ferrell 1996; Snipes et al. 2005), despite the fact that the importance of empowering contact employees for the generation of value and positive feelings arising from managing customer problems could render them more responsive to deliver a higher level of customer service (Chebat and Kollias 2000). Hence, we suggest that *contact employee empowerment can enhance customers' perceptions of service quality (H6).*

Organizational identification is thought to engage employees more actively in behaviours that benefit their organization (Ellemers et al. 2004) and more conducive to the delivery of customer service (Riketta 2005). However, despite employee-level outcomes of OI are well established, scholars largely ignore its customer-related implications (Webber 2011; Homburg et al. 2009; Maxham et al. 2008). Based on the view that efforts directed at improving the organization often stem from high OI levels (Dutton et al. 1994), we extend Webber's (2011) efforts to verify employees' OI influence on customer outcomes such as satisfaction and WOM loyalty by hypothesizing that *contact employee OI will positively influence customers' perceptions of service quality (H7).*

Moderating effects

In addition to the proposed main effects of our conceptual framework, we employ organizational tenure as a moderating variable. In fact, we propose that branch manager's impact on contact employees is stronger for employees who have a higher organizational tenure. We select organizational tenure as it is employed as a proxy for work experience because employees develop a wider set of work skills and become more knowledgeable about the organization as a whole after remaining within the same firm for several years (Bird 1996). Therefore, we hypothesize that *the higher the organizational tenure the greater the impact of the IMO on contact employee IMO (H8a), empowerment (H8b) and organizational identification (H8c).*

METHODOLOGY

To test the conceptual framework of our study we chose a retail banking context as the delivery of retail banking services represents a significant part of customers' evaluations of the service provider (Roberts and Campbell 2007). In addition, due to employee's dispersion in retail banking services, the impact of branch manager's behaviour on contact employees can be more clearly demonstrated, as the former constitute the main link with firm's top management while often his/her actions are perceived by branch employees as actions on behalf of the management (Lam et al. 2010). We selected a single Greek retail

bank firm where an internal marketing program was completed a few months before this study takes place and thus the investigation of our research objectives was facilitated. In next, we received the top management's approval and then contacted branch managers asking for support in the research. Fifty two branches agreed to participate in the study. An important feature of our study is that it is based on triadic data drawn from branch managers, contact employees and branch customers. The number of employees per branch ranges from 7 to 16. In total, we obtained 52 questionnaires from branch managers through personal interviews, 207 usable questionnaires from branch employees and 653 questionnaires from branch customers. Regarding employee data, the researchers provide a separate return envelope for each respondent. After receiving approval, we randomly contacted branch customers from each of the branches participating in the study.

All measures employed in this study used a 7-point scale, with anchors of strongly disagree (1) and strongly agree (7). Branch managers provide report on the IMO construct. Contact employees generate data on IMO, OI and empowerment constructs whereas customers report on service quality. The IMO scale is based on Foreman and Money's (1995) scale. The empowerment scale is based on Hartline and Ferrell's measure (1996). To measure OI Mael and Ashforth's (1992) six-item scale was employed. Service quality relies on the Gounaris' et al. (2003) measure. Finally, organizational tenure was measured with a single-item scale.

DATA ANALYSIS AND RESULTS

Given the nature of our data, we used hierarchical linear modelling (HLM) to test our hypotheses (Raudenbush and Bryk 2002). The HLM software considers data that are "nested" at different levels and is the most appropriate technique for the prediction of the hypothesized relationships. Regarding our employee and customer measures, we estimated intraclass correlations (ICC) which represents the maximum amount of variance in a lower variable that can potentially be explained by a higher level predictor. The levels reported in [table 1](#) tend to be typical of those reported for data aggregation (Schneider et al. 2003). Regarding the nested data structure of the study, branches are the main unit of analysis (level-3) whereas employees are nested within branch managers (level-2). On the contrary, customers (level-1) are as well nested within branches, all contact employees' responses were aggregated at the branch level. We aggregated employee responses at the branch level, as most service encounters involve repeating interactions with multiple branch employees and not just of the performance of a single contact employee (Liao and Chuang 2004). Moreover, on the basis of the ASA theory (Schneider 1987) the shared branch climate often results in homogenous contact employees' behaviours which shape customers' overall experience (Schneider et al. 2003) and better predict better customer outcomes (Borucki and Burke 1999). Finally, considering the fact that we do not focus on a transaction-specific context, customers' perceptions can be shaped by the cumulative level of contact employees' service delivery efforts during their previous visits to the branch.

As [Table 1](#) indicates, all the measurement scales have reliability indexes that exceed the 0.70 threshold and average variance extracted that is greater than 0.50 (Fornell and Larcker 1981). Additionally, CFI, TLI, GFI indices exceed the 0.90 threshold while the RMSEA index is lower than 0.08 for all study's measures. Four HLM models were performed in order to examine the hypothesized effects. For each model we first estimated the null model with no predictors at either level-1 or level-2 in order to partition the variance into within and between-branches components for each of the dependent variables. The results reveal significant between branch variance for all dependent variables; contact employee IMO ($\chi^2=1020.74$, $p<0.001$), contact employee OI ($\chi^2=616.20$, $p<0.001$), contact employee empowerment ($\chi^2=943.27$, $p<0.001$) and customer perceived service quality ($\chi^2=826.71$, $p<0.001$). These results indicate that the intercept term varies across groups, a necessary condition for HLM models.

[Tables 2](#) and [3](#) provide an overview of the results of the HLM models. We find strong support for the manager IMO-employee IMO relationship ($\gamma=0.49$, $p<0.01$) supporting thus hypothesis H1. Furthermore, hypotheses H2 and H4 were also supported as branch manager IMO significantly predicted OI ($\gamma=0.25$, $p<0.01$), after controlling for individual IMO ($\gamma=0.44$, $p<0.01$). Hypotheses H3 and H5 were also verified as the results provide a significant positive relationship between manager IMO and employee empowerment ($\gamma=0.36$, $p<0.05$), after controlling for individual IMO ($\gamma=0.55$, $p<0.01$). Regarding moderating effects, in line with hypothesis H8b, organizational tenure significantly moderated the branch manager IMO-OI relationship ($\gamma=0.19$, $p<0.05$). Whereas we found no significant interaction effect on the manager IMO-employee empowerment ($\gamma=0.09$, n.s.), surprisingly, there is a negative interaction effect on the manager IMO-employee IMO relationship ($\gamma=-0.13$, $p<0.01$). Considering the contact employees' impact on customers' perceived service quality, results provide a significant effect of OI on perceived service quality ($\gamma=0.54$, $p<0.05$) and thus, hypothesis H6 was supported. In the same vein, contact employees' empowerment significantly predicts customers' perceived service quality and consequently hypothesis H7 was verified ($\gamma=0.78$, $p<0.01$).

DISCUSSION

The aim of this paper was to explore some employee and customer related benefits from branch manager's IMO adoption and provide useful mechanisms for service firms who want to enhance contact employees' behavioural responses during the service encounters. The findings of this study provide an important shift in internal marketing research for two reasons. First, we add to the extant literature by incorporating data from multiple organizational echelons in order to provide an integrated perspective of the IMO diffusion process within retail banking branches. Second, we exhibit branch manager's indispensable role for diffusing IMO across subordinates. Additionally, we uncover some behavioural routes through which the IMO diffusion process can result in superior customer service. Our results suggest that branch managers should be posited at the heart of the IMO diffusion process as their display of IMO-congruent behaviour constitutes a major antecedent of contact employees' IMO adoption. It appears that the internalization of IMO-congruent behaviour on behalf of the branch manager is a prerequisite for rendering contact employees more responsive to service firm's internal marketing efforts. We provide strong empirical evidence for the proposition that in addition to the effect of individual-level IMO, branch manager's IMO accounts as well for a significant level of variance of employee-level behaviours. This striking finding suggests the importance of interpersonal influences within the branch manager-contact employee dyad and sets the former as a main envoy of the IMO philosophy spillover within retail branches. Finally, by investigating the impact of contact employees' behavioural outcomes that stem from IMO on perceived service quality, we provide evidence for the extroverted role of IMO in line with previous studies (Gounaris 2010). We argue that rendering contact employees more responsive to the delivery of superior service quality to external customers can be enhanced through raising their IMO levels. From a methodological standpoint, another contribution of our study is that it incorporates data from multiple organizational sources in contrast with previous inadequate examinations of levels-of-analysis issues. It is surprising that most existing IMO conceptualizations emphasize single-level benefits stemming from IMO adoption whereas largely ignore how managerial actions shape contact employees' different aspects of their performance. From a theoretical perspective, our model sets the psychological contract, the social identity, and the social learning perspectives as the theoretical background of the IMO diffusion process. Considering results from moderating effects on the manager-contact employee link, we address the importance of contact employees' high organizational tenure for enhancing branch manager's impact on contact employees' OI. Considering the negative moderating effect of organizational tenure on the manager IMO-employee IMO relationship, one possible explanation for this finding may be that IMO adoption through interpersonal influences can more easily be achieved for contact employees with a shorter relationship with the firm as after a long period of employment, several contextual or contingency factors can influence their responsiveness to managerial actions.

The results of this study provide as well some several managerial implications for service firms. We address specific recommendations for rendering branch employees' more responsive to the delivery of high quality services through enhancing specific branch managers' role. Acknowledging that contact employees do not work in a vacuum but instead their performance is influenced by contextual factors, we establish branch managers as key mechanisms through which the diffusion of organizational values and strategies is actualized. Branch manager's manifestation of IMO-congruent behavior renders him/her as an envoy for accelerating the diffusion of IMO philosophy simultaneously with firm's internal marketing efforts. It is imperative though that retail service organizations concentrate their efforts to a greater extent on branch managers, as their level of IMO adoption can stimulate contact employees' adoption of organizational values and philosophy in a more efficient and resourceful way. Consequently, branch manager's training should more vividly include the impact of his/her role model behaviour on subordinates' manifested behaviour during the service encounter. Considering that their level of IMO accounts for a significant portion of contact employees' IMO adoption, it is imperative that training programs pertained to IMO adoption should prelude for branch managers and only after they are capable of displaying a satisfying level of IMO-congruent behaviour, should they be continued for lower organizational echelons. Thus, upper management who must first sell the organization itself to branch-level managers before implementing an internal marketing program across the whole firm.

LIMITATIONS AND FURTHER RESEARCH

As with all research, there are some limitations inherent in our study that restrict its potential generalizability. First of all, we draw evidence from a moderate number of a single firm's bank branches and thus we cannot generalize our findings in another service or retail setting. Additionally, we neither investigate for other manager-level behaviours which can positively influence subordinates behaviours nor incorporate individual-level characteristics which may moderate the manager-employees relationship. In considering future avenues, we stress the importance for scholars of incorporating evidence from multiple organizational levels, as the services marketing literature mainly ignores whether cross-level influences account for organizational phenomena.

TABLES

Table 1- Means, SD and Reliability

	Mean	SD	CFI	TLI	RMSEA	A	AVE	ICC
BM_IMO	3.63	0.85	0.981	0.967	0.032	0.76	0.75	0.349
CE_IMO	3.19	0.70	0.955	0.929	0.004	0.82	0.77	0.328
CE_EMP	4.37	1.07	0.964	0.937	0.017	0.74	0.83	0.452
CE_IDENT	4.43	0.86	0.948	0.927	0.039	0.85	0.79	0.382
PSQ	3.68	1.28	0.961	0.944	0.061	0.77	0.81	0.394

Table 2 – HLM Results

Model (Independent)	Model 1 – CE_IMO	Model 2 – CE_IDENT	Model 3 – CE_EMP
Intercept	3.87** (0.41)	4.37** (0.048)	5.00** (0.43)
γ (SE)			
BM_IMO	0.49** (0.09)	0.25** (0.07)	0.36* (0.12)
CE_IMO	-	0.44** (0.10)	0.55** (0.11)
Interaction effects			
BM_IMOxTEN	-0.13** (0.05)	0.19* (0.03)	0.09 (0.07)

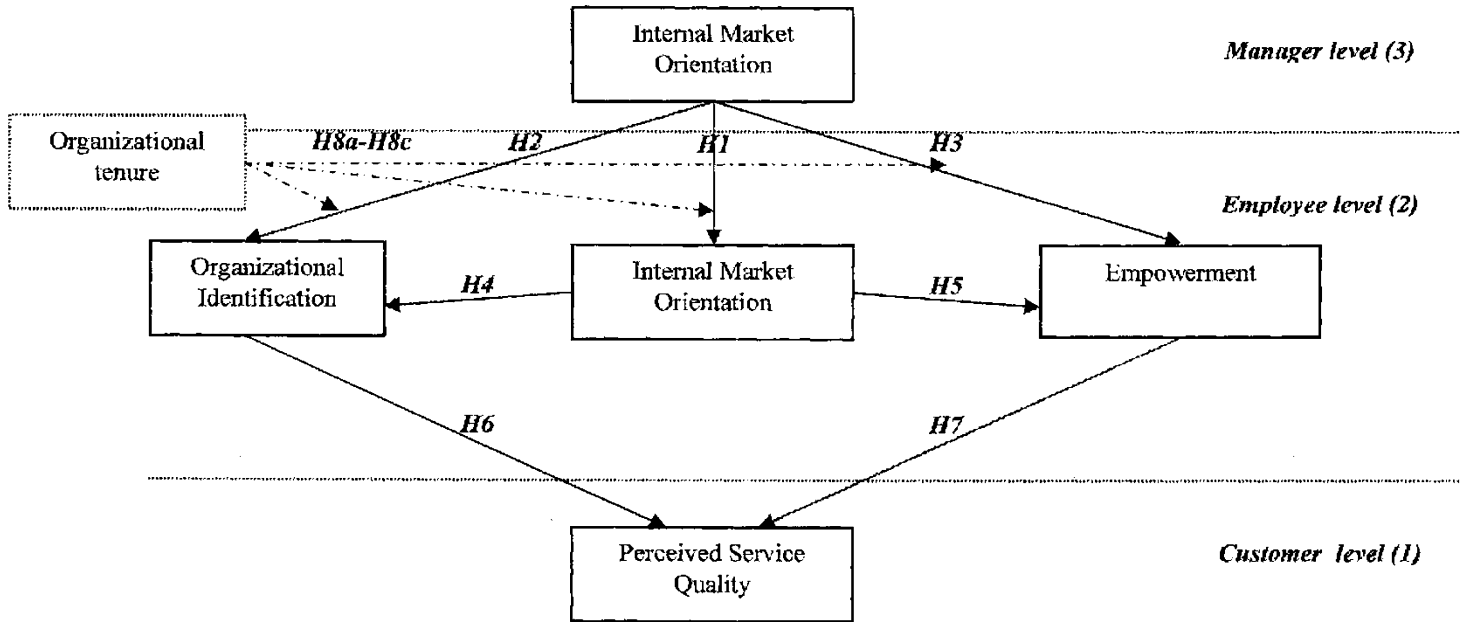
Table 3 –HLM results

Model (Independent)	Model 4 – PSQ
Intercept	3.93** (0.08)
γ (SE)	
CE_OI	0.54* (0.13)
CE_EMP	0.78** (0.18)

*p<.05, **p<.01, BM_IMO=branch manager IMO, CE_IMO=employee IMO, CE_EMP= employee empowerment, CE_IDENT= employee organizational identification, TEN=organizational tenure, PSQ= customer perceived service quality.

FIGURES

Figure 1



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