

The Internal Service Encounter

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Introduction

Successful service organizations understand well the importance of carefully monitoring and managing customer satisfaction. The service encounter, in particular, can play a prominent role in determining a customer's satisfaction with the firm (Bitner, 1990; Bitner *et al.*, 1990; Czepial *et al.*, 1985; Suprenant and Solomon, 1987; Woodside *et al.*, 1989). In recent years the concept of internal customers in service organizations has been introduced and discussed in the marketing literature (Albrecht, 1990; Berry and Parasuraman, 1991; Grönroos, 1985; Gummesson, 1987). The general consensus is that the satisfaction of these internal customers (i.e. employees) is also important to the success of a service firm. As with external customers, an internal customer's satisfaction with the firm can be significantly influenced by service encounters experienced with internal service providers. However, the research conducted on these internal service encounters has not kept pace with the research on external service encounters. The purpose of this article is to introduce and illustrate the internal service encounter concept, to review literature relevant to internal service encounters, and to present the results of an initial study of internal service encounter satisfaction in a financial services setting. A discussion of these results, implications for managers, and suggestions for future research are also presented.

Customer satisfaction has received much attention in the marketing literature, with most discussions focusing on external customers. In the past decade, internal customers have increasingly received attention in the literature. These two streams of research have not often been considered together, however. Little is known, for example, of the similarity between internal customers and external customers, especially in terms of satisfaction. This led us to the research question driving this study: *Do the same events and behaviours associated with service satisfaction or dissatisfaction for external customers also apply to internal customers?*

To understand the internal service encounter, we begin by describing an *internal customer* as anyone in an organization who is supplied with products or services by others in the organization (Nagel and Cilliers, 1990). That is, the employees of an organization can be considered internal customers who, like

external customers, are looking to get their needs satisfied. In recent years, service organizations have begun to place an emphasis on satisfying the needs of internal customers as well as external customers.

Service encounters, traditionally described as the interaction that occurs between customer-contact employees and customers, have been frequently discussed in the marketing literature (Bitner *et al.*, 1990; Carlzon, 1987; Czepiel *et al.*, 1985, Lewis and Entwistle, 1990). There is general agreement that these service encounters play a vital role in external customer satisfaction and, thus, to the firm's overall success. Lewis and Entwistle (1990) suggest many other service encounters also occur *within* the organization, in addition to those between external customers and customer-contact employees, which are equally important in determining the quality of service provided to the final customer. Lewis and Entwistle argue, "if these internal encounters are unsatisfactory, then the (external) customer may end up dissatisfied, complain, and see the fault as lying with the customer-contact employee" (Lewis and Entwistle, 1990, p. 50).

It is the interactions between employees within a firm, which we call internal service encounters, that provide the focus of this study. Surprenant and Solomon (1987) define the service encounter as "the dyadic interaction between a customer and service provider". The internal marketing concept suggests employees have "internal customers" who are actually other employees within the organization. Combining these two ideas we define an *internal service encounter* as the dyadic interaction between an internal customer and an internal service provider.

To illustrate the concept of an internal service encounter, consider the following scenario. A customer service representative (CSR) for a large financial services company has new software installed on her personal computer while she was on vacation. On her return, the CSR experiences a problem when using the new menu to gather information in response to an external customer inquiry. So, she calls the computer support department who installed the software. Although no one answers the telephone, the CSR is able to leave a message on their voice messaging system, basically asking a "how to do it" question. Fifteen minutes later a computer technician from this department shows up at her office and an internal service encounter begins, as there is a dyadic interaction between an internal customer (the CSR) and an internal service provider (the computer technician). The computer technician is very friendly, explains the new menu screen, tells the CSR about other software also now on her personal computer, and answers some additional questions she has on using the computer that have nothing to do with the installation process or the new menu. As the technician leaves he gives the CSR a card and tells her to call him directly if she thinks of any other questions. Overall, the CSR is very satisfied with this internal service encounter which, in turn, allows her to respond in a timely fashion to the external customer inquiry.

It is also easy to envision a very different internal service encounter. For example, suppose the CSR calls the computer support department and her

internal service encounter begins with being immediately put on hold without being given a chance to explain her request. Then, two minutes later, an employee from that department finally picks up the telephone. The CSR then explains she has some questions on the new menu system they installed on her personal computer. However, this employee is new and is not familiar with the new menu system, so he puts the phone receiver down on his desk and goes to find his supervisor. He then returns to the phone five minutes later and tells the CSR, in an obviously unsympathetic tone, that she will either have to wait until next week when the person who installed the software returns from vacation, or have to figure out how to use the new menu herself. In this scenario, the CSR is very dissatisfied with the internal service encounter, and has great difficulty in responding to the external customer inquiry. In both of these examples, one person is in the role of being an internal customer and another is an internal service provider, while both are employees of the same organization.

Literature Review

Although the concept of the internal service encounter has received very little attention in the marketing literature, there are related literatures. The following section briefly reviews literature pertaining to internal customers, internal customer satisfaction, and internal service encounters, which leads to a discussion of internal service encounter satisfaction.

Internal Customers

Kotler and Armstrong (1991) proposed a services marketing triangle which illustrates the relationships between a company, its employees and its customers. The triangle suggests three types of marketing activities, each considered essential to the success of a service firm. The first type, *external marketing*, is concerned with many of the traditional marketing activities that occur between a firm and its customers (e.g. promotion, distribution, pricing). The second type of marketing, *interactive marketing*, is described by Grönroos (1985) to be concerned with the interactions between employees and the firm's customers in services marketing organizations. These interactions, termed service encounters, can occur at a hotel checkout counter, at the desk of the receptionist in a dentist office, or over the telephone when making airline ticket reservations. Most of the work on service encounters has been confined to the interactive marketing domain. That is, service encounter research has focused mainly on how customer-contact employees take care of, or interact with, customers (Bitner *et al.* 1990, Suprenant and Solomon, 1987).

The third type of marketing in the services marketing triangle is *internal marketing*. Internal marketing is concerned with the relationship between the company and its employees. Berry (1984) defines the internal marketing concept as:

Viewing employees as internal customers, viewing jobs as internal products, and then endeavouring to offer internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization (p. 272).

Internal marketing, as defined, focuses on meeting the needs of employees (i.e. internal customers). That is, the focus of internal marketing is internal customer satisfaction.

Internal Customer Satisfaction

Customer satisfaction has become a, if not *the*, central focus in the discussion of business strategy for service firms in recent years. Nagel and Cilliers (1990) maintain that customer satisfaction is “the new standard by which customers are measuring business performance” (p. 4). The abundance of work on customer satisfaction in the marketing literature lends support to their claim (Cadotte *et al.*, 1987; Churchill and Suprenant, 1982; Oliver and Desarbo, 1988; Westbrook and Oliver, 1991). However, most of this work has focused on the external customer. Surprisingly little research has been done on internal customer satisfaction, despite the many discussions that have emphasized the importance of the internal customer (Albrecht, 1990; Berry, 1984; Grönroos, 1985; Rosenbluth, 1991).

Several business practitioners maintain that the needs of internal customers must be fulfilled before the needs of external customers can be met. Bill Marriott, Jr, chairman of Marriott Hotels, argues that employees must be satisfied before external customers will be satisfied. His reasoning is that if these internal customers are satisfied, they will love their jobs and feel a sense of pride in the hotel. This, in turn, will lead to external customers being well served (Kotler and Armstrong, 1991). Hal Rosenbluth, president of Rosenbluth Travel, also argues that the employees in his company “have to come first, even ahead of customers” (Rosenbluth, 1991, p. 33). Rosenbluth’s argument is similar to Marriott’s: if employees are not happy with their jobs, the external customer will never be uppermost in their minds.

Researchers also agree that satisfied internal customers are a critical prerequisite to the satisfaction of external customers. From an internal marketing perspective, many researchers have argued that by satisfying the needs of their internal customers, firms enhance their ability to satisfy the needs of their external customers (Berry and Parasuraman, 1991; Grönroos, 1985; George, 1977; Heskett, 1987; Schlesinger and Heskett, 1991; Schneider and Bowen, 1985). They all imply the provision of good internal services to internal customers is crucial to the overall success of an organization.

Internal Service Encounter Satisfaction

In order to have their needs met, employees often depend upon internal services provided by others in the organization. Like external customers, these internal customers engage in numerous service encounters to satisfy the many needs they have in the course of carrying out their job responsibilities. These internal encounters include relationships between customer-contact staff and the backroom staff, managers and the customer-contact staff, managers and the backroom staff, and for large organizations, between the head office and each branch (Lewis and Entwistle, 1990).

It seems possible that the experiences internal customers have in internal service encounters are very similar to the experiences of external customers in external service encounters. For example, an internal customer who needs the services of the organization's graphics department would conceivably have interactions similar to that of an external customer using an independent graphics company. However, even though internal and external customers may be similar in many ways, there is at least one distinct difference. The internal customer typically does not have any choice in terms of alternative products and suppliers (Nagel and Cilliers, 1990). External customers can usually take their business elsewhere if they are not satisfied with the service provided, while the internal customer may have to use a particular service provider. That is, the internal customer may be a repeat customer, even if the service is lousy, because he/she must return each time the service is needed (Albrecht, 1990). Consequently, the internal customer is frequently a *captive* customer (Nagel and Cilliers, 1990) in the sense that he/she may have little or no freedom of choice in choosing between service providers. Albrecht points out that some departments within an organization know they are the "only game in town" and may develop a take-it-or-leave-it attitude in dealing with internal customers.

Increasingly, however, organizations are asking internal service departments, such as information technology, human resources, travel, and media services, to be more accountable. In a growing number of instances, organizations are outsourcing the services traditionally provided by such internal departments. Thus, internal service departments will need to apply measures of service quality to the internal service encounter to ensure that internal providers of services are providing satisfactory service to their internal customers.

We are interested in learning whether internal customers differ from external customers in their determination of satisfaction or dissatisfaction in a service encounter. Thus, the research question of interest here is, again: *Do the same events and behaviours associated with service satisfaction or dissatisfaction for external customers also apply to internal customers?*

Bitner *et al.* (1990) proposed a classification scheme for use in understanding the external service encounter. They demonstrated that their scheme could be used to isolate particular events and behaviours that distinguish satisfying service encounters from dissatisfying service encounters in three service industries. In a follow-up study, Gremler and Bitner (1992) found that the classification scheme worked well when applied to 16 different service industries. The classification scheme proposed by Bitner and her colleagues suggests that there are three primary groups of events and behaviours that underlie encounter satisfaction or dissatisfaction for external customers:

- (1) recovery – employee responses to service delivery system failures;
- (2) adaptability – employee responses to special needs and requests;
- (3) spontaneity – unprompted and unsolicited employee behaviours.

Several categories have been identified within each of these major groups of behaviours. The intent of this study is to understand better the sources of

satisfaction and dissatisfaction in internal service encounters by using the framework proposed by Bitner *et al.* (1990).

Methodology and Design

Critical Incident Technique

In order to understand better internal service encounters, the study employed the Critical Incident Technique (CIT). CIT, described in detail in previous studies (Bitner *et al.*, 1985, 1990; Nyquist and Booms, 1987), has been used to help uncover sources of satisfaction and dissatisfaction in external service encounters. CIT gathers stories people tell about incidents (internal service encounters in this case) and asks questions of the stories in order to understand the events and behaviours associated with each incident. CIT is particularly useful when the complexities associated with studying an interpersonal phenomenon make it difficult to specify all of the variables needed to understand an issue (Walker and Truly, 1992). Because relatively little is known about internal service encounters, CIT seems particularly appropriate as an investigative tool in trying to understand them.

In using the CIT methodology, an *incident* is defined as “an observable human activity that is complete enough in itself to permit inferences to be made about the person performing the act” and a *critical incident* is one that “contributes to, or detracts from, the general aim of the activity in a significant way” (Bitner *et al.*, 1990, p. 73). As in the earlier studies on external service encounters, to be included in this study, an incident was required to meet certain criteria. Each internal service encounter incident had to:

- include an internal service provider-internal customer interaction;
- be either satisfying or dissatisfying from the internal customer’s point of view;
- be a discrete episode;
- have sufficient detail so it could be visualized by anyone reading the incident;
- be an internal service encounter (not one where the employee is actually in the role of being an external customer); and
- be experienced by the person who received the service (not an observation of the interaction between two other employees).

Data Collection

The internal service encounters analysed in this study were collected from employees of a large bank in the western USA. As a follow-up to an employee assessment survey given to all 4,000 bank employees in the organization, a stratified random sample of 500 employees was selected from eight different internal customer “segments”, including the following departments: commercial banking, credit policy, human resource management, information

and operation services, finance and investment, trust and financial services, retail banking, and the executive group. A representative proportion of employees from each department/area in the bank were asked to provide descriptions of two internal service encounter experiences, one considered to be favourable and one considered unfavourable. The employees were informed the incidents would be collected and analysed by researchers outside of the firm and that all responses would remain anonymous. A total of 251 incidents were returned. Of these, 68 incidents did not meet the criteria (specified above) for inclusion in the study. Thus, 183 incidents were considered appropriate for use in this study and subjected to further analysis.

The data collection instrument employed in this study was very similar to the one used in the Bitner *et al.* (1990) study. For each service encounter, the internal customer was asked to tell a story of the encounter. The instructions provided to each internal customer were:

Think of a recent time in *your role as an employee* when you required/used the service(s) provided by someone in another part of your organization that created a favourable (unfavourable) impression. Describe exactly what happened below. Please include enough detail so that a reader can picture the specific situation you are reporting.

To assist employees in describing their experiences, three questions were asked on the CIT form:

- (1) What specific circumstances led up to this situation?
- (2) What exactly did this employee do or say?
- (3) What resulted that made you feel favourably (unfavourably) impressed by the employee's behaviour?

Employees wrote answers to these questions on the instrument and then returned the instruments directly to the researchers via the mail.

Classification of Incidents

After the incidents were collected, they were carefully read by two researchers. Using an iterative process, the researchers read, sorted, and reread the incidents until agreement was reached as to which, if any, of the original Bitner *et al.* (1990), categories each incident should be assigned.

After reading the entire set of incidents, the researchers concluded that although the incident classification system developed by Bitner *et al.* (1990), for external service encounters can be used as a general framework for understanding the sources of satisfaction and dissatisfaction in internal service encounters, modifications to the scheme may be in order. A description of some suggested modifications to accommodate internal service encounters is included in the discussion section of the article. Figure 1 is a tree diagram of the sorting process used by the researchers to classify the incidents.

In order to determine the reliability of the classification of incidents, a third individual then sorted all of the incidents. This third judge, a graduate student

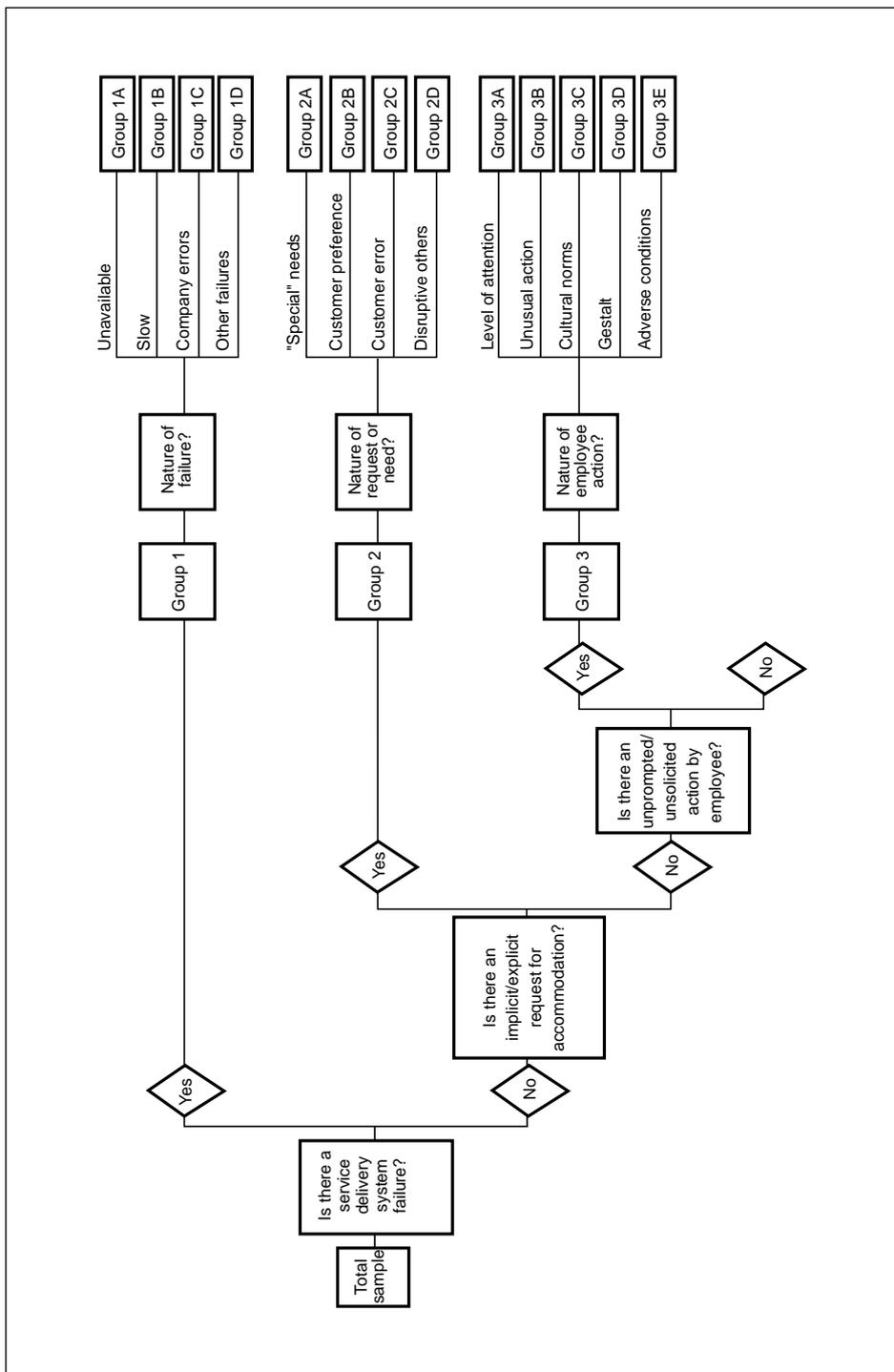


Figure 1. Incident Sorting Process

who had not participated in the categorization process described above, agreed with the classification of 154 incidents of the 183 incidents (84 per cent agreement overall). Perreault and Leigh (1989) suggest an alternative method for determining reliability when using multiple judges in the analysis of qualitative data. The reliability measure they suggest, I_r , was calculated to be 0.91 for the agreement of 154 incidents when using 13 different categories. Although Perreault and Leigh present no specific guidelines as to what value I_r should be in assessing the reliability of the category assignments, they hint that a reasonable value for exploratory work is 0.70. Both of these reliability values, percentage agreement and I_r , are within the range Nunnally (1978) suggests is appropriate for “modest reliability” in early stages of research.

Results

Of the 183 service encounters that were analysed, 100 were perceived by the internal customers to be satisfactory, and the remaining 83 were dissatisfactory. Table I includes the number of incidents sorted into each category of the classification scheme and Table II contains examples of an incident from each category. Overall, the three major groups of service provider behaviours identified in earlier studies of external service encounters (Bitner *et al.*, 1990; Gremler and Bitner, 1992) could be used to describe the events and behaviours associated with satisfaction or dissatisfaction for internal service encounters. That is, the recovery, adaptability, and spontaneity behaviours exhibited by employees in the external service encounter studies listed above appear to be equally valid when determining the sources of internal customer satisfaction. Each of these three behavioural categories will be discussed below.

Recovery (Group 1 in Table I) refers to the employee response to service delivery system failures. The service delivery failures in this study are problems that occur in the delivery of an internal service. 28 per cent of the satisfactory incidents and 53 per cent of the dissatisfactory internal service encounter incidents were judged to be the result of either exceptional or poor recovery behaviours to service system failures. The original classification scheme suggested three categories of incidents within the recovery group (Bitner *et al.*, 1990). These categories include employee response to (A) *unavailable internal service* – which includes services that should be available but are not, (B) *unreasonably slow internal service* – when service delivery or employee performances are perceived as inordinately slow, or (C) *other core service failures*. Many of the incidents in this “other” category in the present study were judged to be triggered by *company errors*. That is, for many of these incidents the triggering event for a recovery behaviour is an error, for which the company is responsible, that arises while providing a service to either an internal or external customer. Thus, a fourth category (labelled 1C – *employee response to company errors*) was added to the recovery group and the “other” category was relabelled 1D. Twenty-three per cent of all satisfactory incidents and about 24 per cent of the dissatisfactory events were assigned to the

Group and category	Type of incident outcome				Row No.	Total per cent
	Satisfactory		Dissatisfactory			
	No.	per cent	No.	per cent		
<i>Group 1. Recovery – employee response to service delivery system failures</i>						
(A) To unavailable service	0	0.0	11	13.3	11	6.0
(B) To unreasonably slow service	2	2.0	8	9.6	10	5.5
(C) To company errors	23	23.0	20	24.1	43	23.5
(D) To other core service failures	3	3.0	5	6.0	8	4.4
Subtotal, group 1	28	28.0	44	53.0	72	39.4
<i>Group 2. Adaptability – employee response to customer needs and requests</i>						
(A) To “special needs” customers	10	10.0	4	4.8	14	7.7
(B) To customer preferences	30	30.0	16	19.3	46	25.1
(C) To admitted customer error	3	3.0	2	2.4	5	2.7
(D) To potentially disruptive others	0	0.0	0	0.0	0	0.0
Subtotal, group 2	43	43.0	22	26.5	65	35.5
<i>Group 3. Spontaneity – unprompted and unsolicited employee actions</i>						
(A) Attention paid to customer	28	28.0	7	8.4	35	19.1
(B) Truly out-of-the-ordinary employee behaviour	0	0.0	10	12.1	10	5.5
(C) Employee behaviours in the context of cultural norms	0	0.0	0	0.0	0	0.0
(D) Gestalt evaluation	0	0.0	0	0.0	0	0.0
(E) Performance under adverse circumstances	1	1.0	0	0.0	1	0.5
Subtotal, group 3	29	29.0	17	20.5	46	25.1
Column total	100	100	83	100	183	100

Table I.
Group and Category Classification by Type of Incident Outcome

“company error” category. An example of a satisfactory incident in this category follows:

What circumstances led up to this situation? *A monthly report that is prepared for a regulatory agency was found to be incorrect due to a (computer) system problem. I contacted the department that would be able to correct the problem.*

What exactly did the employee say do or say? *The employee I was referred to dropped everything and worked to get a new report writer finished. She took the time to make sure the report written worked correctly.*

What resulted that made you feel favourably impressed by the employee’s behaviour? *This employee cared, and even though it (the report) was not her responsibility, she helped anyway. She was very dedicated.*

Adaptability (Group 2) has been described as the employee response to customer needs and requests in the delivery of a service (Bitner *et al.*, 1990). In this case,

Table II.
Paraphrases of a
Sample of the Critical
Incident Descriptions

Satisfactory	Dissatisfactory
<p>Group 1. Recovery – employee response to service delivery failures 1A. To unavailable service</p>	<p>A customer wanted to close a chequing account, but the computers were not working at the time. I had to call the branch where the account was based for the balance. The employee said he was the only person in the operations area and thus he couldn't take the time to help me. (No. 24)</p>
<p>None.</p>	<p>I called the payroll department after 2, 4, 6, and 8 weeks, and each time was told they were very busy, and each time they promised to send me the information I needed. The employee I spoke with always said he would get me the information, but he never did. (No. 177)</p>
<p>1B. To unreasonably slow service</p>	<p>I ordered boxes from our record centre. They are always delivered promptly. One day a box didn't come when expected. I called them and the employee I spoke with said he was sorry for the oversight. They found the box and sent it out the same day. (No. 70)</p>
<p>1C. To company errors</p>	<p>A loan officer's signature was missing on the application of a new VISA account. I contacted the loan officer who sent the paperwork. She stated that the paperwork had never been required and refused to fill it out. She had a very snappy attitude and refused to assist me. (No. 90)</p>
<p>1D. To other core service failures</p>	<p>I paid a cheque to a company who said they were taking an advance from one of their bank accounts. Our branch found out later that day that the company was going bankrupt. A manager from another part of the company called later in the week and chewed me out for paying out the cheque even though our branch was never told that the company was going bankrupt. (No. 159)</p>
<p>I discovered some problems with the configuration of my supervisor's PC. A staff member of Automation Support listened carefully to my description of the problems and proceeded to make corrections—explaining what he was doing as he did it. I was favourable impressed because the problems were corrected without me having to prove that the corrections were necessary. (No. 73)</p>	<p>continued</p>

Satisfactory	Dissatisfactory
<p>Group 2. Adaptability – employee response to customer needs and requests</p> <p>2A. To “special needs” customers</p>	<p>I was new to the VISA department and didn't know how to handle a cardholder who called regarding a returned cheque on her account. The employee I contacted at the collections department seemed to be bothered by my call and told me she was “busy”. Instead of letting me transfer the caller to her, the employee gave me the information to tell the customer. So, I relayed the information, but the customer had more questions, so I had to repeat the process. (No. 211)</p>
<p>2B. To customer preferences</p> <p>Although it was not our regular order time, I needed some supplies that we did not have in stock. I called the supply office and the gentleman on the telephone said, “No problem. I will send that to you through interbranch mail today”. I received the supplies the next day. His word was as good as gold. (No. 13)</p>	<p>I found a transaction which may have caused one of our tellers to be out of balance. I called the adjustments department for assistance. The employee put me on “hold,” went to check with a supervisor, and returned to tell me it was against their policy to grant my request. In the amount of time she was gone, the employee could have given me the information I needed. (No. 156)</p>
<p>2C. To admitted customer error</p> <p>I called our Documents department, explained that I needed a copy of a document that I should have ordered a week before, and asked them if they could supply me with the copy right away. The employee on the other end said she would have a copy ready for me to pick up by the time I could drive over to her office. I was favourable impressed because the employee acted quickly and with a smile—she knew how important this was to our customer. (No. 116)</p>	<p>I called a branch to get the specifics on a customer's NSF notice. It turned out that a deposit slip was encoded improperly at our branch, but the fee for the NSF was taken out at another branch where the account was (this is standard bank policy). The employee said, “Oh, you made the mistake and we have to pay for it”. Even though the mistake was made at our branch, I am still an employee of the same bank and should be treated with respect. I was made to feel real bad. (No. 241)</p>
<p>2D. To potentially disruptive others</p>	<p>None</p>

continued

Table II.

Satisfactory	Dissatisfactory
<p>Group 3. Spontaneity – unprompted and unsolicited employee actions</p> <p>3A. Attention paid to customer</p> <p>I was preparing a presentation and required input from another department. An employee from the department provided the requested input and agreed to review the presentation. I was favourably impressed because of (1) the employee's enthusiasm in providing input, and (2) the subsequent constructive criticism the employee made on improving the presentation. (No. 2)</p> <p>3B. Truly out-of-the-ordinary behaviour</p> <p>None.</p>	<p>I needed to contact a department to obtain a document that belonged to our department. The employee I spoke with treated me very coldly and made me feel like I was imposing. She had very bad manners. (No. 239)</p> <p>I returned a call to an employee at one of our branches and another employee answered the phone. I did not identify myself as an employee, but just asked for the person I wanted to talk to. The employee said, "Okay. What are you doing?" I hesitated because I didn't know if she was speaking to me, so she repeated, "What are you doing? Are you chewing gum?" I answered that I was not. The employee's tone of voice was rude, as was her question. (No. 79)</p> <p>3C. Employee behaviours in the context of cultural norms</p> <p>None</p> <p>3D. Gestalt evaluation</p> <p>None</p> <p>3E. Performance under adverse circumstances</p> <p>I requested the technical services department to thoroughly test a new software product they were about to release. The employee assigned this task communicated with me on a regular basis to determine all the criteria and to keep me posted on each phase as it completed. Despite departmental reorganization, work queue overload, and problems caused by hardware failures, the employee was able to complete this project on time. (No. 1)</p>

the response is from an employee performing the role of internal service provider to an internal customer's request. Forty-three per cent of the satisfactory incidents and about 27 per cent of the dissatisfactory incidents were judged to be the result of the service provider's response to these requests. These responses may be to (A) *special needs internal customers* – which includes those with special difficulties (e.g. medical needs), (B) *internal customer preferences* – when the internal customer makes a “special” request (in his/her eyes) for a level of service customization or additional service clearly beyond the scope of or in violation of company policies or norms, or (C) *admitted internal customer errors* – where the triggering event for requesting the internal service is an error made by the internal customer. Category 2A, employee response to special needs customers, was expanded in this study to include “new” internal customers (e.g. new employees, new transfers, or those in new positions or with new responsibilities). The reasoning is that internal customers who are new to a position have special difficulties that often lead them to make special requests. An example illustrating dissatisfaction stemming from the lack of adaptability to the request of a special needs internal customer, from Category 2A, follows:

I was new to the VISA department and didn't know how to handle a cardholder who called regarding a returned check on her account. The employee I contacted at the Collections department seemed to be bothered by my call and told me she was “busy”. Instead of letting me transfer the caller to her, the employee gave me the information to tell the customer. So, I relayed the information, but the customer had more questions, so I had to repeat the process.

Spontaneity (Group 3) includes unprompted and unsolicited service provider actions that lead to customer satisfaction or dissatisfaction in a service encounter. Twenty-nine per cent of the satisfactory incidents and about 20 per cent of the dissatisfactory events were classified in this group. All but one of the incidents in the spontaneity group were classified as belonging to one of two categories: (A) *attention paid to the customer*, or (B) *truly out-of-the-ordinary employee (service provider) behaviour*. Attention paid to the customer is described as an *attitude* of the employee providing the service. This attitude may result in the internal customer feeling that the employee (i.e. internal service provider) displayed care or concern in providing the service or, conversely, feeling as if the employee was unfriendly or unhelpful. Truly out-of-the-ordinary behaviour includes particularly extraordinary *actions* or expressions of courtesy, or profanity, inappropriate touching, violations of basic etiquette, or rudeness. The following critical incident illustrates the type of spontaneous behaviour representative of Group 3:

I was preparing a presentation and required input from another department. An employee from the department provided the requested input and agreed to review the presentation. I was favourably impressed because of (1) the employee's enthusiasm in providing input, and (2) the subsequent constructive criticism the employee made on improving the presentation.

Discussion

Internal Customer Satisfaction

This study suggests that many of the same events and behaviours that tend to make external customers satisfied or dissatisfied in a service encounter are equally applicable to internal customers in internal service encounters. In general, the recovery, adaptability, and spontaneity behaviours of employees that arise in external service encounters also appear to be useful in identifying sources of internal customer satisfaction or dissatisfaction. As Table I indicates, 39 per cent of all incidents were categorized as being in Group 1 (recovery), 36 per cent were in Group 2 (adaptability), and 25 per cent were in Group 3 (spontaneity).

Refinement of the Classification System

Although these three groups of behaviours are useful in identifying sources of satisfaction and dissatisfaction in internal service encounters, the present study suggests fewer categories are needed to identify these sources. Over 68 per cent of all incidents (78 per cent of the satisfactory and 52 per cent of the dissatisfactory incidents) were classified into three categories: 1C (*employee response to company errors*), 2B (*employee response to internal customer preferences*), and 3A (*attention paid to the internal customer*). This suggests two areas of refinement of the classification scheme for internal service encounters.

First, some of the categories developed in the original classification scheme (Bitner *et al.*, 1990) may not be applicable to internal service encounters. For example, Table I reveals that no incidents were classified into categories 2D (*employee response to potentially disruptive others*), 3C (*employee behaviours in the context of cultural norms*), and 3D (*gestalt evaluation*). One explanation for no incidents being in category 2D is that potentially disruptive other internal customers may be dismissed from the company. Firms can deal with disruptive internal customers by firing them, but the firing of external customers is seldom done (Schrage, 1992). Similarly, in considering category 3C, employees are expected to behave in a manner consistent with cultural norms. Failure to do so would probably result in dismissal, which may explain why none of the incidents collected in this sample were described in the context of cultural norms. Category 3D, *gestalt evaluation*, may not be useful because, as Nagel and Cilliers (1990) point out, internal customers have more insight into the environment and circumstances in which the internal service is delivered than external customers may have. Thus, internal customers may not evaluate the internal service encounter in general terms because they feel they understand what occurs in delivering the internal service. Categories 2C (*employee response to admitted internal customer error*) and 3E (*employee performance under adverse circumstances*) each included less than 3 per cent of the total number of incidents, suggesting that these categories may also not be applicable to internal service encounters.

A second area of refinement of the classification scheme suggested by the results of this study concerns the three categories (1C, 2B, 3A) that accounted

for a large proportion of incidents. Category 3A (*attention paid to the internal customer*) accounted for 28 per cent of the satisfactory incidents. In examining the incidents in this category we found that this attitude toward the internal customer could be divided into one of three types:

- (1) professionalism – when the employee (service provider) is more efficient and polite in delivering the service than the internal customer expected;
- (2) empathy – when the employee shows care and concern for the internal customer above what is normally expected; or
- (3) co-operation – when the employee is more friendly, helpful, or courteous than what the internal customer expected.

The usefulness of these three sub-categories should be explored in further applications of the classification scheme.

The second category with a large percentage of incidents was category 2B (*employee response to internal customer preferences*) which contained over 25 per cent of all of the incidents in the sample. Further work with service encounters might address sorting out the types of “special” requests made by the internal customer. These requests may be able to be differentiated based upon severity, amount of perceived effort involved (by the employee granting the request), the time frame needed to process the request, or other dimensions.

Finally, the third category, 1C (*employee response to company errors*), which was added in this study, contained over 23 per cent of all of the incidents in this sample. Examples of the company errors that triggered an employee response to an internal customer in this sample include computer programming errors, misdelivery of internal mail, and lost deposits. Although the types of company errors listed here may be specific to the banking industry, we believe “company errors” occur in all service organizations. A further breakdown of the different types of company errors that trigger the need for internal services may make the classification scheme even more useful.

Overall, the three groups of behaviours (recovery, adaptability, and spontaneity) from the original classification scheme (Bitner *et al.*, 1990) are useful in identifying sources of satisfaction and dissatisfaction for internal customers. However, in order to get maximum benefit from such a scheme, further refinement of some of the categories within these three groups may be necessary.

Limitations

As with any study, there are limitations which should be noted. First of all, only internal customers from one company were sampled. However, an attempt was made to include in the sample internal customers from a wide variety of positions within the organization. In a similar vein, only one industry, the financial services industry, is represented in this study. Although it seems reasonable to assume that many of the internal services provided within the

organization in this study also occur in other large organizations from other industries, caution should be used in generalizing the findings to other industries.

Another drawback in this study is the apparent lack of understanding of some employees of the internal customer concept. A majority of the 68 incidents that did not meet the criteria for inclusion in this study were excluded because they did not describe an *internal* service encounter. Instead, many of these incidents included descriptions of employee interactions with the bank (or other banks) while in the role of an external customer (e.g. going to a teller window to cash a cheque). Although it is possible that the instructions were not completely clear, the fact that 183 out of the 251 incidents did describe internal service encounters seems to rule out that possibility. A more plausible explanation is that many employees are not familiar with the concept of "internal customer" and, thus, do not see themselves as being customers of someone else in the organization. One area for further research would be to determine how many employees in a firm (or several firms) perceive themselves to be internal customers and how that view affects their satisfaction with the internal services they receive.

Finally, each internal customer was asked to provide only one favourable and one unfavourable incident. Thus, the incidents in this study may represent only the most recent or most salient service encounters each internal customer experienced. A longitudinal approach, which might include collecting several internal service encounters from each internal customer over a period of time (i.e. over an hour, day, or week) might reveal different patterns of distribution for the sources of satisfaction or dissatisfaction. Also, because internal customers were limited to describing one favourable and one unfavourable encounter, there is no way to determine the overall percentage of internal service encounters that are satisfying. A longitudinal study that includes all internal service encounters experienced in a given time frame could provide a better indication of the proportion of internal service encounters that are satisfying.

Implications for Managers

A Service-oriented Culture

Much of the services marketing literature has focused on providing external customers with quality services. Grönroos (1990) argues that "a distinct service-oriented culture is needed that tells employees how to respond to new, unforeseen, and even awkward situations". Although managers tend to think of only external customers when discussing service quality, a service-oriented culture is also needed to serve internal customers. A strong service-oriented culture creates an environment where internal customer needs, which cannot always be standardized or predicted, are met, even if that means adapting or modifying the internal service offering. The service culture of many organizations might be quite different if the creed "the customer is always right" was also applied to internal customers. In fact, Rosenbluth and Peters

(1992) argue that the needs of the customer are second to employee needs, because customer needs will be satisfactorily met *only when* employee needs are being satisfactorily met.

Internal Customer Market Research

The management of internal service encounters requires “market” research in order to fully understand the needs of internal customers (Lewis and Entwistle, 1990). When one considers the volume of service which organizations produce and consume internally, this issue of internal service consumption is paramount. Such services as personnel, computer, and accounting, to name but a few, serve a multitude of different departments in most conventional organizational designs. In an effort to empower personnel, firms have begun to challenge old assumptions. One assumption is that these services mentioned above must be provided internally. If costs and/or service quality of internal computer support, for instance, is not found to be favourable then external vendors should be considered (Peters and Waterman, 1982). Monitoring of internal service satisfaction would appear particularly important in light of these newly emerging service consumption markets within organizations.

Marketing managers are very familiar with conducting research in order to identify the needs of external customers. A similar approach is needed in order to identify and understand the needs of internal service customers. One question, in particular, that should be kept in mind is: What do internal customers *expect* from the internal services they depend upon? The classification scheme described in this study provides one framework for understanding expectations internal customers have in internal service encounters. For example, the large number of incidents in Category 2B (*employee responses to customer preferences*) implies that one way to increase the satisfaction of internal customers is to give employees the freedom to grant special requests made by fellow employees. Albrecht (1990) suggests making the internal customer happy should be more important than following company policies or rules. Internal service providers who have the freedom to adapt the service delivery to meet the needs of internal customers will probably find it easier to satisfy them.

Internal Customer Relationship Management

Relationship management has received much attention in the marketing literature (Crosby *et al.*, 1990; Dwyer *et al.*, 1987; George, 1990; Gummesson, 1987). Much of this literature centres on building and maintaining relationships with external customers. Lewis and Entwistle (1990) argue that if internal relationships between internal service providers and internal customers are not managed effectively, then various “gaps” will appear which have implications for internal service quality. Nagel and Cilliers (1990) propose an extension of the service quality model suggested by Parasuraman *et al.* (1985) by including these internal customer gaps. This would suggest that, in effect, *all* relationships within the organization, not just those between an organization

and its markets, are important to a firm's success. These internal relationships need to be "understood, researched, and acted upon, in order to develop a service culture which leads to the best performance from all employees, high levels of service quality and customer care, and overall service marketing effectiveness and organizational success" (Lewis and Entwistle, 1990, p. 51).

Future Research

A Dyadic Approach

The internal service encounter is a dyadic event. It includes both the internal customer and the internal service provider. This study focused on only half of the dyad – the internal customer. Future research might address the other end of the dyad – the internal service provider. McDermott and Emerson (1991) argue that the perceptions of each person (each end of the dyad) in an internal service encounter may differ. A recent study (Bitner *et al.*, 1993) looks at employee perceptions of external service encounters and agrees that those providing the service have a somewhat different perception of the service encounter than the receivers of the service. Vandermerwe and Gilbert (1991) have suggested surveying both service providers and service users in order to fully understand the internal service encounter. To fully understand the dynamics of the internal service encounter, simultaneous studies of internal service providers and internal customers should be conducted.

Importance of the Encounter

A study of hospital service encounters found external customer satisfaction may be influenced more by certain service encounters than others (Woodside *et al.*, 1989). Nagel and Cilliers (1990) contend that literally hundreds, if not thousands, of internal service encounters may occur in an organization on a regular basis. Albrecht (1990) argues that not all internal service encounters are created equal – some of them have unusually important implications for internal customer satisfaction. For example, an internal customer who has a pleasant interaction with a rather cheerful secretary while leaving a message may be satisfied with that encounter, but not as satisfied as with the encounter he/she has with a person in the accounting department who drops everything in order to provide the internal customer with a special middle-of-the-month report. Thus it seems plausible that some of these internal service encounters would be considered more important to internal customers than others. In addition, some internal encounters may be more important because they can have a direct and immediate impact on an external customer, as in the illustration presented in the introduction of this article

Plymire (1990) contends it is impractical to establish a measurement system for every service encounter. A more prudent approach would be to focus on only the most important internal service encounters. Albrecht (1990) suggests that maybe only 5 to 10 per cent of all internal service encounters are extremely critical. Identification of the more important internal service encounters, as well as what makes these encounters so important, is needed. Since an internal

customer has many interactions with others within the organization on a daily basis, a key question that should be addressed is: Why are some encounters considered by internal customers to be trivial, while others are considered to have long-lasting positive or negative effects? And, which encounters are which?

Linking Internal Customer Satisfaction with External Customer Satisfaction

An assumption made by many researchers is that there is a significant, positive correlation between internal service encounter satisfaction and external customer satisfaction. A few studies, particularly from the financial services industry, have indirectly attempted to demonstrate empirically the relationship between satisfied internal customers and satisfied external customers. In two separate studies, Tansuhaj *et al.* (1987) and Richardson and Robinson (1986) found that internal marketing activities in banks had a significant impact on customer satisfaction. Another bank study found the quality of service provided to the bank's external customers was influenced by the quality of service existing between departments within the bank (Harris, 1990). Schlesinger and Heskett (1991) report that a Sears study found employee turnover and customer satisfaction to be directly correlated. Although these studies provide some support for the correlation between internal customer satisfaction and external customer satisfaction, more work is needed in this area. Future research should measure internal customer satisfaction across a large number of firms and compare it with external customer satisfaction measures. The satisfaction model proposed by Nagel and Cilliers (1990), which includes both internal customers and external customers, provides a framework for testing this link.

Internal Customer Satisfaction Measures

The results of the present study are consistent with the findings of Schneider and Bowen (1985), who found that, in general, the problems that lead to employee (internal customer) dissatisfaction are the same problems that give rise to external customer dissatisfaction. The findings of both studies suggest it may be appropriate to measure internal customer satisfaction with services by using instruments developed for measuring external customer satisfaction with services.

Crosby (1991) has suggested customer satisfaction measures must include both external customers and internal customers. Yet, these measures are often viewed as independent exercises. Schmalensee (1991) argues that, traditionally, there has been a split between external customer work conducted by marketing researchers and employee studies carried out by human resource specialists. However, there may be no need to "reinvent the wheel" to measure internal customer satisfaction. Several researchers have argued for applying previously developed external customer satisfaction measurement techniques to internal customers. Bowers *et al.* (1990) contend that traditional marketing and management techniques are transferable to both external and internal

customers. Nagel and Cilliers (1990) have extended the Parasuraman *et al.* (1985) gap model to include internal customers. The present study is an example of the kind of research needed to help to demonstrate the applicability of external customer satisfaction measures to internal customers.

Conclusion

Gummesson (1987) suggests that internal customers constitute a market inside the firm and this market has to be reached efficiently in order to satisfy the needs of external customers. He argues that know-how from external marketing can also be applied to the internal marketing. This study provides a step in that direction by applying a method used to study external service encounters to internal service encounters. Our findings indicate that internal customers are similar to external customers in that the same general events and behaviours of service providers are associated with satisfaction or dissatisfaction in both types of service encounters. We believe this study is an example of the knowledge that can be gained in understanding internal customer satisfaction by using frameworks, methods, and tools that have provided fruitful results when applied to external customers.

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