The internal service encounter

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Do the same events and behaviours associated with service satisfaction or dissatisfaction for external customers apply also to internal customers?

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[1-5]. In recent years, the concept of internal customers in service organizations has been introduced and discussed in the marketing literature[6-9]. The 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 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, their 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 received increasing 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?

An internal customer is anyone in an organization who is supplied with products or services by others in the organization[10]. That is, the employees of an organization can be considered as internal customers who, like external customers, are looking to get their needs satisfied.

There is general agreement that service encounters play a vital role in external customer satisfaction and, thus, to the firm’s overall success. Lewis and Entwistle[11] suggest that 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”[11, p. 50].

It is the interactions between employees within a firm, which we call internal service encounters, that provide the focus for this study. Surprenant and Solomon[4] 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 is on vacation. On her return, the CSR experiences a problem when using the new menu to gather information in response to an external customer enquiry. So she calls the computer support department which 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 and an internal service provider (the computer technician). The 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 enquiry.

It is easy to envisage a very different internal service encounter. For example, suppose the CSR calls the computer support department and her internal service encounter begins with immediately being put on hold without being given a chance to explain her request. Then, two minutes later, an employee from that department 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 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 enquiry. 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.

Methodology and design

Critical incident technique

In order to further understanding of internal service encounters, the study employed the critical incident technique (CIT). CIT, described in detail in previous studies[2,12,13], 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.

In using the CIT method, 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”[2, p. 73]. As in the earlier studies on external service encounters, in order to be included in this study, an incident had to meet certain criteria. Each internal service encounter incident had to:

- 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 employees of the bank, a stratified random sample of 500 employees was selected from eight different internal customer “segments”. A representative proportion of employees from each department/area of the bank was asked to provide descriptions of two internal service encounter experiences – one considered to be favourable and one considered unfavourable. A total of 251 incidents were returned with 183 incidents considered appropriate for use in this study and subjected to further analysis.

Classification of incidents

After reading the entire set of incidents, two researchers concluded that the incident classification system developed by Bitner et al.[2] for external service encounters can be used as a general framework for understanding the sources of satisfaction and dissatisfaction in internal service encounters. 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 researcher then sorted all the incidents. This researcher, who had not participated in the categorization process described above, agreed with the classification of 154 of the 183 incidents (84 per cent agreement overall).

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[2,14] 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)

Recovery refers to 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. Twenty-eight 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[2]. 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.

### Table I. Group and category classification by type of incident outcome

| Group and category | Type of incident outcome | | | | |
|-------------------|--------------------------|-----------------|-----------------|-----------------|
|                   | Satisfaction | Percentage | Dissatisfaction | Percentage | Total | Percentage |
| Group 1 Recovery – employee response to service delivery system failures | | | | | |
| (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 | 28 | 28.0 | 44 | 53.0 | 72 | 39.4 |
| Group 2 Adaptability – employee response to customer needs and requests | | | | | |
| (A) To customers with "special needs" | 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 | 43 | 43.0 | 22 | 26.5 | 65 | 35.5 |
| Group 3 Spontaneity – unprompted and unsolicited employee actions | | | | | |
| (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 | 29 | 29.0 | 17 | 20.5 | 46 | 25.1 |
| Total | 100 | 100.0 | 83 | 100.0 | 183 | 100.0 |
### Table II. Paraphrases of a sample of the critical incident descriptions

<table>
<thead>
<tr>
<th>Satisfactory</th>
<th>Dissatisfactory</th>
</tr>
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<tbody>
<tr>
<td><strong>Group 1. Recovery – employee response to service delivery failures</strong></td>
<td></td>
</tr>
<tr>
<td>1A. To unavailable service</td>
<td>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)</td>
</tr>
<tr>
<td>1B. To unreasonably slow service</td>
<td>I called the payroll department after two, four, six and eight 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)</td>
</tr>
<tr>
<td>1C. To company errors</td>
<td>A loan officer’s signature was missing from the application for a new VISA account. I contacted the loan officer who sent the paper work. She stated that the paper work had never been required and refused to fill it out. She had a very snappy attitude and refused to assist me. (No. 90)</td>
</tr>
<tr>
<td>1D. To other core service failures</td>
<td>I paid a cheque to a company which said it was 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 up for paying out the cheque even though our branch was never told that the company was going bankrupt. (No. 159)</td>
</tr>
</tbody>
</table>

| **Group 2. A daptability – employee response to customer needs and requests** | |
| 2A. To customers with “special needs” | 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) |
| 2B. To customer preferences | 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) |
| 2C. To admitted customer error | 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) |
| 2D. To potentially disruptive others | None | None |

(Continued)
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 an external customer. Thus, a fourth category (labelled IC – employee response to company errors) was added to the recovery group and the “other” category was relabelled ID. Twenty-three per cent of all satisfactory incidents and about 24 per cent of the dissatisfactory events were assigned to the “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 because of a (computer) system problem. I contacted the department that would be able to correct the problem. 

What exactly did the employee do or say? The employee I was referred to dropped everything and worked to get a new report finished. She took the time to make sure the report writer 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) 
A adaptability has been described as the employee response to customer needs and requests in the delivery of a service[2]. In this case, 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 events 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)** internal customers with special needs – which includes those with special difficulties (e.g. medical needs);
- **(B)** internal customer preferences – when the internal customer makes a “special” (in his/her...
(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 customers with special needs, 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 was that internal customers who are new to a position have special difficulties that often lead them to make special requests. An example follows from Category 2A illustrating dissatisfaction stemming from the lack of adaptability to the request of a special needs internal customer:

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.

Spontaneity (Group 3)

Spontaneity 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’s 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. A new 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.

Limitations

As with any study, there are limitations to this one which should be noted. First of all, only internal customers from one company in one industry were sampled (although an attempt was made to include in the sample internal customers from a wide variety of positions within the organization).

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.

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. 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.

Implications for managers

A service-oriented culture

Much of the services marketing literature has focused on providing external customers with quality services. Grönroos[15] 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[16] 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 understand fully the needs of internal customers[11]. When one considers the volume of service which organizations produce and consume internally, this issue of internal service consumption is of paramount importance. Such services as personnel, computing 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 must be provided internally. If the costs and/or service quality of internal computer support, for instance, are not found to be favourable, then external vendors should be considered[17]. Monitoring of internal service satisfaction would appear particularly important in the 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 on which they depend? The classification scheme described in this study provides a framework for understanding expectations which 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[6] suggests that 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.

Conclusion

Gummesson[9] 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 internal marketing. The study provides a step in that direction by adapting a framework to internal service encounters. A method used to study external 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 that 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.

References


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