

# Classifying Internal Service Encounters to Increase Their Effectiveness – an Empirical Study

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Service quality has been an active area of research during the last two decades. In this research, typically, service quality is considered from the view point of the external customer who is the recipient of the service. In recent times, researchers have also highlighted the importance of improving the quality of internal service processes where a department (or sometimes an individual employee) of an organization either receives work from and/or performs work for another department (or another employee) thus giving rise to concepts such as internal customer and internal service encounter. There is a considerable amount of research attempting to classify external service encounters based on a variety of attributes in the service encounter. The purpose of such classification schemes is to facilitate the development of strategies and guidelines for service marketing and operations management. However, research on classifying internal service encounters is sparse and empirical investigations into the question is non-existent. This paper reports an empirical investigation into fifty two internal service encounters in sixty four service firms and identifies three classes of internal service encounters. The effective management strategies for each type was found to be different indicating that it is important to first identify the nature of the internal service encounter and then apply appropriate management strategies to increase the effectiveness of the encounter. Based on these findings, the paper proposes an Internal Service Process Matrix.

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## I. INTRODUCTION

Since the pioneering work of Parasuraman et al. (1988), service quality has been an active area of research among operations management and service marketing researchers. We omit a discussion and citations of this highly researched field and refer the readers to Seth et al. (2005) who has identified as many as nineteen models on dimensions of service quality and also provided a comprehensive list of references. In all these models, service quality is considered from the view point of the customer who is the recipient of the service, i.e., the “external customer” and the efforts have focused on

improving the quality of this “external service encounter”.

However, in recent times, researchers have also highlighted the existence and the importance of “internal customers” and the need to identify the dimensions of quality in the “internal service encounter”, e.g., Vandermerwe and Gilbert, 1991 (A survey of 1500 executives of international corporations showed that internal customers ranked some SERVQUAL type dimensions as more important than others); Pfau et al., 1991 (Reports on a study of 50 corporate MIS departments and 25 purchasing departments of industrial, finance and service companies that showed internal service quality was related to financial and operational control); Voss et al.,

2005 (In distribution centers, inter departmental customer orientation had a positive effect on center performance); Frost and Kumar, 2000 (Study at Singapore Airlines found that expectations and perceptions of front line staff as internal customers and support staff as internal suppliers play a major role in recognizing the perceived internal service quality); Bruhn, 2003 (Study in a global industrial company indicated that internal service quality is related to internal customer satisfaction and retention); Forst, 2002 (Internal customers should not be treated merely as fellow employees. Internal customer satisfaction must be surveyed); Farmer et al., 2001 (At a food and grocery wholesaler, sales associates who perceived higher levels of internal service responsiveness were associated with customers who felt they were receiving better service); Gilbert, 2000 (In a study of the accounting department as the internal supplier at an administrative office setting, technical competence and personal service were recognized by internal customer departments as most important); Albrecht, 1990 (internal service quality is most important but least understood); Berry and Parasuraman, 1992 (Conceptualizes that employees satisfied with internal service quality provide better service to external customers); Gummesson, 1987 (Identification of the internal customer concept and managerial action to improve communication between internal units helped Ericsson, a major Swedish communications firm, to increase productivity by forty percent in a circuit board factory); and Gunawardane, 2011 (Reliability is an important dimension in internal service encounters as well). The basic tenet of the internal customer service concept is that each department (or sometimes individual employees) either receives work from and/or performs work for another department (or another employee). The department or individual performing the work is the “internal service producer” and the receiving department or individual is the “internal customer”. Their interaction is the “internal service encounter”. For example, Nagel and Cilliers (1990) define

internal customer as anyone in the organization who is supplied with products or services by others in the organization. Gremler et al. (1994) identifies an internal service encounter as the dyadic interaction between an internal customer and an internal service provider. Typical examples are internal services provided by staff units such as R&D, legal, accounting, purchasing, human resources and MIS/IT. It is estimated that such internal services constitute an increasing proportion of a business’ activity and that internal services’ proportion of total product costs in industrialized countries has increased from 50% in the 1960’s to 70% by the 1980s (Vandermerwe and Gilbert, 1991). Furthermore, researchers have shown that the quality of the service to the external customer is highly dependent on the quality of the internal service encounter (George, 1990; Heskett and Schlesinger, 1994; Hart, 1995; Vandermerwe and Gilbert, 1989); that poor internal service quality is likely to have a negative impact on the quality of services provided to external customers (McDermott and Emerson, 1991; Pfau et al., 1991), and that the quality of the service to the external customer can be guaranteed only after internal performance has been optimized (Boshoff and Mels, 1995; Reichheld and Teal, 1996; Edvardson, et al., 1997; Peck et al., 1999).

As for the external service encounters, there is a considerable amount of research attempting to classify them based on a variety of attributes. These are described in Section 2 below. The purpose of such classification schemes is to facilitate the development of strategies and guidelines for service marketing and operations management (Cook et al., 1999). Research shows that one-size-fits-all marketing and operations strategies do not work in different external service encounter types, e.g., Shafti, et al. 2007 (service classification assists productivity management); Li et al. 2009 (service classification helps in identifying competencies required of frontline employees); Clemes, et al. 2000 (service classifications identify appropriate marketing strategies); Silvestro 1999 (service

classifications assist service design and control); Ng et al. 2007 (classification systems assist marketing of mass services).

The question whether classifying internal service encounters based on certain key attributes would also assist in making them effective has not been explored sufficiently in the literature and there are no empirical investigations in to this question.. Literature review yielded only two attempts to propose classification schemes for internal service encounters and while one of them (Sayles, 1964) is purely conceptual the other one (Davies, 1992) makes only anecdotal references to a few actual organizations. As for the potential usefulness of such classification of internal service encounters, again, there are only a few limited references in the literature. For example, Davis (1992) conceptually agrees that understanding the nature of the internal service encounter will enable managers to “increase their effectiveness and control their costs.” In a recent empirical study limited to the health care industry Gunawardane (2009) has shown that attributes important to internal customers and management strategies to enhance these attributes vary with the type of interaction between the internal service provider and internal customer.

Thus, we embarked on the project reported here to empirically investigate the following research questions:

1. Can internal service encounters be also classified according to certain key characteristics of the interaction between internal service provider (ISP) and the internal customer (IC)?
2. If such classifications are feasible, do management and control strategies to ensure effectiveness of internal service encounters vary with the class?

**II. SERVICE ENCOUNTER TYPOLOGIES: REVIEW OF LITERATURE**

(a) External Service Encounters

Typologies to classify the service encounter between the external customer and the service provider has received much attention among researchers. Table 1 shows the frequently cited classification schemes in the literature for this external service encounter.

TABLE 1. Major External Service Encounter Classification Schemes in the Literature

AUTHOR	CLASSIFICATION SCHEME	EXAMPLES/ KEY ISSUES
Shostack (1977) Miller and Foust (2003)	Tangible v. intangible services	Restaurants v. legal services Intangibility makes decision making difficult for customers
Chase (1978) Bowen (1990)	Contact level between customer and service staff	High in personal services, medium in non-personal services and low in standardized services
Lovelock and Young (1979)	Services on the customer’s person v. customer’s possessions	Health care v. dry cleaning Competency of service staff more important in first type
Mills and Margulies (1980)	Maintenance interactive, task interactive and personal interactive	Insurance companies, repair shops and medical services Employee identification with customer increases progressively

Meister and Lovelock (1982)	Extent of customization of the service	High in professional services Lowest in routine services
Lovelock (1983)	Relationship between customer and service organization Potential for customization and employee discretion	Frequent (“membership”) v. infrequent (no formal relationship) High in professional services Low in routine services
Schmenner (1986) Haywood-Farmer (1988)	Degree of labor intensity Degree of customer interaction Degree of customization	High in mass services and professional services Low in routine services
Shostack (1987)	Complexity of the service Divergence	Number and intricacy of steps High divergence means high variation in tasks
Silvestro, et al. (1992)	Customer contact time, degree of customization, people or equipment focus, degree of discretion of staff, product/process focus, and volume	Progressively decreases from professional services to service shops and to mass services
Mitchell and Greatorex (1993)	Perceived uncertainty/risk by customer	Higher: personal services Lower: fast food restaurants
Kellog and Nie (1995)	Service package/service process matrix	Matrix differentiates unique service packages from generic service packages and expert services from service factories
Kellog and Chase (1995)	Communication time, intimacy, and information richness	High in professional services Low in routine services
Schmenner (2004).	Service Process Matrix based on degree of labor intensity and degree of interaction and customization	Classifies services in to four types: Service factory, Service shop, Mass services and Professional services
Shafti et Al. (2007)	Customer contact and front value added	Professional and personal services high on both. Intangible services low on both.

These studies propose the classification of external service encounters by certain key attributes of the service. Generally, professional services (e.g., legal and medical) are characterized by a higher people focus/interaction, labor intensity, complexity, divergence, contact time, customization, discretion of the employee, customer risk and uncertainty, process focus and a front office

focus. Mass services (e.g., retailing and commercial banking) generally are low on these attributes. Service factories (e.g., airlines) and Service Shops (e.g., hospitals) stand in the middle. As discussed above, several studies have shown how to exploit such classifications to develop strategies and guidelines for service marketing and service operations management.

(b) Internal Service Encounters

Research on classification systems for the internal service encounter is sparse. The only such typologies we found in the literature are those of Sayles (1964) and Davis (1992). Sayles conceptually distinguished internal organizational linkages into “workflow relationships” and “service relationships”. In the first type, workflow between two departments is sequential and the internal customer receives the completed work of the internal supplier and proceeds to perform the next processing activity. Both departments are in the chain of the process producing the ultimate service to the external customer. In the latter, the service relationships involve one department providing some support (like repairing computers) for another department. The service provided is not a part of the overall service to the external customer and does not directly influence the workflow stages. Davis extended the “service relationships” into two further types and proposed a three type classification: “workflow encounters”, “support and advice encounters” and “audit/evaluative encounters”. The difference between the latter two was that in the first type, one department provides some support (like training) to the second department while in the second type the first department audits the work of the second department. In both cases the first department is not in the overall chain of producing the ultimate service to the external customer.

These classifications have several limitations. First, they are derived from classic technology classifications in the organizational theory literature such as those attributed to Thompson (1967). Thompson classified departmental interdependence in organizations as pooled, sequential and reciprocal and argued that the management requirements varied with these types of interdependence. As such, they focus only on the workflow sequence and patterns, and have virtually ignored attributes of the internal service encounter similar to those identified with the external service encounter such as tangibility,

contact level, level of interaction, customization, service employee discretion, labor intensity, complexity and divergence of task, and risk/uncertainty perceived by the customer. Next, they address only internal service encounters involving two departments. In actual organizations, there are many internal service encounters that involve the work of multiple departments.

### III. METHODOLOGY IN THIS PROJECT

To recall, our research objectives were to investigate whether internal service encounters can be classified according to certain key characteristics of the interaction between internal service provider and the internal customer and if such classifications are feasible, to investigate what management and control strategies to ensure effectiveness of internal service encounters can be identified for each class? To this end, we selected a two step process. First, we compiled a list of key attributes of external and internal service encounters reported in Section II. The attributes we selected were:

1. Degree of interaction between internal customer and internal service providing departments
2. Complexity of the internal service provided
3. Degree of customization of the internal service (v. standard/routine services)
4. Discretion of the service staff
5. Customer risk and uncertainty of the internal service to be received
6. Sequential or pooled nature of the service provided

Next, we surveyed a convenient sample of managers and senior staff of 64 organizations in the Orange County area of Southern California during the period September to December 2010.

Appendix 1 shows the industries in this survey finally used for further analysis. Each manager completed a fact sheet indicating the function of their department and a separate department they considered as their key internal service supplier. We then interviewed the managers/senior staff of the two departments, i.e., the internal customer department and the internal service supplier department. They were asked to describe

- (i) the internal service in question in detail,
- (ii) their assessment on a qualitative scale of “high”, “medium” and “low” of the significance of the first five attributes, namely degree of interaction between internal customer and service providing departments, complexity of the internal service provided, degree of customization of the internal service, discretion of the service staff, and customer risk and uncertainty of the internal service to be received (these will be referred to in the remainder of the paper as “Attributes”) in the internal service in question, and

- (iii) their views on how the internal service in question could be made more effective.

On detailed analysis, 52 internal service relationships could be clearly identified in sufficient detail and useable and these were used for further analysis. As reporting all 52 cases and associated interviews is not feasible in this paper, we give below (Figure 1) a few sample cases.

Case1. Internal customer: purchasing department of a pool products company. Internal service provider: accounting department. This was a uni-directional work flow encounter. Purchasing department needs approvals of purchase orders from the accounting department and timely payment to suppliers. Both managers scored the Attributes low in this encounter. The emphasis was speedy processing of purchase orders and speedy and accurate processing of payments. The impediments to these mentioned by the accounting manager was the frequent turnover of staff and dependence on manual processing methods.

Case	IC	ISR	Encounters
1. Pool Products Company	Purchasing Dept.	Accounting Dept.	Suppliers ← Purchasing ↑ Accounting
2. Mortgage Firm	Production Dept.	Appraisal Review Dept.	Customer ↔ Production Dept. ↑ Appraisal Review Dept. ↓ ↓ ↓ Other Departments
3. Health Plan	Provider Contracting Dept.	Legal Dept.	Customer/Provider ↑ ↓ Contracting Dept. ↔ Legal Dept.

FIGURE 1. Sample Cases of Internal Service Encounters

Case 2. Internal customer: production department in a mortgage firm. Internal service supplier: appraisal review department. Production department manager described the delays in completing loan approvals due to delays in getting approvals. Appraisal review department manager explained how his department has to depend on several internal and external service providers for credit rating, property appraisals and regulatory reviews. His ratings of the Attributes were medium while the rating of the production department was low.

Case 3. Internal customer: Provider contracting department in a health plan. Internal service provider: Legal department. Contracting department explained how their contracting is affected by the time it takes to get a contract legally reviewed and approved by the legal department. Both managers stated that several rounds of consultation between the two departments usually take place. The legal department commented on the insufficient understanding of contracting staff of basic legal concepts of contracting. Both managers agreed that higher levels of staff training and inter department communications is needed. Both managers rated the Attributes high.

#### IV. FINDINGS AND CONCLUSIONS

Detailed study of the 52 internal service encounters and the significance of the Attributes discussed above in these encounters clearly indicated that the encounters formed three distinct types. These are discussed below:

(1) “Workflow - sequential” encounters (one where the internal customer department has to deal with only one internal supplier department). One example is the pool products company internal service encounter described above. Another is where the provider grievance department in a health plan is supplied claims data by the claims department for the former to use in serving the external customer. These

encounters were found to be relatively routine tasks and low on the Attributes. As far as the number of departments involved, these Workflow – sequential encounters are somewhat similar to those identified by Sayles (1964) and Davis (1992). However, we do not see a need to form three classes as Sayles (1964) and Davis (1992) did when the encounter involves a one way service, whether it is a work-in-process, information, advice or audit, from one department to another. In contrast, the next two classes identified by us and given below are entirely different from Sayles (1964) and Davis (1992) classes.

(2) “Multiple support” encounters (where the internal supplier department has to perform a non-routine task usually involving multiple steps and/or other departments). E.g. Production and Appraisal Review department in the mortgage firm. The latter has to coordinate activities of appraisers, finance department and credit rating department to provide reports to the former. These encounters were found to possess a medium level of the Attributes. As Sayles (1964) and Davis (1992) addressed internal service encounters only between two departments, this class identified by us is a novel one.

(3) “Work flow – Support and Advice” encounters. A variation of the “work flow - sequential form” where the two departments were engaged in continuous consultation and advice while the internal service was being designed and provided. We called this third type “Work flow – Support and Advice” encounters. Examples are the encounters between technical support and software development departments in the computer software firm, and the provider contracting and legal departments in the health plan. In both these situations, several rounds of consultation between the two departments seem to be needed before the final product/service could be designed and delivered. These encounters were found to be quite high on Attributes. Again, this class of encounters

identified by us is different from Davis (1992)' "support and advice" and "audit/evaluate" classes as they involve a one way flow of support, advice or audit from the first department to the second department.

Interviews with managers in our study revealed that the strategies and mechanisms used by them to make the internal service effective depended on the type of relationship. In Workflow – Sequential and Multiple Support type of encounters, the managerial emphasis seemed to be on the speed and accuracy of the service. This is probably because the task/s involved were routine and low on Attributes. The management techniques used were those

typically used for productivity enhancement such as additional staff, introduction of improved technology and improved task/staff scheduling. On the other hand, management emphasis in Workflow – Support and Advice encounters seem to be in improved communications between the internal customer and server, flexibility and adaptability of the service provider, and how well the two groups can communicate and work together. In Multiple Support encounters the managerial emphasis seemed to be on coordination and communication between the multiple departments needed by the internal customer to perform its own task.

Nature of Workflow

	Support and Advice	Multiple Support	Workflow-sequential
High on Attributes	Contracting-Legal (health plan) Tech. support – Software Development(Software) <i>Communication improvement and Teamwork improvement methods.</i>		
Medium on Attributes		Finance – IT (city office) Store operations – Purchasing (Large stores) <i>Coordinating and communication techniques; coordinators; meetings</i>	
Low on Attributes			Product development – QA validation (medical instruments); Training – IT (safety training) <i>Improved technology; training; task/staff scheduling</i>

FIGURE 2. An Internal Service Process Matrix



Based on our observation of above internal process flow classifications and the degree of prevalence of the Attributes in them, we were able to formulate the Internal Service Process Matrix shown below in Figure 2. Note that: “Attributes” refer to a qualitative assessment of the incidence of the five factors, namely degree of interaction between internal customer and service providing departments, complexity of the internal service provided, degree of customization of the internal service, discretion of the service staff, and customer risk and uncertainty of the internal service to be received in an internal service encounter. Noted also are examples of internal service encounters from the study and management strategies – in italics - to make these encounters more effective.

## V. MANAGERIAL IMPLICATIONS AND LIMITATIONS

The internal service classification system proposed here will be useful to service managers to realize that one single mechanism for improving the internal service quality will not fit all types of internal service relationships and that identifying the type of internal service encounter on hand would help in adopting appropriate managerial actions to promote effectiveness of the encounter. In straight “Workflow sequential” type encounters with low incidence of Attributes (where efficiency and accuracy were identified as most important), management efforts should be on standardizing and simplifying processes, eliminating duplicating and unnecessary steps, introducing improved technology and improving task/staff scheduling. When services from multiple departments are involved (as in the “Multiple Support” type encounters), typically with medium level of Attributes present, simplifications by way of rules and standard procedures, and improvements in communication via coordinating mechanisms, would be necessary. In internal service encounters of “Support and Advice” type, usually with the highest incidence of Attributes,

internal coordinators/mediators and frequent meetings to improve communications and flexibility, and team building training to promote mutual adjustment, would be useful.

This study, however, has several limitations. The sample selected was a convenient sample in a limited geographical region. Also, the total sample size was not very large. Therefore, the conclusions made herein should be considered exploratory and generalized with caution. Further studies across other types of service firms using larger samples are obviously needed.

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**APPENDIX 1**

Survey and Interview Sample

TYPE OF ORGANIZATION	INTERNAL CUSTOMER	INTERNAL SERVER
Manuf. Medical instruments	Product development	QA validation
Manuf. Medical devices	Plant management	Accounting
Manuf. Vinyl products	QA	Engineering
Manuf. Binders	Plant management	Estimating
Manuf. Binders	Purchasing	Accounting
Department store	Operations	Human resources
Department store	Operations	Receiving department
Health plan	Provider contracting	Legal
Health plan	Provider complaints	Claims department
Health plan	Grievances	Authorization department
City office	Human services	Community services
City office	Finance	IT
Shipping brokerage	Import department	Forwarding/shipping
Merit training	Finance	Training
Steel factory	Engineering services	Sales
Hospital	Human resources	Administration
Business services	Customer support	IT
Library	Operations	IT
Property management	Operations	Accounting
Property management	Development services	Customer care department
Hotel/Motel	Food and beverage	Restaurant
Janitorial services	Operations	Call center
Financial services	Projects	Network security admin.
Wireless services	Retail sales	Inventory management
Home supplies warehouse	Human resources	Store management
Video equipment sales	Sales	Accounting

**Gamini Gunawardane**

Classifying Internal Service Encounters to Increase Their Effectiveness – an Empirical Study

Trucking	Dispatch	Maintenance
Trucking	Dispatch	IT
Construction	Accounting	Production
Construction	Operations	Scheduling
Pharmacy	Operations	Customer service
County Government	Program administration	Financial services
Advertising	Operations	Customer service
Computer services	Accounting	Purchasing
Sales – pool products	Purchasing	Accounting
Sales – pool products	Sales	Inventory
Construction support services	Operations	Human resources
Computer software	Technical support	Software development
Travel	Product operations	Booking and planning
Printing	Printing	Customer service
Film production	Production	Editing
Educational consulting	Program direction	Program support team
Mortgage	Production	Appraisal review
Cable advertising	Operations	Accounts receivable
CPA Firm	Processing	IT
Sofa upholstering	Sales	Quality control
Transportation	Freight claims	Operations
Sales – fashion products	Marketing	Sales
Video rental	Store operations	Distribution
Wholesale catering supplies	Store operations	Purchasing
Education center	Program coordination	Scheduling
Safety training	Training	IT