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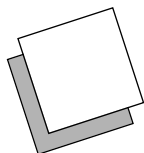


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Exploring internal customer service quality

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Service quality issues

Introduction

A growing interest is emerging in service quality issues in business-to-business markets, from the perspectives of constituencies both internal and external to an organization. For example, an article by Heskett *et al.* (1994) proposed a “service-profit chain” that integrates these perspectives into a conceptual model that establishes relationships between internal service quality and employee satisfaction, external service quality and customer satisfaction, and profitability. The service-profit chain perspective means that service quality should be an integrated approach implemented along the entire supplier-customer chain, reflecting “a basic business strategy that provides goods and services that completely satisfy both internal and external customers by meeting their explicit and implicit expectations” (Tenner and DeToro, 1992, p. 31).

The service quality requirements of external customers have been the focus of much research (Parasuraman *et al.*, 1985, and subsequent work), but we rarely see systematic processes applied to understanding the service requirements of internal customers. And much of the prior work on service quality has focused primarily on consumer markets, not business-to-business markets. Indeed, a number of leading contemporary authors in the fields of quality improvement and leadership have asserted that internal service quality is one of the most important and least understood concepts in modern business (Albrecht, 1990; Berry, 1995; Cespedes, 1995).

The purpose of this paper is to explore the dimensionality of quality offered by an internal service provider, and to examine how different internal user segments might vary in the importance they place on different service dimensions.

Internal customer service

Internal customers

Internal exchange, referring to methods used to satisfy needs within the organization, is an overlooked part of the marketing discipline that should be systematically studied (Lusch *et al.*, 1992). An important part of internal exchange is the way in which organizational units provide service to their internal customers. Organizational units should provide a high level of service quality to internal customers for some of the same reasons they provide it to external customers – more effective performance, lower waste, and lower costs. And, according to the service-profit chain concept, improvements in internal service quality also should be expected to result in improved external service quality (Hart, 1995; Heskett *et al.*, 1994).

Marketing discipline

Efficient internal exchanges

The concept of an internal customer is not new. Vandermerwe and Gilbert (1989) argued for a customer-driven system that matches internal services to users' needs. The result should be efficient internal exchanges among the various organizational members and departments. A successful internal customer service system is a key tenet of most TQM initiatives, in which all organization members are taught to view co-workers up and down the value-adding chain as important customers (for an extensive treatment of quality improvement and internal customers, see Marshall and Miller, 1991a, 1991b).

"Internal customer service" is different from the idea of "internal marketing", in that the former focuses on how employees serve other employees, while the latter focuses on how the company serves the employees (cf., Berry 1981; George, 1990; Grönroos, 1981). The concept of internal customer service used throughout this article reflects Heskett *et al.*'s (1994) assertion that internal service quality is characterized by the attitudes that people have toward one another and the way people serve each other inside the organization. Thus, internal customer service is viewed as a two-way exchange process between individuals in different functional departments of a firm in which the provider is charged with responding to the needs of his/her internal customer, resulting in a satisfied internal exchange partner.

Several articles have addressed internal customer service within the context of human resource (HR) departments. For example, Mohr-Jackson (1991) examined how HR employees might develop and sustain a customer orientation such that the marketing concept is implemented on an intraorganizational basis. Likewise, Bowen (1996) described how the HR function can positively influence the satisfaction of both its internal customers (such as line employees) and external customers. He provides evidence that satisfaction levels in these internal and external markets are correlated. Finally, Tsui and Milkovich (1987) and Tsui (1988, 1990) urged HR departments to take a multiple-constituency approach when serving differing groups of internal users of HR's services. In Tsui's work, the term "multiple-constituencies" is used the same way marketers use the term "market segments".

A chain of individual functional units

Within this overall internal customer service perspective, an organization may be portrayed as a chain of individual functional units, linked together for the purpose of satisfying external customers. Each unit is an independent producer, turning inputs (e.g. materials received from suppliers) into outputs (e.g. products) for the direct use of the next function, or internal customer. Thus, at each functional interface, customer needs, reciprocal obligations, and satisfaction should be determined. Dodson (1991) has suggested that this perspective can be applied both laterally (to the flow of work) and vertically (to the management chain).

Measurement is key

Prior research on internal customer service has focused on providing a descriptive and conceptual basis for the process. However, little work has been done to measure levels of internal service quality. A key concern in attempting to apply existing measures of external customer service quality to internal customer settings is the likelihood that important differences may exist between these two groups.

More knowledgeable
about services

Of course, external and internal customers are similar in some respects (e.g. users of goods and services). But, unlike external customers, who consume both goods and services, many internal customers mainly consume services provided by other departments. For example, the purchasing department acquires supplies and services for the materials management group, which in turn provides projections for brand management, who then develop tactics and schedules for the sales department. Each output in this chain is a service.

Another difference between external and internal customers is that, although external customers typically have a choice about where to do business, internal customers may have little or no choice. However, internal customers often can decide not to comply with prescribed procedures or standards, they can choose whether or how to cooperate, and they may even be able to go around an internal department to an external source (Lusch *et al.*, 1992).

A third potential difference between external and internal customers is that internal customers are paid, professional consumers of the services they use. As such, they are more familiar with and knowledgeable about the services that are provided than are most external customers. In this respect, the difference between internal and external customers may be analogous to differences between consumer and business markets, with internal customers behaving much like one would expect a business market customer to behave.

It is likely that these various potential differences result in different service requirements for internal customers versus external customers. It follows that the dimensions and characteristics of service quality for internal customers may be unique. It would be quite useful to have a measurement tool specifically designed to capture internal users' perceptions of the service quality of internal providers. Thus, the first research question addressed in this article is as follows: What are the issues for an internal user of a purchasing department that are indicative of high levels of service quality?

Four segments of
personnel departments

Internal customer segmentation

Because internal customers may vary in the importance they place on different service quality dimensions, it is reasonable to suggest that management could segment internal customers on the basis of their service expectations. Tsui and Milkovich (1987) identified four constituencies, or segments, of personnel departments: line executives, professional employees, managers, and hourly workers. These segments exhibited differences in their service expectations of the personnel department. In subsequent studies, Tsui (1988 and 1990) also found differences in what various internal segments considered important for effective personnel departments. The fact that needs may vary for different internal customer "segments" has implications for designing successful internal customer service strategies.

Given the importance of segmentation to the successful implementation of customer service strategies, the second research question addressed in this article is as follows: do segments of internal customers of a purchasing department exist that can be identified based on their service desires or needs from the purchasing department?

Research methodology

Research setting

The setting for the study reported in this article is a major manufacturing company operating in the business-to-business sector internationally. The

organizational buying unit (purchasing department) for the company served as the internal service provider under study, and a host of other internal organizational units served as internal users of purchasing's services. A purchasing department provides a particularly good context for studying internal service quality because a purchasing department's services are used by virtually every other department in the company, and purchasing personnel interact regularly with other departments. From a strategic perspective, purchasing is a critical link in the internal value chain of the marketing function (Dumond, 1994). The subject firm identified and provided complete access to key internal customers of purchasing's services.

Item generation and questionnaire development

To begin the process of identifying internal users' service quality requirements, interviews were conducted with 83 people from a variety of positions within the manufacturing firm. The results of these interviews and a pilot scale development effort are reported in Finn *et al.* (1996).

Interview process

The interview process and pilot study resulted in a total of 24 items covering a wide range of service issues that were viewed as generally important to purchasing's internal users[1]. These items were incorporated into a questionnaire to be administered to internal users of purchasing. The 24 items are provided in Table I.

The 24 questions were asked in terms of importance of particular aspects of service to the internal customer. In order to use importance scores, we had to have a variety of users in the sample in the hope that organization members with different positions would exhibit different needs/wants from the purchasing department. Toward this end, and also to facilitate the examination of potential segments of internal users, a broad range of users participated in the study representing administrative, technical, and clerical positions in many departments. Such a grouping is similar to the approach previously employed by Tsui and Milkovich (1987). Likert-type scales were used with the anchors for the items ranging from 1 (moderately important) to 9 (extremely important). This scaling was appropriate since, based on the process utilized to develop the items, all items should carry at least some modicum of importance; otherwise they would not have made the potential item list.

Data collection

Heavy users

Purchasing agents, buyers, and data entry clerks in the purchasing department supplied the names of 145 people from across the organization who were heavy users of purchasing's services. These 145 people received the questionnaire and a cover letter explaining that this was a test of an instrument that the purchasing department was developing. A total of 120 questionnaires were returned. Of these, six indicated that the topic did not apply to them. Thus, 114 usable questionnaires were returned, for an effective response rate of 79 percent.

The questionnaires were distributed through internal company mail with a "confidential" return envelope addressed to one of the authors. The cover letter explained that no employee in the purchasing department would see individual questionnaires and that the data would be analyzed by the addressee.

Scale development results

Factor analysis

The first research question addressed the need for a better understanding of the dimensionality of internal customer service. To address this issue, an

How important is it TO YOUR JOB that the purchasing department . . .

Item No. and name ^a	Item ^b
Q1	BP_QUAL Find the best price consistent with the quality requirements of the job?
Q2	PR_QUICK Turn purchase requests into purchase orders rapidly?
Q3	ORDSTAT Keep users informed about changes in the status of orders?
Q4	COURTESY Be courteous to users?
Q5	FIND_IT Help users find items they have rarely purchased in the past?
Q6	CHECK1ST Check with users before submitting a different vendor?
Q7	CALL Respond to phone/e-mail messages promptly?
Q8	RUSH Help users handle rush orders?
Q9	BP_DELIV Find the best price consistent with the delivery schedule the job requires?
Q10	NOT_IN Have backup people available when the assigned buyer is busy or out?
Q11	TIMEPROM Keep promises to do something by a certain time?
Q12	I_SOURCE Be a source of information for users?
Q13	VAL_CUST Treat users as valued customers?
Q14	V_CHOICE Offer an adequate choice of vendors for users?
Q15	PARTNER Work with users to find the best solutions to their problems?
Q16	UNIQPROB Help users solve unique problems that are not covered by stated procedures?
Q17	TELLNEW Keep users informed about changes in rules and procedures?
Q18	KNOANSRS Have the knowledge to answer users' questions?
Q19	PR_RITE Process purchase requests correctly?
Q20	SMOOTH Keep things running smoothly for users?
Q21	FRIENDLY Be friendly in dealing with users?
Q22	BEST_VAL Check to be sure users get the best value for their money?
Q23	NEWVENDS Be willing to consider vendors they have not used before?
Q24	RATE_EM Ask users to evaluate the suppliers they deal with?

Notes:

^aIn order to facilitate comparison, all items utilized in Finn *et al.* (1996) have retained the names reported in that article

^bAll items employed a 1-8 scale in which 1 = moderately important and 8 = extremely important

Table 1. Questionnaire items

exploratory factor analysis of the 24 items was conducted using an orthogonal rotation. An orthogonal rotation was employed in order to incorporate a relatively conservative approach. The resulting factor solution included several cross-loadings, signaling difficulty in deriving a clean interpretation of the affected factors. Because of the developmental and exploratory nature of this research, it was decided that a conservative decision heuristic should be employed for retaining the final set of items. Specifically, it was decided that an item would be excluded if it:

- (1) loaded at less than 0.55 on its major factor;
- (2) cross-loaded with a value greater than 0.45; or
- (3) cross-loaded with an overall difference in the highest loading and the second highest loading of less than 0.20.

Interfactor correlations were low in the first iteration; thus orthogonal rotation was employed in subsequent iterations of scale purification. Application of the above decision heuristic and orthogonal rotation resulted in a six-factor solution that explained 71 percent of the variance in the data.

Reliability analyses

Based on the factor analysis, six items were dropped from the original set. The final set of 18 items, their factor loadings, and a proposed set of factor labels are presented in Table II. To enhance the readability of the table, factor loadings less than 0.40 are omitted.

In addition to the results of the factor analysis, Table II also presents the results of a series of reliability analyses performed on each of the factor dimensions. Cronbach alphas were calculated for each of the dimensional subscales as a check for internal reliability. The resulting range of alphas was deemed acceptable for exploratory research based on accepted criteria for social science research (Nunnally, 1978). Although several of the item-total correlations are somewhat lower than others, at this stage in the development process we were reluctant to remove them from their respective dimensional subscales because, from the perspective of face validity, these items appeared to relate well to their corresponding subscale items.

Sort procedure/cluster analysis

In scale development, an important step is the collection of additional data for analysis, preferably by alternative analytical methods (Churchill, 1979). Thus, in order to provide additional evidence of the robust nature of the

Item	Item-total correlations	Factor 1 (TLC)	Factor 2 (delivering value)	Factor 3 (problem solving)	Factor 4 (order processing)	Factor 5 (conscientiousness)	Factor 6 (vendor mgmt)
FRIENDLY	0.74	0.85					
VAL_CUST	0.69	0.85					
COURTESY	0.70	0.78					
Cronbach α =	0.84						
BP_QUAL	0.57		0.84				
BEST_VAL	0.72		0.79				
RATE_EM	0.51		0.68				
BP_DELIV	0.58		0.67				
Cronbach α =	0.79						
SMOOTH	0.52			0.81			
KNOANSRS	0.62			0.75			
PARTNER	0.60			0.66			
Cronbach α =	0.75						
PR_RITE	0.51				0.86		
RUSH	0.44				0.70		
ORDSTAT	0.43				0.64		
Cronbach α =	0.59						
CALL	0.45*					0.82	
TIMEPROM	0.45*					0.69	
Cronbach α =	0.62*						
CHECK1ST	0.26*						0.79
NEWVENDS	0.26*						0.67
Cronbach α =	0.41*						

Note:

* It is important to realize that interpretation of Cronbach's alpha and item-total correlations is suspect in cases of a two-item solution (Nunnally, 1978)

Table II. Six factor solution, proposed factor labels, and reliabilities

A second method of analysis

internal customer service quality factors, a second method of analysis was employed. All identifiable respondents were recontacted and asked to hand sort the 24 questions they answered into as many different “categories” as they saw among the cards. To facilitate this, cards were provided with each question listed and numbered on a separate card. Coding sheets with empty boxes drawn on them were provided for the respondents to do the groupings. A total of 62 of the original respondents completed the sort procedure, a 54 percent response rate.

The results of the hand sort were summarized onto a matrix with 24 × 24 cells representing the number of times each pair of questions was placed into the same cell by each of the 62 respondents. The rows of the completed matrix were subsequently treated as “cases”, where each question was a case. A hierarchical cluster analysis utilizing the agglomerative method was performed on the cases to determine how the 24 cases grouped. The resulting clusters closely resembled the original factors with three major differences:

- (1) because the sorting procedure required that all 24 items end up somewhere, the six items dropped via the factor analysis process joined the various clusters;
- (2) three cases clustered differently from their factor equivalents; and
- (3) a seventh cluster emerged.

Six-factor solution

Importantly, however, the cases comprising the other six clusters strongly reflected the content represented by the six-factor solution – the resemblance is close enough that the factor labels are equally appropriate for those six clusters. The results of the card sort/cluster analysis are shown in Table III.

Discussion of results

To deliver high levels of service quality, providers of internal service functions need to understand the service requirements of their customers, and ask those customers to evaluate the servicing department against those requirements. In the exploratory factor analysis of the dimensionality of purchasing department services from the point of view of internal customers, six factors were evident (Table II).

Factor 1 represents the need to be treated with respect. This dimension, labeled “TLC”, includes being treated in a friendly manner, being treated like an important and valued customer, and exhibiting courtesy.

	Delivering value	Problem solving	Order processing	Conscientiousness	Vendor mgmt	No surprises
FRIENDLY	BP_QUAL	KNOANSRS	PR_RITE	CALL	CHECK1ST	ORDSTAT ^b
VAL_CUST	BEST_VAL	PARTNER	RUSH	TIMEPROM	NEWVENDS	TELLNEW ^a
COURTESY	BP_DELIVERY	UNIQPROB ^a	PR_QUICK ^a	SMOOTH ^b	RATE_EM ^b	
		I_SOURCE ^a		NOT_IN ^a	V_CHOICE ^a	
		FIND_IT ^a				

Notes:

^aItem not part of factor analysis six-factor solution

^bItem loaded on a different factor in factor analysis six-factor solution

Table III. Results of card sort/clustering procedure

Getting the job done promptly

Factor 2 may be unique to a purchasing department's customers. "Delivering value" is an appropriate label because this factor relates to how well the purchasing department finds the best prices, given other constraints. It includes finding the best price consistent with a delivery schedule, checking to be sure the department is getting the best value, and attaining the best price consistent with quality requirements. It also includes a component of involving users in the evaluation of suppliers.

Factor 3 is a "problem solving" dimension of internal service quality. The components include having sufficient knowledge to answer users' questions, working with others to develop better solutions to problems, and generally keeping things running smoothly for users.

Factor 4, "order processing", relates to getting the job done promptly and correctly. The factor includes processing purchase orders correctly, helping users handle rush orders, and keeping users informed about the status of their orders.

Factor 5 was labeled "conscientiousness", and includes keeping promises to do something by a certain time, and quick response to users' messages.

Factor 6 is another factor that may be unique to a purchasing department's customers. The label "vendor management" comes close to describing the commonality of the items in this dimension. Characteristics of the vendor management dimension are checking with users before switching to other suppliers, and a general willingness to consider new vendors.

As pointed out earlier, although several differences exist in the specific content of the groups emanating from the sort/cluster analysis procedure versus the factor analysis, the general themes of six of the groups are strongly related such that the labels for the groups carry across the two analyses. An additional group emerged from the sort/cluster procedure – "no surprises", The two items included both relate to keeping users informed about important issues related to purchasing. In sum, the two analytical methods yield a set of strongly convergent themes related to the dimensionality of internal service quality for purchasing department customers. An interesting question then becomes, can differences be identified in needs among identifiable multiple constituencies, or "segments", of these customers?

Perceptions of importance

Segmentation analysis results

The second research question asked whether differences exist among perceptions of importance of various service issues among multiple constituencies, or segments, of purchasing's internal customers. Of the 114 respondents to the questionnaire, 103 could be positively defined as belonging to one of three groups of purchasing's internal constituencies, or segments. These groups are defined in a manner similar to the schema developed by Tsui and Milkovich (1987), and are labeled technical, administrative, and clerical. Categorization of the 103 identifiable respondents into the groups was accomplished with the assistance of three key individuals within the purchasing department of the participating firm.

Technical. The first defined segment includes technical managers (11), technical professionals (18), technicians (6), and a sales manager (1), for a total of 36. These are people who are involved in designing, making, and selling the product or managing those who do.

Pairwise comparison

Administrator. The second defined segment includes executive managers (5), administrative managers (24), and administrative professionals (6), for a total of 35. These individuals are all administrators of some type, and are farther removed from the day-to-day activities of the business than the technicals.

Clerical. The third defined segment includes secretaries (27) and other clerical staff (5), for a total of 32.

Analysis

The purpose of the analysis was to determine if the groups assign differing levels of importance to the various components of internal service quality. First, a MANOVA was performed to determine if the overall model was significant. Results revealed a strong effect for internal customer segment on internal service quality (Wilks' $\Lambda = 0.66$, $F: 3.66$, $p < 0.001$). Second, six separate ANOVAs were performed utilizing the three segments as independent variables on each factor as a dependent variable. Four of the six models contained at least one set of means that is significantly different. These four are the models on delivering value ($F: 8.96$, $p < 0.001$); problem solving ($F: 4.07$, $p < 0.02$); conscientiousness ($F: 4.10$, $p < 0.02$); and vendor management ($F: 3.24$, $p < 0.05$). The models on TLC and order processing contained no significantly different means across the three segments. The pairwise comparison of means for the six subscales is shown in Table IV.

Pattern of results

Discussion of results

As outlined in Table IV, this exploratory look at need segmentation of internal users provides some interesting patterns of results. First, order processing has the highest mean scores across the three segments, and all segments appear to depend on this aspect of purchasing's services mix roughly equally. This dimension may well represent a "baseline" level of performance by purchasing, and as such if the performance is substandard on order processing, severe user repercussions may be expected.

Second, technicals rate the importance of delivering value and conscientiousness significantly lower than administrators and clericals. It is interesting that the clerical segment appears to be more closely aligned with the administrator segment in these areas. It is likely that in many instances, the clerical acts as a surrogate for the administrator, acting on behalf of his/her

Job type	TLC	Delivering value	Problem solving	Order processing	Conscientiousness	Vendor mgmt
Technical (<i>N</i> = 36)	6.33 1.88	4.72 ^a 2.12	6.37 ^b 1.68	7.16 1.05	6.25 ^a 2.10	7.01 ^b 1.19
Administrator (<i>N</i> = 35)	6.93 1.23	6.46 ^b 1.55	6.56 ^b 1.58	7.21 0.82	7.09 ^b 1.01	6.96 ^b 1.55
Clerical (<i>N</i> = 32)	7.00 1.31	6.13 ^b 1.79	7.32 ^a 0.88	7.39 1.02	7.20 ^b 1.06	6.09 ^a 2.13

Notes:

For each column, means with different superscript letters are statistically different at the $p < 0.05$ level

The top number in each set is the mean

The bottom number in each set is the standard deviation

Table IV. Pairwise comparison of subscale means by job type

Developing evaluation measures

priorities and within his/her value system. Many administrators likely operate within strict time constraints and with a cost focus that raises the level of importance placed on these two dimensions. This may carry over to their clerical help. It is noteworthy that the technicals have such low regard for the importance of the delivering value dimension.

Third, the problem-solving dimension appears to be critical for the clerical segment. This may partly be reflective of a high level of usage of the purchasing department by clericals for this purpose. That is, clericals simply may interact directly with purchasing for problem solving more than the other segments. Finally, clericals appear generally to regard vendor management as less important to them directly than do technicals and administrators.

Summarizing managerial implications and recommendations

Purchasing managers who want to offer a high level of service quality must first understand what aspects of their services mix are important to their customers, because customers ultimately will rate service quality on how well those important needs are met. This study offers a starting point for developing evaluation measures by identifying components of internal measures service quality for a purchasing department. The multiple methods employed provide strong evidence of general consistency of dimensionality.

This study used the importance ratings of internal customers to identify their needs. The scale provides a useful tool for purchasing departments to begin the process of measuring the success of their internal service delivery. Over time, purchasing departments also need to measure users' perceptions of purchasing's performance on each scale item. With such performance measures, even greater diagnostic value is possible by using a gap analysis approach in which two sets of questions are asked on each service quality item – one set would be the importance ratings, the other would be the performance ratings. The gaps between these two sets of ratings will highlight areas for improvement, and can be tracked over time to monitor progress in service delivery. Although many studies employing gap analysis have examined expectations versus performance, a precedence exists for viewing importance versus performance (Lambert and Lewis, 1990; Lambert *et al.*, 1990).

Differences among respondents

When all respondents rate only one service provider, as would be the case in most internal customer situations, in order to provide diagnostic information one must look for differences among respondents. Thus, a key question becomes: how do people differ in their service quality requirements? In this study we were fortunate to have access to a variety of users of purchasing's services. The respondents included secretaries, lab technicians, scientists, clerks, maintenance people, quality control personnel, contract evaluators, artists, product managers, and others. As such, a reasonable variety of service delivery needs could be assessed.

The present research is the result of two data collection efforts, and represents one step in the scale development process. Clearly, more research is necessary to help organizations better understand the nature and determinants of internal service quality. In order to develop a generalizable scale for purchasing departments, more data will need to be collected across several companies.

A particularly useful finding for purchasing managers is that groups of internal users can be conceptualized as segments, and that different needs may be revealed and logically explained among these segments. It is clear

Better customization of services

that for any given user segment, a proper prioritization of the services mix and subsequent effective execution of the service, both tailored to the needs of that segment, will be necessary to maximize the satisfaction of the user. All individuals in the purchasing department can be trained to recognize the differing priorities and needs of the user segments, and then to adapt their service delivery effort appropriately.

Following an internal customer segmentation approach to internal service delivery opens the door to internal departments' better customizing their service offerings to the unique needs of different user groups. This customization could take the form of different ways of communicating service offerings within the organization (e.g. training via video tape, Web page, face-to-face), varying product forms (e.g. different report styles and content for different users), variable cost structures for different service level requirements (e.g. a premium charge for requiring service delivery faster than normal limits), and alternative means of service delivery (e.g. phone, fax, e-mail, etc.). Such an approach ultimately contributes to the value-adding capability of that department's position in the organization's service-profit chain, resulting in not only greater organizational efficiencies but also more satisfied internal and external customers.

Note

1. It is important to note that the researcher conducting the interviews approached the process without any prior bias that SERVQUAL items might or might not be relevant within the current research context. This is because the goal of our research is not to examine SERVQUAL in an internal setting, but rather to explore the development of an instrument appropriate to purchasing as an internal provider group. As a result, in the initial interviews the researcher did not begin probing for SERVQUAL dimensions until all other discussion had ceased.

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