Creating Internal Service Value – An Exploratory Study

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Extended Abstract

1. Relevance and Research Questions

Internal services, such as market research, logistic, media or IT services, play a crucial role for value-creating activities. Delivered by individuals and units within an organization, internal services provide resources employees need to offer high service quality and to satisfy the external customer (Stauss, 1995). As employees’ work experience translates into favorable customer service experiences (George, 1990), external service value depends on the delivery of valuable internal services. Service research acknowledges the relatedness between external service value and the provision of valuable internal services. Despite its economic relevance, though, research on internal service value is scant. The paper aims therefore to answer following questions: How can internal service value be defined and conceptualized? What are determinants of internal service value?

2. Conceptual Foundations

Internal services refer to activities, routines and processes exchanged between individuals or organizational units within the same company and executed to support a company’s customer-related functions (Marshall, Baker, & Finn, 1998). If service employees receive valuable internal services that help them meeting and exceeding the service expectations of their customers, they may perceive the context of the service encounter as pleasant and helpful. Hence, valuable internal services could be effective in stimulating extra-role behaviors of frontline employees that translate into favorable customer experiences (Bowen, Gilliland, & Folger 1999; George, 1990).

We define internal service value as the internal customers’ assessment of internal service quality in comparison to perceived costs of using an internal service. In line with Zeithaml (1988), we assume that service value is derived from a comparison of a service’s benefits and sacrifices while superior quality may represent a benefit, price or limited availability may reflect the sacrifices. Representing the benefits an internal service offer, internal service quality is defined as a global judgment about the extent to which internal services enable service employees to provide the expected performance to their external customers. Sacrifices involved in service consumption encompass monetary and non-monetary costs (Ulaga & Eggert, 2006; Zeithaml, Bitner, & Gremler, 2009). Monetary costs refer to the price whereas non-monetary costs refer to time, search, convenience and psychological costs (Zeithaml, Bitner, & Gremler, 2009). Non-monetary costs of internal services include
information, decision, access and time-related expenditures. Information and decision costs refer to the effort invested to identify and select services. Access costs can result from bureaucratic organizational structures which hinder an efficient coordination between internal customers and suppliers. Time costs occur when internal service delivery is delayed (Zeithaml, Bitner, & Gremler, 2009). Against this background, we postulate that, in order to create internal service value, resources and routines are sought that (1) increase internal service quality or (2) decrease monetary and non-monetary costs of internal service delivery and consumption.

3. Method

This study adopts a qualitative approach to gain more in-depth understanding of internal service relationships (Flint, Woodruff, & Fisher Gardial, 2002). For data gathering, constant comparative method was used (Creswell, 2007). The study applied 11 in-depth interviews with key informants including CEOs, managing directors, department and service managers with at least six years of professional experience from industries such as mechanical engineering, electronic and auto-motive industry, banking and health care services.

The interviews were conducted face to face by the authors, following a semi-structured interview guide. All interviews were audio-taped and transcribed verbatim. Interviews lasted between 45 and 60 minutes. Based on word-for-word transcriptions of the interviews, data analysis was conducted using MAXQDA 11.0.2 software. The data was codified to record emerging themes or constructs as well as relations between them. Moving back and forth between the interviews, observations were classified and categorized (Spiggle, 1994).

4. Findings

4.1 Constituents of internal service value

The interviews provided support for the idea that internal service value captures the relation between internal service quality and sacrifices. Respondents pointed to the impact of sacrifices when assessing the value of internal services: Besides monetary costs, non-monetary costs in terms of insufficient service quality, flawed or delayed service delivery, unavailability or lacking reliability of the service provider were perceived as major limitations to employee benefits.

4.2 Determinants of internal service value

A first determinant for creating internal service value that emerged from the interviews was organizational identification. Organizational identification pertains to an employee’s attachment to an organization and the adoption of organizational values as characteristics that define the employee’s self (Dutton, Dukerich, & Harquail, 1994). Organizational identification has been repeatedly recognized as a precursor for employees’ extra-role behaviors towards the external customer (Aheame, Bhattacharya, & Gruen, 2005). From the literature on internal marketing and internal customer orientation we learn that employees’ perception of colleagues as their customers is decisive and that internal suppliers’ willingness to identify internal customers’ needs and expectations is vital for implementing customer orientation (Reynoso & Moores, 1995).

Internal supplier’s expertise was identified as a second determinant of internal service value. Due to the derivative nature of internal services, internal customers do often have specific requirements and expectations about an internal service that depend on the expectations of external customers (Piercy,
1998). Furthermore, supportive internal services are often knowledge-intensive services which provide value through the knowledge, skills and abilities of the service personnel (Bettencourt et al., 2002).

Third, interviewees stressed the relevance of interfunctional coordination for the creation of internal service value. Interfunctional coordination is understood as the coordinated integration of an organization's resources in such a way that value is created (Narver & Slater, 1990). Pertaining to the creation of internal service value, two interviews mentioned internal key account managers who are responsible for the identification of internal customers' needs, their conversion into service requirements and the communication of these requirements towards internal or also external service providers. The interviewees also mentioned activities designed to improve the exchange of information between suppliers and customers of internal services and to adjust expectations and experiences. These activities included communication efforts as well as continuous evaluations of internal service quality, and internal complaint management.

Finally, respondents pointed to institutional arrangements to enhance internal exchange. Among them, service standards, service guarantees and also incentive systems were identified as effective instruments to increase internal service quality and to decrease sacrifices of internal service consumption.

5. Conclusion

Internal service value is of utmost importance to create external service value. From our results, several implications can be derived. First, service firms should foster perceptions of colleagues as customers, ensure superior quality of internal services and reward excellent internal service performance. Second, internal marketing activities, including market segmentation, product and service design, and internal communication, should be executed in such a way that internal customers perceive a value from these activities. Third, this paper advocates the internal service value as an instrument to manage and control internal supplier-customer interactions.

References