



INTERNAL CUSTOMER SATISFACTION AND THE LINK TO CUSTOMER LOYALTY

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Opening the email, the customer service representative carefully reviewed the memo. He experienced immediate disappointment because the promotion he had requested was denied. The supervisor's email indicated the main reason was because his application was received late. The email confirmed the conversation he had with the Human Resource Coordinator earlier in the day. He had been told, "There are rules and filing on time was one of them." Never mind these rules did not reflect his continued requests to the Coordinator for the appropriate forms weeks earlier.

By the time the customer service representative began his shift, he was very angry and it was reflected by how he treated external customer requests. He was extremely abrupt, refused to do anything more than the routine, and turned every customer call into a crisis. This went on for more than an hour before his supervisor intervened.

However unfortunate and avoidable this situation was, it is obvious that internal policy was the cause. The CSR was angered by a perceived internal failure and he took it out on the external customers.

The CSR saw himself as an "internal customer" of the Human Resources department and, from his perspective, they did not meet his expectations. He, in turn, did not provide stellar service or meet expectations of external customers.

When employees feel they are not being treated properly by the organization they, of course, can become very upset. In turn, this can lead them to vent their frustration on external customers which can significantly impact loyalty and future business.

Building customer loyalty is contingent upon treating employees as internal customers and ensuring they feel valued. As Karl Albrecht stated, "The concept of internal service – the idea that the whole organization must serve those who serve – has emerged as one of the most important principles of the service management approach."¹ Albrecht recognizes that serving the internal customer is a critical component in the creation, maintenance, and delivery of service quality to external customers.

The Strategy to Results Connection

When organizations decide to raise the competitive stakes, they often choose increased service quality as a differentiator. Innovative organizations begin process improvements and/or train employees to provide improved service. Many businesses develop their strategy, but unfortunately, don't attain the results because the implementation is not comprehensive.

A primary challenge is that many service improvement efforts only focus on employees that work with

¹ Albrecht, Karl. *Service Within*. Business One Irwin, Homewood, IL. 1990.



external customers. Unfortunately, employees who work with internal customers are oftentimes completely disregarded.

Occasionally, companies will train back office employees who have contact with external customers. For example, an external customer calls her insurance agent about a confusing bill. The agent contacts the company and is told that the customer



Figure 1

needs to talk directly with someone in the Accounts Receivable department. The customer makes the call and suddenly the back office supplier becomes a service provider.

These unique situations illustrate the critical need to train all employees to understand and be able to provide internal stellar service because at any given point the supplier can switch roles as they serve customers.

When it is working well, they function as a service chain team that communicates needs and expectations to one another, supports and otherwise helps each other, and proactively shares problem-solving responsibilities. In effect, they provide seamless service to the customer because they are able and willing to assume supplier and provider roles as needed.

Unless employees at every level appreciate the internal customer phenomenon and are trained to deal with it effectively, an organization may never realize the results it anticipated. That is, even the best strategy is bound to fail to produce the desired results if one vital part of the equation is ignored.

Why Create an Internal Customer Culture?

As business headlines support, customers are less tolerant of poor service. In turn, these customers are more willing to change suppliers. Although there are more suppliers to choose from today, customers are also more educated about both product and service quality. They expect and at times demand attentive service. Finally, today's customers feel more empowered so commanding their loyalty takes much more effort and strategy. "[Customers] are more likely to ignore brand or company loyalty and switch their purchasing power to companies and products that provide hassle-free, above-average value and service."²

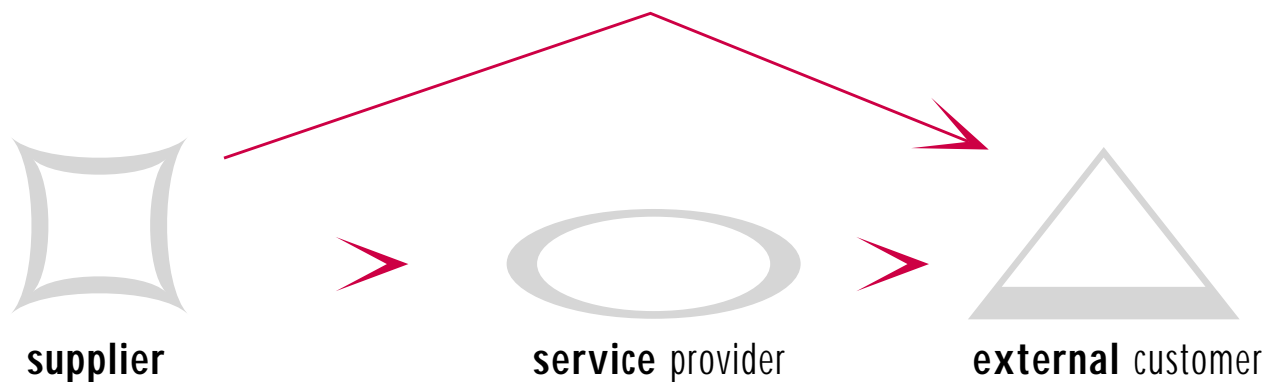


Figure 2

² McDermott and Emerson

Organizations can only provide seamless, trustworthy, attentive, and resourceful service if they have an internal customer culture. If employees are angry, frustrated, or discouraged they will not ignore these feelings to focus on delivering high levels of service quality. Smooth and seamless delivery on the outside demands and depends on smooth and seamless delivery on the inside. Lu Ann Uremovich, manager of Human Resources for I/N Tek says that creating an internal customer service culture "results in problem resolution, tasks getting accomplished, ideas being generated, goals being met."

Increasing external customer loyalty, then, requires that companies create an internal customer service culture. It is only then that employees will freely cooperate and openly communicate on the human and business levels to ensure external customers receive the highest levels of service and value.

Customer versus Service Chain Partner

Some people argue that employees are simply partners in the service chain. As evidence, they point to research that says feelings of reciprocity are essential in the delivery of service quality and that the willingness to return favors is a feature of a partnership rather than a customer relationship.³ However, these researchers also admit that there is a psychological contract or unspoken agreement between exchange partners that underpins service chain relationships and has internal supplier and internal customer overtones.⁴

McDermott and Emerson make a strong case for the internal customer concept while acknowledging the existence of partner relationships. "Most employees know about external customers, but few employees think of other employees as customers. But every internal employee is a user and provider of services; every employee participates in a producer- customer relationship."⁵

Perhaps, the argument is not whether employees are internal customers or service chain partners. In reality, they operate as both in many cases.

What Does it Take to Create an Internal Customer Culture?

Although many social, geo-political, and cultural barriers have been broken down, in many ways that has not always occurred at the same pace in the business world. The emphasis on Total Quality initiatives notwithstanding, a significant number of organizations cling stubbornly to strict, rule-bound hierarchies that actively prevent teaming across departments and seamless communication.

There are numerous reasons for resistance to change, but principle among them is fear. The conscious or unconscious argument is that even if the present isn't very good, it is better than an uncertain future. So, before an organization takes action to create an internal customer service culture, thought has to be given to what will and what will not support such an effort and encourage meaningful change.

Aligning Senior Management

Someone once said that aligning senior management in some organizations is like herding snakes. It will only frustrate the facilitator and anger the snakes.

The first step in creating an internal customer service culture is to ensure that the leadership team agrees and has buy in that such a culture will improve organizational performance. The value of this change to the overall business strategy of the company must be illustrated in order to convince the team. Then, the leadership team needs to communicate to the rest of the organization that creating an internal customer service culture is vital to business success.

^{3&4} Llewellyn, Nick, The Role of Psychological Contracts Within Internal Service Networks, The Service Industries Journal, Vol. 21, No. 1 (January 2001).

⁵ ©McDermott, Lyads and Emerson, Michael. Quality and Service for Internal Customers, Training and Development Journal, American Society for Training and Development. (January 1991).

Comprehensive Programs

Many people believe that training alone will produce significant change. However, in most cases other preparation needs to occur before training actually takes place and the new techniques and philosophies are adopted.

The biggest barriers to effective implementation of training are organizational systems and/or processes. Systems and processes can include hardware, software and even organizational structure.

With numerous systems and processes in organizations the task of aligning everything to create an internal customer service culture is challenging. To make the change initiative successful, you must identify and prioritize the systems that will have a direct and substantial impact and align them appropriately.

Customer Service Training

Most service providers believe they provide good service. In fact, very few would even acknowledge the benefits of customer service training.

Let's examine a supermarket cashier who was rude, impersonal, and condescending to a customer in a checkout line. The customer complained to management and her story was corroborated by other employees. Later the store manager spoke to the cashier. When asked about her behavior and her service skills, the cashier insisted that the problem was with the customer and that she was "proud" of the service she provided. When asked about going to customer relations training the cashier said it would be a waste of time because she knew all there was to know about providing good service.⁵

At times, there is even greater resistance to customer service training among people who do not perceive they have customers. Customer service researcher O. Harrari writes in *Management Review*, "Many employees do not view their function as serving others; they have never been in a customer service position, and it is not an easy task for an organization to alter these perceptions."⁶

Assuming employees acknowledge the need for training, the training should address the following guidelines:

- Treat each customer as a unique person with human as well as business needs
- Discusses the hidden dimension in every service interaction (everything that goes on behind the scenes for both the customer and the service provider)
- Balances customer needs on all three dimensions
- Gives an overview of the qualities important to customers: seamless, trustworthy, attentive and resourceful.

Internal Service Guarantees

An increasing number of organizations are insisting departments provide other business units with internal service guarantees. As McDermott and Emerson observe, "More and more companies are setting up entire functional units as subsidiaries and forcing them to compete on an 'even up' basis with other suppliers. As companies look at ways to streamline their organization, more internal support departments will face similar fates. The best way to minimize this possibility is to provide value to your customers that exceeds what they can get from outside suppliers."⁷

Under an internal service guarantee arrangement departments contract with other internal departments to provide specified levels of service quality. The incentive for living up to the guarantees is a pre-arranged penalty. This is what separates internal guarantees from traditional performance standards.⁸

Internal service guarantees can improve internal department performance in at least three ways:⁹

- They increase opportunities for teaming and cooperation across an organization
- They increase proactive problem solving because this behavior is rewarded appropriately

⁵ Hammond, Bruce. *The Customer Service-Loyalty Link*, AchieveGlobal, 2000.

⁶Harari, O. *Should Internal Customers Exist?*, *Management Review*, Vol. 80, No. 7 (1991)

⁷ McDermott and Emerson

⁸ Farner, Steve and Luthans, Fred. *An Empirical Assessment of Internal Customer Service*, *Managing Service Quality*, VOL. 11, No. 5 (2001)

⁹ Hart, W. L. *The Power of Internal Guarantees*, *Harvard Business Review*, Vol. 6, No. 1 (1997)

- Internal feedback increases as employees feel incented to openly discuss needs, problems, and progress

When internal departments are treated as customers they need to be asked for on-going feedback as part of the internal guarantee process.

While internal service guarantees are not a quick and simple fix, they can leverage performance and help to increase customer loyalty.

Putting it All Together

The Link Between Internal Customer Service and Customer Loyalty

There is compelling evidence that a strong connection between internal customer service and customer loyalty exists. What was once described as a "mixed, complex relationship" between internal customer service and customer loyalty is now seen as a much clearer and reliable causal construct. "The basic assumption is that if everybody strives to provide their 'internal customer' with better service, then the end customer will receive higher quality service," has now been empirically validated.¹⁰

The Strategy to Results Equation Includes Internal Customer Service

The Strategy to Results approach to improve external customer loyalty must include an internal customer service component. Why? Research has proven that employees will only provide superior service to each other and to external customers when they receive the same sort of service in return.

Implementation of a Comprehensive Change Initiative

Improving internal customer service is a major change initiative. In order to be successful, it must include aligning senior management, re-organizing and refining systems, implementing customer service training, and service guarantees.

Employees function as Internal Customers and Service Chain Partners

The debate about internal customer vs. service chain partner has been answered. Employees act as both internal customers and service chain partners.

Measuring the Impact of Internal Customer Service on External Customer Loyalty

If a claim is made that improving internal customer service will result in increased levels of customer loyalty empirical evidence should also support it. The measurement process that evaluates the impact of internal customer service improvement normally involves a number of methodologies including:

- Reviewing existing information
- Gathering new information as needed
- Analyzing data to answer key decision-maker questions
- Creating a credible findings report

⁹ Farner and Luthans



ABOUT THE AUTHOR

Bruce Hammond, Ph.D., is AchieveGlobal's Executive Consultant and is primarily responsible for designing and delivering measurement consulting services to organizations interested in managing effective change.

Bruce has published widely on the topic of measurement and he also helps organizations create strategies to improve performance and processes by capturing and utilizing employee and customer feedback.

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Recent customers he has worked with include British Telecom (U.K.), Washington Regional Medical Center, Veterans Administration, U.S. Air Force, Republic Mortgage Insurance Co., EDS, Prudential Insurance (U.K.), State of Florida, State of Maryland, the Immigration and Naturalization Service, the Department of Defense and Time Warner Cable.

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