Internal Service Quality, Customer and Job Satisfaction: Linkages and Implications for Management

Customer satisfaction has dominated much of the recent service literature (Zemke, 1989; Heskett, 1990; Zeithaml, 1990, Berry; 1991). This literature suggests that to deliver high levels of customer satisfaction, organizations must identify, measure, and manage the internal elements that produce it. The first part of this paper identifies some of the elements within an organization hypothesized to affect customer satisfaction. We call these the eight components of internal service quality. By measuring these components, managers may be able to determine which actions are required to improve customer satisfaction. This knowledge may then enable managers to take a proactive, rather than reactive, approach to customer satisfaction.

Internal service quality (defined for this purpose as employee satisfaction with the service received from internal service providers) has received little attention in the empirical literature, although certain aspects of it have been discussed theoretically as far back as Barnard (1938). Only in the past decade has it begun to be examined as a holistic concept. Yet internal service quality remains complex, in part because its composition can vary for different organizations at different times. In short, which internal services are important, and how important their quality is, depends on an organization’s tasks and employees. Despite this variability, we believe (supported by the quality and service literatures) that internal service quality has basic components important to most organizations.

This paper also explores the relationship between internal service quality and job satisfaction, one important indication of an organization’s work environment. We propose that internal service quality is important because it relates to both customer satisfaction and job satisfaction. This dual relationship may begin to explain the observation that while job satisfaction may not lead to customer satisfaction directly, service firms rarely have satisfied customers without having satisfied employees.

**Internal Service Quality**

Internal service quality’s cross-disciplinary nature may explain why it remains relatively unexplored empirically. The eight components of internal service quality that we have identified fail to fit neatly into the traditional functional disciplines of management. The academic and popular writers addressing internal service quality tend to work from a multidisciplinary perspective. Heskett (1990), Zeithaml (1990), Berry (1991), and Hart (1992), among others, discuss all eight of these internal service quality components and their effects on employee and customer satisfaction. Garvin (1988) and Zemke (1989) also discuss several of these components.

Although these authors approach internal service quality from different perspectives, they share a fundamental underlying belief that organizations attempting to deliver service quality to their external customers must begin by serving the needs of their internal customers. As Heskett (1990), Zeithaml (1990), and Garvin (1988) have been particularly influential among both academics and practitioners, their work is outlined below.
Heskett’s (1990) discussion is predicated on the Service Profit Chain (see Heskett, 1994), a causal model based on the proposition that 1) internal service quality drives 2) employee satisfaction, which enables the delivery of 3) high value service, resulting in 4) customer satisfaction, leading to 5) customer loyalty, which in turn produces 6) profit and growth. These ideas are closely linked to those of this paper which tests a portion of the model by linking measures of internal service quality to a relatively new summary measure of the work environment called service capability. Service capability is defined as an employee’s perception of his or her ability to serve the customer. As has been shown elsewhere, service capability is a more direct antecedent of customer satisfaction than more traditional measures of the work environment such as employee morale, loyalty, and satisfaction.

Heskett (1990) provides several case-study examples that support the importance of internal service quality. The organizations examined lead their industries in results delivered for customers, and (often) financial performance. Heskett demonstrates that while the importance of specific internal-service-quality components may differ for individual organizations, leading service firms rely on exemplary internal service quality in the eight components discussed in this paper to deliver consistently high levels of value to customers.

Zeithaml (1990) and her co-authors also discuss internal service quality as it relates to their model of service-provider gaps (the gaps measured by the SERVQUAL instrument). The components of internal service quality comprise several of what these authors call “the antecedents of service-provider gaps.” That is, internal service quality problems are described as responsible for many of the customer-perceived service problems in industries.

Finally, Garvin’s (1988) focus is on external quality. While his research is drawn from manufacturing environments, it is (per Garvin) often generalizable to service settings. Garvin pays great attention to defining quality and reconciling the numerous existing, competing visions of the concept. In the processes of discussing quality from an external perspective, he notes the important role internal quality plays in the delivery of external quality, discussing at least six of the eight components of internal service quality to be examined here. Like Zeithaml’s (1990), Garvin’s (1988) work on external quality may have important implications for internal quality.

Further research is necessary to examine whether Garvin’s dimensions of quality and the five SERVQUAL dimensions apply to internal quality across a wide spectrum of industries.

Drawing upon this literature, Exhibit 1 defines the eight components of internal service quality to be discussed in this paper. These components correspond to the dataset for our study (see “Method”).

**Hypotheses**

Our hypotheses focus on the role of internal service quality at many service organizations. Hypothesis One explores the relationship of the eight components of internal service quality to customer satisfaction.

**H1: Internal service quality is related to customer satisfaction.**

Hypothesis One finds its origins in the work of Zeithaml (1990), Berry (1991), Heskett (1990), Hart (1992), Garvin (1988), and Zemke (1989) as suggested by the discussion under “Internal Service Quality.”

Hypothesis Two further explores the concept of internal service quality, comparing the relationship of job satisfaction to internal service quality and to satisfaction with wages and benefits.

**H2: Job satisfaction is more strongly linked to satisfaction with internal service quality than to satisfaction with wages and benefits.**

Hypothesis Two is important because it suggests that work can be made more satisfying by improving internal service quality, which may also enable employees to serve customers better. Thus internal service quality may help organizations achieve two goals simultaneously. Hypothesis Two may also have important implications for managers who see improving job satisfaction as a tool to reduce employee turnover.

The origins of Hypothesis Two can be found in the commitment literature (see, for example, Mowday, Porter, and Steers, 1982; Walton, 1980, 1985a, 1985b, 1986; and Hackman, 1985) which suggests that employee performance and job satisfaction are tied to the satisfaction of employees’ needs. Needs satisfaction refers to the satisfaction of both economic (i.e., wages) and non-economic needs. Hypothesis Two takes the needs-satisfaction concept one step further by suggesting that for the sample examined, noneconomic needs satisfaction (in the form of internal service quality) may be more important to job satisfaction than economic needs satisfaction.
Components of Internal Service Quality

<table>
<thead>
<tr>
<th>INTERNAL SERVICE QUALITY COMPONENT</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tools</td>
<td>Are the tools necessary to serve customers provided to the employee by the organization? (This includes information and information systems.)</td>
</tr>
<tr>
<td>Policies and Procedures</td>
<td>Do policies and procedures facilitate serving customers?</td>
</tr>
<tr>
<td>Teamwork</td>
<td>Does teamwork occur among individuals and between departments when necessary?</td>
</tr>
<tr>
<td>Management Support</td>
<td>Does management aid (vs. hinder) an employee's ability to serve?</td>
</tr>
<tr>
<td>Goal Alignment</td>
<td>Are the goals of the front line aligned with those of senior management?</td>
</tr>
<tr>
<td>Effective Training</td>
<td>Is effective, useful, job-specific training made available in a timely fashion?</td>
</tr>
<tr>
<td>Communication</td>
<td>Does necessary communication occur both vertically and horizontally throughout the organization?</td>
</tr>
<tr>
<td>Rewards and Recognition</td>
<td>Are individuals rewarded and/or recognized for good performance?</td>
</tr>
</tbody>
</table>


Method

Our test of Hypothesis One relies on measuring service capability, which serves as an intermediate step dividing Hypothesis One into two parts as follows:

H1a: Internal service quality is related to service capability.

H1b: Service capability is related to customer satisfaction.

Hypothesis 1a proposes a relationship between internal service quality and service capability. It is based on the proposition that if an organization delivers good service to its employees, enabling them to do their jobs well, the employees will feel they have the ability to serve their customers well. Hypothesis 1b then proposes that service capability relates to customer satisfaction. Combining Hypotheses 1a and 1b creates a framework suggesting that internal service quality is related to customer satisfaction via service capability (see Figure 1, below).

![Figure 1](image-url)
The dataset for this study consisted of anonymous responses to detailed written questionnaires administered to a census of front-line employees and front-line managers (individuals who deal with customers) in life and/or property and casualty lines at three divisions of two U.S. insurance companies with diverse customer bases. The survey was administered at the onset of organizational change efforts designed to improve customer loyalty (and profit) through improvements in service delivery. Survey results were used as both indicators of where change opportunities existed and as catalysts for change.

Nine thousand four hundred seventy-five individuals responded to the survey, yielding a response rate of more than 75 percent. The organizations attributed this high rate of return to the modest length and unambiguous language of the survey, and the commitment of managers and employees to the goals of the research. The strong survey response suggests that participating organizations could be confident about using the results to generalize about their front-line employees and managers. For the purposes of this paper, the survey’s results likely pertain to most other large insurance companies and financial services because these types of firms tend to operate with relatively similar employees and tasks at the front line. However, the survey results’ applicability to services and manufacturing firms with dissimilar employees and operations is uncertain.

Survey content was based upon interviews with groups of employees and external customers, as well as individual interviews with mid-level and senior managers. These interviews were used to identify important issues pertaining to internal and external service quality that would serve as the basis for developing individual survey questions.

Using the results of these surveys and the literature, an attempt was made to construct measures of internal service quality. Eight components of internal service quality were created on the basis of component and varimax factor analysis. Specific survey question responses were assigned to each component, creating

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**EXHIBIT 2**

Service Capability Regressed Against Satisfaction with Components of Internal Service

Adjusted R-square: 0.27

* p>0.10 *** p<0.01

<table>
<thead>
<tr>
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<td>Rewards and Recognition</td>
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</table>
indices measuring the components. Appendix A contains the specific survey questions used.

**Results: Hypothesis One**

Hypothesis One states that satisfaction with the eight components of internal service quality is linked to customer satisfaction. Exhibit 2 summarizes our findings pertaining to Hypothesis 1a. As discussed more fully below, these results demonstrate a statistically significant relationship between several measures of internal service quality and service capability. When these findings are combined with previous research (Schlesinger, 1991) that demonstrates the link between service capability and customer satisfaction suggested in Hypothesis 1b, the framework in Figure 1 emerges, supporting Hypothesis One.

Exhibit 2 illustrates the results of regressing (OLS regression) an individual respondent’s satisfaction with each of the components of internal service quality suggested by the literature and supported by empirical investigation against his or her service capability. These findings are also presented in a more traditional format in Appendix B.

**Discussion of Hypothesis One Test Results**

As can be seen in Exhibit 2, tools, policies and procedures, teamwork, management, goal alignment, and training are related to service capability.

However, the relationships of service capability to communication and rewards and recognition are inconclusive based on this analysis.

The inconclusive relationship between service capability and communication was surprising. This gap may be explained by the Pearson correlation coefficients of the communication component and the 1) teamwork and 2) tools components of 0.68 and 0.37 respectively. Aspects of communication may have been included in the teamwork and tools components (specifically information systems in these cases), thus weakening the communication dimension. This suggests that communication might indeed be an important component of internal service quality, and thus could relate to service capability in some situations. Further research is needed to confirm or deny the existence of such a relationship.

The inconclusive relationship of service capability to rewards and recognition may result from a genuine lack of connection, or could reflect the challenge many organizations face in determining appropriate and effective reward and recognition programs, along with the equally difficult task of their implementation.

In spite of these two inconclusive relationships, the other six components of internal service quality are related to service capability, which has been shown to relate to customer satisfaction. This
framework is illustrated in Exhibit 3.

While the empirical results support the relationships depicted in Exhibit 3, since our model explains 27 percent of the variation in service capability, other factors also have an impact on service capability. Thus internal service quality should be seen as one, rather than the, concept on which managers may wish to focus in order to improve customer satisfaction.

The Effect of Demographic Controls on These Results
The regression in Exhibit 2 was also estimated including demographic control variables for age, sex, education, and management status (exempt or non-exempt). No control variable was significant at the 0.01 level. As a result, we conclude that these demographic variables do not meaningfully influence the relationship of internal service quality to service capability. This conclusion simplifies the important relationship between internal service quality and customer satisfaction.

Results: Hypothesis Two
Hypothesis Two states that job satisfaction is more strongly linked to satisfaction with internal service quality than to satisfaction with wages and benefits. Exhibit 4 illustrates the results of our analysis that support the hypothesis.

These results suggest that satisfaction with internal service quality is more powerful than satisfaction with wages and benefits in predicting job satisfaction. This can be inferred from considering both 1) a comparison of the adjusted R-squares of Regressions One and Two, and 2) the coefficients in Regression Three. This finding is important because it suggests that non-economic needs satisfaction may be more important than economic needs satisfaction in improving employee satisfaction for these employees.

These dramatic results also suggest that job satisfaction is strongly related to internal service quality. Internal service quality is therefore related to both job satisfaction and customer satisfaction, as illustrated by Figure 2.

### EXHIBIT 4

#### Three Regressions: Job Satisfaction Regressed Against
1) Satisfaction with Wages and Benefits
2) Satisfaction with Internal Service Quality, and
3) Both

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Regression 1 (Job Satisfaction vs. Wages and Benefits)</th>
<th>Regression 2 (Job Satisfaction vs. Internal Service Quality)</th>
<th>Regression 3 (Job Satisfaction vs. Both)</th>
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<tr>
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</tr>
<tr>
<td>Training</td>
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</tr>
<tr>
<td>Tools</td>
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<td>0.03***</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-square</td>
<td>0.13</td>
<td>0.34</td>
<td>0.36</td>
</tr>
</tbody>
</table>

*** p<.01
INTERNAL SERVICE QUALITY

CUSTOMER SATISFACTION

JOB SATISFACTION

Figure 2

The relationships in Figure 2 suggest that managers seeking to deliver customer satisfaction by improving internal service quality could also increase job satisfaction. Higher job satisfaction can result in lower unintentional turnover, which has been hypothesized to improve internal and external service quality. These relationships could create a self-reinforcing cycle of service quality success, as suggested by Schlesinger and Heskett (1989).

General Management and Human Resource Implications

Our results are consistent with the qualitative literature and indicate that there are likely certain key aspects of internal service quality important to customer and employee satisfaction. Given the current stage of this research, it is impossible to make specific internal service quality recommendations to managers in fields other than insurance and financial services. However, general prescriptions can be made that will apply to most organizations. First, an organization’s components of internal service quality need to be identified. Second, the levels of internal service quality need to be measured. Benchmarking may be beneficial for many organizations. Third, accountability for improvement of internal service quality levels must be established at high levels of an organization because of the cross-functional nature of internal service quality components.

Examples of the use of tools and training in the management of internal service quality may also be beneficial for managers. Taco Bell provides one good example of an organization that has made dramatic strides in internal (and external) service quality. Recognizing that its restaurant managers needed to spend more time focused on training employees and selling tacos, Taco Bell developed a new tool to remove approximately 16 hours of paperwork from the general manager’s job. Called TACO (total automation of company operations), this tool provides computerized employee scheduling, food ordering, and communications functions (among others). To tie this example to hypothesis one, it is not difficult to envision that a restaurant manager given a tool enabling a 16-hour weekly reduction in paperwork would have a higher perception of his or her service capability. At Taco Bell, this hypothesized higher service capability has been accompanied by an improvement in the general manager’s service to employees, evident in dramatically lower employee turnover and (ultimately) improved quality of restaurant service ratings (see Schlesinger, 1991b).

The ServiceMaster Company specializes in managing the entry-level cleaning staffs of hospitals and other institutions. Its fees result from managing these staffs more efficiently than client institutions can. Training is one of the primary vehicles ServiceMaster uses to improve entry-level worker productivity. At ServiceMaster, training involves both traditional task-enhancing instruction, such as teaching workers to wash a wall starting at the bottom to avoid stains left by drips on a wet wall, and attitude-enhancing instruction, such as how to greet a hospital patient in English and how to ask if there is anything else that patient would like cleaned. While greeting a patient may not appear important, consider that many of the individuals managed by ServiceMaster cannot communicate with the people they serve because they do not speak English. Further, consider that hospital cleaning staff are generally ignored by patients, doctors, and nurses. Now imagine the effect on the worker of saying hello to the patient, which makes the worker a person, rather than an invisible cleaner. In addition, when the worker asks the patient if there is anything else to clean, the patient is given some control of his or her surroundings. Thus the process serves the worker and through that worker the patient, hypothetically enhancing both service capability and customer satisfaction.

ServiceMaster also relies on tools to improve its worker’s ability to serve their customers, often to clean more effectively and efficiently. The “wall wand” is an example of a tool enabling a worker to wash a wall in one-third the time usually taken. The wall wand consists of a long-handled device with a wide head that delivers a...
chemical solution directly to the wall and then removes the solution and the wall’s dirt. When
combined with training on the process of wall washing, the tool and training create what
ServiceMaster calls a “system.” This system not only makes wall washing less time-consuming
(and thus less expensive), it also makes it more attractive because the washer no longer has to
got down on hands and knees to wash the bottom of a wall where the scuff marks are, a particularly
onerous task. Ultimately, the wall wand lowers costs while simultaneously enabling more frequent
wall cleaning which improves service to the institutions served.

Taco Bell and ServiceMaster provide examples of tools and training that improve internal service
quality. It is not difficult to imagine that these improvements in internal service quality may
influence service capability, which in turn may affect customer satisfaction.

Human resource professionals can partner with both operating and executive management to enhance
internal service quality. Such a process might begin with human resources examining the way
it delivers services to internal customers. Are human resource policies and procedures received by
operating management and employees as an aid or a hindrance in areas such as hiring, performance
appraisal, termination, and promotion? Once an example of good internal service
quality is set by human resources, it can begin to work with executive management on goal alignment,
communication, and rewards and recognition. At Southwest Airlines, the human resource
department acts as facilitator and cheerleader for the values and culture of the organization which
enhances goal alignment, communication, and recognition, and ensures that all efforts to enhance
the components of internal service quality are aligned with values and culture, making them
mutually supportive. Human resource professionals can simultaneously work with operating managers
and employees to 1) measure and enhance managerial effectiveness (for example, Marriott
has included employee feedback in managerial appraisals for years), and 2) provide training that
is both task- and attitude-enhancing, as suggested by the ServiceMaster example. Part of this training
may focus on teamwork skills, supporting the teamwork component of internal service quality
as well.

The success of human resource professionals’ efforts to improve internal service quality will be
predicated upon their ability to 1) demonstrate the benefits of improved internal service quality
through the example they set, and 2) offer help in improving internal service quality components
perceived as worthwhile by senior and operating management. A pragmatic approach, including
measurement and accountability, will be essential in delivering both.

Conclusion

The results of our analysis suggest that companies seeking to differentiate themselves on the
basis of customer satisfaction may benefit by delivering what front-line employees and managers need to serve their customers. We have
identified six components of internal service quality important in this effort: tools (specifically
information and information delivery systems for these insurance company employees), appropriate policies and
procedures, teamwork, management support, goal alignment, and training. By focusing on these and potentially
other components of internal service quality, managers may improve their employees’ service capability, which
in turn may result in increased customer satisfaction.

The findings supporting Hypothesis Two suggest that managers concerned with employee job satisfaction would
be wise to pay at least as much attention to the components of internal service quality as to pay and benefits. This finding reinforces our belief
that non-economic needs satisfaction plays a highly important role in job satisfaction.

The evidence that internal service quality is related to both job satisfaction and customer
satisfaction begins to clarify a relationship that effective managers in service industries have long observed: While job satisfaction may not
lead to customer satisfaction directly, service organizations rarely have satisfied customers
without having satisfied employees. Internal service quality may be a source of satisfaction
for both, making its identification, measurement, and management highly worthwhile.

Acknowledgment

The authors thank Carlos Gandiaga for his considerable efforts in the development of this paper.
Appendix A

SURVEY QUESTIONS

Communication Questions:
■ How satisfied are you with communication within your department/function?
■ How satisfied are you with the communication between your department/function and other departments/functions?
■ Important changes in products, policies, procedures, new activities, etc., are communicated clearly to my work group.

Teamwork Questions:
■ How satisfied are you with the teamwork between your department/function and other departments/functions?
■ How satisfied with teamwork are you within your department or function?

Training Questions:
How satisfied with new employee orientation are you?
■ I am given the time I need to take training courses.
■ I receive adequate training when important changes take place.

Management Questions:
■ My supervisor is available to me when needed.
■ At _____ managers and supervisors want to hear about your problems and find ways to fix them.
■ I have the latitude I need to do my job.

Tools Questions:
■ I have access to the information I need to serve my customer well.
■ I have the equipment support I need to serve my customer well.

Rewards and Recognition Questions:
■ I receive recognition when I do a good job.
■ At _____ you get rewarded for providing good service.

Goal Alignment Questions:
■ My work is important to _____.
■ I have a personal interest in seeing that _____ does well.

Policies and Procedures Questions:
■ In my department/function, policies interfere with my ability to serve my customer well.
■ It is difficult at _____ to get decisions made.

Job Satisfaction Question:
■ Overall, how satisfied are you with your job?

Salary and Benefits Satisfaction Questions:
■ How satisfied are you with your salary considering what you could get for similar work in other companies you know of?
■ How satisfied are you with your overall benefits such as medical insurance, vacation etc.?

Service capability was determined by asking: “Overall, how satisfied are you with your ability to meet your customers’ needs?”

Job satisfaction was gauged by asking: “Overall, how satisfied are you with your job?”
Appendix B

Service Capability Regressed Against Satisfaction with Components of Internal Service

<table>
<thead>
<tr>
<th>DEPENDENT VARIABLE</th>
<th>INDEPENDENT VARIABLES</th>
<th>COEFFICIENT ESTIMATE</th>
<th>SE</th>
<th>T</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a) Service Capability</td>
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<td>0.082</td>
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<td>Tools</td>
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<td>Policies &amp; Procedures</td>
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<td>Teamwork</td>
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<td>Training</td>
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R square, 0.2673

Adjusted R square, 0.2667

*p<0.10

***p<0.01

References


1 See Schoorman (1988) for a discussion of “facilitators” and “inhibitors” of an organization’s effectiveness.
2 The authors acknowledge that this study does not permit the generalization of the findings to all organizations.
3 A list we acknowledge is not exhaustive.
4 See Exhibit 1 for information on which component are discussed by each author.
7 At the levels of economic and non-economic needs satisfaction existing at the time of sampling.
8 More formally, Self-Perceived Service Capability.
9 Commitment was encouraged by extensive communication about both the purpose and process of the project. Both purpose and process were presented in non-threatening ways to 1) reduce potential opposition to the change effort, and 2) protect the integrity of survey responses.
10 Reliability is suggested by the indices’ Cronbach’s alphas: communication, 0.7039; teamwork, 0.6609; rewards and recognition, 0.7051; management, 0.6882; tools, 0.5851; goal alignment, 0.5511; training, 0.5599; policies and procedures, 0.5130. Given that the original intent of the survey instrument was not to measure satisfaction with these specific components, the alphas suggest that the indices constructed are reasonably reliable.
11 Factor analysis and reliability testing, see previous footnote.
12 Given the complexity of service capability, it is not surprising that internal service quality (as defined here) explains only 27 percent of its variance. Some other factors important to service capability are discussed in Schlesinger (1991); however, identification of all or most of the factors related remains elusive. There is clearly a great deal of room for additional research on this important topic. In judging the variance explained of 27 percent, it is important to note that this is cross-sectional rather than time-series data, making 27 percent a relatively high variance explained.
13 Causality is hypothesized.
14 For a similar analysis of a related situation, see Schlesinger and Zornitzky (1991).
15 While striking, this finding must be considered in context. First, it applies to a situation in which 69 percent of respondents reported being satisfied or very satisfied with their wages and benefits. Second, the relationships between job satisfaction and 1) satisfaction with internal service quality and 2) satisfaction with wages and benefits may not be linear. Thus individuals highly dissatisfied with their wages and benefits might not exhibit the same trends. Third, respondents may have 1) self selected into these jobs, which generally offer little opportunity for large increases in pay, and/or 2) become resigned to seeking satisfaction exclusively from non-monetary sources.
16 Causality is hypothesized.
17 Causality is hypothesized.
20 Causality is hypothesized.
21 ServiceMaster also provides consumer services through its consumer service subsidiaries.