

Internal Customer Service: Has It Improved?

by **Jerry Seibert and John Lingle**

Has a decade of process improvement, reengineering, Six Sigma and internal service initiatives led to improvements in internal customer service (ICS)? Or have the relentless pressures of cost cutting, centralization of shared services and increased outsourcing sus-

tained low levels of internal service? More importantly, does evidence persist that superior internal service quality is an important differentiator of business success?

In 1993, the Metrus Group—a research and consulting firm specializing in strategic measurement and performance excellence—undertook one of the largest ICS studies ever. The national survey uncovered dramatic differences in business performance between companies marked by high and low levels of internal service quality.

In general, ICS ratings were low (less than 50% favorable) for all functions. At the same time, 88% of the 841 companies that responded said they believed superior ICS was key to business success, and 76% reported having undertaken a major internal service improvement initiative.

To determine what has changed since the original study, ASQ and the Metrus Group collaborated in asking ASQ's members how they view internal service quality and its impact on their businesses today.

A Web based survey, announced in the August and September 2006 issues of *Quality Progress*, received 1,266 responses. More than half (57%) of the respondents were executives or managers representing companies from 35 different industry

In 50 Words Or Less

- **A survey of organizations shows dramatic improvement in internal service quality over the last decade.**
- **Superior internal service appears to result in superior business performance.**
- **A major differentiator is culture, including leadership committed to an internal service strategy and the alignment of employees with that strategy.**

CUSTOMER SATISFACTION

groups or economic sectors. A summary of the most frequently represented industries and organizational size is provided in Table 1.

We asked participating companies questions about:

- ICS evaluations of various functions and departments.
- Their use of tools to measure and improve ICS.
- The support of their leadership and employees for ICS.
- Barriers to ICS improvement.
- Their level of workforce alignment, capabilities and engagement.

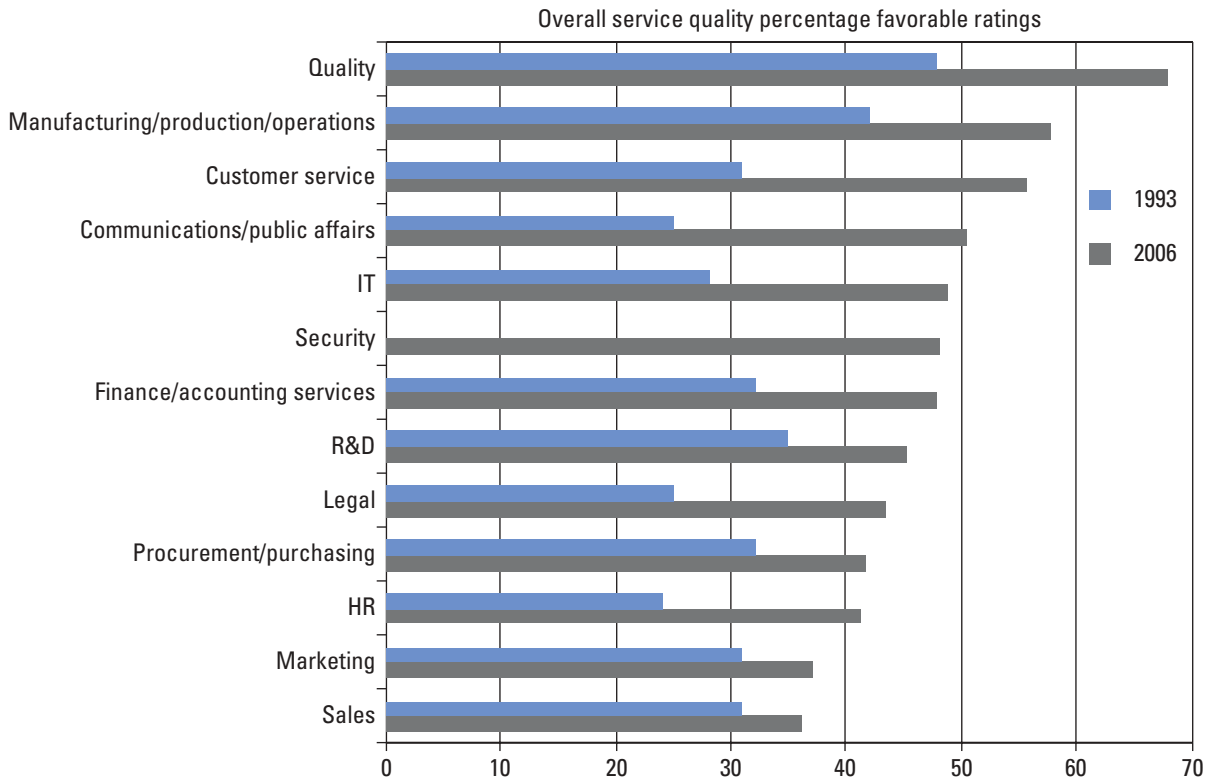
We also asked for an assessment of the organization's business performance within its industry: Did it rank in the top, middle or bottom third?

TABLE 1 Survey Respondent Profile

Most frequently represented industries	Number of respondents
Manufacturing and industrial products	318
Pharmaceuticals/medical devices	116
Transportation and automotive	55
Government	50
Aerospace	47
Consulting	42
Professional services	38
Healthcare services	35
Education and training	32
Telecommunications	29
Other	504
Total	1,266

Number of employees	Number of respondents
1 to 175	279
176 to 850	282
851 to 4,000	278
> 4,000	283
Not provided	144
Total	1,266

FIGURE 1 Ratings of Departmental Internal Service



Customer service

Excellent

Poor



What Difference Has A Decade Made?

The bottom line? A decade of initiatives has improved internal service quality. First, the self-reports: 81% of respondents said their own department has been able to improve internal service quality; about 75% (compared to only 59% a decade ago) said they now believe their department provides service that is better than average.

These improved self-ratings are supported by the ratings that study participants gave other internal functions. The average service rating given to other functions increased from 32% favorable in 1993, averaged across all departments, to 48% favorable today. Furthermore, as shown in Figure 1, service ratings improved for every function.

A look at the comparative rankings of the various departments shows some have made more impressive gains than others. Quality and manufacturing/production/operations continue to lead the pack as they did in 1993. In the case of quality departments, it is encouraging to learn they appear to practice what they preach.

Customer service, communications/public

affairs and IT win the award for the most improvement, each department having advanced by three or more places in the rankings and moving into the top service group.

Sales, marketing, R&D and procurement/purchasing—all of which continue to receive less than 50% favorable ratings—improved less than many of the other departments and dropped into the lower half of the rankings.

HR and legal improved significantly in their ratings but advanced little or not at all in their relative rankings compared to other departments. Security—the new kid on the block since the last study—finished in the middle of the pack.

Why Should We Care?

Internal service has improved significantly. So what? Is there evidence it contributes to bottom-line business performance? Respondents certainly said they believe it does: 87%—similar to the last study—said high levels of ICS are important to their businesses' success, and 85% reported employees throughout their organizations recognize the need to improve internal service. But do orga-

Excellent



nizations with superior internal customer service really perform better?

Survey respondents were asked to rank their organizations—compared to others in their industry or sector—on financial performance, productivity and external customer satisfaction.

To investigate the relationship of performance and internal service quality, we first combined these ratings for each organization into a business performance index. We then looked at the relationship between internal service and whether an organization tends to be a performance leader in its industry.

An initial analysis showed that organizations with high internal service ratings were indeed most likely to be described as being in the top third of their industry on the performance measure. We wondered, however, whether this positive relationship was the result of superior internal service quality or a consequence of high performing organizations having a culture more focused on delivering quality service.

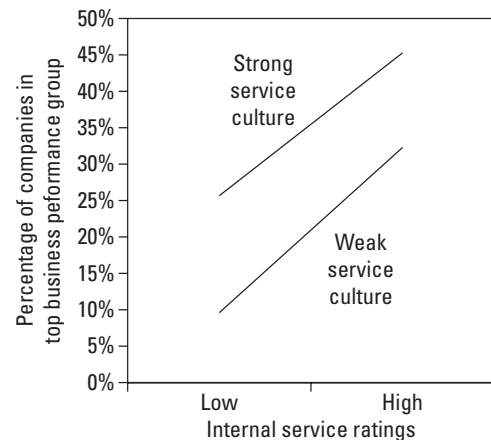
To answer this question, we rated each organization on the strength of its internal service culture, based on favorable responses to four questions:

1. How important do you believe ICS is to your organization's business success?
2. Do employees support ICS improvements at your organization?
3. Does your organization have ICS performance standards in place?

TABLE 2 Relationship of Service Culture To Superior Internal Service Quality

Cultural attribute	Bottom organizations	Top organizations
Percentage agreeing top leadership is committed to superior quality in deeds as well as words	41	86
Percentage reporting standards for internal customer service (ICS) have been established	54	72
Percentage saying ICS is important to their organization's business success	79	95
Percentage reporting employees recognize and support the need to improve ICS	80	93

FIGURE 2 Impact of Internal Service Culture and Service Ratings On Business Performance



4. Is senior leadership committed to ICS quality?

As we suspected, high levels of ICS culture were indeed related to superior business performance, as can be seen by the elevated position of the strong culture data line in Figure 2. However, as shown in the figure, high service ratings had an additional positive impact on business performance.

For both strong and weak quality culture organizations, those receiving high internal service ratings were more likely to appear in the top business performance group (45% of the time for companies with both strong culture and high ratings). Clearly, top performance requires high levels of internal service in addition to a strong quality culture.

Making It Happen

If high levels of internal service contribute to superior business results, how do organizations make it happen? Study participants identified a formidable list of barriers to improving internal service quality, citing most frequently:

- Insufficient human resources (43%)
- Lack of perceived need for improvement (38%)
- Poor communications (36.5%)
- Inappropriate organizational culture (34%)
- Lack of rewards to support improving internal service (30%)

In spite of such barriers, 81% of respondents said their unit had effectively improved service once needs had been identified. However, much room

Poor



for improvement remains because, across departments, an average of just 10% received service ratings of “very good.”

What do organizations need to do to reach such levels of excellence? To find out, we identified the top internal service companies and compared their profiles to the lowest ICS performers.

It is instructive to look first at what is not a key differentiator between the two groups. For example, there was no correlation between ICS and organization size. When organizations were broken into four groups by number of employees, those within each quartile had approximately the same percentage of top rated internal service providers.

Interestingly, even though survey participants frequently identified a lack of financial and human resources as barriers to improving performance, superior service organizations listed these problems just as frequently as did their poorer service counterparts. The top service companies also listed just as frequently the problems caused by hiring people who are not service oriented, inadequate service training and lack of rewards to support improvements.

The conclusion: Throwing more rewards, people or training dollars at the problem does not appear to be the way to reach the top echelons of internal service quality.

As shown in Table 2, companies with superior internal service ratings seem to be differentiated by cultural attributes associated with quality—beginning with top leaders’ commitment to superior quality in deeds and words. In addition, the top internal service companies are more likely to do a good job applying quality principles, hiring employees who recognize the importance of internal service and maintaining internal service performance standards.

There was also evidence that the top internal service providers do a better job of staying in touch with their customers. Compared to their poorer performing counterparts, superior service organizations were more likely to report they effectively surveyed their internal customers (60% vs. 35%) and had a formal internal customer service tracking system (69% vs. 43%).

Finally, consistent with quality principles, the top internal service providers were more likely to engage in benchmarking as part of their evaluation process (60% vs. 37%).

People Equity Factor

For several years, the Metrus Group has been investigating the impact of what it calls “People Equity” on business performance. People Equity pertains to whether people understand and are aligned with the strategy and their role in achieving business objectives, whether they are engaged with these objectives and with the organization itself, and whether they have the resources (capabilities) they need to get the job done.

In a previous *Quality Progress* article,¹ we described

Internal Service Dimensions

In the survey, the Metrus Group asked for an assessment of internal service on 10 dimensions, including overall quality of service. Each respondent provided the overall rating for every applicable function as well as detailed ratings for two functions: the one they most depended on and one randomly selected.

Anyone contemplating an internal customer survey would do well to cover multiple dimensions. We found respondents could clearly identify strengths and weaknesses in service delivery. For example, while manufacturing/operations/production received 58% favorable ratings overall, only 32% said this function communicated required information accurately and clearly.

Marketing had one of the lowest overall ratings at 37% favorable. But more than 50% of the respondents indicated their marketing department has the required knowledge and skills, and 54% reported that theirs responds in a supportive and helpful manner. The dimension that represents the greatest opportunity for improvement: Only 29% said marketing is proactive, anticipating their needs and requirements.

a study showing organizations with high People Equity are more successful in applying quality principles and techniques. It seemed reasonable to expect People Equity to have a similar effect on an organization's ability to deliver superior internal service quality.

To test this hypothesis, we first assigned each respondent a People Equity score based on his or her ratings on three People Equity questions: one related to workforce alignment, another related to workforce capabilities and a third associated with levels of workforce engagement.

We then evaluated the impact of People Equity and internal service culture on internal service ratings. The results, displayed in Figure 3, were dramatic. As anticipated, People Equity had an impact on the quality of internal service above and beyond that delivered by an internal service culture. In fact, high levels of People Equity served as an accelerator to culture, producing exceptionally high levels of service when combined with a strong culture.

Superior Business Performance Confirmed

After a decade, we were able to confirm many of the findings of our earlier research. Superior levels of internal service quality continue to be associated with superior business performance.

As before, most study participants recognized this

relationship and appeared committed to improving internal service quality. As a result, internal service has significantly improved over the last decade.

There continues to be tremendous room for improvement, however. Two-thirds of the internal functions studied received less than 50% favorable ratings from their customers. The strong relationship between internal service and business performance indicates continued improvement is well worth the effort.

Achieving superior levels of internal service is less of a resource issue than a cultural challenge. Top leaders must step up and instill the quality values and culture that promote service excellence.

To achieve the highest levels of internal service quality—and corresponding business performance—executives must also manage their organization's People Equity: the alignment, capabilities and engagement of the organization's workforce.

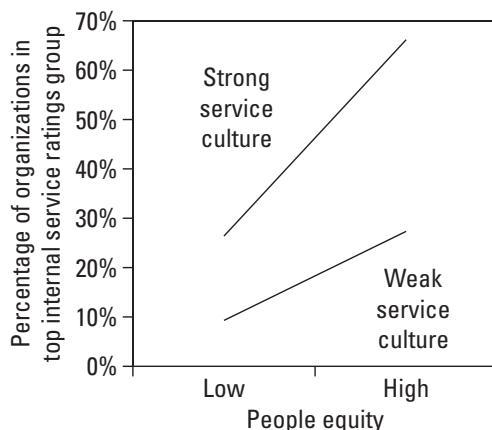
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1. J.T. Kostman and W.A. Schiemann, "People Equity: The Hidden Driver of Quality," *Quality Progress*, May 2005, pp. 37-42.

JERRY SEIBERT is global director of diagnostic services for Metrus Group, a national research and consulting firm based in Somerville, NJ. The firm applies disciplined performance management and measurement systems to align organizational leaders, strategies and workforces. He earned a master's degree in industrial/organizational psychology from Western Kentucky University.

JOHN LINGLE is a principal consultant with the Metrus Group. He earned a doctorate in social psychology from Ohio State University.

FIGURE 3 Impact of People Equity And Internal Service Culture On Internal Service Ratings



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