

The Antecedents and Consequences of Internal Service Quality

Miss Jia-Yi Hung

Department of Management, Griffith University, QLD, Australia

Email: j.hung@griffith.edu.au

Dr. Ho Yin Wong

School of Commerce and Marketing, Central Queensland University, QLD, Australia

Email: h.wong@cqu.edu.au

The Antecedents and Consequences of Internal Service Quality

ABSTRACT: This paper discusses the importance of internal service quality (ISQ) in the service industry. A three-tiered conceptual model of ISQ is developed based on the literature review. The first tier of our proposed model is the determinant of ISQ. The second tier, which is the centre of the model, is ISQ. The third tier of the model is the consequences of ISQ; that is trust, employee turnover, and firm performance. It is argued that ISQ should be the focal point in the service industry. Conceptual model development, all relevant constructs, and seven research propositions are discussed consecutively.

Keywords: Internal Service Quality (ISQ), Trust, Employee Turnover, Firm Performance, Leader-Member Exchange (LMX)

INTRODUCTION

The importance of treating employees as internal customers and satisfying their needs has been well addressed in the extant literature (Berry, 1981). It is this idea of treating employees as internal customers and satisfying their needs that brings in the concept of internal service quality (ISQ). In the service industry, employees play a key role in the provision of services (Newman et al., 2001). Hence, employees influence the quality of, and delivery of products and services to external customers (Newman et al., 2001). Organisations attempting to deliver service quality to their external customers must begin by serving the needs of their employees (Hallowell et al., 1996). With good ISQ, the satisfaction of external customers and the profits of the organisation are more likely to increase. However, internal factors, such as leader-member exchange (LMX), trust, and employee turnover in relation to ISQ are not well addressed in the literature. We therefore develop a conceptual model of ISQ from the service industry perspective, aiming to examine the antecedents and consequences of ISQ.

LITERATURE REVIEW

The concept of internal service quality (ISQ) has attracted attention in the literature (White and Rudall, 1999). Empirical studies have found that ISQ is affected by psychosocial work environment (Edvardsson et al., 1997), interpersonal relationships (Paraskevas, 2001), employee satisfaction (Edvardsson et al., 1997), and organisational commitment (Boshoff and Mels, 1995). Edvardsson et al. (1997) found that psychosocial work environment and ISQ were interrelated. Boshoff and Mels (1995) found a strong positive impact of organisational commitment on ISQ. In another study, Paraskevas (2001) suggested that interpersonal relations had great impacts on internal service encounters in a hotel. Paraskevas (2001: 285) used the term ‘internal service encounters’ to refer to “how employees of one department serve employees from another department”. The notion of internal service encounters is similar to that of ISQ in that it treats

internal service delivery system as a chain of customers and suppliers interacting with each other (Lewisohn and Reynoso, 1995). How well the services provided by employees of one department meet the needs of employees of another department could also be examined. Interpersonal relations may therefore be argued to have impacts on ISQ.

Other studies have identified outcomes of ISQ, such as external customer satisfaction (Hallowell et al., 1996), trust (Peltier et al., 1997), employee turnover (Keller and Ozment, 1999), financial performance (Loveman, 1998), and profit (Xu and Heijden, 2005). Hallowell et al. (1996) found a positive impact of ISQ on external customer satisfaction within two U.S.A. insurance companies. Peltier et al. (1997) suggested that rural health care organisations use trust as an important criterion to build strong relationships with its physicians. However, Peltier et al. (1997) did not explore the impact of ISQ on trust. The relationship between ISQ and trust therefore is unclear and is worth investigation. Keller and Ozment (1999) identified that dispatcher responsiveness was the only factor that significantly decreased driver turnover in the motor carrier industry. Although the authors showed this responsiveness as a significant factor to decrease driver turnover, the correlation between ISQ and turnover was not assessed. In a similar study, Keller (2002) found that higher driver pay, more time home and greater dispatcher responsiveness were highly related to lower driver turnover rate. The author identified factors that would decrease driver turnover, but how ISQ may affect turnover was not examined.

Loveman (1998) demonstrated that ISQ impacts on financial performance through employee satisfaction, employee loyalty, external service quality, customer satisfaction, and customer loyalty. The author examined the relationship between ISQ and financial performance through both internal and external customers, thus differing from this study, in which the focus is to examine the relationship between ISQ and financial performance simply through internal customers. Within the service industry, employees play a key role in the delivery of service quality to external customers (Newman et al., 2001). Organisations attempting to deliver service quality to their external customers must begin by serving the needs of their employees (Hallowell et al., 1996). With good ISQ the satisfaction of external customers and the profits of the organisation are more likely to increase, and so it is logical to examine the relationship between ISQ and financial performance through internal customers. A similar study by Xu and Heijden (2005) suggested the impact of employee perception of ISQ on profit occurs through satisfaction of employees and tenure. However, Xu and Heijden (2005) did not investigate what factors lead to ISQ; nor, in their model did they examine the impact of trust, which is an important

factor for building customer-company relationships in the services marketing (Morgan and Hunt, 1994). We argue that the supervisor-subordinate relationship will affect ISQ, then affect employee trust and turnover, in turn resulting in firm performance.

Although Paraskevas (2001) suggested that interpersonal relations had great impacts on internal service encounters, the specific types of interpersonal relations were not identified in the study. Leader-member exchange (LMX) is a theory that describes different types of exchange relationships developed between a supervisor and a subordinate (Mueller and Lee, 2002). LMX suggests that supervisors treat subordinates differently; thus, supervisors develop different types of exchange relationships with subordinates. These relationships usually form into two categories—the “in-group” and the “out-group”. Subordinates in the “in-group” have a high degree of trust, loyalty and respect for their supervisor, while subordinates in the “out-group” show the opposite. The impact of these two groups on the ISQ needs to be investigated, as no research so far discusses the impact of LMX relationship on ISQ.

The unique LMX relationship influences many organisational outcomes. Past research has indicated that LMX is negatively related to employee turnover (Graen et al., 1982, Ferris, 1985), job problems (Liden and Graen, 1980), management-by-exception leadership (Howell and Hall-Merenda, 1999), and higher authority strategies (Krishnan, 2004), and that it is positively related to job satisfaction (Liden and Graen, 1980, Scandura and Graen, 1984, McCrane et al., 1991, Borchgrevink and Boster, 1994, Green et al., 1996, Epitropaki and Martin, 1999, Varma and Stroh, 2001, Janssen and Van Yperen, 2004, Sagas and Cunningham, 2004), to organisational commitment (McCrane et al., 1991, Borchgrevink and Boster, 1994, Basu and Green, 1997, Epitropaki and Martin, 1999), and to intradyadic communication (Borchgrevink and Boster, 1997).

Organisations often perceive employee turnover as a costly behaviour that must be kept to a minimum because of the costs associated with hiring and training replacement employees. Since the service industry is people-intensive, the costs associated with employee turnover are more noteworthy than those of other industries. Hence, employee turnover is of special concern for the service industry and is an important factor to measure for the service sector.

Past research has examined the impact of LMX on employee turnover. Graen et al. (1982) found that LMX is a more effective predictor of employee turnover than the average leadership style and that it is negatively related to employee

turnover in a U.S.A. public utility. Replicating Graen et al. (1982), Ferris (1985) also found that LMX is a stronger predictor of employee turnover than average leadership style, and noted a negative relationship between LMX and employee turnover in a U.S.A. hospital setting. McClane et al. (1991) suggested a strong positive relationship between LMX and a member's intent to remain with the organisation in a U.S.A. government facility. However, Stepina et al. (1991) found insignificant relationship between LMX and employee turnover in a U.S.A. state government fiscal unit. Similar to Stepina et al. (1991), Vecchio and Norris (1996) found insignificant relationship between LMX and employee turnover in a U.S.A. private hospital. The relationship between LMX and employee turnover seems inconsistent; thus, the area is worth investigating.

Trust is an important factor for organisations. Trust exists when "one party has confidence in an exchange partner's reliability and integrity" (Morgan and Hunt, 1994: 23). With trust existing between a manager and an employee, cooperation and the sharing of information for innovation are enhanced. When trust exists between a manager and an employee, they would be honest to each other. The employee would show the manager what is on his/her mind, and the manager could adopt the information for innovation. On the other hand, a lack of trust between employees and managers often brings widespread problems in an organisation. The service industry is a highly human-interactive workplace. An employee has to be independent, and makes decisions while interacting with customers. Without trust, a manager would not have confidence in an employee's ability to work independently. Therefore, trust is of significance to the service industry.

Past research has investigated the impact of LMX on trust. Wech (2002) found within a U.S.A. bank setting that trust has a stronger effect on work outcomes than the dyadic LMX relationship. Gómez and Rosen (2001) suggested that LMX serves as a mediator between managerial trust and employee empowerment in sixteen organisations associated with a U.S.A. university program. Flaherty and Pappas (2000) found positive relationships existed between perceived trust and job satisfaction/organisational commitment in a supervisor-subordinate relationship in a number of U.S.A. automobile dealerships. While Flaherty and Pappas (2000) may have examined the role of trust in a dyadic relationship, there is no evidence of a direct link between LMX and trust: the relationship between LMX and trust is unclear. Deluga (1994) found that subordinate-assessed LMX quality contributed significantly to the organisational citizenship behaviour of subordinates with continuing education students attending evening classes at a college in the north-eastern U.S.A.

Although the relationship among building trust with supervisor, LMX, and organisational citizenship behaviour was examined in Deluga (1994), there was no direct investigation between building trust with supervisor and LMX. The relationship between trust and LMX thus needs to be examined.

Trust as a prerequisite to reduce employee turnover has attracted attention in the literature. Peltier, Boyt, and Westfall (1997) proposed to develop trust between physicians and their organisation, which leads to physician loyalty, in turn resulting in reduced physician turnover rate in a rural health care clinic. The relationship between trust and employee turnover was not examined in the study, so the relationship between trust and employee turnover remained unclear. Adidam (2006) investigated the costs and reasons behind sales turnover and offered suggestions on how to increase sales retention, thereby decreasing sales turnover rate. One of the suggestions was to engage salespeople by developing a high level of trust. However, Adidam (2006) did not pursue the relationship between trust and employee turnover in this study. The major limitation of the paper is that it is conceptual, focusing on sales professionals. A similar study by Brashear, Manolis, and Brooks (2005) empirically examined the impact of trust on salesperson turnover, with procedural justice and distributive justice as mediators. Another study by Connell, Ferres, and Travaglione (2003) also empirically examined the impact of trust on employee turnover, but with employees of one large Australian public health organisation. The result suggested a negative relationship between trust and employee turnover. However, care must be taken when generalising the result of this study as it was conducted in only one public health organisation. In addition, Connell et al. (2003) included both management/senior management and non-management position employees in their study, who might be expected to hold different perspectives towards the relationship between trust and employee turnover.

Studies that discuss employee turnover as an independent variable are relatively limited (Glebbeek and Bax, 2004). It is generally agreed that the chances of management turnover are negatively related to the performance of a firm (Huson et al., 2004). Huson et al. (2004) examined the relationship between CEO turnover and the financial performance of a firm. Their results suggested that firm financial performance tends to decline prior to top management turnover and improve afterwards. However, the focus of Huson et al. (2004) was CEO turnover and the financial performance of a firm. That is different from this study, which focuses on staff turnover and firm performance, so the findings of Huson et al. (2004) may not be applicable to this study. Glebbeek and Bax (2004) examined the relationship between employee turnover and

firm economic performance. Their results suggested that employee turnover and firm performance have an inverted U-shape relationship; that is, overly high or low employee turnover is detrimental to a firm's performance. The volume of employee turnover does indeed have negative effects on the firm's performance. However, the result from the study by Xu and Heijden (2005) indicated a small positive relationship between employee turnover intention and profit. Glebbeek and Bax (2004) and Xu and Heijden (2005) suggested different relationships between employee turnover and firm performance. The contradictory findings about the relationship between employee turnover and firm performance require further investigation.

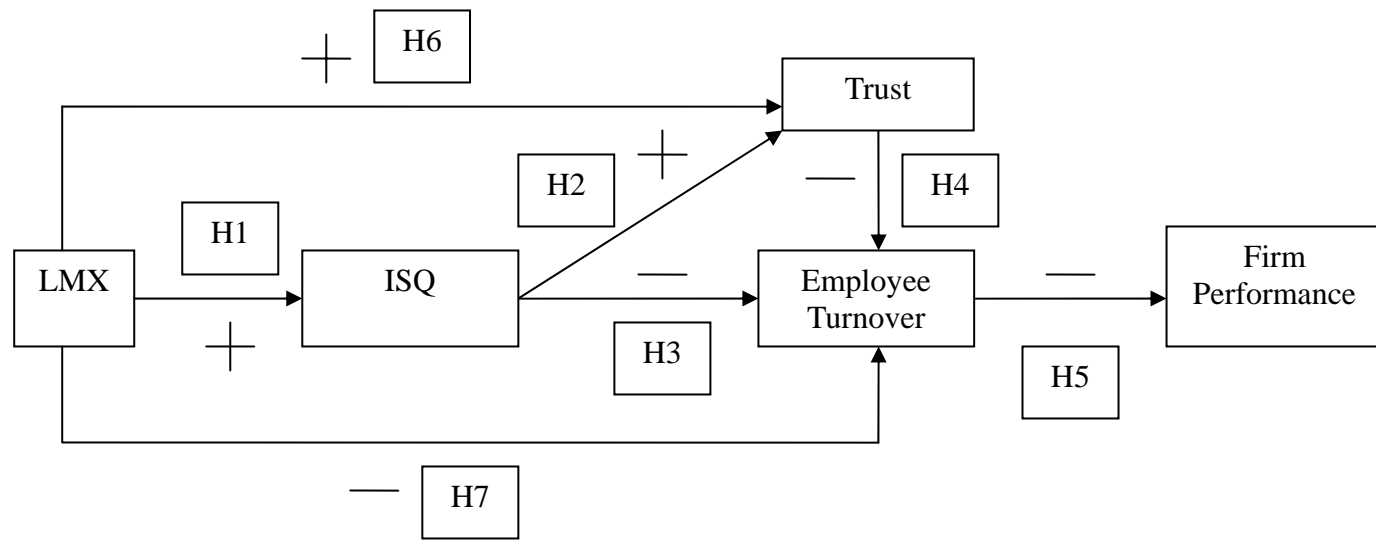
PROPOSED CONCEPTUAL MODEL

The service industry is unique in that employees are part of the product due to the service orientation of the industry. In this industry, employees are thus important assets. It is highly important to treat employees as internal customers and to satisfy their needs; that is to ensure good ISQ, for achieving operational success. Previous studies have found that ISQ has an impact on organisational outcomes, such as external customer satisfaction (Hallowell et al., 1996), financial performance (Loveman, 1998), and profit (Xu and Heijden, 2005), which are all significant to the success of a service organisation.

LMX theory proposes that leaders distinguish among their subordinates and develop different types of exchange relationships with each subordinate (Mueller and Lee, 2002). This differentiated relationship has an impact on organisational factors such as job satisfaction (Borchgrevink and Boster, 1994), organisational commitment (Basu and Green, 1997), trust (Wech, 2002), and employee turnover (Graen et al., 1982). It might also influence the ISQ, especially in the service industry, as mentioned above.

The purpose of this study is to investigate the antecedents and consequences of ISQ to the service industry. As mentioned earlier, the quality of LMX relationship and ISQ are important in predicting work outcomes that are substantial to the service industry. Hence, the impact of LMX on ISQ will be explored. In addition, the relationships between ISQ and trust/employee turnover/firm performance will be investigated within the service industry setting. Figure 1 below illustrates the proposed conceptual model of this study.

Figure 1 Proposed Conceptual Model



DEVELOPMENT OF HYPOTHESIS

The Relationship between Leader-Member Exchange and Internal Service Quality

Paraskevas (2001) suggested that interpersonal relations had great impacts on internal service encounters. LMX, a supervisor-subordinate relationship, is a type of interpersonal relations. It is argued that a high degree of exchange in the supervisor-subordinate relationship (high LMX) can have a significant positive impact on ISQ. High LMX indicates a greater extent of supervisor understanding of subordinates' needs and work problems, and the supervisor is more inclined to use his/her power to help the subordinate solve work problems. Once subordinates sense personal attention and receive assistance from their supervisors, their needs and expectations are fulfilled. This is what Edvardsson et al. (1997) suggested as ISQ. Therefore, high LMX can have a significant positive impact on ISQ. Consequently, a hypothesis is proposed that:

H1: LMX is a positive determinant of ISQ.

The Relationship between Internal Service Quality and Trust

From the service marketing perspective, trust is an important factor for building customer-company relationships (Morgan and Hunt, 1994). Trust is also required for building employee-organisation relationships, as employees are internal customers of an organisation. In this study, it is argued that good ISQ can have a significant positive impact on trust. Good ISQ indicates a higher degree of manager willingness to accommodate special needs and requests from employees, and a higher degree of doing things right initially. This indicates a high degree of reliability in the

relationship, so that an employee can expect something in return when the organisation announces expectations from the individual. This is what Iverson et al. (1996: 37) suggested as “the nature of trust between individuals and organisations”. Therefore, good ISQ can have a significant positive impact on trust. As a result, a hypothesis is proposed that:

H2: ISQ is a positive determinant of trust.

The Relationship between Internal Service Quality and Employee Turnover

Organisations often perceive employee turnover as a costly behaviour that must be kept to a minimum because of the costs associated with hiring and training replacement employees. Since the service industry is people-intensive, the costs associated with employee turnover are more noteworthy than those of other industries. In this study, it is argued that good ISQ can significantly lower employee turnover. Good ISQ indicates a high degree of commitment as well of meeting employees’ expectations, two of the determinants of employee turnover, as Huselid (1995) established, and so can significantly lower employee turnover. As a result, a hypothesis is proposed that:

H3: ISQ is a negative determinant of employee turnover.

The Relationship between Trust and Employee Turnover

When an employee feels honesty and fair treatment in a relationship, the employee senses credibility in the relationship, an attitudinal orientation that Ganesan et al. (1993) defined as trust. When an employee performs well in an organisation and is rewarded accordingly, the employee senses fair treatment and equitable distribution of rewards. This is what Iverson et al. (1996) described as distributive justice—a dimension of trust. Brashear et al. (2005) found that distributive justice negatively affected levels of turnover intentions amongst salespeople. Thus, it could be argued that trust is negatively related to employee turnover. Iverson et al. (1996) suggested that distributive justice has been positively related to organisational commitment, one of the determinants of employee turnover that Huselid (1995) identified. Therefore, trust can significantly lower employee turnover. As a result, a hypothesis is proposed that:

H4: Trust is a negative determinant of employee turnover.

The Relationship between Employee Turnover and Firm Performance

When a staff member performs well in a firm and is rewarded accordingly, the staff is more likely to stay in the firm, having less intention to switch his/her job in the future. Huselid (1995) indicated that the use of performance appraisals and connecting such appraisals with compensation have been linked with increased firm profitability. Once the

employee remains in the organisation, the organisation could invest in the individual with skills acquisition and development, leading to enhanced employee performance, in turn contributing to the overall firm performance. Therefore, it is argued that low employee turnover rate can have a significant positive impact on firm performance. As a result, a hypothesis is proposed that:

H5: Employee turnover is a negative determinant of firm performance.

The Relationship between Leader-Member Exchange and Trust

When subordinates have a high degree of exchange relationship with their supervisor, they have more confidence in their supervisor's decisions; that is, subordinates would sense fair treatment and honesty in the relationship. This also indicates the supervisor's reliability and integrity. When the subordinates sense credibility of their supervisor, trust exists between the parties (Ganesan et al., 1993, Morgan and Hunt, 1994). Moreover, Connell et al. (2003) suggested that workplace trust is developed primarily through an organisation's leaders. Thus, it is argued that a high degree of exchange in the supervisor-subordinate relationship can lead to a high degree of trust. As a result, a hypothesis is proposed that:

H6: LMX is a positive determinant of trust.

The Relationship between Leader-Member Exchange and Employee Turnover

When subordinates gain a high degree of exchange relationship with their supervisor, the supervisor recognises the subordinate's potential to a great extent. The subordinate thus feels valued, in turn resulting in the intention to remain with the employer (Anonymous, 2003). Reid and Levy (1997) have suggested that there is evidence of an association between the quality of the line manager/staff relationship and subordinate retention. Therefore, it is argued that a high degree of exchange in the supervisor-subordinate relationship could significantly lower employee turnover. As a result, a hypothesis is proposed that:

H7: LMX is a negative determinant of employee turnover.

CONSTRUCT DEVELOPMENT

Internal Service Quality

Edvardsson et al. (1997: 253) defined quality as "fulfilling customer, staff and owner needs and expectations"; hence, ISQ refers to fulfilling employee needs and expectations. The ISQ instrument by Edvardsson et al. (1997) will be used

to assess ISQ for this study. The instrument includes four dimensions with 12 questions, and respondents will answer the questions on a 7-point Likert scale ranging from 1=definitely true to 7=definitely not true.

Responsiveness

- (1) In our workplace, communication is appropriate, accurate, clear and concise.
- (2) In our work environment, there is sincere interest in and a real desire to solve problems within the organisation.
- (3) In our workplace, we are sincerely concerned about problems that may occur.
- (4) In our workplace, we respond quickly and efficiently.

Physical Work Environment

- (1) Our work environment is comfortable and attractive.
- (2) In our workplace, we have modern, up-to-date, equipment.

Interpersonal Consideration

- (1) In our workplace, we give each other personal attention.
- (2) In our workplace, we have our co-workers' interests in mind.

Reliability

- (1) In our workplace, we are very willing to accommodate special requests and needs.
- (2) In our workplace, we are service-oriented and aim to please.
- (3) In our workplace, we are known to be very reliable.
- (4) In our workplace, we perform the service right initially so as to avoid having to make corrections.

Leader-Member Exchange

LMX describes different kinds of exchange relationships developed between supervisors and subordinates and explains what the supervisor and the subordinate give to and receive back from the relationship. The 7-item LMX instrument (LMX-7) in Mueller and Lee (2002) will be used for this study. LMX-7 has been used by several researchers (Liden et al., 1993, Green et al., 1996, Gerstner and Day, 1997, Liden and Maslyn, 1998, Epitropaki and Martin, 1999, Varma and Stroh, 2001, Mueller and Lee, 2002). Graen and Uhl-Bien (1995) recommended that LMX-7 be adopted as the standard instrument of LMX. This is because LMX-7 has the highest reliability with Cronbach alpha consistently in the 80%-90% range. Gerstner and Day (1997) agreed with Graen and Uhl-Bien (1995) regarding LMX-7 instrument and expected

that LMX-7 would demonstrate the highest reliability and largest correlations with other variables, as compared with other LMX measures. The LMX-7 consists of 7 items, and respondents will indicate the extent to which they agree with each item on a 7-point Likert scale ranging from 1=to a very little extent to 7=to a very great extent.

- (1) To what extent do you know how satisfied or dissatisfied your immediate supervisor is with what you do?
- (2) To what extent does your immediate supervisor understand your work problems and needs?
- (3) To what extent do you feel your immediate supervisor recognises your potential?
- (4) Regardless of how much formal authority your immediate supervisor has built into his/her position, to what extent would he/she be inclined to use his/her available power to help you solve problems in your work?
- (5) Again, regardless of how much formal authority your immediate supervisor has, to what extent can you count on him/her to “bail you out” at his/her expense when you really need it?
- (6) To what extent do you have confidence in your supervisor’s decisions such that you would defend and justify them even if he or she were not present to do so?
- (7) How effective would you characterise your working relationship with your supervisor?

Employee Turnover

Employee turnover refers to the extent of a staff intending to leave the firm in the near future. Joiner et al. (2004) used a single item instrument to measure employee’s turnover. This one item instrument asked respondents if they intend to leave the organisation in the near future, with a 5-point Likert scale ranging from 1=definitely will not to 5=definitely will. McClane et al. (1991) used a similar instrument to measure respondents’ intention to stay. The single item instrument was to measure respondents’ intention to remain instead of intention to leave. However, the single item instruments may not comprehensively represent the underlying concept of turnover. Brashear et al. (2005) used a six-item instrument to measure turnover intention of business-to-business salespeople. This six-item instrument appears to match the definition of employee turnover and the context of this study; therefore, it will be used to measure employee turnover. Respondents will indicate the extent to which they agree with each item on a 7-point Likert scale ranging from 1=strongly disagree to 7=strongly agree.

- (1) I often think about quitting my present job.
- (2) I intend to quit my present job.

- (3) I often think about an alternative line of work (an activity other than my present line of work).
- (4) During the next 12 months, I intend to search for an alternative role (another job, full-time student, etc.) to my present job.
- (5) I have searched for a new job.
- (6) I am constantly searching for a better job.

Trust

Trust refers to “the attitudinal orientation of the parties in a relationship” (Ganesan et al., 1993: 18). The 4-item instrument in Ganesan et al. (1993) will be used to assess trust for this study. Ganesan et al. (1993) used this instrument to measure the degree of a mutually trusting relationship between the firm and its salespeople from sales managers’ perspective. They reported that all 4 items loaded highly on the factor of trust and showed high internal consistency (alpha=0.78) (Ganesan et al., 1993). The complete 4-item instrument is listed below with a 7-point Likert scale ranging from “strongly disagree” to “strongly agree.” In addition, minor word changes were made in order to fit the nature of this study. For example, “these salespeople” were changed to “I” in order to measure trust from employees’ point of view, and “my manager” was used in place of “the company.”

- (1) If I perform well, I know I will be rewarded.
- (2) I generally have a good personal relationship with my manager.
- (3) My manager trusts me to be fair and honest with him/her.
- (4) I feel that my manager has been fair and honest with me.

Firm Performance

Firm performance refers to the financial performance of the firm. D’Art and Turner (2004) used a single item instrument to measure firm performance. This one item instrument asked the respondent if the gross revenue over the past 3 years well exceeds the costs, with 1=well in excess of costs and 0=sufficient to make a small profit/break even/insufficient to cover costs. However, a major criticism indicates that the use of a single dimension of performance does not adequately represent the performance construct (Nicholson and Brenner, 1994, Styles, 1998). The financial dimension has been a recurring theme in the literature (Calantone and Knight, 2000, Shoham, 1999, Cavusgil and Zou, 1994). Calantone and Knight (2000) studied the performance of firms from the financial point of view. In this study, the firm performance will

be measured based on the study of Calantone and Knight (2000). Even though their study measured firm performance in the international business context, the items are usable after minor changes are made to reflect the nature of this study. This four-item instrument of firm performance provides a wider illustration of firm performance from the financial aspect.

- (1) Growth rate of sales in the last 12 months.
- (2) Your market share in the last 12 months.
- (3) Profitability of your firm in the last 12 months.
- (4) The total return on your investment (ROI).

FUTURE RESEARCH

At the next stage of this research, interviews with service firms' employees will be conducted to strengthen the proposed conceptual model, as well as to develop items that measure the constructs. The final stage will consist of an empirical survey to test the proposed conceptual model.

CONCLUSION AND CONTRIBUTION

This paper has argued that firm performance depends on four aspects, namely LMX, ISQ, trust, and employee turnover. ISQ, trust, and employee turnover have been proposed to mediate the relationships between LMX and firm performance. Seven hypotheses have been established accordingly. It has been hypothesised that LMX can positively influence ISQ and trust, and can negatively affect employee turnover. Moreover, it has been proposed that ISQ can positively affect trust and negatively impact employee turnover. Finally, trust is hypothesised to have a negative influence on employee turnover which in turn can affect firm performance negatively. The extant literature possesses a number of research gaps, that is, the impact of LMX on ISQ has not previously been tested in the literature; nor have the impacts of ISQ on trust and employee turnover been examined. This study proposed an empirical testable framework that can fill the gaps. Thus, this paper represents a potential increase in the knowledge of ISQ literature. From the practical point of view, this paper contributes to the insight of how to make ISQ work via LMX, as well as contributes to the value of ISQ in enhancing trust in a relationship, in reducing employee turnover, thus leading to improved firm performance.

REFERENCES

- Adidam, P. T. (2006) Causes and consequences of high turnover by sales professionals, *Journal of American Academy of Business, Cambridge*, **10**(1), 137-141.
- Anonymous (2003) Middle-managers feel under the weather in the NHS, *Human Resource Management International Digest*, **11**(2), 36-38.
- Basu, R. and Green, S. G. (1997) Leader-member exchange and transformational leadership: An empirical examination of innovative behaviors in leader-member dyads, *Journal of Applied Social Psychology*, **27**(6), 477-499.
- Berry, L. L. (1981) The employee as customer, *Journal of Retail Banking*, **3**(1), 33-40.
- Borchgrevink, C. P. and Boster, F. J. (1994) Leader-member exchange: A test of the measurement model, *Hospitality Research Journal*, **17**(3), 75-100.
- Borchgrevink, C. P. and Boster, F. J. (1997) Leader-member exchange development: A hospitality antecedent investigation, *Int. J. Hospitality Management*, **16**(3), 241-259.
- Boshoff, C. and Mels, G. (1995) A causal model to evaluate the relationships among supervision, role stress, organizational commitment and internal service quality, *European Journal of Marketing*, **29**(2), 23-42.
- Brashear, T. G., Manolis, C. and Brooks, C. M. (2005) The effects of control, trust and justice on salesperson turnover, *Journal of Business Research*, **58**(3), 241-249.
- Calantone, R. and Knight, G. (2000) The critical role of product quality in the international performance of industrial firms, *Industrial Marketing Management*, **29**(6), 493-506.
- Cavusgil, S. T. and Zou, S. (1994) Marketing strategy-performance relationship: An investigation of the empirical link in export market ventures, *Journal of Marketing*, **58**(1), 1-21.
- Connell, J., Ferres, N. and Travaglione, T. (2003) Engendering trust in manager-subordinate relationships: Predictors and outcomes, *Personnel Review*, **32**(5), 569-590.
- D'Art, D. and Turner, T. (2004) Profit sharing, firm performance and union influence in selected European countries, *Personnel Review*, **33**(3), 335-350.
- Deluga, R. J. (1994) Supervisor trust building, leader-member exchange and organizational citizenship behaviour, *Journal of Occupational and Organizational Psychology*, **67**, 315-326.
- Edvardsson, B., Larsson, G. and Setterlind, S. (1997) Internal service quality and the psychosocial work environment: An empirical analysis of conceptual interrelatedness, *The Service Industries Journal*, **17**(2), 252-263.
- Epitropaki, O. and Martin, R. (1999) The impact of relational demography on the quality of leader-member exchanges and employees' work attitudes and well-being, *Journal of Occupational and Organizational Psychology*, **72**, 237-240.
- Ferris, G. R. (1985) Role of leadership in the employee withdrawal process: A constructive replication, *Journal of Applied Psychology*, **70**(4), 777-781.
- Flaherty, K. E. and Pappas, J. M. (2000) The role of trust in salesperson-sales manager relationships, *Journal of Personal Selling & Sales Management*, **20**(4), 271-278.
- Ganesan, S., Weitz, B. A. and John, G. (1993) Hiring and promotion policies in sales force management: Some antecedents and consequences, *The Journal of Personal Selling & Sales Management*, **13**(2), 15-26.
- Gerstner, C. R. and Day, D. V. (1997) Meta-analytic review of leader-member exchange theory: Correlates and construct issues, *Journal of Applied Psychology*, **82**(6), 827-844.
- Glebbeek, A. C. and Bax, E. H. (2004) Is high employee turnover really harmful? An empirical test using company records, *Academy of Management Journal*, **47**(2), 277-286.
- Gómez, C. and Rosen, B. (2001) The leader-member exchange as a link between managerial trust and employee empowerment, *Group & Organization Management*, **26**(1), 53-69.
- Graen, G., Liden, R. and Hoel, W. (1982) Role of leadership in the employee withdrawal process, *Journal of Applied Psychology*, **67**(6), 868-872.
- Graen, G. and Uhl-Bien, M. (1995) Relationship-based approach to leadership: Development of leader-member exchange (LMX) theory of leadership over 25 years: Applying a multi-level multi-domain perspective, *Leadership Quarterly*, **6**(2), 219-247.

- Green, S. G., Anderson, S. E. and Shivers, S. L. (1996) Demographic and organizational influences on leader-member exchange and related work attitudes, *Organizational Behavior and Human Decision Processes*, **66**(2), 203-214.
- Hallowell, R., Schlesinger, L. A. and Zornitsky, J. (1996) Internal service quality, customer and job satisfaction: Linkages and implications for management, *Human Resource Planning*, **19**(2), 20-31.
- Howell, J. M. and Hall-Merenda, K. E. (1999) The ties that bind: The impact of leader-member exchange, transformational and transactional leadership, and distance on predicting follower performance, *Journal of Applied Psychology*, **84**(5), 680-694.
- Huselid, M. A. (1995) The impact of human resource management practices on turnover, productivity, and corporate financial performance, *Academy of Management Journal*, **38**(3), 635-672.
- Huson, M. R., Malatesta, P. H. and Parrino, R. (2004) Managerial succession and firm performance, *Journal of Financial Economics*, **74**, 237-275.
- Iverson, R. D., McLeod, C. S. and Erwin, P. J. (1996) The role of employee commitment and trust in service relationships, *Marketing Intelligence and Planning*, **14**(3), 36-44.
- Janssen, O. and Van Yperen, N. W. (2004) Employees' goal orientations, the quality of leader-member exchange, and the outcomes of job performance and job satisfaction, *Academy of Management Journal*, **47**(3), 368-384.
- Joiner, T. A., Bartram, T. and Garreffa, T. (2004) The effects of mentoring on perceived career success, commitment and turnover intentions, *Journal of American Academy of Business, Cambridge*, **5**(1/2), 164-170.
- Keller, S. B. (2002) Driver relationships with customers and driver turnover: Key mediating variables affecting driver performance in the field, *Journal of Business Logistics*, **23**(1), 39-64.
- Keller, S. B. and Ozment, J. (1999) Managing driver retention: Effects of the dispatcher, *Journal of Business Logistics*, **20**(2), 97-119.
- Krishnan, V. R. (2004) Impact of transformational leadership on followers' influence strategies, *Leadership & Organization Development Journal*, **25**(1), 58-72.
- Lewisohn, C. and Reynoso, J. (1995) Improving health service quality from within: The case of United Leeds Teaching Hospitals NHS Trust, *International Journal of Health Care Quality Assurance*, **8**(2), 18-20.
- Liden, R. C. and Graen, G. (1980) Generalizability of the vertical dyad linkage model of leadership, *Academy of Management Journal*, **23**(3), 451-465.
- Liden, R. C. and Maslyn, J. M. (1998) Multidimensionality of leader-member exchange: An empirical assessment through scale development, *Journal of Management*, **24**(1), 43-72.
- Liden, R. C., Wayne, S. J. and Stilwell, D. (1993) A longitudinal study on the early development of leader-member exchanges, *Journal of Applied Psychology*, **78**(4), 662-674.
- Loveman, G. W. (1998) Employee satisfaction, customer loyalty, and financial performance: An empirical examination of the service profit chain in retail banking, *Journal of Service Research*, **1**(1), 18-31.
- McClane, W. E., Mento, A. J. and Burbridge, J. J., Jr. (1991) Leadership in the research environment: An application of leader-member exchange theory, *Journal of High Technology Management Research*, **2**(2), 181-192.
- Morgan, R. M. and Hunt, S. D. (1994) The commitment-trust theory of relationship marketing, *Journal of Marketing*, **58**(3), 20-38.
- Mueller, B. H. and Lee, J. (2002) Leader-member exchange and organizational communication satisfaction in multiple contexts, *Journal of Business Communication*, **39**(2), 220-244.
- Newman, K., Maylor, U. and Chansarkar, B. (2001) The nurse retention, quality of care and patient satisfaction chain, *International Journal of Health Care Quality Assurance*, **14**(2), 57-68.
- Nicholson, N. and Brenner, S. O. (1994) Dimensions of perceived organisational performance: Tests of a model, *Applied Psychology: An International Review*, **43**(1), 89-108.
- Paraskevas, A. (2001) Internal service encounters in hotels: An empirical study, *International Journal of Contemporary Hospitality Management*, **13**(6), 285-292.
- Peltier, J. W., Boyt, T. and Westfall, J. E. (1997) Building relationships with physicians, *Marketing Health*

- Services*, **17**(3), 12-18.
- Reid, P. and Levy, G. (1997) Subordinate appraisal of managers: A useful tool for the NHS?, *Health Manpower Management*, **23**(2), 68-72.
- Sagas, M. and Cunningham, G. B. (2004) Treatment discrimination in college coaching: Its prevalence and impact on the career success of assistant basketball coaches, *International Sports Journal*, **8**(1), 76-88.
- Scandura, T. A. and Graen, G. B. (1984) Moderating effects of initial leader-member exchange status on the effects of a leadership intervention, *Journal of Applied Psychology*, **69**(3), 428-436.
- Shoham, A. (1999) Bounded nationality, planning, standardization of international strategy, and export performance: A structural model examination, *Journal of International Marketing*, **7**(2), 24-50.
- Stepina, L. P., Perrewé, P. L., Hassell, B. L., Harris, J. R. and Mayfield, C. R. (1991) A comparative test of the independent effects of interpersonal, task, and reward domains on personal and organizational outcomes, *Journal of Social Behavior and Personality*, **6**(1), 93-104.
- Styles, C. (1998) Export performance measures in Australia and the United Kingdom, *Journal of International Marketing*, **6**(3), 12-36.
- Varma, A. and Stroh, L. K. (2001) Different perspectives on selection for international assignments: The impact of LMX and gender, *Cross Cultural Management*, **8**(3/4), 85-97.
- Vecchio, R. P. and Norris, W. R. (1996) Predicting employee turnover from performance, satisfaction, and leader-member exchange, *Journal of Business and Psychology*, **11**(1), 113-125.
- Wech, B. A. (2002) Trust context: Effect on organizational citizenship behavior, supervisory fairness, and job satisfaction beyond the influence of leader-member exchange, *Business and Society*, **41**(3), 353-360.
- White, C. and Rudall, L. (1999) INTERSERVQUAL: An investigation of the dimensions and measurement of internal service quality in the hospitality industry, *Australian Journal of Hospitality Management*, **6**(2), 13-22.
- Xu, Y. and Heijden, B. (2005) The employee factor in the service-profit chain framework: A study among service employees working within a leading Chinese securities firm, *Journal of International Consumer Marketing*, **18**(1/2), 137-155.