

OPTIMIZING THE SERVICE-PROFIT CHAIN MODEL BY ENHANCING JOB SATISFACTION TO IMPROVE CUSTOMER- ORIENTED EMPLOYEE PERFORMANCE AT PDAM KOTA BALIKPAPAN

Supriadi^{1*}, Ety Soesilowati², Inayati Nuraini Dwiputri³

¹⁻³⁾ Faculty of Economics and Business, Universitas Negeri Malang, Indonesia

E-mail: ¹⁾ supriadi.2404328@students.um.ac.id, ²⁾ ettysoesilowati.fe@um.ac.id ,
³⁾ inayati.dwiputri.fe@um.ac.id

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Abstract

Clean water service is a fundamental need for the community, making the optimization of regional water utility (PDAM) performance crucial for improving customer satisfaction. However, the main challenge faced by the Balikpapan City PDAM is low customer satisfaction due to suboptimal service quality, which is largely influenced by employee performance. This study aims to analyze the influence of internal service quality on job satisfaction and customer-oriented employee performance, as well as to test the mediating role of job satisfaction at Perumda Tirta Manuntung PDAM in Balikpapan City. The study is motivated by the importance of improving the quality of public services in the clean water utility sector, which requires organizations to be able to create effective internal service systems to support the quality of service provided to the community. The study employs an explanatory approach. Quantitative data were collected through a questionnaire distributed to 196 employees, selected using the Slovin formula, while qualitative data were obtained through in-depth interviews and field observations. Data analysis utilized Structural Equation Modeling–Partial Least Squares (SEM-PLS) to test the relationships among variables. The results of the study indicate that internal service quality has a positive and significant effect on employee job satisfaction and customer-oriented employee performance. Job satisfaction was also found to have a positive and significant effect on customer-oriented employee performance. Furthermore, job satisfaction mediates the relationship between internal service quality and customer-oriented employee performance. These findings reinforce the relevance of the Service-Profit Chain Model in the context of public service organizations, particularly regional water utilities. This study provides a theoretical contribution through the development of the Service-Profit Chain Model in the public utility sector, as well as a practical contribution to PDAM management in formulating strategies to improve internal service quality, job satisfaction, and customer service quality in a sustainable manner.

Keywords: Employee Performance; Internal Service Quality; Job Satisfaction; PDAM; Service-Profit Chain Model

1. INTRODUCTION

Internal service quality is a crucial foundation for improving the productivity and performance of public service organizations. This relates to the Service-Profit Chain Model concept as presented by Kazemi & Corlin (2021), which states that the Service-Profit Chain Model emphasizes that internal quality factors—such as clear Standard Operating Procedures (SOPs), adequate facilities, and managerial support are key drivers for improving job satisfaction and customer-oriented performance. This also applies to PDAM (Regional Water Supply Company) of Balikpapan City as a public institution responsible for providing basic services; internal service quality is crucial to ensuring operational sustainability and service delivery. Given this reality, it is essential to incorporate internal service quality as a strategic intervention point to optimize employee performance and overall customer service.

Shifting consumer preferences and changes in the business climate have caused Perumda Tirta Manuntung, a water utility company in Balikpapan City, to face various challenges, such as adapting Standard Operating Procedures (SOPs) for effective implementation, improving workplace facilities, strengthening inter-departmental coordination, and optimizing support from management. These factors are crucial for Perumda Tirta Manuntung's business sustainability, ensuring that its human resources (HR)—as an internal corporate factor can resolve customer issues with prompt responses, accurate solutions, empathy toward consumers, and effective communication. This aligns with the empirical study by Astari & Pagalung (2023), which found that internal service quality strategies significantly influence employee job satisfaction. Therefore, addressing these issues through a structured and empirical approach is crucial for enhancing service effectiveness at the Balikpapan City Water Utility (PDAM).

The importance of internal quality in terms of human resources must be seriously examined, as employee performance is the primary determinant of public service quality. According to Human Capital theory, investments in human capital such as training and improvements to working conditions enhance employee productivity and motivation (Oktavia, 2023). However, if internal service quality is suboptimal at PDAM Kota Balikpapan, the opportunity to achieve a return on investment in the form of high-quality customer service will be hindered. Therefore, it is crucial to adopt a systematic and data-driven approach that integrates economic theory and empirical models such as the Service-Profit Chain to drive operational efficiency and organizational reputation. Referring to the issues outlined above, this study employs the Service-Profit Chain Model because it provides an adequate theoretical framework to explain the mediating relationship between Internal Service Quality (X), Job Satisfaction (Z), and Customer-Oriented Employee Performance (Y). This framework has been tested in an empirical study by Kazemi & Corlin (2021), with results indicating that interventions targeting supportive leadership and organizational climate impact service quality through the mediation of job satisfaction. Therefore, this model is highly relevant for Perumda Tirta Manuntung in Balikpapan City to determine

whether improvements to SOPs, facilities, and managerial support can enhance service performance through increased job satisfaction. Additionally, the application of the Service-Profit Chain Model enables Perumda Tirta Manuntung in Balikpapan City to systematically identify how improvements in internal service quality contribute to job satisfaction and service performance, such as prompt responses, appropriate solutions, and clear communication. This aligns with the empirical study by Abdullah et al. (2020), which demonstrated that internal service quality has a positive effect on job satisfaction, commitment, and employee performance. The application of this model provides a data-driven approach as an initial intervention to improve customer performance through the job satisfaction pathway. Referring to these previous empirical studies, it is evident that research on the Service-Profit Chain in the public service sector such as water utilities or PDAM remains under-explored. Most studies focus on the private sector, such as retail, healthcare, or tourism; for instance, the research by Astari & Pagalung (2023) applied the model in a tourism destination, while Abdullah et al. (2020) focused on the healthcare sector. Furthermore, no empirical study has examined the relationship between internal service quality and job satisfaction on customer-oriented employee performance within the context of a PDAM, specifically at Tirta Manuntung in Balikpapan City. This study aims to address this research gap by adapting the model to the public water service sector, while simultaneously testing the generalizability of the relationships among variables in a local and relevant context.

The novelty of this study lies in the application of the Service-Profit Chain Model to PDAM Kota Balikpapan, a public utility providing clean water that has characteristics distinct from those of the private sector. This study focuses on the variables of internal service quality, job satisfaction, and customer-oriented performance by analyzing the mediating relationship using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method. The theoretical foundation of the study draws on Human Capital Theory, which emphasizes the importance of human resource investment, and Efficiency Wage Theory, which explains the relationship between compensation and work motivation. Thus, this study is expected to provide theoretical contributions through model development and practical contributions for public companies, particularly regional enterprises, in enhancing sustainable service quality and customer satisfaction. This research is crucial given that clean water is a basic necessity for the community in Balikpapan City. Optimizing internal service quality to drive job satisfaction and service performance will directly impact the continuity of PDAM services and public trust. The research findings can serve as the basis for effective human resource management policies, enhancing accountability, operational effectiveness, and the image of public institutions. Furthermore, through an aggregate-empirical approach, this study supports the agenda of sustainable public service development and utility sector reform through robust evidence derived from Balikpapan City PDAM data.

2. LITERATURE REVIEW

2.1 Customer-Oriented Employee Performance

Customer-oriented employee performance is a key concept in service management literature that emphasizes an individual's ability to align their work behavior with customer needs and expectations. In the context of service organizations, this orientation encompasses a work attitude that places the customer at the center of attention, so that all actions are directed toward enhancing the customer experience. According to Kundu and Mor (2021), customer-oriented performance reflects not only the speed and quality of service but also the organization's commitment to building satisfying long-term relationships. Therefore, customer-oriented employee performance can be viewed as a strategic instrument in enhancing an organization's competitive advantage.

Another definition emphasizes that customer-oriented performance is closely linked to proactive work behavior consistently directed toward achieving customer satisfaction. This involves not only a friendly attitude but also the skill to anticipate emerging needs. Research by Karatepe et al. (2021) states that customer orientation in employee performance integrates emotional, cognitive, and behavioral elements that mutually support the creation of positive service experiences. Thus, this definition affirms that customer orientation is not merely a procedural requirement but rather a form of personal and professional commitment by employees to provide value-added service to customers.

Furthermore, the definition of customer-oriented performance can be understood as a mechanism reflecting the quality of interactions between employees and customers. According to Kim and Qu (2022), customer orientation emphasizes employees' emotional engagement in delivering adaptive service and fostering customer trust. This type of performance enables service organizations to build a positive image and enhance customer loyalty in the long term. This demonstrates that customer orientation not only impacts the quality of immediate service but also serves as the foundation for the sustainability of the customer's relationship with the organization.

A more comprehensive definition also positions customer-oriented performance as an integral part of an organization's strategy to create service-based competitive advantage. Based on research by Chen and Peng (2023), this orientation is inseparable from human resource development strategies, where training, organizational culture, and reward systems are designed to support consistent service behavior. In other words, customer orientation in employee performance reflects the alignment between organizational goals and individual work behavior directed toward creating value for customers. Furthermore, the definition of customer-oriented performance in the context of this study refers to the understanding that customer satisfaction is a direct result of responsive, friendly, and needs-based service behavior. According to Al-Hawari and Nawaz (2023), customer-oriented performance represents the extent to which employees behave in accordance with customer expectations, which ultimately contributes to overall organizational performance. This definition serves as a crucial foundation for the study as it underscores the central role of employees as the primary link between the organization and customers. Thus, optimizing customer-oriented performance is a critical factor in ensuring the successful implementation of the Service-Profit Chain Model at PDAM Kota Balikpapan.

2.2 Internal Service Quality

Internal service quality in public organizations is understood as the primary foundation for fostering employee effectiveness. This concept encompasses the provision of support in the form of adequate work facilities, integrated information systems, and internal communication mechanisms that promote cross-departmental coordination. In public service organizations, internal service quality focuses not only on the technical aspects of providing work resources but also on creating a fair and conducive organizational climate. Employees who feel well-supported tend to have higher motivation to deliver optimal performance to customers, in line with the core principle of the Service-Profit Chain, which emphasizes the close interdependence between internal and external satisfaction (Han & Kim, 2022). Beyond facility aspects, internal service quality also places significant emphasis on systematic human resource management. Competency development through training, coaching, and mentoring is a key strategy for strengthening employee skills. When employees possess competencies aligned with job requirements, they are more confident in performing public service duties. This leads to higher job satisfaction as employees feel recognized and valued by the organization. Recent studies indicate that organizational investment in internal training directly enhances employee commitment and loyalty, thereby strengthening the effectiveness of Service-Profit Chain implementation (Gounaris et al., 2023).

Internal communication plays a central role in building sustainable internal service quality. Transparency of information, clear communication of policies, and employee involvement in the decision-making process foster a sense of organizational fairness. For PDAM Kota Balikpapan, effective communication between management and employees can minimize potential misunderstandings in public service delivery. Effective communication not only fosters harmonious relationships among individuals but also strengthens employees' sense of ownership regarding the organization's vision. This aligns with research findings indicating that internal communication serves as a key mediator between organizational support and job satisfaction (Jiang & Shen, 2021). The quality of internal services also encompasses providing a healthy, well-being-oriented work environment. A safe, discrimination-free work environment that supports work-life balance can enhance the quality of employees' work experiences. Good working conditions lead to reduced stress levels, increased job satisfaction, and improved interactions with customers. In the public sector, including Balikpapan City PDAM, a supportive work environment is a key indicator of the success of customer-centric service. This aligns with research findings confirming that the quality of the work environment is a primary predictor in shaping employee service behavior (Singh & Saini, 2022).

Ultimately, the quality of internal services in the implementation of the Service-Profit Chain must be viewed as a long-term organizational investment. Consistent internal support will increase employee engagement, strengthen job satisfaction, and ultimately drive the creation of superior customer service. In the context of PDAM Kota Balikpapan, strong internal service can be a significant differentiator in addressing the challenges of providing clean water to the community. By strengthening the quality of internal service, public organizations can optimize a sustainable service value chain, in line with the latest

perspectives on the interrelationship between internal quality, job satisfaction, and customer orientation (Lo et al., 2024).

2.3 Job Satisfaction as a Mediator

Job satisfaction plays a crucial role in bridging the relationship between internal service quality and customer-oriented employee performance. If an organization is able to provide facilities, managerial support, and a conducive work environment, employees tend to experience higher levels of satisfaction. These conditions ultimately lead to improved quality in employee-customer interactions. As stated by Kanten and Sadikoglu (2021), job satisfaction has been proven to be a key factor linking internal management practices to the external service quality perceived by customers. Therefore, a deeper understanding of the mediating role of job satisfaction is essential in the context of improving the performance of public service-based organizations.

Good internal service quality has a significant impact on increasing employee job satisfaction. Factors such as clear communication, supervisory support, and adequate training contribute to employees' positive perceptions of the organization. This satisfaction then fosters higher intrinsic motivation, making employees more enthusiastic about performing their duties. This aligns with research conducted by Tang et al. (2022), which shows that internal organizational support plays a major role in building satisfaction, which in turn enhances commitment to customer service. Thus, the quality of internal service not only directly impacts operations but also shapes employees' attitudes and behaviors oriented toward customer satisfaction.

Job satisfaction, as a mediating variable, can also be seen in its role in moderating the work stress frequently faced by public service employees. When employees feel satisfied with their work, they are better able to manage their workload, thereby avoiding emotional burnout. This reinforces their intention to continue providing high-quality service. As explained by Chen and Eyoum (2021), job satisfaction has a significant influence on employees' proactive behavior in serving customers, particularly in the service sector, which involves high levels of interaction with the public. In other words, job satisfaction not only strengthens the linear relationship between variables but also functions as a psychological filter that prevents the negative impact of the work environment on service performance.

Furthermore, job satisfaction can act as a mediator to strengthen the relationship between an organization's investment in human resources and customer service outcomes. Organizations that provide fair compensation, career development, and appropriate recognition create a positive work environment that enhances employee satisfaction. This satisfaction, in turn, reinforces employees' dedication to delivering the best possible service experience to customers. According to a study conducted by Park and Kim (2023), job satisfaction can serve as a crucial mechanism that channels the positive impact of an organization's internal policies toward enhanced customer satisfaction. These findings underscore that job satisfaction holds strategic value as a bridge between internal investments and external outcomes within the service-profit chain model.

From an organizational behavior perspective, job satisfaction also drives improved employee performance through affective mechanisms. Satisfied employees are more likely to exhibit extra behaviors such as empathy, politeness, and greater attention to customer needs. This is directly linked to higher service performance. A study by Bakotić (2021)

confirms that job satisfaction can be a primary determinant of employee service behavior, as the positive feelings arising from satisfaction influence how they interact with customers. Thus, job satisfaction serves as a central element that strengthens the integration between internal service quality and customer-oriented employee performance.

Based on the above discussion, it is clear that job satisfaction acts as a crucial mediating variable in linking internal service quality with customer-oriented employee performance. Without job satisfaction, good internal service quality does not necessarily result in optimal service performance. Therefore, organizations such as PDAM Kota Balikpapan need to prioritize internal development programs that address not only technical aspects but also psychological factors influencing employee satisfaction. With this strategy, it is expected that there will be a continuous improvement in the quality of public services. The findings of this study align with various recent empirical studies, thereby contributing both theoretically and practically to the development of service-based human resource management.

2.4 Research Hypotheses

Regarding the research problem concerning the relationship between independent and dependent variables, and based on the explanations in this study:

H1: Internal quality has a positive influence on employee job satisfaction

H2: Internal quality has a positive influence on customer-oriented employee performance

H3: Job satisfaction has a significant positive influence on customer-oriented employee performance.

H4: Employee job satisfaction mediates the relationship between internal quality and customer-oriented employee performance

3 RESEARCH METHOD

This study was designed as an applied research study using an explanatory quantitative approach. This approach allows for the testing of causal relationships within the Service-Profit Chain model and the exploration of the mediating mechanism of job satisfaction. The study population comprises all employees of Perumda Tirta Manuntung PDAM Kota Balikpapan, totaling 383 individuals. The population consists of all elements or subjects of the study targeted to obtain relevant information and data related to the research objectives. The sample in this study was determined using the Slovin formula with a 5% margin of error ($e = 0.05$); the study will involve 196 employees as a sample that proportionally represents the population, so that the data obtained can reflect the actual conditions at Perumda Tirta Manuntung PDAM Kota Balikpapan with an acceptable level of accuracy. This sample selection aims to facilitate data collection while maintaining the quality of statistical analysis (Lwanga & Lemeshow, 2020).

The data obtained from this study comes from primary data collected through the completion of a questionnaire using a Likert scale with a 1–5 rating (where the lowest value represents “strongly disagree” and the highest value represents “strongly agree”), as well as interview data to uncover mechanisms and context, and field observations. Secondary data used in this study include internal PDAM documents (SOPs, performance reports, training records) and operational statistics. The questionnaire was developed based on a validated

scale and pilot-tested; interviews used semi-structured guidelines; and observations employed standardized checklists. This combination of instruments enhances triangulation and the quality of evidence (Creswell & Clark, 2018). The analysis techniques in this study utilize both quantitative and qualitative data. Quantitative data analysis using descriptive statistics is a method used to analyze data by describing or depicting the collected data as it is, without intending to draw conclusions that apply generally or make generalizations (Sugiyono, 2019).

The testing of the relationships among variables was conducted using SEM-PLS (Structural Equation Modeling - Partial Least Squares); the choice of SEM-PLS was based on several previous studies, such as those employing analytical methods like linear regression (Kurniawansyah & Prastiwi, 2022), path analysis (Suharto et al., 2025), and panel regression (Suhartini et al., 2024) have limitations in revealing the latent relationships among complex variables as well as the multi-actor interactions that characterize collaborative governance in the mining sector. Conversely, the study by Lumbanraja & Lumbanraja (2024) demonstrates that SEM-PLS is superior because it can accommodate multidimensional structural models, even with a relatively small sample size. There are several steps in SEM-PLS analysis, which are outlined in the following points (Hair et al., 2021).

For qualitative data, thematic analysis was employed, enabling researchers to identify patterns, themes, and meanings within informants' narratives. The analysis process includes transcribing interviews, coding data, identifying key themes, and interpreting findings based on the Collaborative Governance theoretical framework. This qualitative data also serves to explain, reinforce, and provide context for the quantitative findings (Denzin & Lincoln, 2020). The integration of quantitative and qualitative data occurs during the interpretation of results and the development of the Collaborative Governance model. The final model is constructed based on field findings, reviewed through Focus Group Discussions (FGDs), and validated by key stakeholders (Creswell & Plano Clark, 2018).

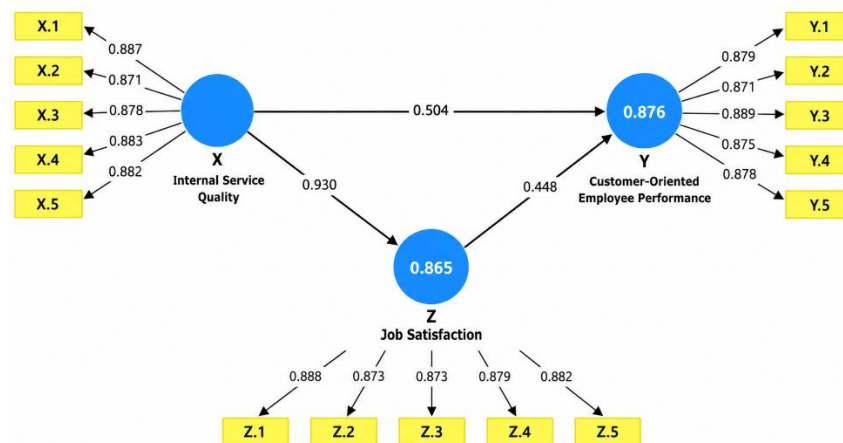


Figure 1. Measurement Model

4. RESULTS AND DISCUSSION

4.1 Evaluation of the Measurement Model

Table 1. Results of Validity and Reliability Tests

Construct	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
X_ Internal Service Quality	0.927	0.928	0.945	0.775
Y_ Customer-Oriented Employee Performance	0.926	0.926	0.944	0.771
Z_ Job Satisfaction	0.926	0.927	0.944	0.773

Source: Data compiled by the researcher (2026)

The evaluation of the measurement model involved analyzing the values of Cronbach's Alpha, composite reliability, and average variance extracted (AVE). Table 1 shows that all variables used in this study exhibit consistent reliability, as each variable achieved a Cronbach's Alpha value greater than 0.70. Therefore, all variables under investigation are suitable for use. The results of the composite reliability test above show that the total composite reliability value for each variable is greater than 0.70, indicating that all metrics tested in the study meet reliability standards, and none need to be excluded. Furthermore, the total AVE test for each variable is greater than 0.50. This aligns with the criterion used when deciding that a variable should be used in the study if the AVE value is greater than 0.50.

4.2 Structural Model Evaluation

Table 2. R-square Result

Construct	R-square	R-square adjusted
Y_ Employee Performance Customer-Oriented	0.876	0.874
Z_ Job Satisfaction	0.865	0.864

Source: Data compiled by the researcher (2026)

4.3 Hypothesis Testing

Table 3. Effect of the direct effect path coefficients

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
X_ Internal Service Quality -> Y_ Customer-Oriented Employee Performance	0.921	0.921	0.010	92.855	0.000

X_ Internal Service Quality -> Z_ Job Satisfaction	0.930	0.930	0.009	106.916	0.000
Z_ Job Satisfaction -> Y_ Customer-Oriented Employee Performance	0.448	0.450	0.067	6.691	0.000

Source: Data compiled by the researcher (2026)

Table 4. Total Indirect Effects

Path	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
X_ Internal Service Quality -> Y_ Customer-Oriented Employee Performance	0.417	0.419	0.063	6.567	0.000

Source: Processed Data (2026)

Based on the results of the significance test, Hair et al. (2021) recommend the following criteria for hypothesis testing: a T-statistic > 1.96 and a significance level of 5% (0.05). Tables 4 and 5 show that the overall results for each hypothesis meet the criteria for significance and the specified probability level. This indicates that the previously formulated hypotheses can be accepted, either directly or indirectly (mediation).

4.4. Discussion

The Effect of Internal Service Quality on Employee Job Satisfaction

The results of the study indicate that internal service quality has a positive and significant effect on employee job satisfaction. This finding is supported by a path coefficient of 0.930, a T-statistic of 106.916, and a P-value of 0.000, thereby confirming the first hypothesis. These results indicate that the better the quality of internal services implemented by Perumda Tirta Manuntung PDAM Kota Balikpapan, the higher the level of employee job satisfaction. Internal service quality in this study encompasses aspects of managerial support, clarity of SOPs, work facilities, internal communication, and a work environment that supports service activities. This finding aligns with the Service-Profit Chain Model, which states that an organization’s internal quality is the primary foundation for creating employee satisfaction. When an organization is able to provide adequate internal support, employees will feel valued, secure, and comfortable in performing their work. These conditions will foster a positive attitude toward the organization, thereby driving higher job satisfaction. In the context of PDAM Kota Balikpapan, good internal service quality enables employees to work more effectively in providing services to the community.

The results of this study support the empirical findings of Astari and Pagalung (2023), who state that internal service quality has a significant influence on employee job satisfaction. Furthermore, this study reinforces the perspective of Han and Kim (2022), who assert that organizational support in the form of work facilities, internal communication, and clear work systems can enhance employees' psychological well-being. Thus, internal service quality functions not only as an organizational operational tool but also as a psychological factor influencing employees' perceptions and work attitudes. From the perspective of Human Capital Theory, organizations that invest in internal quality are effectively building more productive human capital. Providing adequate work facilities, training, and managerial support will enhance both employees' competencies and work motivation. Ultimately, these conditions increase job satisfaction because employees feel they are receiving attention and support from the organization. Therefore, improving the quality of internal services is a crucial strategy for PDAM Kota Balikpapan in fostering productive human resources dedicated to public service.

The Effect of Internal Quality on Customer-Oriented Employee Performance

The research results indicate that internal service quality has a positive and significant effect on customer-oriented employee performance, with a path coefficient of 0.921, a T-statistic of 92.855, and a P-value of 0.000. This finding demonstrates that the better the internal service quality implemented by an organization, the higher the employees' ability to provide responsive, friendly, and customer-centric service.

These results support the Service-Profit Chain theory, which explains that an organization's internal quality serves as the primary driver of external service quality. In public service organizations such as PDAM Kota Balikpapan, high-quality internal service creates a work environment that enables employees to deliver optimal service to customers. Support in the form of clear SOPs, interdepartmental coordination, adequate work facilities, and supportive leadership enables employees to work more quickly, accurately, and responsively in addressing customer needs.

These research findings are also consistent with the study by Abdullah et al. (2020), which states that internal service quality has a direct influence on improving employee service performance. Additionally, the research by Chen and Peng (2023) confirms that human resource development strategies supported by a strong organizational culture and effective work systems can enhance employees' service orientation toward customers. Thus, internal service quality plays a crucial role in shaping work behavior oriented toward customer satisfaction.

In the context of the Balikpapan City Water Utility (PDAM), the results of this study indicate that improving internal service quality can serve as an effective strategy for enhancing public service quality. When employees receive optimal organizational support,

they will be better able to resolve customer complaints promptly, provide appropriate solutions, and establish effective communication with the community. This is particularly important given that clean water supply is a basic necessity for the community, demanding consistent and sustainable service quality.

The Effect of Job Satisfaction on Customer-Oriented Employee Performance

The results of the study indicate that job satisfaction has a positive and significant effect on customer-oriented employee performance, with a path coefficient of 0.448, a T-statistic of 6.691, and a P-value of 0.000. This indicates that the higher the level of job satisfaction felt by employees, the better the service performance provided to customers. These findings demonstrate that job satisfaction is a critical factor in shaping employees' service behavior. Employees who are satisfied with their work tend to exhibit higher levels of motivation, loyalty, and commitment in performing their service duties. These conditions encourage employees to provide service that is more responsive, communicative, and empathetic toward customer needs. In the context of PDAM Kota Balikpapan, job satisfaction enables employees to be better prepared to address various customer issues professionally.

These research results align with Bakotić's (2021) study, which states that job satisfaction is the primary determinant of employee service behavior. Additionally, Chen and Eyoum's (2021) research explains that employees with high job satisfaction levels tend to exhibit proactive behavior when providing service to customers. These findings reinforce the view that job satisfaction not only impacts an individual's psychological state but also has direct implications for the quality of an organization's services. From an organizational behavior perspective, job satisfaction fosters positive emotional states that influence employee interactions with customers. Satisfied employees are better able to manage work-related stress, maintain good communication, and demonstrate a friendly and empathetic attitude when providing service. Conversely, low job satisfaction can trigger emotional exhaustion, which leads to a decline in the quality of service provided to customers. The findings of this study underscore that job satisfaction is a strategic factor in improving the quality of public services. Therefore, the management of PDAM Kota Balikpapan needs to pay attention to aspects that can enhance job satisfaction, such as providing rewards, career development, a conducive work environment, and harmonious working relationships. With increased job satisfaction, the organization will reap benefits in the form of improved service quality and public trust in the public institution.

The Mediating Role of Job Satisfaction on Internal Service Quality and Customer-Oriented Employee Performance

The research findings indicate that job satisfaction mediates the relationship between internal service quality and customer-oriented employee performance. This is evidenced by

an indirect effect of 0.417, a T-statistic of 6.567, and a P-value of 0.000. These findings indicate that internal service quality not only directly influences employee performance but also affects performance by enhancing employee job satisfaction. These results support the core concept of the Service-Profit Chain Model, which positions job satisfaction as the connecting mechanism between an organization's internal quality and external service quality. When an organization is able to create high-quality internal services, employees will experience higher job satisfaction. This satisfaction then drives the emergence of more positive and customer-oriented work behaviors. These research findings align with the study by Kanten and Sadikoglu (2021), which explains that job satisfaction serves as a crucial mediating variable between internal management practices and customer service quality. Additionally, research by Park and Kim (2023) indicates that job satisfaction functions as a psychological mechanism linking an organization's internal policies to improvements in external service quality. Thus, job satisfaction is a central element in the successful implementation of the Service-Profit Chain Model. In the context of PDAM Kota Balikpapan, the results of this study indicate that improvements in internal service quality—such as the provision of work facilities, effective organizational communication, managerial support, and a conducive work environment—will enhance employee job satisfaction. This satisfaction subsequently impacts the improvement of service quality for the public, including response speed, solution accuracy, and the quality-of-service communication.

5. CONCLUSION

This study was conducted in response to the increasingly complex dynamics of public service, particularly at PDAM Kota Balikpapan, a clean water service provider required to deliver fast, accurate, responsive, and customer-oriented service. Changes in the business environment and rising public expectations. Therefore, this study aims to analyze the influence of internal service quality on job satisfaction and customer-oriented employee performance, as well as to test the mediating role of job satisfaction in this relationship using the Service-Profit Chain Model approach.

Previous literature indicates that organizational support in the form of work facilities, internal communication, leadership, and a conducive work environment significantly contribute to enhancing employee satisfaction and service behavior. However, studies on the relationship between internal service quality, job satisfaction, and the performance of customer-oriented employees in the public utility sector, particularly PDAMs, remain relatively limited; thus, this study provides an empirical contribution to expanding the application of the Service-Profit Chain Model within public service organizations. The research results indicate that all proposed hypotheses are supported. Internal service quality was found to have a positive and significant influence on employee job satisfaction. This indicates that the better the organizational support through clear SOPs, adequate work facilities, effective internal communication, and managerial support, the higher the level of

job satisfaction felt by employees. Additionally, internal service quality also has a positive and significant effect on customer-oriented employee performance. Furthermore, the research results prove that job satisfaction mediates the relationship between internal service quality and customer-oriented employee performance.

This study offers both theoretical and practical benefits. Theoretically, it expands the development of the Service-Profit Chain Model within the public utility sector—an area historically dominated by private sectors such as tourism, healthcare, and retail. This study also strengthens the relationship between internal service quality, job satisfaction, and service performance from a public service-based human resource management perspective. Practically, the research findings can serve as a foundation for the management of Balikpapan City PDAM in formulating human resource development policies, improving internal service quality, and implementing strategies for sustainable public service quality enhancement.

Nevertheless, this study has several limitations. First, the study was conducted on only one regional company, so the generalizability of the results to other public organizations remains limited. Second, the study is limited to internal service quality, job satisfaction, and customer-oriented performance. Given these limitations, future research is recommended to expand the scope to other public service sectors to yield more comprehensive results with a higher level of generalizability. Future studies are also advised to incorporate additional variables such as organizational commitment, employee engagement, organizational culture, and transformational leadership to enrich the research model and provide a deeper understanding of the factors influencing customer-oriented employee performance within public service organizations.

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