

Internal Marketing Issues in Service Organizations in Malaysia

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Internal marketing is an important concept where firms apply marketing tools to attract and retain the best employees, which will later affect business performance. The study has identified constructs (inter-functional coordination & intergration, customer orientation, marketing-like approach, job satisfaction, empowerment, employee motivation, quality of service, employee development, vision of the organization, strategic reward, internal communication, senior leadership) of internal marketing which are tested against business performance. The study's implication is to help organizations design its own internal marketing plan by outlining the important elements and to improve the business performance of organizations.

Field of Research: Human Resource Practices, Marketing, Strategic Management

1. Introduction

Internal marketing comes from the basic understanding of marketing. The term internal marketing is defined as viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the firm (Berry, 1981). This study will add to the body of knowledge by showing how internal marketing concept is applied in Malaysia. By illustrating the effect of the concept, it hoped to provide a basis for organizations to design its internal marketing strategies in order for them to obtain the very best out of their main resource, their employees. It will also help managers to realize the importance of having internal marketing competencies which can be essential for Malaysian business organizations to improve its performance. Further, there is not much research being done in the field of internal marketing, specifically in Malaysia. This fact justified why this subject is chosen for the study. Proponents of this concept believed that having a sound internal marketing strategy is more important than external marketing strategy (Kotler & Armstrong, 2004).

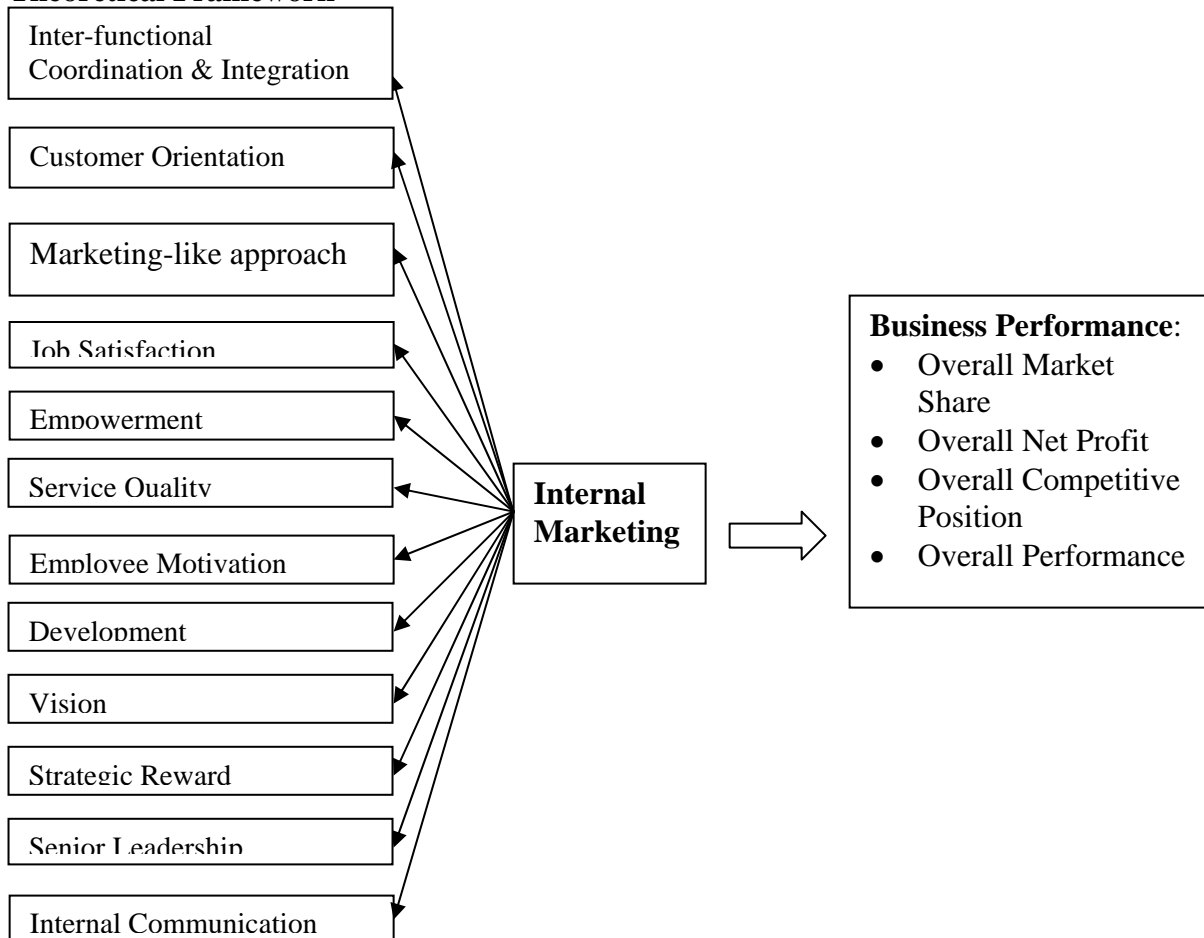
2. Literature Review

Internal marketing act as part of the marketing strategy with the employee's themselves whom are termed internal customers. It is used as a philosophy for managing the firm's human resources based on a marketing perspective to build internal competencies for external success (George, 1990). It is a strategy that

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aims for the creation of high-performance work systems by managing the interdependent elements of the internal marketing concepts to achieve greater firm's competencies. Consequently, these variables will influence a firm's competitive advantage. Rafiq & Ahmed (2000) expands the idea of internal marketing and define them as, "...a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally coordinate and integrate employees towards the effective implementation of corporate and functional strategies in order to deliver customer satisfaction through a process of creating motivated and customer oriented employees". From various literature reviews, 12 constructs that make up the core structure of the research are derived. The constructs are inter-functional, coordination & integration, customer orientation, marketing-like approach, job satisfaction, empowerment, employee motivation, quality of service, employee development, vision of the firm, strategic rewards, internal communication and senior leadership. The theoretical framework as follows :

Theoretical Framework



Inter-functional Coordination and Integration

A major impetus of internal marketing, amongst other things, is to be a vehicle for internal strategic implementation (Winter, 1985). This can be done through inter-functional coordination and integration. The concept is defined as the coordinated utilization of an organization's resources in creating superior value for target customers (Narver & Slater, 1990). When an organization is able to use its resources effectively to create value, it will ensure long term profitability thus improving business performance. The role of internal marketing in integrating marketing and personnel functions must be to the extent in which personnel become a resource for the marketing function (Glassman & McAfee, 1992). Thus, it is important to include this concept in testing the implementation of internal marketing within organizations. The variable is tested using an established scale developed by Narver & Slater (1990). The first proposition of the study is formulated as follows :

P1 : There is a positive relationship between inter-functional coordination and integration and business performance of service organizations in Malaysia

Customer Orientation

Gronroos (1981) first allude to the fact that customer orientation is the driving force for internal marketing. This is especially important for services organizations where the most crucial part of the business occurs during employee-customer contact. Hence, internal marketing's aim is to get motivated and customer-oriented employees. Customer orientation is defined as the understanding of the need of one's target buyer in order to create value for them continuously. This effects business performance by decreasing the buyer's cost in relations with the buyer's benefits. This induces buyers to be loyal as they feel that their needs are being satisfied by the service rendered. Based on this, the second hypothesis is developed :

P2 : There is a positive relationship between customer orientation and business performance of service organizations in Malaysia

Marketing-like Approach

Internal marketing holds that employees are "best motivated for service-mindedness and customer oriented behavior by an active marketing-like approach, where marketing-like techniques are used internally" (George, 1990). Marketing-like approach is defined as a business management philosophy based on the need for customer orientation, profit orientation, and recognition of the role of marketing to communicate the needs of the market to all major corporate departments (McNamara, 1972). Thus, the adaptation of marketing behavior lies

at the heart of internal marketing, as eluded by early adopters like Berry and Gronroos. This leads to the formulation of the third proposition :

P3 : There is a positive relationship between marketing-like approach and business performance of service organizations in Malaysia

Job Satisfaction

Job satisfaction is defined as how content an individual is with his or her job. The underlying view of internal marketing is based on the concept that in order for a service organization to have satisfied customers, it must first have satisfied employees (George, 1977). Job satisfaction is important as internal marketing will also serve as a tool for organization to attract, retain and motivate its employees. Thus, it is imperative that employees must be able to relate positively to its job and are “satisfied” users of the internal product, which is the job itself. Here, the study established the fourth proposition:

P4 : There is a positive relationship between job satisfaction and business performance of service organizations in Malaysia.

Empowerment

In order for employees to fully appreciate their job (i.e. the internal product), they must be allowed more latitude in dispensing their duties (Gronroos, 1981). Berry & Parasuraman (1991) believe that empowerment should be an essential aspect of internal marketing. Empowerment is the process of enabling or authorizing an individual to think, behave, take action, and control work and decision making in autonomous ways (Rafiq & Ahmed, 1998). By allowing empowerment, employees can make faster decisions which in turn increase productivity and enhance the service experience and improve performance. Thus, the fifth proposition is developed :

P5 : There is a positive relationship between empowerment and business performance of service organizations in Malaysia.

Employee Motivation

In most organizations, the situation is that the customers are highly demanding of employees whilst the employees in turn hold high expectations from their jobs as sources of self-actualization and self-development (Rafiq & Ahmed, 1998). Here, internal marketing sought to increase employee motivation by focusing on treating the job as an internal product and try to “sell” it to the employees. This inward-looking philosophy is enhanced by steps which motivate employees to try out the product first. This logic is behind the importance of addressing employee motivation as an important aspect of internal marketing. To test this, the study

will employ a scale developed by Lindner (1998). Based on this, another proposition is devised :

P6 : There is a positive relationship between employee motivation and business performance of services organizations.

Quality of Service

Quality of service is defined as a form of attitude, related but not equivalent to satisfaction, which results from the comparison of expectation with performance (Bolton & Drew, 1991). Berry & Parasuraman (1993) add that service quality is an important element in internal marketing because high quality will make it easier for employees to identify themselves with the service they are selling to the customers. The fact is, quality of service might be more crucial to employees than external customers because unlike external customers, they do not have a choice in selecting their product (the service to be performed by them). The study utilizes a scale developed by Cronin & Taylor (1992). Thus, the study has derived another proposition :

P7 : There is a positive relationship between quality of service and business performance of service organizations in Malaysia.

Employee Development

Foreman & Money (1995) defines employee development as a strategic investment by an organization in training its members. If employees are required to perform their tasks well, they must be armed with the necessary skill and knowledge that is required of them. Piercy & Morgan (1991) say that in order for internal marketing to be effectively employed within an organization, employees must be trained and properly developed to fulfill its service role. With a well-developed workforce, an organization will exploit the full potential of its resource (the employees) thus improving business performance. Hence, the eighth proposition is developed :

P8 : There is a positive relationship between employee development and business performance of service organizations in Malaysia.

Vision of the Organization

Foreman & Money (1995) define vision as short term and long term goals that employees can believe in. Internal marketing programs that are imaginatively and sensitively created and implemented, with this in mind, will improve both the internal efficiency and external effectiveness of the organization's marketing efforts. A driven workforce galvanized by a cohesive and understandable vision can propel a company forward and improve its business performance. This will

be tested using a scale developed by Foreman & Money (1995). Thus, the ninth proposition is established :

P9 : There is a positive relationship between vision of the organization and business performance of service organizations in Malaysia.

Strategic Reward

Hale (1998) defines strategic reward as a system designed to motivate behaviors, actions and accomplishments that help advance the organizations towards specific business goals. Ahmed et al (2003) believes the inclusion of strategic reward in implementing internal marketing is important as it will help in accomplishing other goals of internal marketing such as motivation and employee satisfaction. They add that in order for strategic reward to work within the ambit of internal marketing, employees must be informed about how and why they are rewarded. This is important because such openness will create a sense of empathy by the employees towards their job thus improving productivity and improve the performance. Here, the study has devised a proposition :

P10 : There is a positive relationship between strategic reward and business performance of service organizations in Malaysia.

Internal Communication

Ahmed et al (2003) identify internal communication as the dissemination of information within the organization to enable the creation of employees with a greater sense of ownership, accountability and responsibility. When employees are well-informed about the expectations of its customers as well as the condition and health of the organizations, they are more willing to dispense their duties diligently which in turn improves the business performance. They believe that internal communication is an important element of internal marketing as it is the key factor in creating understanding among employees. Further, it was noted that consistency of internal and external communication program is important. The study will employ a scale by Ahmed et al (2003). The eleventh proposition is then established :

P11 : There is a positive relationship between internal communication and business performance of service organizations in Malaysia.

Senior Leadership

Ahmed et al (2003) defines senior leadership as the moral and intellectual ability of the upper-echelon management to move the organization and its employees towards the right direction. Thus, leadership style is important in determining employees' attitudes and behaviors. Hartline and Ferrell (1996) also say that management commitment is the most consistent predictor of employees'

behavior and its effectiveness will lead to an improvement of the well-being of the organization. This will be tested using a scale developed by Ahmed et al (2003). From this analysis, the study forms the twelfth proposition :

P12 : There is a positive relationship between senior leadership and business performance.

Internal Marketing and Business Performance

Hwang and Chi (2005) shows that there is empirical evidence to support the relationship between internal marketing and business performance. In their research measuring the relationship of internal marketing and international hotel performance, they prove that implementation of internal marketing has a positive relations with business performance of the hotels. The key reason why business performance correlates with implementation of internal marketing is the viewpoint of internal marketing itself in regarding employees (the internal customers) on par with external customers. The symbiotic relationship between the organization and internal customer, as with the organization external customer relationship, is designed with the intention of creating value. Ultimately, the value creation will result in the increase in profitability, customer retention, market share, i.e. the increase in business performance (Mazvancheryl et al, 2001).

Services industry in Malaysia

There are empirical evidences indicating that the satisfaction of internal customers is important for the success of an organization. Many authors (Gronroos, 1985; Berry, 1991, & Anderson, 1997) concluded that poor internal marketing is likely to have a negative impact on the quality of services provided to external consumers. Services industry is a major contributor to the growth of the Malaysia economy. The sector has the largest share of gross domestic product (GDP), at 57.6 percent in 2005 (valued at RM 228, 601 million). This shows that the service sector is very important and its continuous improvement is vital to the country. Services also boast the highest employment rate among other sectors and industries where almost 5.1 million people were employed by the sector in 2004. Further, trade liberalization brought forth by AFTA (Asean Free Trade Area) and other free-trade treaties has liberalized the market in Malaysia. The service sector is very much affected by the liberalization as in competition has increased as more foreign-owned firms are entering the Malaysian market.

Based on the literature review, this study has two main objectives:

1. To identify the most applicable internal marketing dimensions within the service organizations in Malaysia.

2. To examine various dimensions of internal marketing and its effect on the business performance of the organizations.

3. Methodology

The study setting is in Klang Valley area. Out of the 500 questionnaires sent out, 261 were returned and used for this research, giving us a 52% response rate. Only one questionnaire is sent to each organization chosen to participate in the study. Answering the questionnaires was those ranked from executives and above, and are involved in either executing or designing the internal strategies of the organization.

The questionnaire is divided into 3 parts. Part A is on the 12 internal marketing dimensions. For each dimension, items are measured on a seven-point Likert-scale, with 1 for "Strongly Disagree" and 7 for "Strongly Agree". Part B is meant to test on the business performance and the items concerned both financial and non-financial performance. Part C is on the organization's profile.

Factor analysis is used to identify which of the 12 internal marketing dimensions are being applied in Malaysia. It is done by summarizing the patterns of correlation where the items will be grouped together based on its relation with each other. According to Tabachnik & Fidell (1996), the minimum value for a good factor loading analysis is 0.5. This is followed by multiple regression analysis is used to test the propositions. Aiken & West (1991) asserted that relationship exists when r value is more than 0.3 ($r > 0.3$).

4. Findings

Profile

Based on the data collected, the largest respondents comes from the information communication technology support service (22.6%) followed by the retail sector (20.3%). Most of the organizations are established for 10 years (41.8%), have more than 150 employees (67.4%), and RM 15.1 million and above of paid-up capital (40.6%). Majority are also government-linked organizations (32.2%) and sales of RM 100 million in 2005 (39.5%). Out of the 261 organizations that respond to the study, 176 have more than 150 employees. This represented 67.6% of the total respondents. This is important because central to the idea behind internal marketing is the fact that an organization must have a significant internal market.

Reliability

All scales were tested on reliability. The final Cronbach's Alpha score for all items concerning is 0.969. The data is then reliable.

Factor Analysis

In order to determine the degree of relationship, the analysis applies the extraction method of Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity in order to prove communalities among the constructs. The criterion that must be met is that the KMO value must be more than 0.7, the factor loading for each dimensions must be more than 0.5 and Bartlett's Test must yield a significant level of less than 0.05 (Sureshchandar et al, 2001). Based on the result, the KMO value is 0.879 and Bartlett's test yields a significant level of 0.0000 which meets the above mentioned standard.

Based on Table 1, three dimensions must be excluded because of low factor loading (<0.5). They are empowerment, customer orientation and inter-functional coordination and integration. Thus, to answer **Objective 1**, the internal marketing dimensions that are applicable for Malaysian services organizations are quality of service, employee development, employee motivation, job satisfaction, internal communication, marketing-like approach, senior leadership, vision and strategic reward.

Table 1 : Extraction Method of Internal Marketing Dimensions (Factor Loading)

Internal Marketing	Ranking	Extraction
Quality of Service	1	0.730
Employee Development	2	0.719
Employee Motivation	3	0.709
Job Satisfaction	4	0.698
Internal Communication	5	0.576
Marketing-like Approach	6	0.541
Senior Leadership	7	0.540
Vision	8	0.530
Strategic Reward	9	0.526
Inter-functional Coordination & Integration	10	0.455
Customer Orientation	11	0.451
Empowerment	12	0.384

Multiple Regression

According to Pallant (2001), for us to see the relationship between independent and dependent variable, R^2 must have a value of more than 0.3. In this study R^2 value is 0.354 with a significant value of 0.000. Here, the internal marketing explains 35.4 percent of the variance in business performance. Thus, on the whole, there is positive relationship between internal marketing and business

performance of service organizations in Malaysia. Further analysis below will explain more on **Objective 2**.

For the proposition testing, only nine propositions (P3, P4, P6-P12) will be tested as three dimensions have been dropped by the factor analysis. Please refer to Table 2 and 3. The study looks at the Pearson Correlation. Tabachnick and Fidell (1996) suggest that a construct can significantly predict an independent variable if it has a correlation value of more than 0.3, and a coefficient significance value of less than 0.05. According to Table 2, only two out of the nine dimensions have a statistically significant relationship with business performance which is strategic reward (sig. value = 0.000) and senior leadership (sig. value = 0.000). Further, we can see that in terms of its correlations, strategic reward has a correlation value of 0.492 and senior leadership has a correlation value of 0.447.

Table 2 : Internal Marketing and Business Performance Coefficients summary

Internal Marketing	Beta	Sig.
Marketing-like Approach	-0.147	0.053
Job Satisfaction	-0.095	0.376
Employee Motivation	0.016	0.885
Quality of Service	-0.135	0.176
Employee Development	0.009	0.930
Vision	-0.133	0.053
Strategic Reward	0.516	0.000
Internal Communication	0.008	0.920
Senior Leadership	0.377	0.000

Table 3 : Internal Marketing and Business Performance Correlations

Internal Marketing	Total Business Performance
Marketing-like Approach	0.149
Job Satisfaction	0.162
Employee Motivation	0.268
Quality of Service	0.144
Employee Development	0.155
Vision	0.151
Strategic Reward	0.492
Internal Communication	0.295
Senior Leadership	0.447

5. Conclusion/Implications

This study is consistent with results from research by Hwang & Chi (2005), Foreman & Money (1995) and Ahmed et al (2003), that there is a relationship between internal marketing and business performance. It recommends that services organizations in Malaysia must create a specific and focused internal marketing plan to guide its internal strategy. The initial idea is that organization

must treat job as products, and try to effectively market the job to employees that will create a synergy between how an employee feels about the organization and vice-versa. This is then reflected in the way they disseminate their services to the customers. Gronroos (1985) and Kotler (1999) have reiterated the point that internal marketing can prove to be more valuable than external marketing as there is a reciprocal relationship between internal marketing and external marketing.

However, when each internal marketing dimensions relationship with business performance is examined, only two dimensions (strategic reward and senior leadership) have a significant relationship with business performance. Strategic reward is an important concept because it is the rewards given to acknowledge efforts taken to help an organization achieve specific strategic goals (Ahmed et al, 2003). By having such system in place, it motivates employees to push themselves to accomplish the goals stated. An important element here is that employees are informed on how and why they are rewarded, thus giving them not only monetary or physical rewards but also a sense of accomplishment and help to improve their self-actualization level.

The second dimension that has a significant relationship with business performance is senior leadership. Perhaps one of the reasons that this is so is because Malaysia is considered as a collectivist society instead of an individualist. Although the Malaysian society is moving towards an individualist society, in general, many still remains a collectivist. Thus, junior executives always looked upon senior management to guide them and communicate with them in achieving the organizational goals. Bowen (1990) says senior leadership is the most important determinant of employees' attitudes and behaviors. Thus, positive and charismatic leaders should have an effect on the behaviors of their subordinates. It is through the support of senior leaders within an organization that any internal strategies can bear fruit.

Overall, this study proves that the concept of internal marketing can be applied to the organizations in Malaysia. Managers and policy-makers in the organizations must open their minds to new ideas such as internal marketing and apply this concept in a more focus and thorough manner. It should serve as a bridge to link the organization's external marketing strategies and its employees.

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