



Internal Marketing to Achieve Competitive Advantage

Cam Caldwell^{[a],*}; Bryan Licona^[b]; Larry A. Floyd^[c]

^[a] Dixie State University, St. George, Utah, United States.

^[b] Nova Southeastern University, Florida, United States.

^[c] Georgia State University, Atlanta, Georgia, United States.

* Corresponding author.

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Abstract

Although their competitors may copy their products and services, companies have found that they may nonetheless maintain competitive advantage by creating difficult-to-duplicate relationships between their employees and their customers (Stershic, 2001, p.42). Although advances in technology have enabled consumers to become informed shoppers and have made it easier to compare providers, products, and prices, discerning consumers are also more able to access the comments and opinions of other customers. Accordingly, organizations have begun to acknowledge that creating strong customer relationships is an important means of differentiating themselves from their competitors. Effective internal marketing strategies can be a vital tool for developing highly committed employees – the key to strengthening relationships with customers and achieving greater customer satisfaction, increased loyalty, and higher long-term profits. In this paper we offer eight propositions about effective internal marketing and suggest that highly committed employees, achieved by intelligent and effective internal marketing, can enable organizations to create the key relationships with customers that allow those organizations to achieve unprecedented excellence and competitive advantage.

Key words: Internal marketing; Highly committed employees; Leadership; Competitive advantage; Quality service; Customer satisfaction; Human capital; Employee loyalty; Internal branding; Organizational citizenship behavior

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1. INTERNAL MARKETING TO ACHIEVE COMPETITIVE ADVANTAGE

Tacit skills and distinctive competencies have been identified as key elements of competitive advantage for several decades (Reed & DeFillippi, 1990; Hofer & Schendel, 1978). In the modern global market place where new entrants are frequent and competition based upon price is high, achieving a competitive advantage may depend upon the ability to create close relationships with customers (Hansen, Mcdonald, & Mitchell, 2013). Those key relationships, in turn, are often dependent upon an internal marketing process as organizations seek to create high trust organization cultures that empower employees and that create high organization commitment (cf. Pfeffer, 1998; Caldwell & Floyd, 2014).

The purpose of this paper is to build on the current research about internal marketing to explain the process by which organizations create competitive advantage and to suggest eight propositions about internal marketing that can enable organizations to build the high trust and commitment that internal marketing is designed to achieve. After defining internal marketing and explaining its contribution to employee trust, employee commitment, and competitive advantage, we offer eight propositions that have both practical and scholarly application associated with the study of internal marketing. We conclude the paper by identifying the contributions of this paper in today's highly competitive global market place.

2. INTERNAL MARKETING AND WEALTH CREATION

Internal marketing “views the employees as internal customers . . . (who) play a vital role in satisfying customers’ expectations” (Tsai & Tang, 2008, p. 1118). The goal of internal marketing is to “produce motivated and customer-conscious personnel at every level in the organization: by obtaining “internal understanding and commitment to the organization and what it is trying to achieve” (Proctor, 2010, p. 257). By building internal commitment, organizations seek to increase employee trust and confidence in the companies for which they work (George, 1990). The rationale behind the importance of internal marketing is that a firm must first build the confidence of its employees about the quality of its products and services before it can successfully add value to its customers (Gounaris, 2006; Shiu & Yu, 2010, Mieres, Sanchez, & Vijande, 2012).

Snell and White (2009, p. 195) explained that internal marketing involves “the way in which an organization motivates and educates its employees to behave in a customer-conscious or market-oriented manner through the application of marketing-like processes”. Extensive research suggests that organizations benefit when employees

understand corporate values. Internal marketing promotes employee commitment, measurably improved service quality, increased customer satisfaction, and higher customer and employee loyalty (Opoku, Nana, Chong, & Russell, 2009; Sartain, 2005; Ahmed & Rafiq, 2002; Bergstrom, Blumenthal, & Crothers, 2002; Hallam, 2003).

As Sterchic has noted, “despite its name, internal marketing is more a management philosophy and strategy than a true marketing function” (Sterchic, 2001, p. 43). According to Dennis (1995), internal marketing has primarily been used as a strategic approach to increase employee understanding of a company’s purpose and to build a sense of employee ownership and partnership (cf. Block, 1993). Senge (2006) has explained that an organization’s competitive advantage is dependent upon its ability to involve employees at a highly committed level and noted that the degree of commitment exhibited by employees was measured on a continuum, based upon their degree of trust in their employer. Building on Senge’s insight, Caldwell and Hansen (2010) suggested that competitive advantage and wealth creation were a byproduct of the trustworthiness of an organization and its leaders. Figure 1, provided below, explains the Caldwell and Hansen cf. (2010, p. 180) model and provides insight to the purpose of internal marketing.

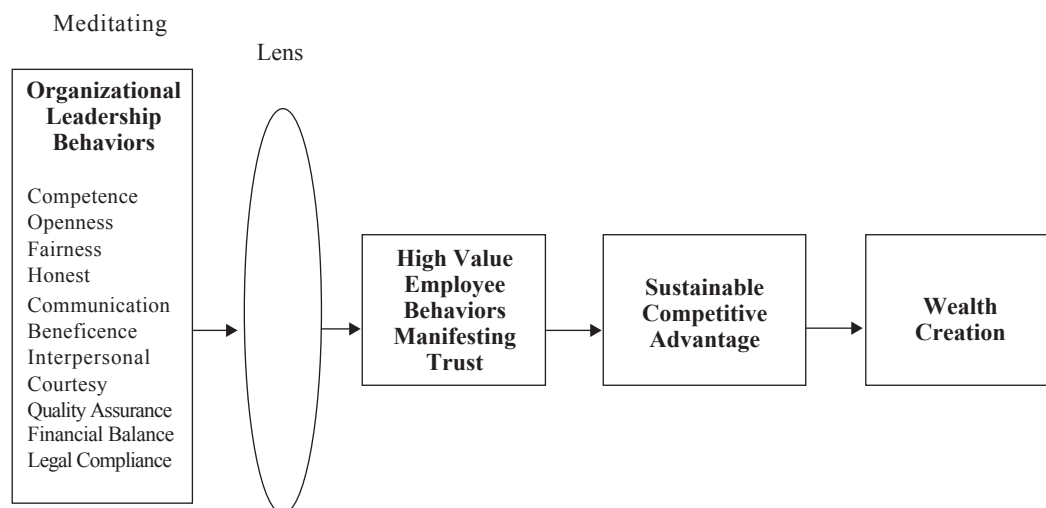


Figure 1
Competitive Advantage and Wealth Creation

As indicated by this model, organizational leadership behaviors, including those which top management teams engage in as part of internal marketing (cf. Schein, 2010), are assessed by employees through their subjective “mediating lenses” (cf. Mayer, Davis, & Schoorman, 1995). Employees assess the trustworthiness of their leaders and respond with the decision to trust – manifested by the high employee commitment that adds true value to the organization and creates organization wealth (Senge, 2006). Pfeffer (1998) noted that this high level of employee commitment was best achieved by effective communication of a company’s mission and values,

organizational investment in developing employee skills associated with the creation of competitive advantage, and educating employees about the needs of customers and the tasks that those customers are seeking to accomplish. Christensen (2012) and colleagues (Christensen & Raynor, 2003) have noted that this management approach is critical to the effective utilization of innovation and creativity upon which competitive advantage and wealth creation ultimately depend in today’s global market place. It is this wealth creation process that internal marketing efforts seek to rely upon as organizations strive to build employee ownership and commitment (Papasolomou-Doukakis, 2002).

Pfeffer (1998) noted that organizations that create high performance management systems are effective at building employee commitment and are likely to be more profitable than employers without such systems. Other scholars have also identified the value of high performance systems in contributing to corporate wealth creation (Huselid, 1995). Consistent with this explanation of the wealth creation process, we offer our first two propositions.

P₁: Organizations that integrate their internal marketing efforts with the creation of high performance management systems are more likely to create high employee commitment than organizations whose internal marketing programs do not integrate with a high performance management system.

P₂: Organizations that integrate their internal marketing efforts with the creation of high performance management systems are likely to be more profitable than organizations whose internal marketing programs do not integrate with a high performance management system.

Pantouvakis (2012) found that organizational human resource management programs and policies that focused on building relationships with employees were key elements of internal marketing and led to increased job satisfaction and commitment. Cameron (2011) confirmed that the implementation of policies, practices, and programs communicated to employees the commitment of organizations and their leaders to the values that organizations espoused and signaled the integrity and trustworthiness of those organizations.

3. INTERNAL MARKETING AND ETHICAL DUTIES

In the process of internal marketing to build relationships with employees, Block (1993, p. 18) emphasized the importance of giving accountability to employees without attempting to control them by adopting a stewardship approach that treated employees like owners and partners. The German philosopher, Martin Buber, suggested that this same type of relationship meant treating employees as valued “Yous” rather than as impersonal “Its.” (Buber & Smith, 2000). In the internal marketing process, firms owe their employees a complex set of ethical duties associated with “treating employees as customers” rather than as commodities to control or manage (Berry & Parasuraman, 1991, p. 151).

Among the duties owed to employees is the obligation to clearly define moral problems associated with management decision-making and explaining the economic, legal, and ethical rationale behind proposed solutions to problems (Hosmer, 2010, pp. 13-14). Hosmer (1994 & 1995) has written extensively about trust and its important roles in connecting moral and ethical duties with organization effectiveness and competitive advantage. Figure 2 explains the key elements of Hosmer’s (2010, p. 14) model for ethically-based decision-making in organizations in order to demonstrate management integrity and create optimal employee understanding and trust.

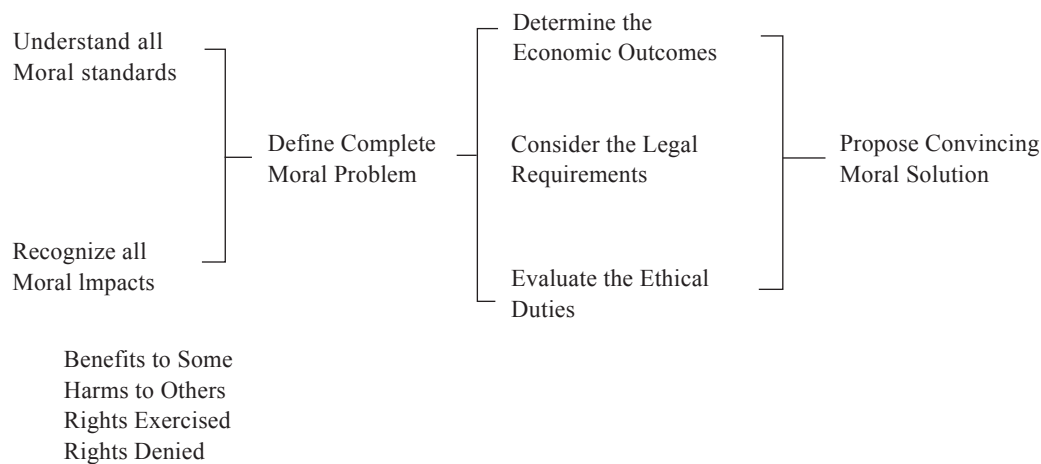


Figure 2
Hosmer’s Decision-Making Model

As indicated by Hosmer’s (2010) model, organizations and their leaders are most effective in developing and proposing convincing moral solutions when they articulate clear moral standards; examine the costs and benefits of choices; accurately define moral questions or problems; assess the economic, legal, and ethical impacts of choices; and propose solutions that adequately and transparently explains the rationale for their ultimate decisions. Although the purpose of this paper is not to examine and

describe this complex ethical decision-making process in detail, the model nonetheless addresses the complex responsibilities of leaders and organizations in asking their employees to act on the organization’s behalf in serving its customers.

Applying Hosmer’s model of ethical decision-making to internal marketing is a relatively easy step, inasmuch as internal marketing involves clarifying to employees the decision-making process for organizations in serving its

customers (Cahill, 1995). Because the research on ethics and trust suggest that explaining the rationale for organizational decision-making is likely to make internal marketing more effective, we offer our third and fourth propositions.

P₃: Organizations with leaders who explain the rationale for decision-making using a process similar to the Hosmer model are likely to generate greater employee commitment and trust than organizations who do not apply this model.

P₄: Organizations with leaders who explain the rationale for decision-making using a process similar to the Hosmer model are likely to be more profitable than organizations who do not apply this model.

The recent ethics literature also had identified the importance of organizations and leaders honoring a complex set of duties owed to employees (Caldwell, Atkins, & Holzgrefe, 2011) who have the propensity to go the extra mile and who are known as organizational citizens (OCBers) (Organ, 1988). OCBers who are extra-role performers and highly committed employees are widely acknowledged to be key contributors to organization profitability and competitive advantage (Kouzes & Posner, 2012; Dess, Lumpkin, & Eisner, 2007). At the same time, Bergeron (2007) has noted that OCBers may be misperceived in their intentions and need to be carefully managed. Goldman (2006) suggested that ineffective leadership often led to off-target organization performance and that clear expectations about desired results improved performance of employees.

Caldwell and colleagues (2011) have suggested that organizational leaders who acquaint themselves with the characteristics and tendencies of OCBers are more likely to achieve the benefits that these highly committed employees can contribute to wealth creation. Several scholars (Yang, 2010; Abzari, Ghorbani, & Madani) have addressed the relationship between organizational commitment, OCBers, and internal marketing and have identified the positive contributions of OCBers in achieving internal marketing objectives.

Associated with the research on ethical duties owed to OCBers and the implications of those duties on internal marketing, we offer our fifth and sixth propositions.

P₅: Organizations with leaders who recognize the importance of understanding characteristics of OCBers and who seek to honor the ethical duties owed to them in conjunction with their company's internal marketing programs are likely to have more highly committed employees than organizations who do not apply this model.

P₆: Organizations with leaders who recognize the importance of understanding characteristics of OCBers and who seek to honor the ethical duties owed to them in conjunction with their company's internal marketing programs are likely to be more profitable than organizations who do not apply this model.

Cameron (2011) has emphasized the importance of organizational leaders understanding the duties owed to their employees and seeking outcomes that demonstrate their commitment to honoring relationships with employees and seeking their welfare. His research, and the research of other scholars (Paine, 2002; Kouzes & Posner, 2012) confirm that creating aligned programs and practices that honor ethical duties and organizational values also results in increased productivity and profitability – objectives which are clearly the purpose of internal marketing efforts (Zaman, Javaid, Arshad, & Bibi, 2012; Panigyrakis & Theodoridis, 2009; Aburoub, Hersh, & Aladwan, 2011).

4. INTERNAL MARKETING AND LEARNING CULTURES

The role of organizational leaders and top management teams in creating lasting and profitable learning cultures is well documented in the management literature (Schein, 2010). Although the relationship between creating a learning organization and improving internal marketing programs is not new (Cahill, 1995), the importance of emphasizing organizational learning has increased in an economy that is now knowledge-, information-, and wisdom-based (Covey, 2004).

Although organizations are facing tremendous economic pressures due to the worldwide economic downturn and recession, it is false economy and unwise for organizations to discourage organizational learning efforts in an effort to bridge the financial gap (Rao, 2009). Rao (2009, p. 8) has noted that organizations “would be better served to maintain if not increase their allocation” in training and development during bad economic times and emphasized that “recession is also the right time to focus on innovation and creativity.” By its very nature, internal marketing is an employee education and training process (Lee & Wen-Jung, 2005), but internal marketing also emphasizes unlearning misinformation and concepts that no longer are applicable in organizations (Mieres, et al., 2012). Creating a learning culture through internal marketing has been found to increase organizational competencies and enhance performance (Ahmed, Rafiq, & Saad, 2003).

Despite the economic problems facing the modern organization in today's difficult economic times, continuing to invest in organizational learning seems to be critical to an organization's ongoing success and remains an important part of an internal marketing strategy. Accordingly, our seventh and eighth propositions address the relationship between internal marketing and creating a learning culture.

P₇: Despite the economic hardships facing modern organizations and the pressure for economizing and

financial cutbacks, leaders who include within their internal marketing programs the creation of a learning organization culture are likely to have more highly committed employees than organizations who do not apply this model.

P₈: Despite the economic hardships facing modern organizations and the pressure for economizing and financial cutbacks, leaders who include within their internal marketing programs the creation of a learning organization are likely to be more profitable than organizations who do not apply this model.

The propositions presented in this paper are intended to reflect the realities of the highly chaotic, change-oriented, conflicted market place that has characterized the world economy over the recent past (Buchholz & Rosenthal, 2005; Reich, 2011 & 2012).

5. CONTRIBUTIONS OF OUR PAPER

In the quest for competitive advantage, the importance of generating high employee commitment, high trust, and high creativity are paramount objectives that are considered essential for long-term wealth creation (Covey, 2004; Kouzes & Posner, 2012; Christensen & Raynor, 2003; Christensen, 2012). In the pursuit of these objectives, internal marketing programs are increasingly being recognized as critical to establishing organizational cultures that build relationships, enhance productivity, and improve service to customers (cf. Hsu, 2007; Zaman et al., 2012). In explaining the important role of internal marketing and in presenting the eight propositions contained herein, our paper makes five important contributions to the academic and practitioner literature.

- 1) **We reaffirm the importance of the role of internal marketing in the modern organization as a key to wealth creation and acquiring competitive advantage, with emphasis on the importance of employees as the source of tacit relationships with customers.** In today's knowledge-, wisdom-, and information-based economy, the role of employees in adding value to individual customers is considered increasingly important (Covey, 2004; Christensen, 2012; Kouzes & Posner, 2012).
- 2) **We emphasize the importance of ethical decision-making and the importance of explaining those decisions to employees as a key element of internal marketing.** Although much has been written about the relationship between ethical decision-making and the creation of commitment and trust (Mayer, Davis & Schoorman, 1995; Gullett, et al., 2009; Kouzes & Posner, 2011 & 2012), the Hosmer (2010) model that we present herein is superb at explaining the importance of ethical decision-making and

applies well to leaders and organizations seeking to create that commitment and trust.

- 3) **We reinforce the importance of high performance management systems as a key strategic element in implementing internal marketing.** Pfeffer's (1998) explanation of the key role of leaders and organizations in building high performance management systems offers a superb blueprint that describes both why organizations must treat people as valued partners to earn their commitment and what policies and programs need to be incorporated to make these systems effective. As ethical stewards of organizations, leaders that treat employees as "owners and partners" (Blcok, 1993) are more likely to be effective in developing effective internal marketing programs.
- 4) **We emphasize the importance of leaders and organizations understanding the most effective ways to deal with OCBers who are key to creativity, innovation, and excellence.** We explain the duties and obligations that leaders owe to those whom they lead and serve (cf. DePree, 2004) and explain how leaders can more effectively address ethical obligations owed to those extra-role performers who are so key to adding wealth (Caldwell, et al., 2011).
- 5) **We reaffirm the importance of investing in creating a learning culture, despite the difficult financial times, in implementing an internal marketing program.** Cutting back in training and development and reducing the amount or quality of training in organizations is not a wise investment, despite today's economic pressures (Reich, 2011). Internal marketing depends upon investing in employees' training needs, despite the economic pressures facing modern organizations (Rao, 2009).

CONCLUSION

The investment in employees and their role as the keys to competitive advantage have been increasingly recognized in today's global market place (Christensen & Raynor, 2003). Internal marketing has been identified by many scholars as a vital element to creating high trust and commitment and to improving productivity, quality, and profitability (Tsai & Tang, 2008). Although much has been written about the importance of creating strong partnerships with employees (cf. Boyatzis & MsKee, 2005), much more needs to be understood and applied about the importance of treating employees as valued partners in making internal marketing truly effective (Cameron, 2003).

Testing the propositions set forth in this paper provides scholars and practitioners with an opportunity to assess the effectiveness of organization efforts to build employee partnerships in a world that is constantly changing (Buchholz & Rosenthal, 2005). In context with the very difficult economic times and the increasing competitiveness of today's business environment, today's leaders and academicians would benefit by more clearly understanding the keys to creating long-term wealth and competitive advantage by internal marketing.

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