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The Role of Internal Marketing in Creation of Sustainable Competitive Advantages

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ABSTRACT

In today's knowledge-based and service-oriented economy, organizations must acquire a competitive advantage in order to survive and prosper. Intangible assets such as human resources of an organization play a crucial role in its success. This can be especially seen in service organizations. Having a competent and service-oriented workforce is the most essential parameter in insuring lasting success of an organization. Furthermore, providing high quality service is a survival issue for service organizations. Organizations must concentrate their efforts in instilling an organizational culture that views employees as internal customers. Moreover, they must satisfy the needs of their external and internal customers equally. In essence, internal marketing attempts to achieve these goals. In this study we investigate the role of internal marketing in achieving a sustainable competitive advantage.

Key words: Internal marketing, human capital, service quality, competitive advantage

INTRODUCTION

Nowadays organizations operate in a dynamic, ambiguous and challengeable environment. One of the most important characteristics of this context is continuous changes and transformations that happen in the social and cultural (such as modifications in the way of thought, ideology and social value), political, economical, technological and international situations. Environmental dynamics and increasing competition lead organizations to become more competitive and to be sensitive about customer's satisfaction (Aghazadeh *et al.*, 2007). One of the most factors to realize this objective, especially in service organizations, is service quality. The quality of service is dependent upon a variety of factors. A factor which may contribute to the sustainable upgrading of the service quality and faithfulness of customers is internal marketing. Internal marketing is a major activity in the development of a customer-oriented organization. The main objective of internal marketing is to promote the knowledge about internal and external customers and lift the operational obstacles which may be in the way of making the services based on values and organizational effectiveness (Christopher *et al.*, 1991). Internal marketing views the employees and jobs as internal customers and internal products, respectively (Lee and Chen, 2005). In the market-oriented literature and strategic management, more attention was paid to the external factors of an organization, although you can see today that a balance should be created between the external and internal factors, as both are critical for a strategy to be successful (Lings, 1999). Foreman and Money (1995) held that when an organization has an internal chain of supply comprising internal customers and suppliers, the organization's management ought to view the organization as a market. This means that

meeting the internal customer needs will put the organization in better conditions to provide high-quality services to the external customers (Foreman and Money, 1995). Therefore, internal marketing is an important activity in the development of a customer-oriented organization.

SERVICE MARKETING

The number of service organizations in today's economy, which is of a service nature, has grown dramatically; as a result, competitions among such organizations increase and become more complicated. One of the most important means to satisfy the customers' needs and ensure their loyalty is service quality (Seyed Javadein *et al.*, 2008; Rayej *et al.*, 2010; Soltani *et al.*, 2008). Reichheld and Sasser (1999) held that offering proper services quality is a substantial strategy for the organization to survive (Reichheld and Sasser, 1999). Quality has two dimensions: technical and functional (Kotler and Keller, 2006). The technical quality points to the tangible aspects of services and that how the services are provided. The functional quality deals with the behavior of the employees providing a typical service and the interaction between the employees and customers over the process by which the services are provided. There is a relation between the activities of an organization's personnel and the customers. Such activities serve as a critical factor in the development of efficient relations with customers. Therefore, the skills, attitudes and behavior of personnel are important, as people will eventually be responsible to render services of a quality which is expected by the customer. Among the most important factors which may employ the personnel's behaviors, attitudes and interaction to render services of even better qualities is internal marketing. The philosophy of internal marketing is an important thing that is the personnel are counted as internal customers. Kotler and Keller (2006) stated that services require three types of marketing: internal, external and interactive (Fig. 1). External marketing means preparation, pricing, distribution and promotion of services render to customers. Interactive marketing explains the personnel's skillfulness in rendering services to the customer and is mostly concerned with the personnel's way of behaving toward the customer. Internal marketing gives priority to the training and motivation of personnel in rendering services. According to Kotler and Armstrong (1999) internal marketing must be ahead of external marketing. Narver and Slater (1990) remarked that the development of an internal marketing approach will lead to the creation of a certain culture which will act to form behaviors, in a most efficient and effective manner, that will enable rendering superior services to customer. Therefore, the most important element of the service marketing is internal marketing. When an organization lacks the internal resources and human capital appropriate to its marketing goals and strategies it will be so hard to attain the goals. A strategy will be an efficient one if the internal and external settings of the organization are in harmony with regard to the strategy.

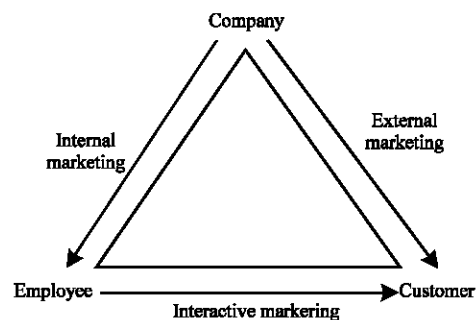


Fig. 1: Marketing in Service Industry (Kotler and Keller, 2006)

INTERNAL MARKETING

A very important element in strategic planning is the core competency of an organization. If the core competency is properly managed, it will bring a competitive advantage for organization (Hitt *et al.*, 2007). One form of competitive advantage is offering proper services to customers, whose result will be the customer's robust loyalty. One of the approaches to the attainment of this objective is internal marketing, which is a key factor in offering superior services and success of the external marketing of an organization (Greene *et al.*, 1994; Rayej *et al.*, 2010). Bery and Gronroos introduced the concept of internal marketing in the 1980's. Heart of internal marketing is that employees constitute the internal market of an organization (Papasolomou-Doukakis, 2002). This means that organization has an internal market with internal customers and suppliers and meeting the needs of the internal customers is essential to the success of the organization in external market.

Need for real enhancement of an organization's capabilities to provide customers with valuable services which are in the right proportion to the customers needs, as the fundament of a competitive strategy and competitive advantage, has become a very important issue in the management literature (Varey, 1995). Today, human capitals and intangible assets are counted as the ultimate source of sustainable value (Cahill, 1995). Therefore, employee of an organization bears a major part of attaining a sustainable competitive advantage. If the needs and expectations of the this people don't met and if employee viewed as an expense and not as a major capital of the organization, it will be impossible to provide customers with proper, valuable services. The main assumption in internal marketing is that the personnel should be viewed as the most valuable assets of the organization and should be treated as internal customers, an approach which will cause the organization's attainment of competitive advantage (Papasolomou-Doukakis, 2002). In service management, internal marketing is viewed as employing the concept of marketing in the internal environment of the organization (Varey, 1995).

DEFINITION

Internal marketing is focused on proper internal relation between people at all levels of an organization (Rayej, 2008). Therefore, a service-oriented and customer-oriented approach will be promoted between the employees in contact with customers (Gronroos, 2000). So, internal marketing acts as a comprehensive management process that integrates various functions of an organization in two ways. First, it will have all employees at all levels of the organization experience and understand various business and activities and processes in the context of an environment. Second, it will cause all the employees to become prepared and enthusiastic in a service-oriented way (Gronroos, 2000). Cahill (1995) perceives internal marketing as a type of philosophy of strategic management that ensures the attraction, development, motivation and maintaining prominent employees by creating a high-quality working environment by meeting their needs. Internal marketing is a management technology to resolve the issues relating to the productivity of internal services, market orientation, successful execution of appropriate programs and customer orientation (Gronroos, 2000). Hogg and Carter (2000) defined internal marketing as an integral part of market orientation which requires using marketing techniques inside an organization in order to create and communicate the values in a company. One of the most comprehensive definitions of internal marketing was proposed by Rafiq and Ahmed (2000), that is an organized attempt using a marketing-like approach in order to cope with the

organizational resistances to changes and balance, motivate and coordinate the employees in line with efficient execution of strategies with the aim of the customers satisfaction through the process of creating motivated, customer-oriented employees.

Gummesson (1991) perceived internal marketing as a critical component of market orientation and Kotler and Armstrong (1999) stated that internal marketing ought to be ahead of external marketing. Therefore, internal marketing is critical to an organization for creating a value for customers, both internal and external ones.

APPROACHES TO INTERNAL MARKETING

Gronroos (2000) states that the marketing process includes four parts:

- Understand the market and individual customers
- Select suitable situations and market sectors and customers
- Select programs and activities for planning and execution
- Prepare the organization for the execution of the plans (internal marketing)

Gronroos (2000) perceived the fourth part as very critical. He states that once the activities and programs has been accepted inside the organization, the program may be executed properly and be successful for the external customers. It might be argued that internal marketing is the same thing as human resources; however, human resources management and internal marketing are not the same, although they share many aspects. Human resources management provides tools that are used in internal marketing, such as training, employment and job career planning; however, internal marketing provides instructions on how to use such tools (Gronroos, 2000).

The concept of internal marketing has introduced three topics to human resources management of a typical organization:

- Employees constitute the first market for an organization (i.e., an internal market)
- An active, coordinated and objective-oriented approach to individual-oriented attempts, where the internal processes and activities will be combined with the external efficiency
- Emphasis on viewing individuals, duties and internal departments as internal customers

Therefore, one can say that internal marketing originates in the concepts of marketing, human resources management, organizational behavior management and strategic management. As a result, one can predict to identify various statements and approaches in the internal marketing literature. There is no common consensus on the aspects and approaches of internal marketing (Rafiq and Ahmed, 1993), although three major approaches to internal marketing have been identified in the literature:

The first approach is focused on the employees who are in contact with customers in the processes of service provision and is based on the assumption that happier employees who have more incentive to provide services to customers will be necessary (Berry and Parasuraman, 1991; Berry, 1981).

The second approach is based on the process of providing services throughout the organization and is based on the philosophy of a Total Quality Management (TQM) and assumes that service may be created in a chain form for delivery to customers. In this approach to internal

marketing, every department treats its output's receiver as an internal customer and attempts to obtain the satisfaction of the internal customers (Rafiq and Ahmed, 1993; Gummesson, 1987).

The third approach is focused on the marketing of marketing concepts and creation of common values among all employees. In this approach to internal marketing, the internal sections are considered as the receivers of the assignment and strategy of the organization and objective which is attained by proper relations (Piercy and Morgan, 1991; Piercy, 1995).

The first approach is one that views the internal marketing from the viewpoint of organizational behavior and marketing and the third one treats it from the marketing and strategic management viewpoint, while the second approach is a comprehensive approach which looks to internal marketing in a systemic, comprehensive way. In this approach, the viewpoints of strategic management, marketing, human resources management and organizational behavior are integrated and a total image may be developed of internal marketing in which the whole organization contributes to the process of rendering service to the external and internal customers. It may be concluded that the marketing department is not the only one engaged in the marketing process of an organization, but the whole organization and all the employees contribute to the process and their failure to contribute will cause the process to fail.

MIXTURE OF INTERNAL MARKETING

The clearest picture depicted of internal marketing mixture was provided by Piercy and Morgan, 1991) and was developed by Rafiq and Ahmed (1993). Piercy and Morgan (1991) stated that using internal distribution, communication, price and product will facilitate the process of organizational change through techniques and systems, the structure of power and political culture inside the organization. Rafiq and Ahmed (1993) perceived internal products as the values and attitudes needed by employees to achieve successful marketing strategies and training courses to promote the knowledge of the internal customers. They have defined the price as an expense which the employees make to obtain new knowledge. Internal promotion has been considered as an effective relation with the employees, such as using face-to-face interactions, recognition and reward systems. They also pointed out to the means of products distribution to the internal customers as an internal place. These means of distribution may be presented in such forms as official meetings and using consultants to provide advanced inter-organizational training (Rafiq and Ahmed, 1993; Piercy and Morgan, 1991; Keller *et al.*, 2006). Piercy and Morgan (1991) and Rafiq and Ahmed (2000) attempted to show the use of four P's (4Ps) in a typical organization. Table 1 contains the constituting elements of internal marketing from the viewpoint of other researchers:

Table 1: Constituting elements of internal marketing

Researcher	Constituting elements of internal marketing
Ballantyne (2000)	Making the employees engaged in the development of policies, procedure and processes, one-way feedback, training, distribution of information, mutual relation, team learning
Gronroos (2000)	Training, management support and internal relation, mass internal relations and information support, human resources management, mass foreign relations, development of systems and technological support and enhancement of internal service
Pitt and Foreman (1999)	Expense of transactions among the internal customers and internal suppliers
Finn <i>et al.</i> (1999)	Respect, accuracy and speed, useful information, keeping informed and active feedback
Foreman and Money (1995)	Development of employees, reward, perception and internalization of the organization's vision
Tansuhaj <i>et al.</i> (1991)	Positive attitude toward the employees, having them participate in the employment process, official and one-the-job training, leading them toward attainable individual goals, an open environment for communication, mutual feedback, help to understand the relation between operation and reward

Table 2: A comparison of mixtures of internal marketing and external marketing

Mixture of internal marketing	Mixture of external marketing
At fundamental level: job	
At strategic level: values and attitudes	Product
At duty level: new functional measures, new way in customer management	
Psychological expense of learning new working methods	Price
Motivating employees and influencing the employees attitudes	Promotion/relations
Meeting and conference	Distribution
Organizational and job structures and departments	Market segmentation
Study the employee attitudes; study the employees degree of satisfaction	Market research

One of the most important differences between internal and external marketing is in the marketing mixture. The following table summarizes a review of the literature on internal marketing and its main elements (mixture of internal marketing). A major difference between the two originates in the fact that internal marketing focuses on internal market and external marketing focuses on external customers and market. One of the main elements of the external marketing mixture is product. In internal marketing, product may be studied at the three levels of fundamental, strategic and duty. Product at fundamental level is a job, which has been considered by most authors. At the strategic level, the product includes values and attitudes existing in the organization and at the duty level it includes new functional measures and new ways in customer management. Another element in the mixture of external marketing is price, which is the psychological expense of learning new ways of work. Another important factor which is very important in external marketing is promotion (or relations). In internal marketing, this important factor refers to the motivation of employees and influencing employee attitudes. If the employees do not have sufficient incentive or their attitudes are not in line with the philosophy of the organization or its values, the organization will undergo deviation and failure. Therefore, the promotion or relations are so critical elements of internal marketing. Another element of external marketing is distribution. Distribution is a very important part of internal market. Meetings, conferences, seminars and face-to-face visits are some examples. Distribution may be used to express the goals and strategies as well as to have the employees contribute to the process of decision making (Table 2).

COMPETITIVE ADVANTAGE

A typical organization will have a competitive advantage when the strategy that is being used by the organization may not be imitated by competitors, or will take the competitors a high cost to imitate (Hitt *et al.*, 2007). By having a competitive advantage, a company will be able to perform works better than its competitors, or may do the works in a way that may not be imitated by competitors (Hitt *et al.*, 2006). By doing works differently from, or better than, the competitors, the organization will be able to provide more valuable products and services to the customers. It is the competitive advantage, resources and the capabilities of an organization that can be valuable, rare, irreplaceable and incapable of being imitated (Hitt *et al.*, 2007). In today's world, thoroughly competitive, the traditional sources of competitive advantage such as technology, economic scale have declined under the influence of such factors as globalization and environmental changes. Nowadays, a skillful, motivated and flexible workforce will bear the load of creation of a sustainable competitive advantage.

Table 3: Human capital and competitive advantage (Hitt *et al.*, 2006)

Performance	Type of competitive advantage	Hardly capable of imitation	Rare	Valuable
Below average	Competitive loss	--	--	No
Average	Competitive balance	--	No	Yes
Above average	Temporary competitive advantage	No	Yes	Yes
Above average	Sustainable competitive advantage	Yes	Yes	Yes

Human capital: The ultimate source of attaining a sustainable competitive advantage:

The resources of an organization consist of two sources: Tangible and intangible resources. Tangible resources of an organization include the assets, equipment, machinery and physical property. In the past, these types of sources were counted as the major tools of competition in the market. Intangible resources include human capital, brand, confidence between the directors and the grass roots and relations with the suppliers and customers. The maximum value will be created when the whole intangible assets of the organization are brought into harmony with each other as well as with the tangible assets and the strategy (Hitt *et al.*, 2007). Among the most important intangible assets is the human capital. Human capital includes the skills, knowledge and attitudes of the employees. Today, all organizations create and maintain, their sustainable value by use of such intangible assets as human capital. How the human capital will bring a sustainable competitive advantage to an organization? Hitt *et al.* (2006) stated that when a human capital is valuable, rare and hardly capable of being imitated it may create a sustainable competitive advantage.

If the human capital in an organization meets all the conditions (i.e., valuable, rare and hardly capable of imitation), it will then create a sustainable competitive advantage: human capital should be of value for the execution of an organization's strategy, should be rare and should be hardly capable of imitation by competitors (Table 3).

Being valuable, rare and hardly incapable of imitation are necessary for a human capital to create a competitive advantage, but not sufficient. As a result, the three factors determine the potentiality of human capital. In order for an organization to turn the human capital from potential to active, it will need to use the human capital as an effective instrument. If the organization has a smart, skillful workforce, so that the workforce is rare, valuable and incapable of imitation in the industry, the human capital will be unable to create a competitive advantage unless it is protected and motivated by the directors. Therefore, with regard to the persons, the competitive advantage is dependent not only upon the skills and attitudes of persons, but upon the way of behaving and the manner they are employed in the organization. The manner of behavior and the way they are employed, motivation and the relation between directors and employees, are all influenced by internal marketing in an organization (Hitt *et al.*, 2006).

Internal marketing and competitive advantage: To achieve a sustainable competitive advantage is so critical for organizations which work in a complicated world competition environment and the service and scientific economy. Such competitive advantage will be attained by the satisfaction and faithfulness of customers. In service organizations, the most important competitive advantage is the quality of services. Kotler and Armstrong (1999) stated that in service organizations, one of the basic ways that can make a typical organization distinguished from its competitor is service quality. The quality of services provided is dependent upon a number of factors such as the place services are provided, process of rendering services, the manner services

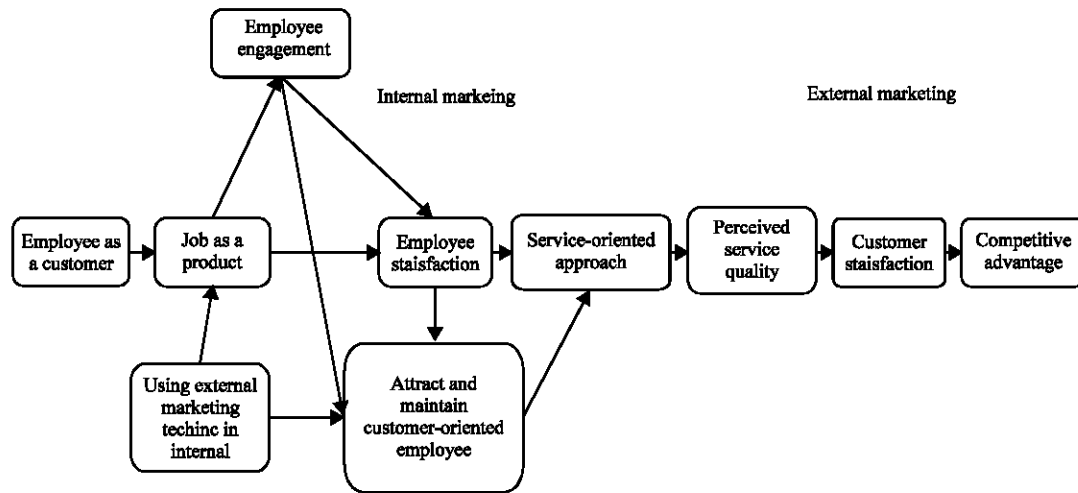


Fig. 2: Relation between internal marketing and competitive advantage (Berry, 1981)

are provided, etc. One of the most factors that influence the quality of services is the organization's employees. Employees that are directly in contact with customers in the process of rendering services play the main role in creating values and perception of the quality of service on the customer's part. Therefore, paying attention to the employees is so important, employees who bear the load of competitive advantage in today's world. By attracting and maintaining customer-oriented and service-oriented employees, organizations may distinguish themselves from their competitors. Internal marketing may play a major role in line with this. Internal marketing perceives the employees as customers, who are as much important as the external customers to the organization. Internal marketing is focused on proper internal relations between persons at all levels in an organization. Therefore, a service-oriented and customer-oriented approach is created among the employees in contact with customers (Gronroos, 2000).

Figure 2 shows the external marketing model presented by Berry (1981). Berry(1981) argue that treating the employees as internal customers and the jobs as products presented to such employees and using marketing techniques inside the organization will bring about the employees satisfaction (internal marketing). The employee satisfaction will cause services to be rendered to customers with better quality and, as a result, bring about the creation of a sustainable competitive advantage inside an organization (Berry, 1981).

As a result, organizations will be able to create competitive advantage out of their human capital that their human capital is valuable, rare and incapable of imitation by competitors. However, there is a sufficient condition for creating a sustainable competitive advantage: when the employees of an organization are well motivated, main proper, sustainable relations with customers and, most importantly are service and customer-oriented.

Considering Fig. 2 one can deduct that internal marketing is as much important as external marketing and it is of much importance in service organizations. A typical organization can make sure about its marketing strategic successes when it analyzes both internal and external marketing strategies at the same time (Fig. 3). When a company is focused only on external marketing approaches, it will get far from its internal environment, which may cause a strategic deviation in a dynamic environment. If the resources and facilities inside the organization are not in good proportion to the organization's strategies and, in service organizations, if there are not employees

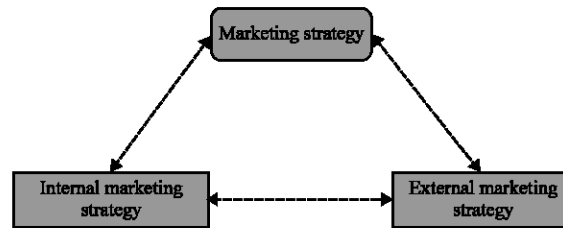


Fig. 3: Systematic approach to marketing strategy

suitable to the type of service to be rendered in the organization, the organization will be unable to achieve its long-term goals and strategies. Therefore, a systematic approach to both internal and external marketing is needed to facilitate attaining a sustainable competitive advantage.

CONCLUSION

Today, intangible assets play a major role in the competitiveness of a business; as such assets are more sustainable and less capable of being imitated. Human capital can be considered as one of the most important intangible assets that includes knowledge, skill and attitudes of employees. As a result, management of the capital is needed to attain competitiveness. A major approach to this is internal marketing, which treats the employees of a typical organization as customers whose needed should be supplied. Managers must understand that their employees' satisfaction is as much-sometimes more-important than satisfaction of external customers. Internal marketing is of an interdisciplinary nature. The philosophy of internal marketing is that employees of an organization constitute its internal market, which has customers and suppliers and as a result, a chain of value if formed inside the organization which must be intended to supply the needs of both the internal and eternal customers. When the internal customers of an organization are satisfied they will perform better and maintain better interaction with the customers. As a result, the customers will get more satisfied, which will bring about their faithfulness in the long run and ultimately a competitive advantage will be obtained from the internal customers. Internal marketing influences the customers' understanding of the quality of services and, on the other hand, can influence both the quality of services and the customers' satisfaction. As internal marketing and the role it can play in organizations has not been of much interest in Iran up to present, the authors recommend that the influence of internal marketing on the quality of services, customers satisfaction and attainment of a competitive advantage be studied, as the quality of services is more based on the relations between the employees and customers.

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