

**INTERNAL MARKETING, INTERNAL SERVICE
QUALITY, EMPOWERMENT, AND BUSINESS
PERFORMANCE: AN EMPIRICAL STUDY OF PRIVATE
HIGHER EDUCATION INSTITUTIONS IN MALAYSIA**

NG PENG LONG

APRIL 2010

**THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY**

In memory of my beloved Parents:

Madam Puah Geok Yen

Mr. Ng Pak Leong

ACKNOWLEDGEMENT

First and foremost, my deepest gratitude goes to my family members who are my source of strength and conviction for realizing a dream that was once considered unfeasible. This starts with my ever-supporting wife, Ms. Tay Puay Kiang, whose undivided love has always showered me with renew energy and spirit. My elder bothers, Mr. Ng Peng Siong and Mr. Ng Peng Kiong, and my elder sister, Ms. Ng Kui Kim, whose unceasing moral support has motivated me to sail through difficulties with faith and confident. Not forget the fondest memory of my parents, Madam Puah Geok Yen and Mr. Ng Pak Leong whose spiritual support have always sharpened my views and thinking horizon with benevolent peace of mind. The dream of getting this study completed will remain a dream without this magnificent family support.

I am greatly indebted to my research supervisor, Dr. Norizan Mat Saad, for his invaluable academic support and guidance for making this study a success. His patience and enthusiastic advice have made the completion of this study a reality. Besides, I am very appreciative to Dr. Nabsiah Abdul Wahid for her guidance and assistance to see me through the completion of this study.

I am also grateful to all the staff from the School of Management, Universiti Sains Malaysia as well as my fellow colleagues in the Ph.D. program for providing me with administrative assistance, academic review and suggestions, and their words of encouragement. I really appreciate all the thoughtful gestures rendered in making my academic pursuit an exciting and meaningful one.

Last but not least, to all of you who have helped in this study in one way or another, please accept my sincerest gratitude and thanks.

TABLE OF CONTENTS

TITLE PAGE	i
DEDICATION	ii
ACKNOWLEDGEMENT	iii
TABLE OF CONTENTS	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
LIST OF EXHIBIT	ix
LIST OF APPENDIXES	x
ABSTRAK	xi
ABSTRACT	xiii

Chapter 1 Introduction

1.1 Background	1
1.2 Problem Statement	5
1.3 Research Objectives	7
1.4 Research Questions	7
1.5 Justifications of Research	8
1.5.1 Conceptual Justifications	8
1.5.2 Theoretical Justifications	9
1.5.3 Managerial Justifications	11
1.6 Definition of Key Terms	12
1.7 Organization of the Remaining Chapters	13

Chapter 2 Literature Review

2.1 Introduction	15
2.2 IM: Concept and Issues	16
2.2.1 Definition of IM	16
2.2.2 IM and Internal Customer Satisfaction	22
2.2.3 IM and Internal Market Place	25
2.2.4 IM and Employee Relations	27
2.2.5 IM and Market Orientation	31
2.2.6 IM and the Antecedents and Consequences of Market Orientation	38
2.2.7 IM and Human Resource Management (HRM)	45
2.2.8 IM and Strategy Implementation/Change Management	54
2.2.9 Empirical Research on IM	56
2.2.10 Limitations of the IM Concept	61
2.2.11 IM Measurements	64
2.3 Internal Service Quality and IM	68
2.3.1 Review on Internal Service Quality	68

2.3.2 Correlation between Internal Service Quality and IM	71
2.3.3 Measurements of Internal Service Quality in Higher Education	77
2.4 Empowerment and IM	81
2.4.1 Review on Empowerment	81
2.4.2 Correlation between Empowerment and IM	85
2.4.3 Measurements of Empowerment	88
2.5 Business Performance: Concept and Measurement	95
2.6 Conclusion and Summary of Key Findings	97
2.7 Theoretical Framework	103
2.8 Research Hypotheses	106

Chapter 3 Methodology

3.1 Introduction	108
3.2 Research Design	108
3.3 Research Test Ground: Malaysian Private Higher Education	109
3.4 Population and Sample	111
3.5 Unit of Analysis	112
3.6 Measurement	114
3.6.1 Internal Marketing	115
3.6.2 Internal Service Quality	119
3.6.3 Empowerment	120
3.6.4 Business Performance	121
3.7 Questionnaire Design	122
3.8 Administration of the Mail Survey	123
3.9 Data Analysis Techniques	124
3.9.1 Descriptive Statistics	125
3.9.2 Factor and Reliability Analyses	125
3.9.3 Test of Differences	127
3.9.4 Correlation Analysis	127
3.9.5 Multiple Regressions	128
3.9.6 Hierarchical Regression Analysis	129
3.10 Summary	130

Chapter 4 Data Analysis and Findings

4.1 Introduction	131
4.2 Profile of Sampled Respondents	131
4.3 Goodness of Measures: Factor and Reliability Analyses	135
4.3.1 Factor and Reliability Analysis on Internal Marketing Practices	135
4.3.2 Factor and Reliability Analysis on Perceived Internal Service Quality	138
4.3.3 Factor and Reliability Analysis on Empowerment	139
4.3.3 Factor and Reliability Analysis on Business Performance	140

4.4 Descriptive Analysis	141
4.4.1 Response Bias Analysis	143
4.4.2 Test of Differences	145
4.5 Re-stating of Hypotheses	148
4.6 Hypotheses Testing	150
4.6.1 Correlation Analysis	151
4.6.2 Multiple Regression Analysis	154
4.6.2.1 The Relationship between IM Practices and Perceived Internal Service Quality	154
4.6.2.2 The Relationship between IM Practices and Business Performance	155
4.6.2.3 The Relationship between Perceived Internal Service Quality and Business Performance	157
4.6.3 Multiple Regression Analysis: Testing of Mediating and Moderating Effect	158
4.6.3.1 The Mediating Effect of Perceived Internal Service Quality on the Relationship between IM Practices and Business Performance	159
4.6.3.2 The Moderating Effect of Empowerment on the Relationship between IM Practices and Perceived Internal Service Quality	161
4.7 Summary	168

Chapter 5 Discussion and Conclusion

5.1 Introduction	170
5.2 Recapitulation	170
5.3 Discussions	173
5.3.1 IM Practices and Perceived Internal Services Quality	173
5.3.2 IM Practices and Business Performance	176
5.3.3 Perceived Internal Service Quality and Business Performance	180
5.3.4 Mediating Effect of Perceived Internal Service Quality	181
5.3.5 Moderating Effect of Empowerment	183
5.4 Implications of the Study	187
5.4.1 Theoretical Implications	187
5.4.2 Managerial Implications	191
5.5 Limitations of the Study	193
5.6 Suggestions for Future Research	196
5.7 Conclusion	197

List of Tables

Table 2.1 Summary of IM Definitions and Its Key Dimensions	20
Table 2.2 Main Theoretical Approaches to Market Orientation	34
Table 2.3 Antecedents of Market Orientation	38
Table 2.4 Consequences of Market Orientation	42
Table 2.5 Summary of Selected Empirical Studies on IM	57
Table 2.6 Summary of Selected Studies on IM Measurements	67
Table 4.1 Summary of Sent, Received, Spoiled, and Usable Questionnaires	132
Table 4.2 Demographic Profile of Respondents	132
Table 4.3 Factor and Reliability Analysis on Internal Marketing Practices	136
Table 4.4 Factor and Reliability Analysis on Perceived Internal Service Quality	139
Table 4.5 Factor and Reliability Analysis on Empowerment Perceptions	140
Table 4.6 Factor and Reliability Analysis on Business Performance Perceptions	141
Table 4.7 Descriptive Statistics of the Study Variables	141
Table 4.8 Chi-square for Demographic Variables	143
Table 4.9 Differences in Financial & Marketing Indicators against Gender	145
Table 4.10 Differences in Business Deficiency Indicators against Gender	145
Table 4.11 Differences in Financial & Marketing Indicators against Age, Race, Education Level, Year of Service, Type of Institution, Number of Employees, Number of Students, and Monthly Business Income	145
Table 4.12 Differences in Business Deficiency Indicators against Age, Race, Education Level, Year of Service, Type of Institution, Number of Employees, Number of Students, and Monthly Business Income	147
Table 4.13 Re-stated Hypotheses	148
Table 4.14 Inter-items Correlations of the Study Variables	153
Table 4.15 Results of Multiple Regression Analysis between IM Dimensions and Perceived Internal Service Quality	154
Table 4.16 Results of Multiple Regression Analysis between IM Dimensions and Business Performance Dimensions	156
Table 4.17 Results of Multiple Regression Analysis between Perceived Internal Service Quality and Business Performance Dimensions	157
Table 4.18 Results of Multiple Regression Analysis: The Mediating Effect of Perceived Internal Service Quality on the Relationship between IM Practices and Financial & Marketing Indicators	159
Table 4.19 Results of Multiple Regression Analysis: The Mediating Effect of Perceived Internal Service Quality on the Relationship between IM Practices and Business Deficiency Indicators	160
Table 4.20 Results of Multiple Regression Analysis: The Moderating Effect of Empowerment Influence on the Relationship between IM Practices and Perceived Internal Service Quality	162
Table 4.21 Results of Multiple Regression Analysis: The Moderating Effect of Empowerment Value on the Relationship between IM Practices and Perceived Internal Service Quality	163

List of Figures

Figure 2.1 Customer Satisfaction Dimensions in Internal and External Markets	24
Figure 2.2 Components of IM Mix Factors	41
Figure 2.3 Essentials of Internal Marketing	49
Figure 2.4 Internal Marketing Management Model Adapted from SERVQUAL	74
Figure 2.5 Structure of Empowerment Measuring Tool	90
Figure 2.6 A Four-Quadrant Taxonomy for Organizational Approaches to Empowerment	92
Figure 2.7 A Theoretical Model of Intrapersonal Empowerment in the Workplace	94
Figure 2.8 Theoretical Framework	106
Figure 4.1 The Impact of Empowerment on the relationship between Proactive HR Approach and Perceived Internal Service Quality	165

List of Exhibit

Exhibit 4.1 Summary of Hypotheses Testing Results

166

List of Appendices

Appendix A	The Covering Letter	212
Appendix B	Research Questionnaire	213
Appendix C	Frequency Tables for Respondents' Profiles	219
Appendix D	Factor Analysis on IM Practices	222
Appendix E	Factor Analysis on Perceived Internal Service Quality	226
Appendix F	Factor Analysis on Empowerment	228
Appendix G	Factor Analysis on Business Performance	231
Appendix H	Reliability Analysis of IM Practices Constructs	233
Appendix I	Reliability Analysis of Perceived Internal Service Quality	237
Appendix J	Reliability Analysis of Empowerment	239
Appendix K	Reliability Analysis of Business Performance	241
Appendix L	Non-Response Bias Analysis (Chi-square test)	243
Appendix M	Independent T-Test on Gender	248
Appendix N	One-way ANOVA on Financial & Marketing Indicators	249
Appendix O	One-way ANOVA on Business Deficiency Indicators	257
Appendix P	Correlations Matrix	265
Appendix Q	Regression Results for IM Practices and Perceived Internal Service Quality	266
Appendix R	Regression Results for IM Practices and Financial & Marketing Indicators	269
Appendix S	Regression Results for IM Practices and Business Deficiency Indicators	272
Appendix T	Regression Results for Perceived Internal Service Quality and Financial & Marketing Indicators	275
Appendix U	Regression Results for Perceived Internal Service Quality and Business Deficiency Indicators	278
Appendix V	Mediating Effect of Perceived Internal Service Quality on the Relationship between IM Practices and Financial & Marketing Indicators	281
Appendix W	Mediating Effect of Perceived Internal Service Quality on the Relationship between IM Practices and Business Deficiency Indicators	286
Appendix X	Moderating Effect of Empowerment Influence on the Relationship between IM Practices and Perceived Internal Service Quality	291
Appendix Y	Moderating Effect of Empowerment Value on the Relationship between IM Practices and Perceived Internal Service Quality	296

**PEMASARAN DALAMAN, KUALITI PERKHIDMATAN
DALAMAN, PEMBERI KUASA, DAN PRESTASI PERNIAGAAN:
SATU KAJIAN EMPIRIKAL DI INSTITUSI-INSTITUSI
PENGAJIAN TINGGI SWASTA DI MALAYSIA**

Abstrak

Kajian ini bertujuan menilai satu rangkakerja untuk melaksanakan pemasaran dalaman di dalam sektor pengajian tinggi swasta yang terdapat di Malaysia. Kesan pembolehubah penyederhana pemberian kuasa dari segi hubungan di antara amalan pemasaran dalaman dengan jangkaan kualiti perkhidmatan dalaman telah diuji. Kajian penyelidikan menggunakan soal selidik dilakukan sendiri dijalankan di antara 325 institusi-institusi pengajian tinggi swasta terletak di Pulau Pinang, Lembah Klang dan Johor. Hasil kajian ini telah menunjukkan bahawa amalan pemasaran dalaman merangkumi empat komponen iaitu koordinasi dan latihan jabatan, pendekatan sumber manusia yang pro-aktif, keupayaan kepimpinan dan komunikasi dalaman. Daripada empat komponen ini, terdapat korelasi yang positif di antara koordinasi dan latihan jabatan serta komunikasi dalaman dengan jangkaan kualiti perkhidmatan dalaman. Sehubungan itu, koordinasi dan latihan jabatan serta pendekatan sumber manusia yang pro-aktif juga didapati berkorelasi secara positif dengan petunjuk kewangan dan pemasaran. Tambahan pula, jangkaan kualiti perkhidmatan dalaman juga didapati menjadi pembolehubah pengantara bagi koordinasi dan latihan jabatan dengan petunjuk kewangan dan pemasaran. Tidak ketinggalan juga, pemberian kuasa didapati mempunyai kesan pembolehubah penyederhana di antara pendekatan sumber manusia yang pro-aktif dengan jangkaan kualiti perkhidmatan dalaman. Penemuan-penemuan kajian menyimpulkan bahawa pemasaran dalaman bertindak sebagai satu penyatuan falsafah

pengurusan yang fokus kepada aktiviti-aktiviti organisasi bagi mewujudkan dan mengekalkan hubungan-hubungan dalaman yang sesuai supaya kualiti perkhidmatan dalaman dapat dikukuhkan. Amalan-amalan pemasaran dalaman mencadangkan keperluan untuk memahami dan menguruskan semua hubungan dalaman, fungsi-fungsi dan interaksi bagi mewujudkan satu persekitaran kerja dalaman yang sesuai.

INTERNAL MARKETING, INTERNAL SERVICE QUALITY, EMPOWERMENT, AND BUSINESS PERFORMANCE: AN EMPIRICAL STUDY OF PRIVATE HIGHER EDUCATION INSTITUTIONS IN MALAYSIA

Abstract

This study aims to examine an IM theoretical framework in the Malaysian private higher education industry. The moderating effect of empowerment between the relationship of IM practices and perceived internal service quality is being examined. Survey research using self-administered questionnaires is carried out on 325 private higher education institutions located in Penang, Klang Valley and Johor. The results of this study indicate that IM practices comprise of four components, namely departmental coordination and training, proactive HR approach, leadership capability, and internal communication. From the four components, departmental coordination & training and internal communication are positively correlated with perceived internal service quality. Besides, departmental coordination & training and proactive HR approach are found to be positively correlated with financial and marketing indicators. In addition, perceived internal service quality is found to be mediating the relationship between departmental coordination & training and financial & marketing indicators. Also, empowerment influence is found to be moderating the relationship between proactive HR approach and perceived internal service quality. The findings of the research conclude that IM practices act as an integrating philosophy of management focusing on organizational activities to create and maintain appropriate inter-linkages so as to deliver strong internal service quality. IM practices propose the need to understand and manage all internal relationship, functions and interactions in order to create a right type of internal working environment.

Chapter 1

Introduction

1.1 Background

Internal marketing (IM) has lead to a number of organizational improvements in terms of bringing greater satisfaction to both internal and external customers. It is an organizational tool, whereby the typical marketing techniques and applications used for satisfying external customers are now widely “borrowed” and applied within the organization to satisfy internal customers (i.e. employees) (Varey, 1995). The underlying premise of IM indicates that in order to satisfy external customers, it is desirable, if not a necessity, to have a satisfied workforce who are motivated to their job (George, 1990). The logic of this underlying premise implies that by duly satisfying the needs of internal customers, an organization will and should be in a better state of delivering quality services required by external customers.

The concept of IM attempts to apply the marketing techniques and tools within the organization, whereby the focus point is on the development and improvement of the employee’s well-being by looking at their needs and wants and finds ways to satisfy them. According to Piercy and Morgan (1991), IM intends to bring about the application of the external 4Ps of marketing management approach into the workplace which serves as an internal market. By adopting such as an approach, employees who are the service providers representing the organizations will be treated as the internal customers whose needs and wants must be fulfilled before they satisfy the needs and wants of the external customers (Berry, 1981).

Many organizations, particularly those involved in the service industry, have benefited from the concept of IM in which the needs and wants of external customers are better served as a result of increased motivation and satisfaction from the employees. This can be traced back towards the end of 1970s and beginning of 1980s where the concept of IM first started to emerge in service quality literature (Berry, 1981; Gronroos, 1981, 1985). Since then, the internal customers' satisfaction is deemed to be the prerequisite of external customers' satisfaction, and IM is made to be one of the corporate tools in improving organizational performance (Ahmed et al., 2003; Tansuhaj et al., 1991).

An increasingly service-oriented economy has made the attraction and retention of customers necessary for sustainable competitive advantage. Generally, delivery of quality service products to external customers has become a main agenda for organizations to win over customer's trust and achieving sustainable long-term business performance. However, delivering quality service products will not be possible if internal customer needs are not fulfilled. To achieve a balanced focus of taking care of internal customer needs which will then help to improve service quality to external customers, organizations must focus their effort on internal service quality which aims to satisfy the needs and wants of internal customers. In essence, efforts on internal service quality help organizations to develop and sustain an organization culture that emphasizes internal customer well-being as a means to attract and retain external customer patronage (Bruhn, 2003).

Organizations today are undergoing tremendous changes and experiencing greater competition as a result of globalization, deregulations, and technology advancement. This

list will be expanding continuously alongside with time changes as new needs surface. This fast-changing business environment requires organizations to be adaptive and responsive to the prevailing customer's demands so as to stay competitive and be sustainable in the long run. With such grueling challenges ahead for all organizations to survive and prosper in an increasingly competitive business environment, IM which focuses on establishing, maintaining, and refining employees' motivation and satisfaction has become imperative for organizations to seriously adopt as an organization-wide philosophy. The concept of IM which aims to deliver high quality service products to internal customers and strives to fulfill their needs has prepared employees well for the challenges of service encounter with external customers.

Employee performance, particularly those who are at the forefront of servicing and interacting with customers, directly influences an organization's performance. In the service industry, the performances of service providers who are visibly seen and evaluated by the customers will significantly affect the level of satisfaction experienced by the customers. To ensure that the performance of service providers is on par with the customer's expectations, thus bringing about better service quality that will lead to good business performance, IM can be used to essentially improve internal service quality that sees it acts as a corporate tool to attract, develop, motivate, and retain qualified, competent service providers (Berry and Parasuraman, 2000). As argued by the authors, IM helps managers to "sell" a job to employees that attract and sustain their investment of time, energy, and ego to the organization just as any other product that must fulfill customer's requirements to achieve success.

IM suggests that organizations that are more capable of producing customer conscious employees will undoubtedly be more competitive compared to other competitors that exist in the same industry (Dunne and Barnes, 2000). Hence, in order to effectively implement the concept of IM, organizations need to pay serious attention to internal service quality which targets the well-being of internal customers. In addition, internal service quality also helps organizations to improve its ability to recruit, train, motivate, and consistently monitor employee job performance and contributions required to deal with intense market competition (Berry, 1981; George, 1990). Given that the internal service quality encourages organizations to make necessary efforts and initiatives to increase internal service level amongst different departments, it serves as an impetus for various departments to interact and integrate between one another in providing high levels of internal services within the internal market. This leads to the integration of inter-functional activities which bring about high output value to internal customers. At the same time, internal customers who are servicing the external customers will also be in a better position to deliver the highest possible value to external customers (Conduit and Mavondo, 2001).

The success of the service industry businesses is, to a large extent, dependent on the ability of the service organizations to deliver high service quality. Given the unique nature of services, particularly the element of simultaneity of production and consumption of service encounter, it was argued that contact employees should be given a degree of discretion or be empowered when dealing with customers (Rafiq and Ahmed, 1998). In an interactive nature of service encounter, contact employees who can exercise their discretion based on the service encounter needs will stand a better position to

improve sales, rectify service delivery mistakes and enhance customer satisfaction (Gronroos, 1990). Empowerment of the employees is therefore a critical element to satisfy customer expectations during service encounters that require instant responses and actions. In the service delivery process, the ability to employ discretion at a given point of service encounter will allow such employees to respond to customer requests better and faster, thus improve the service quality to customers.

Last, business performance is always linked to and influenced by external marketing deliveries. In the service industry, the performance of external marketing deliveries is determined largely by service providers whose needs can be fulfilled through high levels of internal services within the internal market. For most services, the delivery of quality service to customers is only possible when service provider's needs are taken care of. In addition, service providers who are at the front line dealing directly with the customers should also be given a degree of discretion in the service delivery process. This effort will eventually allow service providers to equip themselves with decision-making powers in their course of satisfying customer needs.

1.2 Problem Statement

Over the past three decades, empirical attempts on IM found that there is a strong link between IM and business performance (Ahmed et al., 2003; Flipo, 1986; Green et al., 1994; Richardson and Robinson, 1986; Sargeant and Asif, 1998; Tansuhaj et al., 1991). From the literature, IM researchers have investigated the impact of IM on service quality (Boshoff and Tait, 1996; Straughan and Cooper, 2002), applied marketing analysis and techniques aimed at the internal market to make changes necessary for

effective external strategy (Piercy, 1995), and assessed IM as a means of enabling business agility (Morgan, 2004). In addition, research findings have confirmed that there is a significant relationship between IM and organizational commitment (Caruana and Calleya, 1998), and revealed that organizational competencies mediate the relationship between IM mix and business performance (Ahmed et al., 2003). Nevertheless, many IM-performance models do not explain about the effect of IM on business performance with the improvement of introducing mediating and moderating causal links.

Introduction of empowerment as a moderator in IM-performance model is neglected in the previous studies. According to Bowen and Lawler (1992), empowerment can improve employee motivation and job satisfaction, which can in turn improve customer satisfaction and retention. The empowerment of staff enables employees to use their discretion to deliver a better quality service to their customers. Employees need to be supported by requisite levels of empowerment to deliver the required levels of service quality (Berry, 1995; Rafiq and Ahmed, 1998). Whilst a great deal has been written on the subject of empowerment, its application in the service area is still relatively underdeveloped (Rafiq and Ahmed, 1998) and its role as a moderator in IM-performance model is poorly explained. In relation to this, the role of empowerment which can influence the effect of IM on internal service quality by providing discretionary power to employees is overlooked in IM empirical studies. Hence, this thesis attempts to explain the introduction of internal service quality and empowerment in the form of a mediator and moderator to show better causal links in an IM-performance model.

Empirical research in investigating IM-performance model with the improvement of mediating and moderating causal links is overlooked, particularly in the context of

Malaysian service industry. The effect of IM on business performance advanced by the inclusion of internal service quality as mediator and empowerment as moderator is new in the IM literature. As such, this research aims to test IM's impact on business performance by investigating the mediating and moderating variables respectively and demonstrate better causal link in an IM-performance model.

1.3 Research Objectives

Based on the problem statement mentioned above, the general objective of this research is to propose an IM-performance model advanced by the introduction of internal service quality and empowerment in the form of a mediator and moderator to explain better causal links. The specific objectives of this research are as follows:

1. To investigate the relationship of IM to internal service quality and business performance.
2. To investigate the moderating effect of empowerment on IM and internal service quality.
3. To investigate the mediating effect of internal service quality on IM and business performance.

1.4 Research Questions

The research questions to be answered in this study include:

1. Does IM have significant positive relationship with internal service quality and business performance?

2. Does empowerment moderate the relationship between IM and internal service quality?
3. Does internal service quality mediate the relationship between IM and business performance?

1.5 Justification of Research

The rationale of conducting the proposed research and its important contributions to the knowledge of IM and managerial considerations can be categorized into 3 subsections, which consist of conceptual, theoretical and managerial justifications.

1.5.1 Conceptual Justifications

The link between IM and business performance has long been surveyed and established in the literature (Ahmed et al., 2003; Richardson and Robinson, 1986; Sargeant and Asif, 1998; Varey and Lewis, 1999). Conceptually, it is commonly acceptable that IM concept and practices can lead to improved business performance and it has been found to be positively linked to the good performance of the organization (Ahmed et al., 2003; Boshoff and Tait, 1996; Foreman and Money, 1995; Sargeant and Asif, 1998). Such findings show a basic causal link of IM leading to good performance through an IM-performance model that shows a positive relationship with business performance.

From the basic model showing only the IM-performance relationship, some improvements have been proposed in the literature. Improvements introduced in the form of a mediator or moderator is advanced in the basic IM-performance relationship to show

variation in IM-performance causal link. For instance, Caruana and Calleya (1998) revealed that organizational commitment is mediating the IM-performance relationship and is positively linked to increased customer satisfaction. Ahmed et al. (2003) indicated that organizational competencies served as a mediator between IM and business performance. The two studies are some improvements seen in the literature to show better causal link in IM-performance relationship.

Notwithstanding the improvement seen in the IM literature on the causal link between IM and business performance, this study aims to undertake a new approach in the advancement of IM-performance model with the improvement introduced in the form of a mediator as well as a moderator. The IM's impact on business performance is examined together with the mediator and moderator to demonstrate a better causal link. As such, in the context of this new IM-performance model, the effect of IM on business performance is advanced through the inclusion of an enabler in the form of moderator and a driver in the form of mediator.

1.5.2 Theoretical Justifications

The IM domain overlaps with many other areas of general management. In the marketing literature, IM has been related to human resources management (e.g. Berry, 1981; Berry and Parasuraman, 1991, 2000; George, 1990), services marketing (e.g. Gronroos, 1985; Gummesson, 1987), organization culture (e.g. Kelemen and Papasolomou-Doukakis, 2004; Wasmer and Bruner, 1991), change management (e.g. Ahmed and Rafiq, 1995; Piercy, 1995), public service management (e.g. Ewing and Caruana, 1999), healthcare management (e.g. George and Compton, 1985; Oetjen and

Rotarius, 2002), hospitality management (e.g. Crick, 2003), supply chain management (e.g. Lings, 2000), participative management (e.g. Davis, 2001), and general management practice (e.g. George, 1990; Gronroos, 1985). The observed overlapping of different strands of general management theories have led to a diversity of IM interpretations and models which bring about difficulties in the implementation and widespread adoption of IM concepts (Rafiq and Ahmed, 2000). IM which appears to cover a great deal of other management theories will be better appreciated theoretically with the improvement on IM-performance models through empirical investigation. This study is thus aimed to provide a clear IM understanding and develop a conceptual framework to show the effect of IM with regard to internal service quality, empowerment, and business performance. Several factors are considered in this context.

First, while IM is a contemporary marketing tool that has been given relatively minor attention in the area of management in general and marketing in particular, its concept was first discussed about three decades ago. However, the link between IM and internal service quality is only recently acknowledged (Bruhn, 2003). Despite some notable attempts to add meaning and explore the relationship between IM and internal service quality, the link between IM and internal service quality is still poorly explained (Bruhn, 2003; Naude et al., 2003). It is therefore useful to examine the linkage between IM and internal service quality and its effect on business performance.

Second, the role of empowerment in an IM-performance model has not been properly explored in the literature. Traditionally, empowerment has been used to arm employees with a degree of discretion or latitude over their job responsibilities (Bowen and Lawler, 1992, Conger and Kanungo, 1988). This is to ensure employees, particularly

those who are serving external customers at the front line, can better execute customer deliveries and services. The role of empowerment which gives execution power to employees helps to deliver internal customer's needs too. This is because empowerment provides discretions for internal suppliers to better manage the internal supplier-customer relationship and interaction (Rafiq and Ahmed, 1998). The core element of empowerment in exercising a degree of discretion not only brings improved service quality to external customers, but also improved internal service quality to internal customers. Hence, this study aims to examine the effect of empowerment on the relationship between IM and internal service quality.

Third, emphasis on external marketing capabilities will be fruitless and can be detrimental to the organizational business well-being particularly in the service industry if IM is being overlooked. Given the nature of services which is predominantly labor-intensive, the performance of service providers (internal customers) has direct bearing to the performance of business organization. As such, this study aims to propose an IM-performance model with the improvement as being mediated and moderated to show the efficacy of IM in service organizations.

1.5.3 Managerial Justifications

The concept of IM can be better comprehended and embraced by the industry practitioners with an IM-performance model showing the efficacy of IM in service organizations. This research aims to provide useful insights in relating to IM practices and subsequently proposes an IM conceptual framework linking internal service quality, empowerment, and business performance. This framework serves as useful guides for

practitioners to understand the causal link between IM and business performance with the improvement introduced in the form of a mediator and moderator. In addition, this study serves to provide some initial directions and suggestions in the adoption of IM practices or to operationalize IM practices within the organization.

The intense competition of service industry coupled with the increasing demand of customers in the age of information technology has compelled service organizations to search for an effective corporate tool to emerge competitive and sustainable. The people-oriented nature of service organizations has called for a need to adopt a corporate concept that not only brings about greater external customer satisfaction, but also greater internal customer satisfaction. In view of this, the concept of IM with its aims on improving service quality to both external and internal customers becomes a worthwhile study to be empirically tested. Effort in developing an IM-performance model with the improvement as being mediated and moderated by internal service quality and empowerment is then justified to produce new insights, knowledge, and findings associated to the domain of IM.

1.6 Definition of Key Terms

The following are the key terms used in this study:

Internal Marketing (IM): The definition proposed by Ahmed et al. (2003) is being used in this research. According to the authors, IM was defined as a means of creating and enhancing competencies in organization to improve business performance through a set of controllable instruments inside the organization that can be used by

managers to influence employees effectively so that they are motivated and will act in a customer-oriented fashion (p.1233).

Internal Service Quality: Internal service quality is defined as the evaluation of internal customers (i.e. employees including managers) of specific quality dimensions (i.e. reliability, flexibility, customization) practiced in the organization. This definition is adopted from Bruhn (2003).

Empowerment: Empowerment is defined as the management style where managers share autonomy with the employees in which employees feel that their superior provides them with sociopolitical support and they will have greater access to information and utilization of resources (Spreitzer, 1995).

1.7 Organization of the Remaining Chapters

This thesis is organized into five chapters. Chapter one spells out the background of the research, problem statement, research objectives, research questions, justifications of the research, and the key terms used in the research.

Chapter two focuses on the review of relevant literature in the domain of IM as well as related areas associated with the variables considered in this research. Among the reviews include topics such as IM and internal service quality, IM and internal customer satisfaction, IM and internal market place, IM and employee relations, IM and market orientation, IM and human resource management (HRM), IM and empowerment, the role of IM in strategy management and change management, and empirical studies on IM. The knowledge generated from this chapter are then used to form the subsequent foundation in developing the theoretical framework and hypotheses.

Chapter three discusses research methodology. This chapter highlights topics such as research design, research test ground, unit of analysis, population and sample, measurement of variables, questionnaire design, administration of the mail survey, and data analysis techniques that are used in this study.

Chapter four concentrates on the empirical findings derived from the data collected via a mail survey method. Analyses of the data and results presentation of the analysis are then carried out. Respondents' personal profile, reliability measurement, and the results of hypotheses testing using several statistical techniques are presented in this chapter.

Chapter five summarizes the findings by first of all recapitulating the research findings and their implications. Limitations of the research are then listed and recommendations for future research are provided to conclude the chapter.

Chapter 2

Literature Review

2.1 Introduction

IM, with its almost thirty years of existence in the domain of academic literature, has brought intense academic debate over its exact definition, breath of concept, as well as its roles and objectives played in the organization. Conflicting definitions have been proposed by numerous scholars to shed light on the concept of IM and its associated premises (i.e. Ahmed and Rafiq, 1995, 2003; Ballantyne, 1990, 1997, 2000; Barnes, 1989; Berry, 1981; Cahill, 1995; Collins and Payne, 1991; Davis, 2001; Flipo, 1986; Greene et al., 1994; Gronroos, 1981, 1985; Gummesson, 1987; Lings, 1999; Papasolomou-Doukakis and Kitchen, 2004; Piercy, 1995; Piercy and Morgan, 1991; Pitt and Foreman, 1999; Rafiq and Ahmed, 1993, 1995, 2000; Varey, 1995; Varey and Lewis, 1999; Sasser and Arbeit, 1976; Winter, 1985). Despite the increasing empirical researches carried out to verify the adoption of IM in the real world situations, there remains great confusion over the exact definition of IM, its associated premises, and the value it attempts to deliver to researchers and practitioners. As stated by Ahmed and Rafiq (1995), “There is much confusion as to exactly what IM is, what it is supposed to do, how it is supposed to be done, and who is supposed to do it. The variety of interpretations as to what IM constitutes has led to a diverse range of actions being broadly grouped under the umbrella of IM” (p.32).

This chapter serves to provide a critical review on the literature of IM from its inception at the end of the seventies until its latest development. Given the nature of IM that covers multiple disciplines across several fields of academic research (i.e. services

marketing, total quality management, human resource management, strategic management, change management and implementation, and organizational behavior), it is imperative that all related fields of relevance to IM are thoroughly examined as to better uncover the exact domain of IM as well as its associated premises. Also, various empirical researches carried out thus far on the area of IM will be examined to look at the adoption of IM in different real world settings and identify key findings of these empirical researches. Upon completion of this chapter, the salient IM issues, gaps, controversies as well as the development of IM theory can be better highlighted and understood. This will then contribute positively towards the design of a robust theoretical framework in relation to the connectivity between IM with internal service quality, empowerment, and business performance. With the development of a theoretical framework, several hypotheses will then be derived. At the same time, this chapter helps to determine the scope of this study by identifying the research boundaries and measurements.

2.2 IM: Concept and Issues

2.2.1 Definition of IM

IM evolves around the notion of employees who make up an internal market within the organization. This internal market is responsible to fulfill the external customers' needs and expectations. In order to ensure that the internal market is performing up to the expected service level of external customers, employees who form this internal market needs to be informed, educated, trained, motivated, and rewarded by the organization (Papasolomou-Doukakis and Kitchen, 2004).

A number of core elements of IM have surfaced from the literature. According to Gummesson (1991), IM encompasses communication, training, education, and information. On top of these, elements such as motivating, developing, educating, and training employees who form the internal market can also be identified from the literature (Cahill, 1995; Foreman and Money, 1995; Gronroos, 1985; Rafiq and Ahmed, 1993; Varey, 1995). Moreover, functions which are traditionally performed by the human resources department, such as attracting, hiring, and retaining qualified and competent employees, are discussed as IM core elements in the literature (Berry and Parasuraman, 1991; Rafiq and Ahmed, 1993; Foreman and Money, 1995).

Observing from the core elements of IM discussed in the literature, the fundamental contention of IM seems to be the creation of a mechanism for the organization to produce customer-conscious and motivated employees within the organization to produce customer-conscious and motivated employees within the organization (Ahmed and Rafiq, 1993, 1995; George, 1990; George and Compton, 1985; Gronroos, 1981, 1985; Piercy, 1995; Piercy and Morgan, 1991). The concept of IM holds that the organization's employees are the first market of a company. As such, this first market of employees is best motivated for service-mindedness and customer oriented behavior by an active, marketing-like approach, whereby a variety of activities are applied internally in an active and coordinated way (George, 1990; Gronroos, 1985).

IM first emerged in the literature on services marketing, whereby Sasser and Arbeit (1976) asserted that employees of a service company form the first market and there is a need for the managers to pay close attention to employee satisfaction. They stated that "viewing their job offerings as products and their employees as customer forces managers to devote the same care to their jobs as they devote to the purchasers of

their services” (p. 65). Along this same argument, Berry (1981) defined IM as “viewing employees as internal customers, viewing jobs as internal products, and endeavoring to offer internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization” (p. 272).

The focus of employee satisfaction in the marketing of services is justified due to the fact that service performance is largely determined by the performance of employees’ actions. Based on this argument, the ability to attract, retain, and motivate the best personnel becomes an important factor for organizations to improve service quality for customers. As propounded by Berry and Parasuraman (1991), IM is about “attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs” (p.151). This definition views IM as a fundamental tool for achieving employee satisfaction by treating employees as internal customers whose needs are to be fulfilled first before external customers’ needs are being met. Infused with this logic, Rafiq and Ahmed (2000) argue that “attraction, retention and motivation of high quality staff is especially critical in situations where the quality of the service is the only real differentiating factor between competitors” (p.451).

Winter (1985) examines the role of IM as a technique for managing employees to implement organizational strategies towards the achievement of organizational goals. As proposed by Winter (1985), the role of IM is that of “aligning, educating and motivating staff towards institutional objectives ... by which personnel understand and recognize not only the value of the program but their place in it” (p.72). With the development of IM as an implementation vehicle, there exists a growing belief that IM possesses the potential of a cross-functional integration mechanism within the organization. This view is

supported by George (1990) that IM is a philosophy for managing the organization's human resources through a holistic management process that integrates multiple functions. Subsequently, the notion of change in strategy to overcome organizational inertia and to motivate employees towards requisite behavior is incorporated as part of the IM definition as well. This view is presented by Rafiq and Ahmed (1993) in which they defined IM as "... a planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies (p. 223)".

Rafiq and Ahmed (2000) made a concerted effort to examine the weaknesses and strengths of existing IM definitions and argue that there are generally five requisite components of IM which need to be synergized to generalize a holistic conceptualization of IM. The five components are (1) employees motivation and satisfaction, (2) customer orientation and customer satisfaction, (3) inter-functional coordination and integration, (4) marketing-like approach, and (5) implementation of specific corporate or functional strategies. Based on the five requisite components of IM, Rafiq and Ahmed (2000) defined IM 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" (p. 454).

Ahmed et al. (2003) developed a set of controllable instruments inside the organization that can be used effectively to influence employees. It is argued that the concept of IM mix can be used to motivate employees and influence them to act in a

customer-orientated fashion. It is concluded that IM is “a means of creating and enhancing competencies in organization to improve business performance through a set of controllable instruments inside the organization that can be used to influence employees effectively so that they are motivated and act in a customer-oriented fashion” (p. 1233). A summary of IM definitions together with its key dimensions discussed above is presented in Table 2.1 below.

Table 2.1
Summary of IM definitions and its key dimensions

Author(s)	Title	IM Definition	IM Key Dimensions
Berry (1981)	The employee as customers	Viewing employees as internal customers, viewing jobs as internal products, and endeavoring to offer internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization.	1. internal market 2. internal customers 3. internal products
Winter (1985)	Getting your house in order with internal marketing: a marketing prerequisite	Aligning, educating, and motivating staff towards institutional objectives.	1. staff training and development. 2. staff motivation
Berry and Parasuraman (1991)	Marketing for Services: Competing through Quality	Attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs.	1. employee satisfaction. 2. employee-job fit
Rafiq and Ahmed (1993)	The scope of internal marketing: defining the boundary between marketing and human resource management	A planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and	1. strategy to overcome organizational inertia 2. motivate employees towards requisite behavior. 3. execution of corporate strategies.

		functional strategies	
Rafiq and Ahmed (2000)	A meta-model of internal marketing	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.	<ol style="list-style-type: none"> 1. employees motivation and satisfaction 2. customer orientation and customer satisfaction. 3. inter-functional coordination and integration. 4. marketing-like approach. 5. implementation of specific corporate or functional strategies.
Ahmed, Rafiq, and Saad (2003)	Internal marketing and the mediating role of organizational competencies	A means of creating and enhancing competencies in organization to improve business performance through a set of controllable instruments inside the organization that can be used to influence employees effectively so that they are motivated and act in a customer-oriented fashion.	<ol style="list-style-type: none"> 1. top management support 2. business process support 3. cross-functional coordination

Overall, the development of the IM concept has shown that there is still much discussion in the literature over IM definition and its core premises. The literature review indicates that there is a lack of universally agreed IM definition that can spell out the scope and concept of IM. As a result, many IM definitions have surfaced proposing various IM underlying principles. This has led to a variety of IM implementation formats being proposed and tested empirically in the literature.

2.2.2 IM and Internal Customer Satisfaction

Customer satisfaction is claimed to be the focus of marketing management writers in different streams of management thoughts, such as marketing, excellence, market-orientation, quality and service, market-driven processes, relationship marketing, and marketing control (Piercy, 1995). It is an enduring and shared factor required in all organizations to serve as a route to sustained high performance. However, no serious attention has been given to the investigation of the underlying process of customer satisfaction measurement. Such a measurement is important for organizations in order to achieve sustainable high performance through improved customer satisfaction. The possible impacts between the customer satisfaction measurement and the management action on the organization itself are not clearly spelt out and no effective consideration has taken place (Piercy, 1995).

Customer satisfaction is strongly influenced by the nature of customer contact and service encounter experience as well as by the interaction between a firm and its customers (Crosby and Stephen, 1987; Kelly et al., 1990). Owing to the high level of human involvement in the service encounter experience, service employees play an important role in representing the firm in the interaction with external customers. These employees will then influence the cognitions, attitudes, and evaluations of the customers' service encounter experience (Bowen and Schneider, 1988; Woodside et al., 1989). As such, to engage employees in creative discretionary behavior, the successful implementation of IM concept is important for the organization (Murray, 1979). In other words, in order to enhance service quality delivery, an organization should adopt the

concept of IM for all its employees so as to satisfy their personal needs while addressing the needs of external customers as well (Berry, 1984).

It has been noted that a company will have two types of markets and customers and both have different needs to be fulfilled (Piercy, 1995). Understanding the need of both markets has been viewed by many organizations as important ingredients to successfully manage the implementation of marketing strategies. Customer satisfaction, which depends on the capability of the organization to meet or exceed the required expectations set by the customers, is now in a better state of achievement. To effectively satisfy customers, companies need to put in place effective analysis of employee needs requirement as well as to integrate employee inputs in delivering services to external customers.

Sargeant and Asif (1998), in their study of the strategic application of IM in two major United Kingdom clearing banks, examined the relevance of the concept of IM to the financial service arena and explored the extent to which IM may be utilized as a means of creating a source of sustainable competitive advantage. The authors argued that given the intangible nature and complexity of financial services, the role of the employees as the channel of delivery of service is crucial and needs to be examined properly. Making employees happy and satisfied thus become a worthwhile effort for an organization to bring quality service to its external customers. As stated by Sargeant and Asif (1998), “The employee is the key to the delivery of a quality service and the success of the organization is dependent on the ability and the motivation that its employees bring to their jobs” (p.66). To support the statement above, they further mentioned that

“Motivating employees to deliver a high quality service will hence greatly aid customer retention and potentially form the basis of a truly sustainable advantage” (p.66).

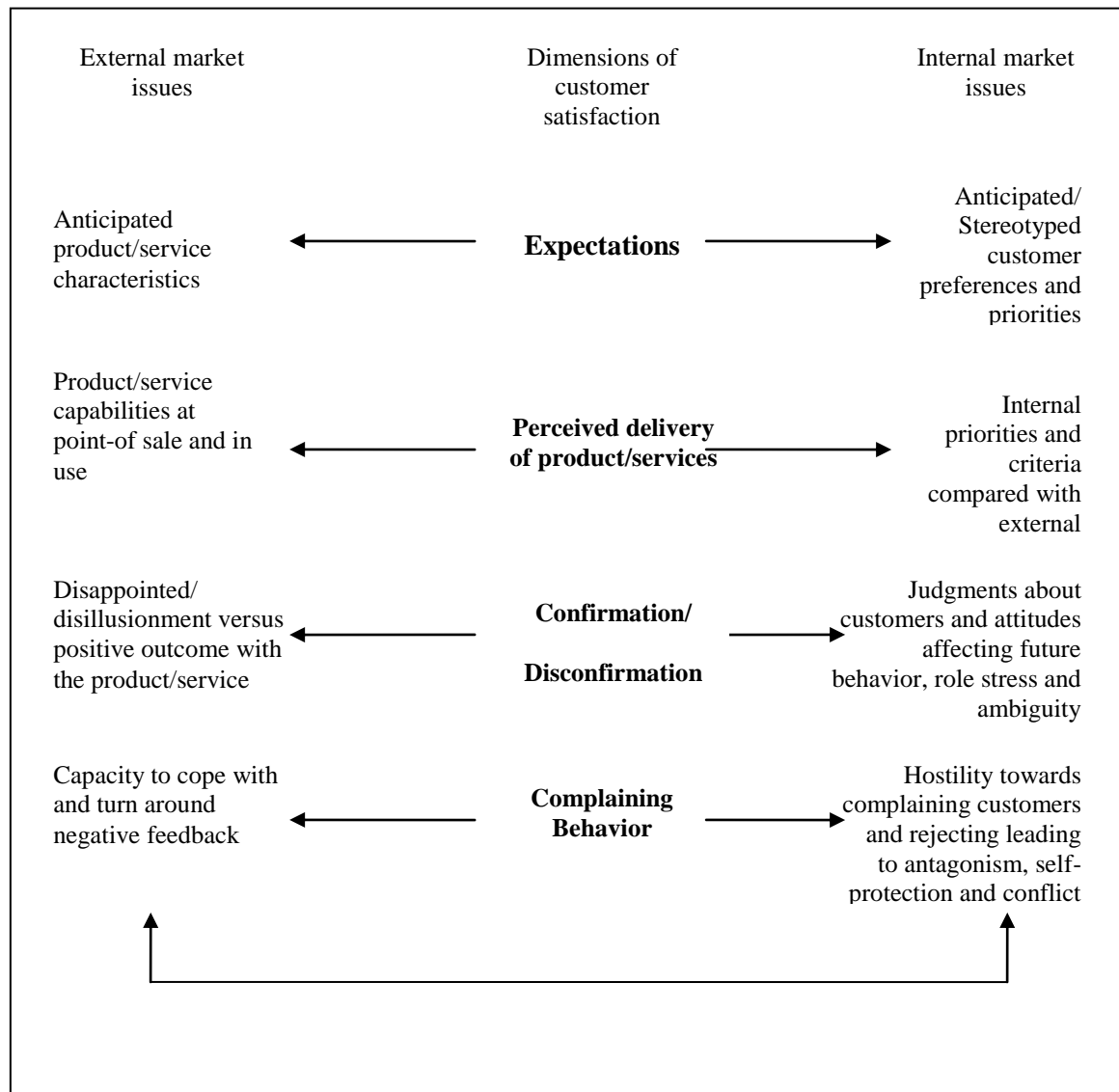


Figure 2.1. Customer satisfaction dimensions in internal and external markets.

Source: based on Piercy (1995:26)

Piercy (1995) studied the framework of IM which uses a mirror-image of internal market issues vis-à-vis external market issues in examining the dimensions of customer satisfaction (see Figure 2.1). The author used the dimensions of customer satisfaction

identified by Berry and Parasuraman (1991) and suggested that if one is to understand customer satisfaction properly, then one should consider customers' expectations on how they perceive the delivery of products or services in relations to the dimensions of customer satisfaction. At the same time, there is a mirror-image of the same dimensions in the internal marketplace of the company itself concerning the expectations of the employees (internal customers). Here, expectations are to do with the internal customers' anticipation in relations to the dimensions of customer satisfaction which will ultimately lead to internal customers' reactions.

2.2.3 IM and Internal Market Place

It has been well recognized that all organizations face two kinds of markets and customers, namely the internal market and customers as well as the external market and customers (Piercy, 1992). The perspective of an internal market place in which employees are treated as internal customers who buy products in the form of job employment from the employer is one of the basic notions of IM literature. This approach is mainly based on the assumption that the level of service quality together with the service standard performance provided by the employees to the external customers rely heavily on the motivation and satisfaction of the internal customers (Berry and Parasuraman, 1991; Gronroos, 1981; Sasser and Arbeit, 1976). As a result of this notion, an organization requires an inversed use of marketing techniques and tools which are commonly used in the external market and apply them within the internal market place (Gronroos, 1981; Gummesson, 1987; Piercy and Morgan, 1991; Rafiq and Ahmed, 1993).