

INTERNAL MARKETING PHILOSOPHY: THE CASE OF THE CROATIAN BANKS

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ABSTRACT

The concept of the internal marketing was defined in order to stress the role of employees as the key element in determining service quality. Although the origin of the term is in the service marketing literature of the 70s, many authors stress that both general and particular problems are not adequately represented in theory. The purpose of the thesis is to stress the theoretical benefit of the implementation of internal marketing concept and to research its practical usage. The organizations that implement the activities of internal marketing should have a fertile ground for successful business. Considering that banking services are, usually deemed hard to sell, internal marketing is even more important in the respective sector. Thereby the primary research about the acceptance of internal marketing and its specificity had been conducted on the banking sector of the Republic of Croatia. Results of the research show that the banks that operate in Croatia are aware of the need to apply activities commonly associated with the concept of internal marketing, however it is evident there is room for progress in the fields of communicating the vision, development and awarding of employees.

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1. Introduction

In the modern economy services have a pre-eminent role. In the most highly developed countries services constitute between 2/3 to 3/4 of GDP (Ćirić; 2005).

In the service sector, customer satisfaction is conditioned by a high-quality service that can be delivered only by satisfied, loyal and productive employees (Bansal et al.; 2001). There is a strong need to ensure a high quality education and interactive process competence for all the employees who are involved in the process of creating and delivering the service to the customers (Lings; 1999). The concept of internal marketing was defined in the seventies (Ahmed & Rafiq; 2002) with the aim of emphasising the role of the employees' behaviour as the key element in determining the service quality.

First line employees in banks are faced with special challenges not only by specific features of the service sector but also by the financial sector and crisis in the same sector. A well performed financial service strongly depends on the experience and acquired knowledge of employees (Nekrep; 2009).

There are not enough scientific researches on this specific subject. Theoretical background, together with the empirical evidence of the internal marketing, may contribute to wider understanding and acceptance of the concept. The main purpose of this paper is to research the acceptance of the internal marketing concept in the banking sector and indicate the differences between the level of acceptance of each of the three internal marketing components and to point out the strengths and weaknesses of the implemented internal marketing concept in the Croatian banking sector, and compare the obtained results with the research results of other authors.

The paper is composed of five chapters. Introduction is followed by contemporary facilities of the banking sector and the respective role of internal marketing. The third chapter is dedicated to different aspects of internal marketing. In the fourth chapter methodology and results of the conducted research as well as research limitation are presented. In the conclusion the most important implications of the conducted research are specified.

2. Internal marketing concept and contemporary banking sector

The increasing competition didn't sidestep the banking sector. The main reasons for that are frequent mergers and acquisitions (Gilmour; 2003), rapid technological development (Thwaites & Lee; 1994, Gilmour; 2003) and deregulation on a global scale (Gilmour; 2003, Bergeron et al.; 2008).

Furthermore, as the banking services are often about a customer's personal finances, providing them with a service requires a satisfactory clarification of the services to the customers, contributing to the common opinion of the services being hard to sell. They can hardly be distinguished from each other, while the competition moves in from the non-banking sectors (insurance, leasing, factoring companies etc). At the same time new technologies have enabled financial services users to become more informed, demanding, and most importantly, less likely to stay with the same service provider (Bergeron et. al.; 2008). Moreover, nowadays financial markets are unstable and it is harder to ensure a customer's trust and achieve a competitive advantage.

In order to overcome the changes and competitions in the banking service sector, it is important to accept the internal marketing concept from the aspect of achieving some of its primary tasks. Among other, a successful internal marketing implementation results in high quality services delivery (Ahmed & Rafiq; 2002), customer satisfaction and therefore loyalty (Kotler, et al.; 2006), competitive advantage (Papasolomou-Doukakis; 2003) and increase of profitability (Dunmore; 2002).

Previous research of financial sector internal marketing reached different conclusions. Some researchers pointed out the majority of the internal marketing ideas being accepted in organizations with a large number of employees (Quester & Kelly; 1999). The acceptance of internal marketing was confirmed by Bouranta and Mavridoglou (2003) applied to the Greek banking sector. O'Loughlin and Szmigin (2005) found there was an awareness of the importance of internal marketing in financial institutions, but at the same time reached the conclusion that it was not effectively implemented. Certain research (Snell & White; 2009) indicates that internal marketing is practised with varying degrees of sophistication. However it also provides evidence suggesting that professional service organizations do not readily identify and understand internal marketing. Papasolomou-Doukakis (2003) indicated the importance of successful implementation of internal marketing in the banking sector and the importance of further study and development of the internal marketing implementation models.

3. Typology of internal marketing

Although there is still no common internal marketing conceptual framework, the most significant and original view on internal marketing was given by Berry, who alluded to its importance for service organizations. He advocated treating employees as internal users whose delivery of excellent service to external users represents the key to an organization's success (Pitt et al.; 1999).

Early empirical works did not provide a significant development to the field of marketing. The ideas that many organizations (especially service ones) treat employees similarly to how external users are treated, as stated by Pitt and Foreman (1999), can summarize all of the contemporary arguments.

Money and Foreman (1995) offered an interesting typology of internal marketing in order to provide a comprehensive and somewhat different view on internal marketing and its role. Namely, they indicated internal marketing should not be viewed as something an organization (in totality) implements to its employees (in totality). The two dimensions that pertain to who the internal marketer is (the entire organization or a department within it) and secondly to whom the internal marketing is aimed at (all employees or a specific group, function, or a department within the organization) are pointed out.

Table 1: PERSPECTIVES ON INTERNAL MARKETING

Who is the focus of IM?	DEPARTMENT (D)	ORGANIZATION (O)
Who performs internal marketing?	<p data-bbox="467 591 560 618">TYPE II IM</p> <p data-bbox="467 629 826 725">Where the organization is the marketer and the department is the customer</p> <div data-bbox="539 779 679 810" style="text-align: center;"> $O \longleftrightarrow D$ </div> <p data-bbox="467 904 823 1001">Intention: that the group will engage in behaviour that supports or enhances certain organizational initiative.</p> <p data-bbox="467 1016 820 1189">Bream et al. (1992): IM by a group of hospitals, of a strong positive image of nursing to their nurses coupled with incentives, to lessen the organization's reliance on agency nurses.</p> <p data-bbox="467 1205 820 1440">Female employees with young children may be targeted by organizations that offer infant care services to them. One large insurance company has begun to offer frail care to elderly dependants of employees (Comm, 1989).</p>	<p data-bbox="850 591 943 618">TYPE IV IM</p> <p data-bbox="850 629 1281 694">Where the organization is the marketer and the organization is the customer</p> <div data-bbox="898 748 1038 779" style="text-align: center;"> $O \longleftrightarrow O$ </div> <p data-bbox="850 835 1273 931">Has received most attention in the literature (cf. Berry, 1980) (employees as customers, jobs as products).</p> <p data-bbox="850 947 1230 1043">Kotler (1991) (marketing concept requires internal marketing for external marketing success).</p> <p data-bbox="850 1059 1230 1155">George (1990): IM is the best approach for establishing a service orientation as an organizational imperative.</p> <p data-bbox="850 1171 1273 1305">Tansuhaj et al. (1988); Richardson and Robinson (1986): significant empirical support for the strong relationship between IM and customer satisfaction.</p> <p data-bbox="850 1321 1257 1456">IM used to develop and maintain a service culture, to introduce new products and new marketing activities (see also Lewis, 1989; Tansuhaj et al., 1988, Hartley and Lee, 1986).</p> <p data-bbox="850 1471 1262 1568">Grönroos (1990): the focus of IM should be on how to obtain and retain customer-conscious employees.</p> <p data-bbox="850 1583 1235 1756">Tools of external marketing - marketing research (cf., Gel band Gelb, 1991), market segmentation/targeting, the four „P's“ are also relevant to the internal customer of organizations - employees.</p> <p data-bbox="850 1771 1281 1895">Berry et al. (1991); employees are one of the key respondent groups from whom data should be gathered in a services marketing audit; IM listed as a dimension of their framework.</p>

DEPARTMENT	TYPE I IM	TYPE III IM
	Where the department is the marketer and the department is the customer	Where the department is the marketer and the organization is the customer
	D ↔ D	D ↔ O
	Gombeski et al. (1992) describe peer reviews by hospital physicians within various medical disciplines. Intended originally as a quality improvement technique, it has become an IM tool for different specialization – e.g., anaesthesia to surgery, radiography to orthopaedics. Obenshain (1992); how the development of an IM plan enabled a MIS department to focus its efforts on the sales department in a large financial services organization. Stokes and Lawrimore (1990): the use of IM techniques by accountants to gain the support of top management for a new system.	Typically practiced by service/staff functions within organizations, such as HM and MIS. Better marketing of information technology services by MIS departments to the rest of the organization (Burgetz, 1991; Emmet, 1991; Trumbly and Arnold, 1989; Watson et al., 1993). HR has also started to adopt many of the tools of marketing to enhance relationships with the rest of the organization. IM by HR departments of direct deposit of payroll (Masonson, 1992; to enhance the status and visibility of HR (Collins and Payne, 1991; Schuler and Jackson, 1988). IM by a legal firm's law library to the rest of the firm (Shimpock-Viewg, 1991).

Source: Pitt & Foreman (1999), *Internal Role in Organizations: A Transaction Cost Perspective*, p. 27

The proposed typology of internal marketing also provides valuable insights into the role of internal marketing and the ways it can be used.

Along the lines suggested by Berry (in Caruana & Calleya; 1998), the researches investigate the Type IV situation where internal marketing is used by an organization to achieve satisfaction of internal and external users.

4. Research on the internal marketing concept in the Croatian banking sector

4.1. Research objective and methodology

Since 1970's and the emergence of the idea, internal marketing has been often studied. However, many authors point out that internal marketing has not been studied enough (Foreman & Money; 1995, Pitt & Foreman; 1999, Pitt et al; 1999,

Ahmed & Rafiq; 2003, Lings; 2004, Tortosa-Edo, et al.; 2010, Williams & Naumann; 2011).

The authors have conducted research with the goal of determining the acceptance of the internal marketing philosophy and its particular dimensions in the Croatian banking sector with the accent on the strengths and weaknesses of the applied concept.

The acceptance was measured using a slightly adjusted 15-item questionnaire developed by Money and Foreman (1995) consisting of three underlying factors: vision (giving employees something to believe in), development (items having to do with developing employees) and reward (items having to do with rewarding employees) with the added questions about the subjects' gender and expertise and the formal existence of internal marketing plans. In accordance to the researchers' suggestions on employees in charge of internal marketing activities implementation (Foreman & Money; 1995, Quester & Kelly; 1999), the questionnaire was aimed at marketing managers, human resource managers or persons in charge of internal marketing. Every statement was associated with the Likert scale with five levels of intensity (from 1 = strongly disagree to 5 = strongly agree).

The research covers 32 banks in accordance to the regulations listed at Croatian National Bank (HNB) internet sites. The research took place from 20/11/2011 to 1/2/2012. The usable questionnaires, which were returned constitutes 81% of the total population.

4.2. Research results

The measuring instrument was calibrated with a 0,93 value by the *Cronbach-alpha reliability coefficient*. It is generally accepted that a 0,7 or higher value of the Cronbach-alpha coefficient represents high reliability (Nunally; 1978).

Table 2: MEAN AND STANDARD DEVIATION

Items	Mean	Std. Deviation
Vision	3.13	1.33
1. Our organization offers employees a vision in that they can believe in.	2.96	1.40
2. We communicate our vision to the employees clearly.	3.31	1.26
Development	3.49	1.14
3. We prepare our employees for a good execution of tasks.	3.62	1.27
4. Our organization views the development of our employees' knowledge and skills as an investment, rather than cost.	3.65	1.09
5. Development of our employees' knowledge and skills is a continuous process in our organization.	3.58	1.21
6. We teach our employees „why they have to do things“ and not just „how they should do it“.	3.77	1.07
7. Our organization provides more than training, our employees are provided with complete education.	3.04	1.04
8. Our employees are provided with adequate training in order to fully accomplish their role of service delivery.	3.73	1.08
9. Our organization is flexible in adapting to various needs of employees.	3.31	1.05
10. In our organization we invest significant effort to communicate with our employees.	3.23	1.31
Rewards	3.30	1.18
11. Our performance rating and rewarding systems are directed at encouraging co-operation between employees.	3.27	1.08
12. We rate performance and reward employees who contribute most to the achievement of our organization's vision.	3.19	1.13
13. The data we collect from the employees is used to improve their jobs and develop our organization's strategy.	3.23	0.99
14. Our organization communicates to the employees the importance of their role in service delivery.	3.46	1.07
15. We reward employees who provide excellent service.	3.31	1.12

Source: Author's calculations.

The mean and the standard deviation of all the received values is 3.30 and 1,18 respectively. Considering that higher scores on the scale indicate higher levels of internal marketing concept acceptance, we can conclude that according to the perceptions of the executives the acceptance of the internal marketing concept as well as the three underlined components in the Croatian banking sector is mediocre.

The received results are not in line with the research conducted by Paliaga et al. (2010) whose work on the large and medium organizations in the Republic of Croatia indicates a high level of implementation of the internal marketing concept. Furthermore, the results are not in line with the results of the research conducted by Bouranta and Marvidoglou (2003) who studied the banking sector of Greece, and the research by Quester and Kelly (1999) who determined significant acceptance of the internal marketing activities in the Australian financial sector, especially in the organizations with a large number of employees. However, the research is in line with the research conducted by Snell and White (2009) and that of O'Loughlin and Szmigin (2005) who pointed out deficiencies in understanding and implementing internal marketing.

The items with the lowest score received are those about giving employees something to believe in (mean = 2,96). In order to direct the employees toward the preferred behaviour it is necessary to communicate the bank's vision clearly and to have it accepted by the employees. Development as one of three components of internal marketing is scored with the highest grade (mean = 3,49) compared with the other two. The item that states that the employees are relatively aware „why they have to do things“ and not only „how they should do“ stand out the most (mean = 3,77). Individual contribution to achievement of the bank's vision is not measured and therefore can not be awarded accordingly. It is the item with the lowest rate (mean = 3,19) compared with the others included in rewards. Other researches (Money & Foreman; 1995, Caruana & Calleya; 1998, Ewing & Caruana; 1999, Bouranta & Mavridoglou; 2003) indicate different strengths and weaknesses of the conducted internal marketing activities which is to be expected and is mostly not in line with the conducted research.

Only 31% of subjects stated there was a formal internal marketing plan in their bank, 69% stated there was no such plan. Therefore, there is a relatively low number of organizations with a formal internal marketing plan, but all organizations implement internal marketing activities, all of which is in line with the earlier researches (Quester & Kelly; 1999, Papasolomou-Doukakis; 2003). That indicates internal marketing is not a planned effort, i.e. it is not accepted in a strategic form.

4.3. Limitations of the results

In order to obtain a complete picture of internal marketing acceptance, not only those employees in charge of the internal marketing implementation but all of

them should be examined. It is possible to find out that the two sides have different perspective on the same item. Moreover, the existence of the internal marketing concept should be tested on the whole financial sector and on other activities which would provide wider generalization and comparison of the results. Larger sample may allow conduction of explorative factor analysis in order to determine components of the IM concept in the respective sector.

5. Conclusion

Internal marketing achieves its purpose when it contributes benefits, both external and internal. Primarily, for building loyalty to an organization, customer satisfaction is the foundation and it is conditioned by a constant delivery of a high-quality service that can be created only by satisfied and productive employees.

The conducted research highlights the strengths and weaknesses of the conducted internal marketing activities and indicates that the acceptance of the concept in the Croatian banking sector is mediocre. Disadvantages in internal marketing activities implementation are especially evident in *Vision* as one of the three components. *Development* items are scored with the highest rates compared with the others two. Those results highlight what should be the focus of marketing managers or human resources specialists in order to enhance the effects of the conducted IM activities. The results indicate that those in charged for internal marketing activities implementation are successful in demonstrating to employees why they do something not only how they should do it. Additional effort must be exerted in the field of communicating the vision of an organization. The non-strategic approach to internal marketing is shown by the non-existence of internal marketing plans. After comparing the research results obtained in this study with the previous work in the field, the authors conclude that the implementation of the internal marketing concept in the Croatian banking sector can be improved. Finally, the conducted research results contribute to the deepening of the theoretical knowledge about internal marketing. The obtained results can be used in future researches of how the internal marketing acceptance influences job satisfaction of bank employees, work motivation or other dependent variables.

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