

**INTERNAL MARKETING: USING MARKETING-LIKE  
APPROACHES TO BUILD BUSINESS COMPETENCIES  
AND IMPROVE PERFORMANCE IN LARGE  
MALAYSIAN CORPORATIONS**

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**ABSTRACT**

*This study was conducted to make substantial progress in building theory about customer-focused organisations and its impact on business competencies and performance. To date, it is the first empirical attempt to gain knowledge on internal marketing (IM) implementation using a 'marketing-like' approach. The results of the study suggest that this approach is imperative to create organisational competencies and business performance. This study therefore serves to develop and test a conceptual model linking IM mix components, competencies and business performance that adds knowledge to the IM implementation framework in particular and other organisational development theories in general.*

**INTRODUCTION**

IM in itself is not new (Sasser and Arbeit, 1976), but is only recently becoming widespread in public and private sector organisations. While an increasing number of researchers suggest using IM as a mechanism to create customer-conscious and motivated personnel (George, 1977, 1986, 1990; Grönroos, 1981, 1982, 1985; Berry, 1984; George and Compton, 1985; Piercy, 1991, 1995; Piercy and Morgan, 1991; Ahmed and Rafiq, 1993, 1995; Helman and Payne, 1995), to improve organisational competencies and performance, so far little evidence is available to support this hypothesis. Despite the enthusiasm about IM's potential contribution to business effectiveness and performance and the centrality of the IM linkages to market-oriented attitudes expressed in the past literature, there is

unclear empirical evidence of a positive relationship between IM practices and organisational effectiveness and performance. There is even less research examining the mechanics of this linkage. Therefore, it is difficult to generalize the extent to which the implementation of IM along with related business strategies actually impacts organisational performance.

The existing empirical work concentrates mainly on levels of adoption of internal marketing by organisations (Helman and Payne, 1995; Sargeant and Asif, 1998) or the impact of internal marketing programmes on service quality (Richardson and Robinson, 1986; Tansuhaj, Randall, and McCullough, 1991). More recently, a number of studies have examined organisational commitment as an intervening variable between IM programmes and service quality (Caruana and Calleya, 1998; Boshoff and Tait, 1996; Iverson, McLeod and Erwin, 1996). Only one study (Foreman and Money, 1995) has attempted to develop an internal marketing scale.

To bridge these gaps, this paper, unlike previous studies on IM, not only proposes but also develops and empirically evaluates the proposed IM implementation framework in the Malaysian environment.

## **DEFINITION**

The basic argument for IM is the need for a mechanism to create customer-conscious and motivated personnel (George, 1977, 1986, 1990; Grönroos, 1981, 1982, 1985; Berry, 1984; George and Compton, 1985; Piercy and Morgan, 1991; Piercy, 1991, 1995; Ahmed and Rafiq, 1993, 1995; Helman and Payne, 1995) as an approach to service management (George, 1986). The concept was first introduced by Sasser and Arbeit (1976), who state that '...personnel is the first market of a service company,' and this was further supported by Grönroos (1981) who observed that 'the objective of IM is to get motivated and customer-conscious personnel.'

As far as the name is concerned, IM is about applying traditional marketing inwards; focusing on the internal customers and suppliers of the internal market place, with the aim of improving internal market relationships, quality and customer service and ultimately corporate effectiveness (Helman and Payne, 1995). IM, in its currently accepted concept, is a philosophy for managing the organisation's human resources based on a marketing perspective (George and Grönroos, 1989). It is obvious as can be seen from Berry and Parasuraman (1991), that the internal marketing concept is about applying an external marketing approach internally:

*...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 organisation (p. 272).*

Grönroos (1985) was the first to mention specifically that IM is about motivating the employees by active marketing-like activities,

*...an organisation's internal market of employees can be influenced most effectively and hence motivated to customer-consciousness, market-orientation and sales-mindedness by a marketing-like approach and by applying a marketing-like internal approach and by applying marketing-like activities internally (p. 42).*

Grönroos (1981) draws attention to the fact that while the issue of motivation is not new, particularly in the context of personnel and human resource management, it has been introduced in order to motivate employees to perform well. Motivating effort in IM is, on the other hand, to develop customer consciousness and sales-mindedness (Grönroos, 1981).

IM is thus a managerial philosophy using a marketing-like approach to convince the employees of the importance of having an interest in both internal and external customers (Cahill, 1995). IM involves meeting the needs of employees, so that they can meet the needs of customers (Stershic, 1994). Following this, George (1990) suggests that:

*The premise of this philosophy is that if management wants the employees to do a great job with customers, then it must prepare to do a great job with its employees. That is, internal exchanges between the organisation and its employees must be operated effectively first before an effective marketing to external customers could be achieved. Thus, the internal marketing concept states that the internal market of employees is best motivated for service-mindedness, and a customer-oriented behaviour by an active, marketing-like approach, where marketing-like activities are used internally (p. 64).*

In other words, in order to achieve external objectives effectively, IM should be undertaken by management to motivate the employees to adopt customer-consciousness and marketing-consciousness by using marketing tools and techniques internally. Rafiq and Ahmed (1993), realising this notion, suggest another useful definition. They define internal marketing as:

*...a planned effort to overcome organisational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies (p. 222).*

This definition provides a broader concept, and focuses more on the application of IM in organisations. Rafiq and Ahmed contend that this definition takes into account the issue that any change in strategy is likely to require IM's effort to overcome organisational inertia and to motivate employees towards inner requisite behaviour (Rafiq and Ahmed, 1993). Another important criterion covered in this definition is that it recognises that many strategies are likely to span into several functional areas. Therefore, a cross-functional integration is required to assist the implementation process, and hence the objective of IM.

## **IM MIX AND ORGANISATIONAL COMPETENCIES**

The relationship between organisation competencies, and performance has been of considerable interest to researchers and to the business community for some time (Prahalad and Hamel, 1990; Grant, 1993). Much of the early discussions of this relationship were based on conjecture and informal case studies. However, in the past few years, there has been an increase in formal, empirical studies attempting to identify and describe the linkages between these concepts. IM is argued in this study to be positively linked with competencies and business performance.

The literature offers various definitions of 'competency' depending from which perspective it is viewed. Burgoyne (1993) identified that the term 'competency' was not owned by any particular group. In fact a variety of stakeholders were involved in using the term, each with his own agenda:

- Psychologists were concerned with the concept as a measure of ability and whether the observable performance of a person represented his underlying traits or capacity.
- Management theorists applied a functional analysis to define how organisational goals were to be best achieved through improved individual performance.
- Human resource managers viewed the concept as a technical tool to implement strategic direction through the tactics of recruitment, placement, training, assessment, promotion, reward systems and personnel planning.
- Educationists attempted to relate the idea of work preparation and professional recognition with that of a broad education.

- Politicians, including those involved in the political process such as Trade Unions, Employer groups and political parties, particularly in the UK and Australia, have used the concept as a means of improving the efficiency of the labour market.

What is being emphasized here is that there is no one widely accepted definition of 'competency'. Strebler, Robinson, and Heron (1997) explain that researchers and practitioners in the field have evolved several meanings to the concept. This has resulted in a multi-faceted concept called 'competencies', the definition of which is very much dependent on the rationale for its use.

In this study of the implementation of IM, three elements of organisational competencies have been identified: market-oriented behaviour, employee satisfaction and specific/individual competencies. These elements of competencies are consistent with the literature. A review of the literature showed three main positions taken towards a definition of the term. Competencies were defined as either:

1. observable performance (Boam and Sparrow, 1992);
2. the standard or quality of the outcome of a person's performance (Rutherford, 1995); or
3. the underlying attributes of a person (Boyatzis, 1982).

Using these criteria, it is argued that all the three elements of organisational competencies identified in this study fit in all the instances of competencies identified in the literature. What is important here is the rationale in using the competency approach. This will determine the starting point taken towards the definition. If 'competency' refers to observable performance, then the rationale for using the approach is to improve, or in some way change human performance. Where 'competency' means standards or quality of an individual's performance, then the rationale is to standardise skills, raise standards, introduce changes or set minimum standards of performance. Where 'competency' means the underlying attributes of individuals, then the rationale is to determine the syllabus or content of learning that will lead to competent performance. Thus meaning emerges from the application of the concept to human performance.

In the field of strategy, there are two major paradigms used to explain the superior notion of competencies: the competitive forces view (Porter, 1980; 1985) and the resource-based view (Prahalad and Hamel, 1990). The dominant paradigm is the competitive forces view. Proponents of this view argue that the success of a company's competitive strategy depends on the choice of a strategy that positions the organisation within its environment, particularly its industry, so that it can defend itself against competitive forces or influence them in its favour.

Such forces include the bargaining power of suppliers and customers, the threat of new entrants or of substitute products, and rivalry among existing firms. Alongside this dominant and widely accepted paradigm, the resource-based view of performance has developed and is gaining increasing acceptance in strategic management literature. This view is based on the idea that a firm performs well over time because it develops a 'distinctive competence' which allows it to outperform its competitors. The emphasis is more on the capabilities of the firm to succeed in what it chooses to do rather than on the environment in which the firm operates.

Woodruffe (1990) argues that competencies should be the common language of a human resource system that enables the organisation to match its competencies against the resources it needs. The framework of creating competency is seen by many as offering the basis of an integrated human resource policy. Many see it as providing a framework for a system capable of drawing input from organisational plans and delivering output in the form of simultaneous performance in staff by providing the criteria for recruitment and selection, training and development, manpower and succession planning, and remuneration and rewards (Antonacopoulou and FitzGerald, 1996). However, not all human resource (HR) practitioners are prepared for their emerging strategic roles and thus retooling HR to become a strategic business partner 'at the table' is receiving considerable current attention (Cobb, Samuels and Sexton, 1998).

Following this proposition, the IM mix framework is presented here as a means to create competencies in organisations. By this, we mean that IM is used as a philosophy for managing the organisation's human resources based on a marketing perspective (George and Grönroos, 1989). Thus, it is argued that the IM mix is the link between organisational competencies and business performance.

## **THE MODEL**

Despite a lack of implementation framework in IM literature, a number of key elements of IM mix can be identified from the literature, including communication, training, education and information (Gummesson, 1991); motivating and developing, educating or training employees (Grönroos, 1985; Rafiq and Ahmed, 1993; Cahill, 1995; Foreman and Money, 1995; Varey, 1995); and even attracting, hiring and retaining employees (Berry and Parasuraman, 1991; Rafiq and Ahmed, 1993; Foreman and Money, 1995), i.e. functions traditionally performed by human resources management. In addition, Foreman and Money (1995) found that the three components of IM are reward (rewarding and motivating employees), development and providing vision.

Following organisational development literature, the controllable elements inside the organisation are identified as the IM mix that consists of all organisational influence systems inside the organisation (Galpin, 1997). Based on the review of the IM literature and elements of Galpin's organisational influence system, the elements of the IM mix used in this study are:

1. Strategic rewards
2. Internal communications
3. Training and development
4. Organisational structure
5. Senior leadership
6. Physical environment
7. Staffing, selection and succession
8. Interfunctional co-ordination
9. Incentive systems
10. Empowerment
11. Operational/process changes

These controllable elements (i.e., the IM mix) are used to influence the key target groups that are identified as employees (or internal customers) equivalent to the key customer segments in external marketing. The term 'internal marketing mix' is preferred over Galpin's term 'the influence system' as it is a better indicator of the controllable nature of these elements and their need to be mixed appropriately to get the desired results. The desired results of the IM programme in this framework are identified as 'competencies' that will ultimately affect the business performance.

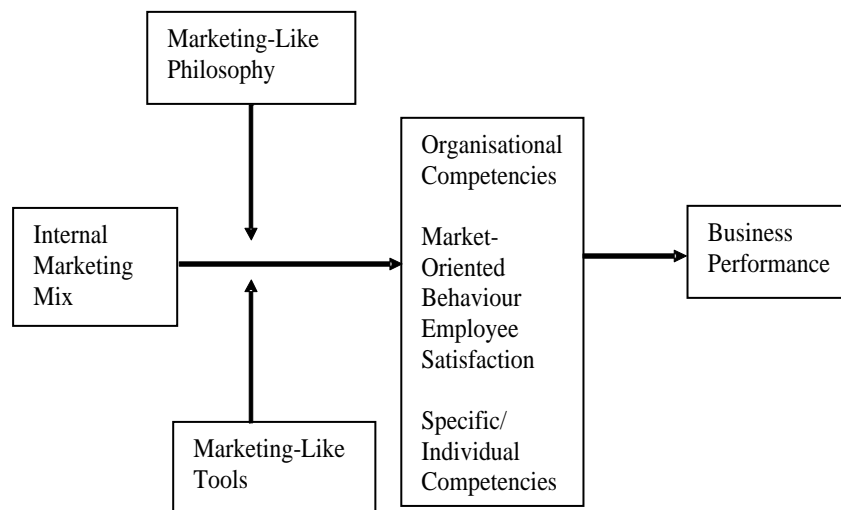


Figure 1. Conceptual model of internal marketing

As shown in Figure 1, the study examines the relationship between the IM mix, organisational competencies, external marketing application framework and their effects on business performance. Firstly, the model indicates that the IM mix variable is positively related to the organisational performance. Secondly, organisational competencies mediate the relationship between the IM mix and business performance.

The model also postulates that the application of external marketing philosophy and tools moderates the relationship between the IM mix and organisational competencies. This is consistent with the literature. George and Grönroos (1989) clearly state that IM is basically a philosophy for managing the organisation's human resources based on a marketing perspective. Berry and Parasuraman (1991), similarly advocates that IM is about:

*...viewing employees as internal customers, viewing jobs as internal products, and endeavouring to offer internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organisation (p. 272).*

Therefore, IM employs a marketing-like philosophy in treating employees as the internal customers, the understanding of which results in the application of marketing-like tools and activities to achieve required results. Grönroos (1985) mentions specifically that IM is about motivating the employees by active marketing-like activities:

*...holding that an organisation's internal market of employees can be influenced most effectively and hence motivated to customer-consciousness, market-orientation and sales-mindedness by a marketing-like approach and by applying a marketing-like internal approach and by applying marketing-like activities internally. (p. 42)*

Collins and Payne (1991) suggest that in order to implement IM, external marketing tools, including market research, segmentation, developing a marketing mix and controlling marketing activity, may be used within the organisation.

The discussion above suggests three broad hypotheses arising from the model presented and are tested in this study:

- H<sub>1</sub>: There is a significant and positive relationship between the IM mix and business performance.
- H<sub>2</sub>: Organisational competencies mediate the relationships of IM mix with business performance.



H<sub>3</sub>: Application of a marketing-like philosophy and application of marketing-like tools internally moderate the relationship between the IM mix and organisational competencies

## **RESEARCH METHODOLOGY**

In this study, a total number of 504 companies (463 manufacturing and 41 services companies) with 300 employees or more were identified for the actual survey. This number was determined by the number of all the services and manufacturing companies with 300 or more employees that were available in the sampling frame (i.e. the Federation of Malaysian Manufacturers (FMM) Directory, 1997). The sample size chosen was expected to fulfill the requirements of all the statistical techniques used.

Since the main objective of this study is to clarify the domain constructs and proposes a generic model of IM, the unit of analysis is conducted at the organisational level of analysis. Therefore, the top management and senior executives' perceptions of the organisational, managerial and environmental variables are measured. They are regarded as the main sources of information, largely of companies because they are directly responsible for the planning and implementation of strategies.

The questionnaires were sent with a cover letter to the CEO or senior executives listed in the FMM directory. An incentive was given in the form of a sachet of 3-in-1 instant coffee attached with the cover letter. A follow-up consisting of a fax reminder was sent one week after the initial mailings. Two weeks after the fax, another set of questionnaire and a stamped-addressed envelope was mailed for non-response. This resulted in a total of 111 usable questionnaires available for analysis giving an overall response rate of 22 percent.

To check for bias, a test was performed to confirm the existence or absence of bias using a technique suggested by Armstrong and Overton (1977). Respondents were divided into two groups comprising first mailings and follow-up mailings. It was assumed that the latter group was similar to non-respondents (Armstrong and Overton, 1977). Using the independent sample t-test, these groups were compared on all the IM mix variables but showed no significant differences (at 5 percent significance level).

## **CONSTRUCT MEASURES**

For the 11 components of the IM mix mentioned on page 30, various sources of information were used to generate the items for each of the dimensions. A total of 49 items were generated in this way.

The market-orientation behaviour construct attempts to assess the degree of market-oriented behaviour within the company. In other words, the statements attempt to probe the extent of the application of market orientation within organisations. The measurement items were taken from Narver and Slater (1990) and Kohli and Jaworski (1990). The measurement items for this variable were adapted from Narver and Slater (1990). Fourteen items were used. Items relating to performance were excluded.

The competencies concept is sufficiently defined in the past research and measurement items were developed by consulting the works of Overmeer (1997), O'Connell (1996), Long and Vickers-Koch (1995), Day (1994) and Hamel and Prahalad (1990).

The employee satisfaction construct was designed to assess the degree of importance the organisation placed on employee satisfaction for their business. The multi-item measurements used in the questionnaire were designed to assess the degree of their strategic application within organisations. It should be noted that the measurement items that were used were backed by theoretical support. The measurement items were developed by consulting the works of Berry (1984), George and Grönroos (1989), George (1990) and Rafiq and Ahmed (1993). Nine measurement items were used.

The application of the marketing-like philosophy construct was designed to assess the degree of external marketing philosophy applied internally. The multi-item measurements used in the questionnaire were designed to assess the degree of their strategic application within organisations. In other words, the statements were used to probe the extent of the strategic application of marketing philosophy within companies. The measurement items were developed by consulting the works of Berry (1984); George and Grönroos (1989); George (1990); and Rafiq and Ahmed (1993). Most of the measurement items were translated from Berry (1984) which indicated that organisations implementing IM should:

- view employees as internal customers,
- view strategies or/and jobs as internal products therefore striving to increase job satisfaction and
- endeavour to satisfy the needs and wants of these internal customers while addressing the objectives of the organisation.

The application of the marketing-like tools construct was used to assess the degree of the strategic application of marketing-like tools within the company. In other words, the statements attempted to probe the extent of the strategic application of the marketing tools to implement business strategy effectively. Three important tools were identified as applicable for implementing business strategies internally. They were segmentation, market research and targeting. The measurement items were developed by consulting the work of Rafiq and Ahmed (1993).

In terms of performance measurement, traditional performance measures, using financial measures alone, encouraged local optimisation (Hall, 1983), but was not externally focused (Kaplan and Norton, 1992). Therefore, in this study, a business performance construct was measured judgementally to include both financial and non-financial measures such as competitiveness and customer satisfaction.

## **RESULTS**

### **Descriptive Analysis**

Companies that participated in this survey represent a cross-section of large services and manufacturing companies in Malaysia. As indicated in Table 1, chemical and petroleum products industry represents 13.5% of the total respondents, which reflects their dominant presence in the Malaysian industry. This is followed by the basic and fabricated metal products industry (10.8%) and the electronic goods industry (9%). Next, a higher number of the respondents fall under the services industries: financial institutions (7.2%), insurance (6.3%) and consultancy services (6.3%).

The arrangement of respondents by industry classification represents a close approximation of their composition in the population. There are 13 categories in the manufacturing industry and three in the service industry. Greater participation was obtained from companies that belonged to newer and faster growing industries, i.e., chemical and petroleum products, basic and fabricated metal product and machinery equipment. This is consistent with government policy and incentives given to foreign investors.

TABLE 1  
PROFILE OF COMPANIES BY INDUSTRY CLASSIFICATION

Industry classification	Frequency	Percentage (%)
I. Chemical and Petroleum Products	15	13.5
II. Basic and Fabricated Metal Products	12	10.8
III. Machinery and Equipment	10	9.0
IV. Office, Electrical and Communication Equipment	7	6.3
V. Food, Beverages and Tobacco Products	6	5.4
VI. Wood, Paper and Printing Products	6	5.4
VII. Non-Metallic Mineral Products	5	4.5
VIII. Textiles, Wearing Apparels and Leather Products	5	4.5
IX. Rubber and Plastic Products	5	4.5
X. Medical and Precision Instruments	5	4.5
XI. Motor Vehicles and Transport Equipment	5	4.5
XII. Furniture and Other Manufacturing	3	2.7
XIII. Recycling	5	4.5
XIV. Financial Institutions	8	7.2
XV. Insurance	7	6.3
XVI. Inspection & Certification, and Consultancy Services	7	6.3
Total	111	100.0

In order to reflect the IM practices in the manufacturing and services organisations, all the 16 industries were re-classified into two basic types of organisations: manufacturing and services organisations. In broader terms, manufacturing companies represent 80.2% of the total respondents, while services account for 19.8%, as can be seen in Table 2.

TABLE 2  
DISTRIBUTION OF MANUFACTURING AND SERVICES ORGANISATIONS

Type	Frequency	Valid Percentage
Manufacturing	89	80.2
Services	22	19.8
Total	111	100.0

In terms of the number of employees, Table 3 shows the breakdown of company size based on the number of full-time employees. As expected, according to these criteria, the highest level of participation (42.3%) was obtained from the 300–599 employees range, followed by more than 1200 employees which constitutes 23.4% of the respondents.

TABLE 3  
CLASSIFICATION OF COMPANIES SIZE BY THE NUMBER OF EMPLOYEES

Organisation size in terms of the number of employees				
	Frequency	Percent	Valid percent	Cumulative percent
Valid 300–599	47	42.3	42.3	42.3
600–899	19	17.1	17.1	59.5
900–1199	19	17.1	17.1	76.6
1200 and over	26	23.4	23.4	100.0
Total	111	100.0	100.0	

### The IM Mix Components

The identification of existing conventional influence systems as IM mix variables raises the question as to whether IM is indeed a separate construct or, as suggested by Hales (1994), is merely the relabelling of existing HRM practices. There is little doubt that at this point the distinction between IM and human resources practices begins to be vague. However, when all the said IM mix elements that comprise ten elements (one element 'organisational structure' was dropped since the Cronbach alpha is below acceptable level) were submitted for factor analysis, three main factors emerged to be theoretically related to the IM framework. These are top management support mix, business process support mix and cross-functional co-ordination mix. All the three factors can be seen in some of the IM and market-orientation mainstream literature. The results are presented in Table 4.

The interpretation of the three-factor solution was accomplished by relating them to the theoretical concepts of IM. The first factor seemed to fit very well with the top management support concept. Theoretically, all the elements such as empowerment, senior leadership, strategic reward and physical environment suggest a very strong tie with top management initiative. Thus Factor 1 was labelled *Top Management Support Mix*. Factor 2 reveals the elements that are highly related to the enabling process. In this case, staffing, selection and succession, process changes and incentive system are all related to enabling a smooth process of achieving organisational goals and objectives. All the three elements stood out to be related to one another in a way that can be termed *Business Process Support Mix*. Finally, Factor 3 with the combination of internal communication, interfunctional co-ordination and training and development capture the essential elements of cross-functional interaction. It is obvious that inter-functional co-ordination is one of the central concepts in IM and market orientation literature. Thus, Factor 3 is referred to as *Cross-Functional Coordination Mix*.

TABLE 4  
FACTOR LOADING FOR IM MIX ELEMENTS

FACTOR 1: TOP MANAGEMENT SUPPORT MIX			
<i>Elements</i>			<i>Factor Loading</i>
Empowerment			0.958
Senior Leadership			0.882
Strategic Reward			0.745
Physical Environment			0.654
FACTOR 2: BUSINESS PROCESS SUPPORT MIX			
<i>Elements</i>			<i>Factor Loading</i>
Staffing, Selection & Succession			0.885
Process Changes			0.855
Incentive System			-0.749
FACTOR 3: CROSS-FUNCTIONAL COORDINATION MIX			
<i>Elements</i>			<i>Factor Loading</i>
Internal Communication			0.904
Inter-functional Co-ordination			0.872
Training and Development			0.682

### TOP MANAGEMENT SUPPORT MIX

IM literature emphasises strongly the notion of top management support. Barnes (1989), states that the ultimate responsibility for initiating IM rests with senior management. In fact, IM programmes require continuous management support to be effective (George, 1990; Grönroos, 1985). Among the most recent literature on IM, Rafiq and Ahmed (2000) claim that supportive senior management is fundamental to the success of IM as it indicates to all employees the importance of IM initiatives. The first of Grönroos (1981) dimensions of strategic IM is the adoption of supportive management styles. Grönroos (1981) raises the point that IM should become part of the strategic management philosophy to be successfully implemented. He observes that:

*Internal marketing has to become part of the strategic management philosophy, otherwise more tactical IM activities will be counteracted by demotivating jobs and work environment, for example caused by the attitudes of supervisors and managers, or by a personnel policy which does not support customer-consciousness but other goals only. (p. 43)*

In one of probably the most quoted work on market orientation, Kohli and Jaworski (1990) identify senior management factor as one of the most important antecedents to market orientation. A similar assertion from a classical marketing

literature, Felton (1959) suggests that the most important ingredient in achieving market orientation is an appropriate supportive state of mind of 'the board of directors, chief executive, and top-echelon executives'. Numerous other studies confirm the importance of top management support to almost any programme: marketing orientation (e.g., Levitt, 1969; Webster, 1988; Narver and Slater, 1990), service quality (Fletcher, 1999) and innovation (Agyris, 1966), to name a few.

### **CROSS-FUNCTIONAL COORDINATION MIX**

Cross-functional co-ordination is one of the main concepts in IM literature. To implement IM, cross-functional co-ordination is often needed, particularly between the human resources and marketing departments (George, 1990; Rafiq and Ahmed, 1993). The development of IM as an implementation vehicle was partly aided by the growing belief that IM had potential as a cross-functional integration mechanism within the organisation (Rafiq and Ahmed, 2000). Gummesson (1990) provides a very useful insight why companies should move towards a cross-functional IM orientation as this is a natural integrator of all the activities in the organisation:

*When companies do not consider the linkages between all functions they end up with 'broken chains' and 'tribal warfare' in which each specialist department is a tribe with loyalty towards its own members and not towards the company as a unified entity. (p. 65)*

Market orientation literature (e.g., Kohli and Jaworski 1990; Narver and Slater, 1990) argue that interdepartmental interactions facilitate responsiveness to customers in terms of the quality of the entire marketing mix including the product and/or service offering.

### **BUSINESS PROCESS SUPPORT MIX**

Although the notion of business process might be unfamiliar in IM literature, it does not mean that this is outside the IM boundary. Varey (1995b), for example, argues that IM should involve improvements in the overall business process of the organisation. As IM is concerned with the internal processes, overall improvement of the business process is deemed necessary. Treacy and Wiersema (1993) make the case that superior strategies are based on delivering customer value in operational excellence. Consequently as a part of the business process support mix, attraction of the best personnel, their retention and motivation through incentive systems becomes of critical importance (Thompson, Berry and

Davidson, 1978, Sasser and Arbeit, 1976). 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.

It is obvious from this discussion that all the IM mix factors proposed are all grounded in the literature and enable the IM framework to be proposed as a potent organisational development framework that relates organisational practice to performance in a logical manner. In this form, all the traditional influence systems can be managed using an 'IM mix' approach to give a more 'marketing-like' approach to the management of employees. Viewed in this way, marketing should be treated as an applied behavioural science that is concerned with transactions between two parties. Indeed as Kotler (1972) explains, things-of-value need not be restricted to goods, services, or money; they include other resources such as time, energy and feelings.

### ***The Effect of IM Mix Elements on Business Performance***

Hypothesis 1 (H1) predicts that there is a linear relationship between the IM mix elements and business performance. Given that factor analysis revealed that the IM mix has three components we can add the sub-hypotheses that all the IM mix components (i.e., top management support mix, process optimisation mix, and cross-functional co-ordination mix) have a significant positive effect on business performance. These hypotheses can be expressed in a multiple linear regression equation as:

$$\text{Business performance} = \text{constant} + B_1 \text{ top management support mix} + B_2 \text{ process optimisation mix} + B_3 \text{ cross-functional co-ordination mix} + e$$

The results in Table 5 for this regression model show that 57.2% of the observed variability in business performance is explained by the three independent variables ( $R^2 = 0.583$ , Adjusted  $R^2 = 0.572$ ). Also the value of the F ratio of 49.93 ( $p = 0.0005$ ) indicates that it is safe to accept H1—that there is a significant linear relationship between IM mix elements and business performance.

To test the null hypothesis that the population partial regression coefficient for a variable is 0, t-statistic and its observed significance level were used. The results are shown in Table 5. Results from Table 5 also indicate that we can safely reject the null hypothesis that the coefficients for top management support mix ( $B = 0.583$ ,  $t = 7.888$ ,  $p < 0.001$ ) and cross-functional co-ordination mix ( $B = 0.181$ ,  $t = 2.31$ ,  $p < 0.05$ ) are 0. However, we have to accept the null hypothesis for the business process support mix, since the partial coefficient does not contribute significantly to the model ( $B = 0.131$ ,  $t = 1.575$ ,  $p > 0.05$ ). The beta weights show that top management support mix ( $B = 0.583$ ) is relatively stronger than cross-



functional co-ordination mix ( $B = 0.181$ ) in explaining the changes in business performance.

TABLE 5  
REGRESSION OF BUSINESS PERFORMANCE ON IM MIX

Model	Coefficients <sup>a</sup>				Sig.	Collinearity statistics	
	B	Std. Error	Beta	t		Tolerance	VIF
1 (Constant)	-1.034	0.628		-1.648	0.102		
Top management support	0.767	0.097	0.583	7.888	0.000	0.714	1.401
Process optimisation	0.361	0.229	0.131	1.575	0.118	0.563	1.775
Cross-functional co-ordination	0.198	0.086	0.181	2.310	0.023	0.637	1.571

<sup>a</sup> Dependent variable: PERFORM  
Adjusted  $R^2 = 0.572$ ;  $F_{3,107}$  value = 49.93 ( $p = 0.000$ )

Although the hypothesis for the business process support mix is rejected, investigation of its effect on business performance alone reveals that it has a significant linear relationship. This suggests that with the other two predictors in the regression model, its impact on business performance was overshadowed. Another possible explanation could be the interaction of variables that moderates and mediates the effects of other variables so as to alter the effects of the IM mix elements on the performance variable.

**Testing for Mediator Variables**

Since the hypothesis (H2) tested in this study involves testing the effects of mediation, it is imperative to first define the roles of the mediator in terms of independent variable and dependent variable relationships. A mediator variable is one that explains the relationship between the other variables. More accurately, mediation implies a causal hypothesis whereby an independent variable causes a mediator, which causes a dependent variable. A given variable may be said to function as a mediator to the extent that it accounts for the relation between the predictor and the criterion. While moderator variables specify when certain effects will hold, mediators indicate how or why such effects occur (Baron and Kenny, 1986).

A series of regression models suggested by Baron and Kenny (1986), were used to test the mediating role of market-based competency in the relationship of IM mix and business performance. First, the independent variable (a composite measure of IM mix was used) was regressed on the IM mix to ascertain that there

was an effect that may be mediated. Secondly, the mediator variable (i.e., the organisational competencies) was regressed on the IM mix, treating the mediator as if it was an outcome variable. Third, the dependent variable was regressed on both the independent and the mediator variables, hence providing control to the regression model, as the initial variable must be controlled to establish the effect of the mediator on the outcome.

The first test showed that there was a significant (adjusted  $R^2 = 0.513$ ,  $F = 116.921$ ,  $p < 0.001$ ) relationship between the independent variables (i.e. all IM mix as a single composite measure) and the dependent variable (i.e., business performance as a single composite measure), signifying that there exists a significant relationship to be mediated. The results of test 2 showed that there was a significant relationship between the independent variables (the IM mix) and the mediator variables. The results are shown in Table 6.

TABLE 6  
RESULTS OF REGRESSION ANALYSIS FOR MEDIATING EFFECTS (TEST 2)

Regression Model	Mediator Variables		
	Market-oriented Behaviour	Employee Satisfaction	Specific/Individual Competencies
The mediator was regressed on the independent variable (i.e., IM mix)			
Adjusted $R^2$	0.603	0.539	0.250
F	168.109 **	129.778**	37.639**

\*\* $p < 0.001$

\* $p < 0.05$

Finally, the effect of the mediator on the outcome is ascertained in test 3, which provides control to the regression model as the initial variable must be controlled to establish the effect of the mediator on the outcome. The results are given in Table 7.

Since the beta weight of the mediator variable was greater than that of the independent variable, the results show that except for employee satisfaction ( $B = 0.486$ ,  $t = 5.16$ ,  $p < 0.001$ ) the effect of a mediator was present in all other variables. However, there was not enough evidence to show that any one of the mediator was a 'pure' mediator, since the relationship between IM mix and the dependent variable was not zero while controlling the effect of the mediator variable. As the beta weight for market-oriented behaviour and individual/specific competencies was significantly stronger than the effect of the independent variable, we can safely regard them as partial mediators. However, in the case of employee satisfaction, as the beta weight is weaker than the

independent variable, we have to reject the hypothesis that employee satisfaction is a mediator of the IM mix and business performance relationship.

TABLE 7  
RESULTS OF REGRESSION ANALYSIS FOR MEDIATING EFFECTS (TEST 3)

The dependent variable was regressed on both the independent and the mediator variables.	Regression Model of Market-oriented Behaviour	Regression Model of Employee Satisfaction	Regression Model of Specific/Individual Competencies
Adjusted R <sup>2</sup>	0.610	0.555	0.584
F	86.915**	69.668**	78.194**
Independent Variable (IM mix)	B = 0.328, t = 3.46*	B = 0.486, t = 5.16**	B = 0.315, t = 4.423**
Mediator Variable	B = 0.502, t = 5.29**	B = 0.317, t = 3.37*	B = 0.560, t = 7.844**

\*\*p < 0.001

\*p < 0.05

### *Test for Moderation Effect*

Hypothesis 3 proposes that the application of the external marketing framework moderates the relationship between the IM mix and organisational competencies. In other words, the hypothesis predicts that external marketing-like tools and philosophy have a significant influence on the strength of a relationship between the IM mix and organisational competencies. In general, a moderator variable is one that influences the strength of a relationship between two other variables. According to Baron and Kenny (1986), a moderator is a variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable.

To test for pure moderators, a moderated regression analysis was used as suggested by Sharma, Durand and Gur-Arie (1981). A pure moderator effect implies that the moderator variable modifies the form of the relationship (i.e., the slope of the regression line as represented by the regression coefficient) between the predictor variable and the criterion variable. The moderated regression analysis was determined by creating multiplicative interaction terms by multiplying the values for independent variable (IM mix) with the values for the hypothesised moderators (external marketing-like tools and philosophy).

Both application of marketing-like techniques ( $B = 3.066$ ,  $t = 34.160$ ,  $p < 0.001$ ) and application of marketing-like tools ( $B = 2.561$ ,  $t = 47.451$ ,  $p < 0.001$ ) were found to be statistically significant moderators of the relationship between IM mix and organisational competencies variables.

In order to ascertain whether the hypothesised moderators were a pure or a quasi moderator, or other variables the researcher then determined whether the hypothesised moderator is related to the predictor or criterion variables. This was tested by using a bivariate correlation analysis. The results show that while marketing-like tools are significantly related to the predictor variable (IM mix,  $r = 0.408$ ,  $p = 0.000$ ) alone, the hypothesised moderator of marketing-like philosophy was related significantly to both the predictor (IM mix  $r = 0.603$ ,  $p = 0.000$ ) and the criterion variables (organisational competencies,  $r = 0.579$ ,  $p = 0.000$ ). Therefore, we can conclude that both of the variables are quasi-moderators, as characterised by Sharma et al. (1981).

## **DISCUSSION**

This study provides the first attempt to gain knowledge on IM implementation using a marketing-like approach. It identifies that this approach is imperative to create organisational competencies and business performance. This study is the first step to develop and test a conceptual model linking IM mix components, competencies and business performance that adds knowledge to the IM implementation framework in particular and other organisational development theories in general.

IM literature often emphasises the use of a marketing-like approach to IM (Rafiq and Ahmed, 1993; Grönroos, 1985). Although there is evidence of the use the marketing-like tools such as segmentation and internal market research (Quester and Kelly, 1999), in practice, the way and the purpose of such an exercise remain unclear. This study goes a step further to suggest that a marketing-like approach aims to create customer orientation in employees through a process of influencing, rather than satisfying and motivating employees per se. Consistently, this study confirms the view that IM is a managerial philosophy using a marketing-like approach (George and Grönroos, 1989).

A deeper grasp of the concept is also provided as this study goes further to investigate the mediating role of marketing-like tools and philosophy used in the IM mix and performance relationships. The results suggest that marketing-like tools and philosophy significantly affect the relationship of IM mix components and organisational competencies. The findings provide evidence that the use of marketing-like philosophy and tools are imperative to improve the relationship

between IM mix and employees' performance. This discovery should stimulate future research to investigate these relationships more fully especially in the international context to substantiate the evidence.

## **CONCLUSION AND IMPLICATIONS OF THE STUDY**

Using large Malaysian firms, the study develops an integrative model in an attempt to study the IM mix, the application of marketing-like philosophy and tools, business competencies, and organisational performance and the interactive relationships between them. It is based on the premise that these constructs are intricately linked to one another and that the relationships are interactive in nature. Any attempt to examine the individual relationships in isolation would lead to an incomplete picture. This study was designed to clarify the nature of IM constructs empirically, and consequently to propose a model for IM operationalisation in the Malaysian environment.

This study provides insight for IM, its implementation and the linkages between competencies and performance for management development theorists. The marketing concept and market orientation should be stressed since HR practitioners and other organisational managers may not have an academic background that can use these concepts. Without a marketing perspective, HRM would lose its ties with the external marketing programme, and hence internal competitive advantage. In this case, IM is the practice to gain a synergistic advantage by aligning the internal resources to the external market. It is obvious that any strategic action should be aware of the needs of the ultimate customers, i.e. the plan should ultimately create value for the customers. In short, IM fills a gap in HRM by ensuring that the organisation's personnel work together in a manner that supports the organisational strategy and goals. The traditional and the more advanced HRM is frequently orientated towards control and administrative activities rather than the alignment of human resources towards achieving organisational purposes and goals. It is necessary, therefore, to have a market-oriented HR manager in order to make an impact on the success of a company. HRD specialists, then, when marketing their services inside their organisation, should apply the same strategies that marketing specialists use to promote products and services outside the organisation. It is suggested, therefore, the proven tools that are widely used in the external environment (e.g., market research, segmentation and targeting) could be employed internally to motivate the employees.

This study also provides scope for academic theorists to operationalise the concept of a marketing-like application in managing the internal exchanges in an organisation. The academic implications of the study are mainly suggestions on

how academia must become proactively involved with the recognition of IM as a philosophy of managing HR practices to improve business performance. The roles of these management approaches in organisations and their complementary nature should be recognised.

This research, therefore, has many potential implications for future research which pertain both to the methodology employed in collecting and analysing the data, and to the substantive findings of the research effort. Although the researcher is confident of the model's portability to other national contexts and industries, the exploratory nature of this study means that further empirical and qualitative studies are required to substantiate the reliability of the findings. Until future research explores the robustness of the proposed model, the application of the model and subsequent findings may only be valid for the particular sample used. Most certainly, this model could benefit from exposure to a larger sample base, and/or application to other national settings, sectors and industries. It is anticipated that this model is adaptable, and therefore its tenability could first be proved in other cultural and social contexts. An agenda for further research might focus on improving the understanding of an IM-outcome model in different environments. For example, future research might focus on:

- Replicating the study by restricting sampling to a specific industry. Additional specific knowledge of IM practices may be gained from the industry. Another secondary benefit from this may be the response rate, since concentrating on a more homogenous sample would encourage respondents to participate. Clearly, further research should be conducted in industry-specific settings, as some of the industry-specific results may be overlooked by the current study.
- Determining the distinctiveness and sustainability of the mediator and performance variables such as competencies, market-orientation, profitability and employee satisfaction. For example, are some behaviours more distinctive than others in determining a competitive advantage? Similarly, are they sustainable, and will they withstand the test of competition over the long run?
- Further diagnosis and study of IM practices' factors, and environmental context measures. The factors under study in this research have been statistically determined. Additional factors in additional settings may better explain or measure these behaviours more accurately. Also, a larger sample may provide a more comprehensive set of factors for exploration.

- Another important research topic would be cross-cultural comparative analysis of IM implementation between countries or culture groups. This provides a check on the generic concept of IM. It is important to know and understand what triggers organisations seriously to pursue an improvement in their competencies and, subsequently, what processes are used to facilitate such efforts. Topics might include process, time frames, what worked, what did not work, time lags for implementation, and costs versus benefits. Qualitative research would be beneficial on a longitudinal basis, especially one which includes companies that have been successful, as well as those which have failed.

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