Internal Marketing's Effects on Employee Satisfaction, Productivity, Product Quality, Consumer Satisfaction and Firm Performance

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Marketers have typically studied the effect of external marketing to consumers of the firm and its effect on firm performance. However, the role of internal marketing (to employees), and its effects on employee satisfaction, productivity, product quality, customer satisfaction and firm performance has not been studied as extensively for manufactured goods. This paper proposes a more comprehensive model of internal marketing and its effect on firm performance in the manufacturing sector.

INTRODUCTION

Internal marketing was originally defined as making internal products (jobs) available to satisfy the needs of internal market (employees) so that it satisfies organizational objectives (Berry, et.al., 1976). The authors go on to add that a firm has to successfully hire, train and motivate employees to serve external customers since the needs of external customers can be satisfied partly because the needs of the firm's internal customers (employees) are satisfied. Marketing aimed at internal customers is called internal marketing (Gronroos, 2001). However, since then, there have been a number of definitions of internal marketing and there is no unifying notion (Rafiq & Ahmed, 1993). For instance, George (1977) and Berry (1980) state that in order to keep external customers happy and satisfied the company's internal customers (employees) should be happy in their jobs. Internal marketing's goal is to hire, train and motivate employees so that they serve their customers well (Kotler, 1991), and to treat employees as customers (Berry & Parasuraman, 1991).

A firm should be considered as a market and marketing inside the firm is internal marketing and therefore marketing tools that are used for external customers might be used for internal customers and the field of human resource management has started adopting appropriate marketing tools (Foreman & Money, 1995). Internal marketing has also been defined as a marketing technique within an organization which creates and communicates corporate values (Hogg & Carter, 2000) and it should be considered as part of the broader market orientation concept which was originally developed for marketing to external customers, however, the same concept can also be used for marketing to internal customers (Naude, et.al., 2002).

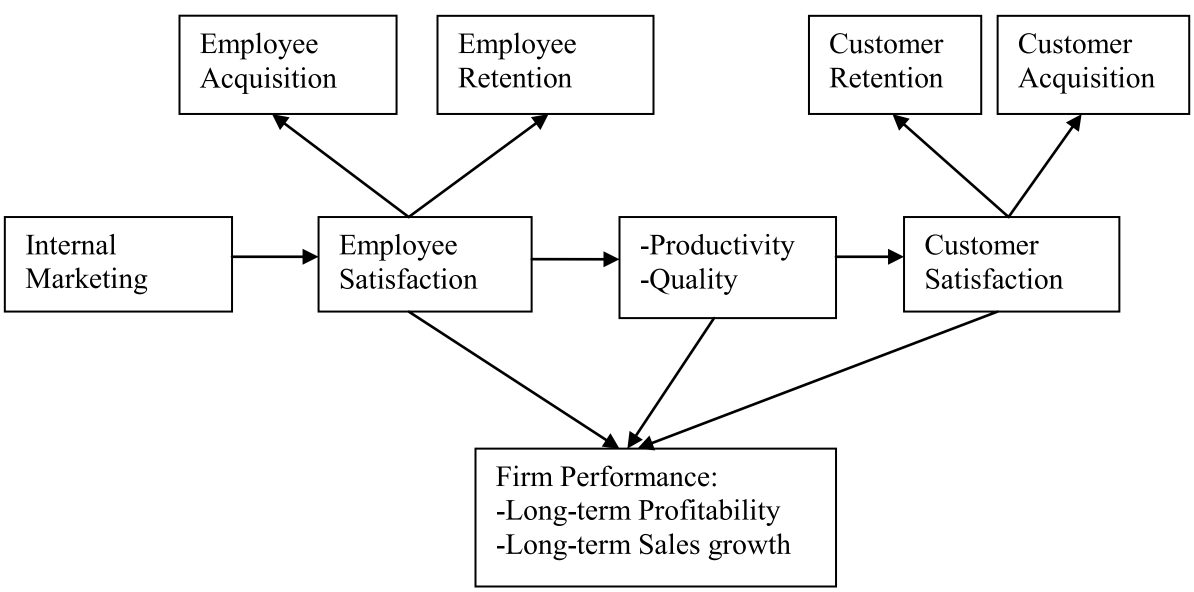
However, Rafiq and Ahmed (1993) take issue with the concept of the employee as customer since employees may sometimes be coerced to do things in the organization whereas external customers have the freedom to buy or not buy from competing firms. To this end, Rafiq and Ahmed (1991) define internal marketing 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" (pg. 222). Shiu and Yu (2010) propose five components of internal marketing – employees as internal customers, customer oriented employees, human resource management viewpoint, internal exchange, and the use of strategic tools. The authors' study found support that organizational culture influences internal marketing which in turn affects job satisfaction and ultimately leads to increased organizational performance.

Internal marketing is not the same as managing human resource instead it seeks to develop human potential so that organizational and individual goals are fulfilled. A firm's internal marketing program necessitates economic compensation of employees that encourages long term job commitment and customer satisfaction and management must communicate this by deeds instead of speech (Berry, et.al., 1976). Marketing activities require investments in employees and customers which may have a long term payoff (Evanschitzky, et.al., 2012), unfortunately, executives tend to be short term oriented and decrease investments in these activities (Graham, et.al., 2005).

Marketers have typically studied the impact of marketing investments towards external customers. However, there is very little empirical research on internal marketing's effect on firm performance (Wieseke, et.al., 2009). Further, there is no study to date that provides a comprehensive model of the effects of internal marketing. This paper proposes a model (Figure 1) of the chain effects of Internal Marketing on Employee Satisfaction (acquisition and retention), Product Quality, Customer Satisfaction (customer retention and customer acquisition), and finally Firm Performance (profitability and sales growth).

The model has some similarities with the model of "Service Profit Chain" which was first proposed for front line employees in services by Heskett, et.al., in 1994. The missing link in the service profit chain is the service climate and investigates the antecedents and its influence in the chain (Hong et. al., 2013). However, the proposed model uses internal marketing as the independent factor that affects and sets off a chain reaction for subsequent dependent factors and ultimately firm performance. There have been a number of studies that have linked piece meal the effects of some of the components of the service profit chain, and lately Evanschitzky, et.al., (2012) studied the relationship between front line employee satisfaction with customer satisfaction and finally with firm performance. However, findings from comprehensively testing the Service Profit Chain are not conclusive (Bowman & Narayandas, 2004; Rust, et.al., 2004; Evanschitzky, et.al., 2012).

FIGURE 1
THE MODEL OF THE CHAIN EFFECTS OF INTERNAL MARKETING ON EMPLOYEE SATISFACTION, PRODUCTIVITY, PRODUCT QUALITY, CUSTOMER SATISFACTION AND FIRM PERFORMANCE



Internal Marketing's Effect on Employee Satisfaction

Internal marketing's goal is not just to attract, retain and reward employees, but also to compensate more those who are more effective and efficient by providing economic incentive plans that encourage the long-term perspective (Berry, et.al., 1976), which in turn raises employee satisfaction (Heskett, et.al., 2002). Internal marketing has been linked to job satisfaction (Ahmad, et.al., 2003; Hwang & Chi, 2005; Mukherjee & Malhotra, 2006; Shiu & Yu, 2010), work motivation (Bell, et.al., 2004), service quality (Bell & Mengue, 2002; Bell, et.al., 2004), cooperative behavior, organizational citizenship behavior and customer service (Riketta, 2005), customer satisfaction (Homburg & Stock, 2005; Koys, 2001; Wangenheim, et.al., 2007) and loyalty (Ahmed & Rafiq, 2002; Bergstrom, et.al., 2002; Hallam, 2003; Sartain, 2005). Based on the above, the following are proposed.

P1: Firms that spend more on internal marketing (as a % of their revenue) will have higher employee satisfaction than firms who do not spend as much in internal marketing
P2: Firms that have high levels of employee satisfaction will attract more new employees (acquisition).
P3: Firms that have high levels of employee satisfaction will retain more employees (retention).

Employee Satisfaction's Effect on Productivity and Quality

The relationship between employee satisfaction and quality has not been studied very extensively. Most of the research that exist in this area link employee satisfaction to productivity (e.g. Heskett et.al., 1994), job satisfaction to productivity (Harter, et.al., 2002; Schneider, et.al., 2003; Bockerman & Ilmakunnas, 2012), employee satisfaction to customer satisfaction (Evanschitzky, et.al., 2012; Homburg & Stock, 2005; Koys, 2001; Wangenheim, et.al., 2007), and employee well being (happy) and job performance/productivity (Wright & Cropanzano, 2007) and with service quality (Lee, et.al., 2012). Employee satisfaction has also been linked to pride in service, customer orientation and how customers perceive the service (Johnson, 1996; Reynierse & Harker, 1992; Schneider, et.al., 1996), performance (Evanschitzky, et.al., 2012). Job satisfaction has also been linked to employee quitting behavior, absenteeism and job performance (Warr, 1999). Based on this, the following proposition is offered. However, the relationship between employee satisfaction and customer satisfaction is weak at best (Hoffman & Ingram, 1991). Based on the above, the following are proposed.

P4: Firms that have high levels of employee satisfaction will have higher quality.
P5: Firms that have high levels of employee satisfaction will have higher productivity (sales per employee).

Quality's Effect on Customer Satisfaction

Better quality leads to customer satisfaction (Anderson & Mittal, 2000; Simester, et. al., 2000), loyalty, and customer retention (Rust, et.al., 2002). Improvements in quality result in satisfied customers who in turn spread the word through word-of-mouth (Rust, et.al., 2004). Satisfied customers become repeat loyal customers, increasing the retention rate and profitability of the company (Al-Hawari, 2005; Cooil, et.al., 2007; Hogan, et.al., 2002; Liang & Wang, 2006). However, customer satisfaction and quality are sometimes, but not always, positively correlated (Schneider, 1991). Emphasis on internal processes to improve quality improves customer satisfaction, (Ekinci & Dawes, 2012).

There is overwhelming support in the literature that improving quality leads to improved customer satisfaction which in turn results in improved business performance (Bernhardt, et. al., 2000; Fornell, et.al., 2006; Lee & Hwan, 2005; Zeithaml, 2000). Service quality has been linked with customer satisfaction. Based on the above, the following are proposed for manufactured goods.

P6: Firms with high levels of quality have higher levels of customer satisfaction.
P7: Firms with high levels of customer satisfaction will have higher customer retention.

P8: Firms with high levels of customer satisfaction will have higher customer acquisition.

Customer Satisfaction and Firm Performance

Customers are also willing to pay more if they are satisfied with the quality (Homburg, et.al., 2005). There are a number of studies that have found a positive relationship between satisfaction and firm performance (Kamakura, et. al., 2002; Mittal, et.al., 2005). Customer satisfaction has been found to have a positive relationship with repeat purchase and loyalty (Fornell, 2007). However, customer satisfaction's influence on firm performance has been mixed. For instance, Anderson, et.al., (1997), Gupta & Zeithaml, (2006), Evanschitzky, et.al., (2012) find a positive relationship between customer satisfaction and financial performance, while Tornow & Wiley (1991), Bernhardt, et.al., (2000), Schneider (1991), and Wiley (1991), found just the opposite. Based on the above, the following propositions are offered.

P9: Firms with high levels of customer satisfaction have higher profitability.
P10: Firms with high levels of customer satisfaction have higher sales growth rate.

CONCLUSION

This paper proposes a comprehensive model of internal marketing's effect on employee satisfaction, productivity, product quality, customer satisfaction and firm performance for manufactured goods. This chain reaction has not been studied. These propositions can be tested using data from the manufacturing sector. For instance, internal marketing can be operationalized and measured by finding what a company spends on its employees as a percentage of its revenue. Employee satisfaction can be measured using data from Fortune and Forbes magazines who publish data of the 100 best companies to work for (this list can be used as a surrogate for employee satisfaction). Productivity and product quality of companies can also be found from sources like COMPUSTAT, Consumer Reports, etc. Customer satisfaction can be measured using data from the American Customer Satisfaction Index. And finally, the financial performance of companies can be found from their annual reports.

Managers in corporations can use this model as a whole or in part in order to increase their firm's performance. For instance, a firm needs to have proper internal marketing strategies in place in order to increase employee satisfaction, employee retention and attract new employees. If a firm wants to increase the productivity of its employees and have higher product quality it needs to make sure that its employees are satisfied. A higher product quality will lead to satisfied customers that in turn will increase customer retention and acquisition of new customer. This will ultimately lead to higher firm performance in terms of higher revenue growth and higher profitability over the long run. The bottom line is that if a firm has proper internal marketing strategies in place, it will trigger a chain reaction which will ultimately lead to higher firm performance.

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