CONCEPTUALISING THE APPLICATION OF RELATIONSHIP MARKETING ORIENTATION TO THE INTERNAL BUSINESS ENVIRONMENT

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ABSTRACT

The marketing literature offers substantial insight about the important strategic role that the implementation of relationship marketing strategies by business can play in competing for customer satisfaction, customer loyalty and, ultimately, sustained business performance. While employees are recognized by the important role they play in the implementation of successful relationship marketing strategies by business, what this role might entail in terms of requirements and outcomes has been afforded much less attention in the literature. This paper explores the importance of internal relationship marketing for successful implementation of relational strategies towards external customers. It is argued that the adoption by business of an internal relationship marketing orientation may provide significant support for the outcomes available to business from the adoption of a relationship marketing orientation externally.

INTRODUCTION

Seeking 'to identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met, and this is done by mutual exchange and fulfillment of promises' (Grönroos, 1994, p.9), relationship marketing (RM) is most often associated with external customers in the marketing literature. Although mostly as a resource or competency available to the business, RM recognizes the important role that employees and internal marketing (IM) strategies can play in the development and implementation of successful strategic relationships with external customers, potentially conducive to improved and sustained business performance (Kamakura et al., 2002; Blake, 2001; Freiberg and Freiberg, 1998; Rosenbluth and McFerrin, 1998; Rucci et al., 1998; Anderson et al., 1994; Schneider and Bowen, 1985).

Why employees may be at the core of successful and profitable strategic relationships with customers in the marketplace, as well as a potential source of competitive advantage, is an issue that merits elaboration. This issue has been variably articulated in the literature, well illustrated in the argument underpinning the service-profit chain (Heskett et al., 1994) conceptual framework. Arguably, business success involves implementing a system that recognizes employees by their long-term productivity, loyalty and overall contribution to the business. Hence, retaining good employees becomes an important aspect of business management (Yee et al., 2011) because this retention has the potential to increase productivity and reduce training costs (Reichheld, 1993, p.65), to enhance relationships with customers adding to customer perceived value (Weinstein, 2002) and, equally important for sustainable competitive advantage, to reduce the supply of good employees available to competitors (Schlesinger and Heskett, 1991). The framework identifies the contribution employees can make to profitable relationships with external customers, albeit occasionally in arguments of logic not always backed by empirical evidence. This is the case, for example, of the argument that retaining good employees reduces significantly the supply of such employees available to competitors.

A second aspect of apparent importance refers to what businesses can do to retain the good employees at the basis of successful relationships with customers, a question that seemingly invites delving into the meanders of IM. Without loss for the valuable contribution that IM can make, the focus of attention in this paper is the adoption of an internal relationship marketing orientation (IRMO) by businesses. The importance given to the retention of good employees has led to arguments proposing their targeting as internal customers (Bellou, 2010; Barnes et al., 2004; 2008).

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Berry, 1981), as well as the potential applicability of RM theory and of the adoption of relationship marketing orientation (RMO) to businesses' internal environment, reflected in the reference to IRMO.

This conceptual paper considers the importance of the implementation of IRMO strategies for successful relationships with internal customers, as potential drivers for improved business performance.

RELATIONSHIP MARKETING AND INTERNAL STAKEHOLDERS

The conceptualization of RM over time is characterized by a lack of consensus about its definition. This definitional latitude is explored by Sin et al. (2002), Hunt et al. (2006) and Harker and Egan (2006). The argument that academics and practitioners have given too much emphasis to attracting customers and not enough attention to retaining them may justify one of the first attempts to define RM as “attracting, maintaining, and (...) enhancing customer relationships” (Berry, 1983, p. 25). Attention then shifted to distinguishing relational exchanges from transactional ones, with the former being characterized by their involving of an ongoing process for the longer term, in contrast to the short duration and distinct beginning and ending of the latter (Dwyer et al., 1987, p. 3). Positing that most definitions offered too narrow a scope, in referring solely to relationships between suppliers and customers, Grönroos (1994) devised the definition of RM stated early in this paper. This conceptualisation found an echo in Morgan and Hunt (1994), embodied in the possible occurrence of RM with 10 different stakeholders (namely, goods suppliers, services suppliers, competitors, nonprofit organizations, government, ultimate customers, intermediate customers, functional departments, business units and employees).

Clearer evidence of the definitional latitude in the literature is given by the 26 different definitions reported by Harker (1999). Some research emphasizes only certain conceptual aspects of RM (Gummesson, 1994; Christopher et al., 1991; Berry, 1983), while others adopt a more general approach (O'Malley et al., 1997; Bennett, 1996). Notwithstanding the definitional abundance, it is apparent that RM is generally characterized by long-term relationships, involving either one single (customer) relationship or multi-level relationships. It is also apparent that the description of RM is often used interchangeably with many other terms, such as relationship management (McNally and Griffin, 2007) or customer focused management (Gummesson, 1994). Other terms frequently used include: direct marketing, database marketing, customer relationship management (CRM), data-driven marketing, micro-marketing, one-to-one marketing, loyalty marketing, ‘segment-of-one’ marketing, wraparound marketing, customer partnering etc. (Egan, 2008, p. 32). In the latest literature review, 72 definitions are identified together with 50 defining constructs of RM (Agariya and Singh, 2011).

Although the terminology and definitions of RM varied and evolved with time, sustained emphasis has been on the continued importance of RM within the marketing discipline and the acknowledgement of the importance of employees as resources for successful RM. Arguably, the adoption of a relationship marketing orientation (RMO) towards external customers and the subsequent successful implementation of RM strategy requires a high degree of effective internal stakeholder participation. In exploring this aspect of employees as internal resources, a better understanding can be achieved by distinguishing between the operational focus of IM and IRM.

FROM THE OPERATIONAL VIEW TO EMPLOYEES AS ASSETS

Broadly identified with “orienting and motivating customer contact employees and supporting service people to work as a team to provide customer satisfaction” (Kotler and Armstrong 2010), a more expressive definition is forwarded by Rafiq and Ahmed (2000) whereby IM refers to "a planned effort using a marketing-like approach to overcome organizational resistance to change and to align, motivate and inter-functionally co-ordinate 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-orientated employees" (p.454). While only implied in the conceptualisations above, employees' satisfaction may be argued to be of concern only to the extent that it influences attaining external consumer satisfaction, that is, to the extent that satisfied employees are needed in order to have satisfied external customers. This aids understanding of why the recurring element in exploring the arguments surrounding IM are not the employees themselves, but the need to minimise costs by means of increased workforce productivity in order to facilitate the delivery of long-term value to external customers for improved business performance.
From this operational perspective, the perceived challenge for business is to develop operations with one eye on external customers’ satisfaction and the other on business objectives. The implication is that employees must be customer oriented, subject to keeping to the superior interests of the business. Rather than placing the employee at the center, attention is on the effectiveness of the internal supply-chain, also referred to as the quality chain (Oakland, 1989, p. 4) and on inter-functional co-ordination. This recognises the critical links between internal customers and internal suppliers in creating value for external customers (Ballantyne, 2003). Matters of importance in achieving this objective may include insuring staff awareness of corporate policies and procedures, training and subsequent empowerment of staff (Causon, 2004), and overall creation of an enabling culture of inter-functional co-ordination (Narver and Slater, 1990), backed by equitable recognition and reward systems.

Along the rationale of the operational perspective conveyed above, Pervaiz et al. (2003) referred to IM as an interaction process between the organisation and its employees within a given company context, consistent with creating the right type of atmosphere and environment in which employees are encouraged to create, co-ordinate and improve the whole business (p. 1180). From the business perspective, this involves a network of relationships within which different collaborations evolve as a consequence of a multiplicity of interaction episodes.

Notwithstanding the importance of the operations perspective, it is apparent the increasing awareness about the importance of the internal customer supply-chain and inter-functional co-ordination, as well as about the advantages available to business from the implementation of RM strategies focused on external customers. This heightened attention for employees as valuable resources for the business, accounting for the potentially decisive contribution that individual employee’s participation and between-employees interactions may have in the value creation process.

The literature offers support for the importance of good relationships with employees and of staff satisfaction in achieving external customer satisfaction and improving firm performance. For example, based on data pertaining to the ‘100 Best Companies to work for in America’, Fulmer et al. (2003) found that beyond the effect on business performance enhancement, positive relationships with employees are an asset for the businesses and a source of competitive advantage. This view of business relationships with employees who are perceived as business assets is extended by the empirical finding that, should adverse economic conditions arise, businesses depending on labour for conducting their operations are more effective in obtaining temporary labour concessions and in avoiding the onset of future financial distress if they maintain good employee relations (Kane et al., 2005). Hence employee satisfaction and loyalty to the business may make the business more resilient to adversity, further fostering the proposition of the importance of management adopting a RM perspective towards staff (or internal RM, alias IRM), treating employees as valuable internal customers, and establishing and managing relationships with them (Iglesias et al., 2011).

LOOKING AFTER EMPLOYEES WHO LOOK AFTER CUSTOMERS

A starting point to the discussion of IRM is the acknowledgment that the term is used in the marketing literature interchangeably with such terms as ‘internal relationship management’, ‘internal social process management’, and ‘internal marketing’ (Varey and Lewis, 1999). Egan (2008) also refers to ‘internal partnerships’ and to ‘internal relationships’, though noting that should a distinction between terms be required, ‘internal marketing can be seen as the process towards the development of internal partnerships’ (p. 173). Most importantly, the relevance or propriety of the application of RM theory within a business’ internal environment has also been subject to debate.

Parvatiyar and Sheth (2000, pp. 7-8) argue that RM should be concerned with external customers only, echoing the view forwarded by Peterson (1995) that extending RM practices to internal and lateral partnerships involving stakeholders such as buyers and suppliers, lays outside the domain of marketing, attracting the risks of diluting the value and contribution of the discipline. The argument here is that RM can become a promising discipline with its own theory only if it draws up the boundary to the firm-customer aspect to enable focused understanding and growth of knowledge. This appears to explain Gummesson’s view that “in the dominating US version of RM, the content of the phenomenon is locked in a box of simplistic one-to-one customer supplier relationships” (2003, p. 168).

Such a philosophical position is disputed by both earlier and present literature. Many scholars argue that building long term relationships with all partners, including employees, is important for businesses operating in a competitive environment (Hunt, et al., 2006; Morgan and Hunt, 1994), such that companies must nurture effective internal relationships before they can establish effective ones with external customers (Berry, 1995, p. 242). This concurs with the view that managers perceive RM as applicable to employees, suppliers, customers, and other
technology partners (McNally and Griffin, 2007). Hence the wider perspective of RM supports the importance of IRM for business success, ultimately embodied in the well recognized service-profit chain model (Heskett et al., 1994). Here, employee satisfaction, retention and productivity are drivers of value creation, customer satisfaction and loyalty, ultimately leading to company growth and profitability. Importantly for this reflection, employee satisfaction is deemed to depend on internal service quality, involving workplace and job design, employee recruitment, development, rewards and recognition, and other tools for serving customers (p.166).

A clearer rationale for the importance of IRM is offered by Reichheld (1993). Rewards to and recognition of employees, such as increased pay, boosts employees' morale, commitment in their contribution to the business and overall job satisfaction. In addition to gains from reduced training costs and increased productivity, the business is able to retain employees who are knowledgeable and experienced. This facilitates the provision of better service to customers who will be more inclined to stay loyal. Reichheld concludes that "competitors are inevitably left to survive with less desirable customers and less talented employees" (1993, p. 65).

Finally, a more recent depiction of how looking after employees is related to business success is offered by Herington et al. (2006). In the spirit of market orientation, a customer-focused business that looks after its employees as if they were internal customers builds internal relationships with them. In the process it develops the employees' competencies in service provision, hence providing the platform for the development, maintenance and enhancement of successful relationships with external customers that ultimately lead to improved business performance. Notably, the implication is that the relationship between the business and external customers develops through successful IRM, that is, IRM can/should be seen as a pre-requisite for external RM. It is alleged that, in the same vein, IRMO can/should be seen as a pre-requisite for RMO towards external customers.

FROM RMO TO IRMO

RM is widely acknowledged as a paradigm shift in the marketing domain, potentially crucial for businesses to gain a competitive edge within a dynamic business environment (Grönroos, 1994, 1996, 1999; Sheth and Parvatiyar, 1995; Gruen, 1997; Bennett and Durkin, 2002; Adamson, Chan and Hanford, 2003; Durkin and Howcroft, 2003). RMO refers to the move of the business philosophy from an offensive MO posture, towards a more defensive relationship orientation (Yau et al., 1998) by proactive implementation of RM strategies.

The effectiveness of any particular strategic orientation depends on the business environment dynamics (McKee et al., 1989). Hence, depending upon the role a business intends to play in the marketplace and upon the characteristics of the competitive environment, a business may experience different levels of performance contingent upon its choice between offensive MO strategies, defensive RMO strategies or, indeed, some combination of both. Similar reasoning may be applied to businesses choosing between an operational approach and the adoption of IRM, that is, choosing to establish, maintain, enhance and, when necessary, terminate relationships with employees for the longer term so that the objectives of all parties involved are met, and this is done by mutual exchange and fulfillment of promises. The question addressed here is, why should businesses choose IRM over the operational approach?

Abstracting from rigidities prompted by the availability of market opportunities, the customer analogy across internal and external business environments can be premised on the observation that employees, similarly with customers, are free to seek alternative employment if they are not satisfied in their present one. While businesses will be happy to lose bad employees, the loss of good employees who are aligned to the business' culture and climate may involve more than the cost of recruiting a replacement employee. Two types of cost to take into account refer to the training that may be required to replace the competencies embodied in the lost employee, as well as the time involved in the training process. A further critical cost to consider refers to the eventual breakdown of (possibly many) existing relationships with external customers. This involuntary breakdown may lead to either a loss of the investment that may have already been made on maximizing the share of the customers' wallet over the lifetime of the relationship, or to the need for further investment to reignite a mutually beneficial relationship.

It is apparent that the focus should not be solely on an employee's present day contribution to the business. Without questioning the principles of good management or the imperatives associated with the reality of a business (namely in terms of its resources – capabilities and competencies vis-á-vis market opportunities), the focus might extend to establishing a long-term association between the business and the employee, guided by mutual benefits for the two parties over the employee's lifetime.
It needs to be noted that, while there is a lack of empirical evidence supporting the conceptualisation of IRMO presented in this paper, there are signs of the uptake of the concept in the recent literature. Hence, Tortosa-Edo *et al.*, (2010) recommends that organizations should adopt a focus on the employees, in a manner similar to how external customers are treated, while. Gounaris *et al.* (2010) emphasizes the need for business to integrate the human resource function with the marketing function, so as to achieve an optimal balance between the external and internal market orientations. Overall, further research on IRMO is warranted.

**MEASUREMENT ISSUES AND FURTHER RESEARCH**

Businesses seeking to embrace mutual benefits and to foster long-term relationships with their customers and their suppliers are said to adopt RMO. There is growing evidence of the importance of adopting RMO to compete effectively (Tsui *et al.*, 2008; Colgate and Lang, 2003; Yau *et al.*, 2000; Gummesson, 1994; Berry, 1983). Alien to opportunistic behaviour, RMO is achieved by cultivated trust (Sirdeshmukh, Singh and Sabol, 2002), communication (Dibb and Meadows, 2001; Polonsky, Schuppisser and Beldona, 2002), bonding (Tse *et al.*, 2004), reciprocity, empathy and shared values (Sin *et al.* 2002). These same 6 components (bonding, communication, empathy, reciprocity, shared value and trust) are also the factors in the RMO construct commonly applied in the literature to examine the link between RMO and business performance. Given the conceptual identity between RMO and IRMO, it appears reasonable to expect the six components to also apply in the IRMO context but this expectation needs testing.

There is empirical support in the literature, for example in the form of a survey of businesses in the United Kingdom (Jones *et al.*, 2009), for the positive link between employee satisfaction and business performance, although there are also suggestions that employee satisfaction may operate through an intervening variable, such as organisational commitment, rather than directly on business performance (Caruana and Calleya, 1998). In contrast, no known studies have examined empirically whether there is an effective and reliable link between IRMO and business performance. Furthermore, it should be noted that the difference between RMO and IRMO is not limited to their respective focus on external and internal customers. While the norm is for RMO to be applied to the effect on business performance, it appears sensible to expect that IRMO may have a stronger impact on workplace performance. Arguably, the imperative for the enactment of internal relational strategies derives from an alleged direct impact of employee commitment and loyalty on workplace performance (Brown, *et al.*, 2011).

One leading question that must be asked refers to the relevancy and sufficiency of the six factors in the RMO construct commonly used in the literature when IRMO is the focus of analysis. Do the same six factors apply and suffice in the internal and external contexts?

The review of the literature conducted for this paper appears to suggest that IRMO may involve different factors. For example, a cross-national research using longitudinal data (1989-2005) identified intrinsic rewards and work relations with management as the major determinants of employee satisfaction (Westover and Taylor, 2010). This appears to be supported by the argument that a positive climate needs to be built within an organization so that staff can feel that they are valued by their employer, while the adoption of a transformational leadership style is preferred to a transactional approach when staff development and retention is the objective (Biswas and Varma, 2012).
REFERENCES


