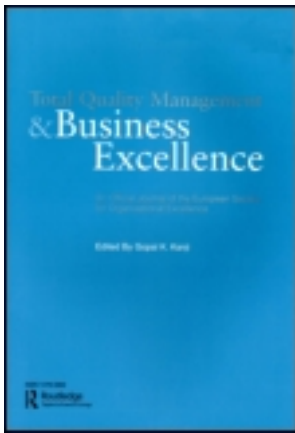


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### Internal marketing and the moderating role of employees: An exploratory study

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## Internal marketing and the moderating role of employees: An exploratory study

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Drawing on evidence from the health service sector, this study focuses on the concept of *internal marketing* and how it affects internal customer satisfaction. The literature review provides the basis for synthesising human resource management, the learning organisation paradigm and Bitner's servicescape framework, in order to introduce and empirically test an instrument for measuring internal marketing. The sample consists of 478 medical staff members (medical, nursing and administrative staff) from nine different hospitals, in an attempt to investigate multiple service roles with respect to different aspects of internal marketing orientation. The results support the proposed model and emphasise the moderating aspect of service roles.

**Keywords:** internal marketing; servicescape; employee satisfaction; learning organisation; HRM; health sector

### Introduction

In today's competitive environment, delivering high-quality services and keeping customers satisfied are generally regarded as indispensable for gaining a sustainable advantage. This is of particular interest in the health services industry, which is currently under great pressure to cope effectively with the fast-changing environment. Moreover, in each service sector, the level of *employee* satisfaction obtained from the job is strongly and directly related to *customer* satisfaction (Piercy, 1996) and the level of perceived service delivery. Consequently, service firms should communicate customer needs to their employees, train them on an ongoing basis, help them acquire both communicative and recovery skills and ensure that they feel comfortable and satisfied with their job. The above situation has led to the development of the internal marketing (IM) concept, according to which enterprises and organisations have *internal* customers (ICs) (*in addition to more conventional external ones*), and they should develop and apply marketing programmes and tools that focus on the internal market (employees and suppliers), parallel to those for the external market (customers) (Bansal, Mendelson, & Sharma, 2001). However, despite the extensive theoretical discussion of the IM concept over the last 20 years (Varey & Lewis, 1999; Ballantyne, 2003), there is little empirical research in the literature. This can be attributed mainly to the plethora of approaches to the IM concept (Hales & Mccrate-Butcher, 1994; Lings, 2002, 2004), coupled with the limited number of empirical investigations attempting to measure the construct (Naudè, Desai, & Murphy, 2003; Lings & Greenley, 2005; Gounaris, 2006, 2008). However, all these efforts are constrained to specific segments of personnel only. As a result, very few enterprises have employed the IM concept in practice (Tansuahaj, Randall, & Mccullough, 1991; Quester & Kelly, 1999).

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Motivated by recent calls for increased IM efforts, especially with respect to the service sector (Yoon, Choi, & Park, 2007), the purpose of this study is to propose a model that describes and measures IM culture inside service organisations. This model takes into account the human capital within the organisation (human resources (HR)), the level of knowledge shared by employees (learning organisation (LO)) as well as the physical environment in which the service is provided (servicescape). This study further introduces a holistic rationale that treats and measures IC's satisfaction in a way similar to the tools and methods employed for the external one.

More specifically, this study aims to empirically investigate: (a) the operationalisation and the synthesis of the internal marketing concept based on the human resource management (HRM) philosophy, the notion of the LO and the servicescape approach, all within a health service context, (b) the impact of the relative IM aspects on the IC satisfaction and (c) the moderating impact of three service roles – administrative employees, nurses and physicians – on the internal marketing effect. Moreover, the contribution of this research is threefold. Firstly, it provides an empirical approach to the otherwise rather IM limited literature, by adapting similar marketing and HR concepts. This is achieved by drawing on evidence from the health service sector. It is important to underline that in health services, different types of contact personnel – administrative employees, nurses and physicians – all interact in a very personal manner with their customers/patients and this makes the context particularly 'provocative' for the adoption of the marketing concept, both internally and externally. Therefore, if IM is applied as a concept, it should enhance positive interactions between staff, which in turn, would improve their relationships with external customers. Secondly, the research examines the IM concept in several groups or service roles, within an organisation, whereas the majority of existing studies focused on IM are restricted to the examination of the concept within one internal segment. Last but not least, the context of the study provides insight into a sector in which there have so far been only a few empirical endeavours in the cultural context of southern Europe, which differs substantially from other more researched countries and cultures such as the USA, UK, Asia and Australia. All these factors provide an attractive context for our research.

The remainder of the work is organised as follows: the second section presents the conceptual background, while the third section contains the study objectives and research hypotheses. The fourth section presents the methods and procedures, and the fifth section concludes.

## Conceptual background

### *Internal marketing*

Most scholars focus on the perception that, in order to have satisfied *customers*, one should first have satisfied *employees*. To this end, Grönroos (1981) noted over two decades ago that the organisation must treat employees as ICs (part-time marketers), so as to create an internal environment which supports customer consciousness. Accordingly, IM is the philosophy of treating employees as customers (Berry & Parasuraman, 1991). It is conceived as a behavioural, instrumental approach similar to an internally directed marketing strategy focusing on jobs (internal products) that satisfy the needs of employees (ICs) and increase their satisfaction. (Gounaris, 2006) In addition, Lings (2000, p. 28) defines internal marketing as '...the process of creating market conditions within the organization to ensure that internal customers' wants and needs are met...'

Bak, Vogt, George, and Greentree (1994, p. 38) define internal marketing as using ‘... a marketing perspective for managing an organization’s human resources...’. They evidently underline the notion that the basis of internal marketing is that ‘internal exchanges between the organization and its employee groups must be operating effectively before the organization can be successful in achieving its goals regarding external markets’ (Cahill, 1995, p. 44).

Major obvious attempts to measure IM empirically and directly include those by Money and Foreman (1996), Lings and Greenley (2005), Gounaris (2006, 2008) and Panigyrakis and Theodoridis (2009). The first of these studies is based on Berry and Parasuraman’s (1991) checklist, whereas the more recent endeavours are based on the analogy from the market-orientation paradigm described by Kohli and Jaworski (1990). This rationale revolves around three main dimensions: internal market intelligence generation, internal market communication and the dissemination of information, and internal market responsiveness to information. Lings (2004) supports the notion that, for information generation to take place, the internal market should be segmented so that different employee needs can be identified. He also states that, similar to the external market orientation, the adoption of IMO requires the information generated to be disseminated and communicated to the relevant departments and individuals within an organisation. Gounaris (2006) introduces the hierarchy of the construct, arguing that the three IMO dimensions should collapse into one second-order overall IMO factor. He further proposes that information generation and dissemination dimensions are not independent of one another, but rather reflect and influence the intelligence responsiveness. Finally, Panigyrakis and Theodoridis (2009) attempt to synthesise the relative literature by introducing a four-dimensional IM construct for the internal market within a retail context.

### ***Hypothesis formation***

All approaches to IM support the notion that the HR of the firm and HRM constitute the basis for the IM concept. Thus, one of the fundamental ideas behind IM, as described in the relevant instruments, is the concept of exchange between the organisation and its employees (Lings & Greenley, 2005). Within the context of HRM literature, the internal exchanges in an organisation are examined and the role of employee inputs to the job (such as loyalty, commitment, etc.) and outputs (rewards, benefits, etc.) evaluated (Weider-Hatfield, 1990). On the other hand, decades ago, the marketing literature emphasised the role of the people element in the marketing mix (Booms & Bitner, 1981) and the boundary relationships were identified in the marketing triangle (Kotler, 1994). This demand for symmetry between external and internal markets suggests that IM should cross the marketing and HRM boundaries, creating a *holistic* concept within the marketing philosophy (Gounaris, 2008). In other words, employee satisfaction, especially in service organisations, should become part of both the marketing and the HR function tasks, to be practiced simultaneously both externally and internally. This combined influence of specific HRM actions and the adoption of external marketing methods and tools inside the organisation, in order to form overall employee satisfaction, is therefore introduced and examined in the present paper.

### ***Adapting the external marketing tools to the IM environment***

The first step towards developing a holistic IM instrument is to define the external marketing methods and tools to be employed specifically in a service environment. This

development framework is anchored in Bitner's (1992) servicescape approach, which examines the role of the physical setting in which the services are offered. Bitner's model – as it has been modified and adapted to service environment – has been proposed in the present study as it is proved (Pantouvakis, 2010) that it outperforms the 'classical' SERVQUAL model in describing and explaining customer satisfaction in services. That means that when the physical environment (servicescape) is measured by this more comprehensive scale better reveals its true influence on the satisfaction construct than that of the SERVQUAL tangibles dimensions alone. Environmental factors are perceived similarly by both employees and customers, and both groups respond cognitively, emotionally and physiologically to the environment (Parish, Cadwallader, & Busch, 2008). Especially for employees, the relevant literature reveals that the physical environment (servicescape) directly influences their performance and satisfaction (Wineman, 1982). Facility design and aesthetics, cleanliness and spaciousness have also been identified as essential in forming behavioural responses in customers or staff members (Ulrich, Quan, Zimring, Joseph, & Choudhary, 2004), especially in the health-care sector (Beauchemin & Hays, 1996). A convenient layout has proven to be of considerable importance, especially in hospitals, as it provides more time for patient care, reduces job stress and increases satisfaction (Hendrich, Fay, & Sorrells, 2002).

On the other hand, in Bitner's model, no special reference is made to people within the specific setting, either as physical elements (density, layout, appearance) or social elements (behaviours or emotions). However, the role of staff and their behaviour is recognised as significant for the market orientation of a service firm (Harris, 1998), as this is strongly related to the organisational culture and the formation of a sense of camaraderie within the firm (Jaworski & Kohli, 1993). The simultaneous production and consumption of services enforces the need for the environment to be considered, not only as 'a physical container', but also including the people within (Tombs & Mccoll-Keneddy, 2003). This is compatible with the social conception of internal marketing. The social aspect, as formed by management and their support to personnel, determines the degree to which supervisors develop a work climate based on support, friendship, help, mutual trust and respect (Johnston, Parasuraman, Futtrell, & Black, 1990). One aspect of supervision is the degree to which employees are allowed to influence decisions that affect them. The more thoughtful and responsive supervisors are to the issues employees face on the job and the more they are available and supporting to personnel, the better the organisational climate is (Jennings, 1973; Mitchell, Smyser, & Weed, 1975).

### ***Introducing the HRM tools***

In the strategic management field, the resource-based view (Prahalad & Hamel, 1990) has recently been accepted in the literature as a means of explaining superior competitive performance on the part of certain firms. This view is based on the idea that, for continuous business superiority, firms should develop 'distinct' or 'core' competencies that outperform those of competitors and are difficult to imitate. Overmeer (1997) terms 'core competencies' as the organisational equivalent of unique, individual know-how. This definition is very close to that of Ahmed, Rafiq, and Saad's (2002) third indicator of the IM framework, that of individual competencies and change management (the other two are the customer market orientation and employee satisfaction) which has been rather neglected in the literature. Gounaris (2006) highlights the aspects of participation in decision-making and empowerment as important in IMO formation, whereas Lings and Greenley (2005) refer to the generation and dissemination of 'intelligence' as well as the response

to the wants and needs of employees as crucial in forming an IM environment. However, in today's 'relational economy', knowledge becomes critical, as it is a highly mobile resource stored in the minds of individuals and can easily be managed and changed. This mobility of knowledge challenges traditional human resource practices and calls for a new human resource architecture (Lepac & Snell, 1999) based on people rather than processes (Lings, 2004) and emphasizes the application of loose control systems, interpersonal cohesion, team work and flexible operations. The information flows identified in various operationalisations of the IM notion that were described previously are combined with the experience-based knowledge from diverse sources within any organisation and thus, the market-oriented knowledge renewal through collective and individual learning can be enabled (Ballantyne, 2003). This is the suitable departure point for introducing, in this paper, the role of the LO within the IM concept. LO is defined as 'an organization skilled at creating, acquiring, and transferring knowledge' (Garvin, 1993) and constitutes the relationship-based alternative of the IM concept. LO integrates HRM, knowledge and skills, acquisition and team work (Antoniou, Davidson, & Cooper, 2003) and goes still further by introducing organisational memory, cognitive systems, knowledge bases and specific competencies and routines (Altman & Illes, 1998). There is conceptual support that the transformation of any organisation to an LO is a tool and a necessary step in the correct implementation of IM (Cahill, 1995).

The ideal LO should have certain dimensions, ranging from 10 (Phillips, 2003) to Senge's (1990) 5 disciplines, both constituting an attempt to introduce 'systems thinking' into the modern enterprises' organisation. Nyhan, Cressey, Tomassini, Kelleher, and Poell (2004) support the double-sidedness of LO: the process of becoming and the state of being. However, they claim that the status of being an LO may not exist in reality, as no organisation can really claim to have become an LO, since it is not a static situation, but a continuously learning process.

Moreover, most of the approaches to describing the internal marketing concept have revealed a common element: internal marketing requires a response behaviour towards employee needs: job design, rewards and other forms of motivation, training, recruitment, top management support and other strategic activities, in order to support effectively the market orientation of the firm (Berry & Parasuraman, 1991; Lings & Greenley, 2001; Lings, 2004). It is widely known that reward and wage systems determine, at least to a certain degree, the level of improvement of the work of ICs. If there is no appropriate reward system, organisations are unlikely to deliver on all their promises to customers (Zeithaml & Bitner, 2003). Performance incentives are likely to persuade employees to fulfil organisational goals. Internal marketing adopts reward systems that link the service provider (employee) and the quality of the service with the customers (Tsai & Tang, 2008). Many researchers have stated that satisfaction with rewards is one of the most common and important facets of employee satisfaction (Lawler & Rhode, 1976; Anderson & Champers, 1985; Jaworski, 1988; Balzer, Smith, Krantz, Lovell, & Paul, 1990; Smith, Gregory, & Cannon, 1996). Apart from the importance of reward systems on IC satisfaction, another crucial facet is the potential for promotion and career path development that is generally productive and satisfying and should offer potential for ongoing advancement (Jauch & Sekeran, 1978).

So far, it is evident that the 'extended' concept of IM incorporates several aspects and hence, the first research hypothesis is formulated as follows:

*H1:* IM is a multidimensional construct and may be described as four-dimensional, consisting of servicescape, interactive elements or social servicescape, learning organization and the reward systems within the organisation.

### *Consequences of IM: IC (employee) satisfaction*

In the past, many scholars have emphasised that the provision of high-quality service to external customers should follow on from satisfying the needs of a firm's ICs, its employees (Benoy, 1996; Hallowell, Schlesinger, & Zornitsky, 1996). Moreover, the commitment-related literature (Mowday, Porter, & Steers, 1982; Walton, 1985) proposes that employee performance and job satisfaction are linked to the satisfaction of employee needs, both economic and non-economic (Hallowell et al., 1996). In the services marketing literature, one can find IM dimensions that affect aspects of performance, ranging from the employee to the overall business level. These IM dimensions entail improving service quality (Pfau, Detzel, & Geller, 1991), decreasing the rate of personnel turnover (Gummesson, 1997), creating customer-conscious employees (Grönroos, 1981), and improving employee commitment to the organisation (Wasmer & Brunner, 1991). Furthermore, the most 'researched' relationship is that of employee and customer satisfaction (Nagel & Cilliers, 1990; Hoffman & Ingram, 1991; Ulrich et al., 1991; Wiley, 1991; Brown & Mitchell, 1993; Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994).

Employee satisfaction is defined in terms of all the characteristics of the job itself and of the work environment in which employees may find rewards, fulfilment and satisfaction, or conversely, frustration and/or dissatisfaction (Churchill, Ford, & Walker, 1974). Similarly, Locke (1976) argues that employee satisfaction is 'a pleasurable or positive emotional state resulting from the appraisal of one's job or job experience'. However, many studies (Abraham, 1999; Eskildsen, Kristensen, & Westlund, 2004) report somewhat contradictory findings on the dimensionality of job satisfaction.

Nonetheless, in the context of this present work, the measurement of IC satisfaction, in a similar manner to external satisfaction, is of primary interest. Similar to employee satisfaction, customer satisfaction has been defined as 'an evaluative, affective or emotional response' (Oliver, 1989) and as 'customer fulfilment – evaluative and emotional response' (Rust & Oliver, 1994). Thus, affective states may be regarded as predictors of rational outcomes that, in turn, produce consumer emotions (Smith & Barclay, 1997), regardless of whether they are internal or external. A similar multi-attribute conceptualisation of satisfaction is provided by Cronin, Brandy, and Hult (2000), who used both evaluative and emotion-based measures, and Yap and Sweeney (2007), who used a set of 12 items generated from Oliver (1980), that measures consumer responses to the overall service received.

In addition, IM is considered, which directly affects employee attitudes, especially regarding their satisfaction and work motivation. This is a key tenet of all internal marketing practices and programmes and is based on both HR (Tansuahaj, Randall, & McCullough, 1988) and services marketing (Gummesson, 1991) literatures. A strong positive influence of IM dimensions on IC (employee) satisfaction is therefore justified. In line with Hwang and Chi (2005), as well as Gounaris (2008) and Lings (2004), we thus hypothesise that

*H2: Internal marketing exerts a positive direct effect on the level of overall satisfaction perceived by ICs.*

Finally, most research on employee satisfaction in hospitals focuses either on medical or on nursing staff. Nevertheless, patients also evaluate a medical encounter, according to the type of employee or the service role involved in the provision of services. The demands on a service provider may vary considerably, according to the knowledge or skills required, stress involved and emotional or physical job intensity (Moore, 2000). Employees engaged in the provision of services, especially in the health sector, are often involved in extremely

demanding situations, facing emotional or physical exhaustion. However, the varied experiences of job stress (Boyle, Grap, Younger, & Thomby, 1991) may lead to different evaluations of overall satisfaction, which in the worst case, reduces the ability to perform and even leads to health problems on the part of the staff themselves (DeLongis, Folkman, & Richard, 1988). Ronen (1978) noted that job satisfaction increases with an increasing occupational level, and Miles, Patrick, and King (1996) found job level to be both a significant predictor of the level of employee satisfaction with the job, and a moderator of the communication-job-satisfaction relationship. Doctors, for example, generally have a formal and longer term relationship with patients (Bitner, Booms, & Tetreault, 1990) and are likely to provide services with higher customer ego involvement (Solomon, Surprenant, Czepiel, & Gutman, 1985) and flexibility in meeting individual customer needs (Lovelock, 1983).

This article adopts the approach of Lings (2004), by conceptualising segments of the internal market and the researches the behaviour of medical, nursing and technical/administrative staff in an attempt to introduce the role of the service provider into the agenda of IM. This adds a level of heterogeneity to the research, with regard to the level of involvement of different groups engaged in personal communication with customers. Thus, it is likely that the service role moderates the relationship between IC service features and overall satisfaction. Such a hypothesis implies that the service role changes the level of the other dependent variable (overall satisfaction) or of the independent variable (IC service features). Our third hypothesis is thus as follows:

*H3:* The specific service role moderates the various IC service features and the link to overall satisfaction.

## Methodology

This study was conducted in nine general hospitals with more than 400 beds each, four of which are university hospitals located in five large Greek cities. All hospitals offer the full range of medical services, including emergency, inpatient, outpatient and intensive care. A sample of employees was obtained from various different disciplines – the roles within each hospital were considered, with respect to various kinds of personnel, including medical, administrative and technicians and nursing staff. This selection is considered to be representative in terms of age, gender and years of employment. The hospital administrations announced that the study would be taking place and requested the participation of the relevant personnel. Participants were selected randomly from the hospital's data base, according to service roles and the respondents were asked by trained interviewers to provide their anonymous and confidential views on the various questions. A questionnaire, grounded in the literature, and relating to the hypotheses introduced earlier in the paper, was developed, using the scale development procedures for latent constructs (Hair, Ronald, Anderson, & William, 2006). After a short initial phase, in which an extended questionnaire with 38 items was tested, a subsequent version of 28 items was selected. An exploratory factor analysis (EFA) was then performed on the IM instrument using principal components analysis with varimax rotation. It reveals 10 variables (questions), with multi-factor loadings that were subsequently excluded, in order to improve the clarity of the analysis (Hair et al., 2006). For the final set of 18 variables, the Kaiser–Meyer–Olkin statistic was tested and found to be high (0.890), indicating the existence of strong relationships among items and verifying the hypothesis that the items share common factors. 66,6% of the variance is explained by four clear, conceptually robust and interpretable factors, with eigenvalues exceeding 1. All questions load as expected



Table 1. The factor scores.

<i>Learning organisation</i>	
The feasibility of being trained	0.782
The feasibility of learning from other, more experienced individuals	0.717
The feasibility of improving yourselves	0.687
The feasibility of fairly competing with your colleagues/organisational justice	0.613
Potential for promotion	0.578
The feasibility of using your own initiative	0.604
The feasibility of learning from your own mistakes	0.591
<i>Personnel interrelations</i>	
The behaviour of your superior or departmental head	0.703
Frustration and pressure perceived	0.538
The behaviour of your colleagues	0.725
Workload distribution among your colleagues	0.597
The transparent and fair operation of your head	0.619
<i>Rewards and incentives</i>	
The reward from the hospital for your best performance	0.811
The reward from the hospital for using your own initiative	0.824
Measuring and evaluating employee performance	0.720
<i>Servicescape</i>	
Cleanliness of workplace	0.849
Lighting and ventilation of workplace	0.817
Layout, design and aesthetics of workplace	0.789

on every factor. The wording and type of questions as presented in Table 1 were adapted to the specific environment and are expressed as 'The ... (Vi) ... in this Organisation is ...'. All items in the instrument took the form of statements with a five-point Likert scale, anchored on 1 = 'Very bad' through 5 = 'Very good'. A final, usable sample of 478 employees was collected from trained interviewers after excluding 45 questionnaires for obviously skewed answers.

### *The measurement of variables*

- (a) The notion of a holistic approach to an LO is described here with seven variables taken from the relevant literature, including the feasibility of being trained, learning from mistakes or from other more experienced people, or using one's own initiative.
- (b) Five elements are used to describe the social servicescape, in an attempt to describe the different roles that employees perform within the particular setting. Service employees often work under pressure and job stress that affects their behaviour with respect to both employees and customers. Therefore, the elements introduced are the 'supervisor's behaviour' or and 'perceived stress and frustration' (Davis, 2004), 'employee-to-employee behaviour' (Graham & Messner, 1998), 'the fair allocation of work load among employees' and finally 'management style and fairness of the supervisor' (Rowden & Conine, 2005).
- (c) Grounded in the Bitner's (servicescape) main dimensions, those of 'ambient conditions' and 'spatial layout' this manuscript focuses on three environmental elements that seem likely to be relevant in forming internal responses in a service sector, such the one examined, the health service context. The first

element, that of 'lighting', is critical to both capture the *ambience* of services and form perceptions of form, colour and texture (Ching, 1996). The second critical element is 'cleanliness', which may be defined as the absence of dirt (including dust, stains or smells) (Stern & Stern, 2000) and has even been associated implicitly with servicescape quality (Wakefield & Blodgett, 1996; Harris & Ezeh, 2008). Thirdly, following Bitner's 'spatial layout' dimension, the layout and aesthetics, the scale and the space of the environment which, in turn, create the 'personal space' and 'comfort zone' for customers and staff is introduced here (Newman, 2007) as the final element of this instrument.

- (d) Reward systems and incentives were measured with items adapted from the scale of Jaworski and Kohli (1993), which was originally named the *reward system orientation*. The adaptation was done to capture the context of health services. The final measure of the variable entitled *reward systems* contains three items: reward relative to employee performance, degree of use of his/her initiative and the fairness of the measurement system.
- (e) Last but not least, the study employs an evaluative set of measures of IC satisfaction. Diverging from single-item measures of satisfaction (Caceres & Paparoidamis, 2007) or employee satisfaction (Porter & Lawler, 1968) and in order to capture the richness of the issues, three items were used. Sample questions are: 'I am generally satisfied with my work', 'I am generally satisfied with the procedures followed and the nature of decisiveness in this organisation', 'I am generally satisfied with the dissemination of knowledge and the alertness of this organisation in adapting to change'. All items are expected to load on the same factor.

## Hypothesis testing

### *Confirming the IM dimensionality*

Distribution analysis reveals only minor deviations from normality. The reliability of the scales was found to be high: 0.911 for IM orientation (IMO) and 0.792 for overall IC satisfaction, thus verifying the good scaling of the instrument (Nunnally, 1978). The significance and contribution of each item in the scale were also examined by the 'Alpha if removed' measure, and they were all retained in the analysis. Following the descriptive data and EFA analyses, and in order to further test the dimensionality of the proposed IM instrument and measure the relationship between the latent and observable variables, a confirmatory factor analysis (CFA) was used. The latent variables are the four dimensions revealed in the EFA, and the observable variables are the 19 items comprising these dimensions (Figure 1). CFA proved a very good fit for the four-factor structure ( $\Delta\chi^2 = 196.278$ ,  $df = 81$ , CFI = 0.968, GFI = 0.951, AGFI = 0.928, NFI = 0.947, RFI = 0.932,  $\Delta^2 = 0.968$ , RMSEA = 0.055, AIC = 274.278 and ECVI = 0.575). Consequently, Anderson and Gerbing (1988) procedures were followed in evaluating convergent and discriminant validity. Each of the four factors exhibited good internal consistency, as all values for Cronbach's alpha exceed the 0.70 threshold indicated by Nunnally (1988) to be a minimum acceptable value for reliability. Furthermore, the variance extracted from the four factors exceeds the 0.50 threshold, yielding convergent validity. Finally, discriminant validity tests ( $AVE/CORR^2 > 1$ ) indicate that the factors are distinct from one another (Tables 2 and 3). In order to further test the proposed structure, a set of competing models, each representing alternative conceptual

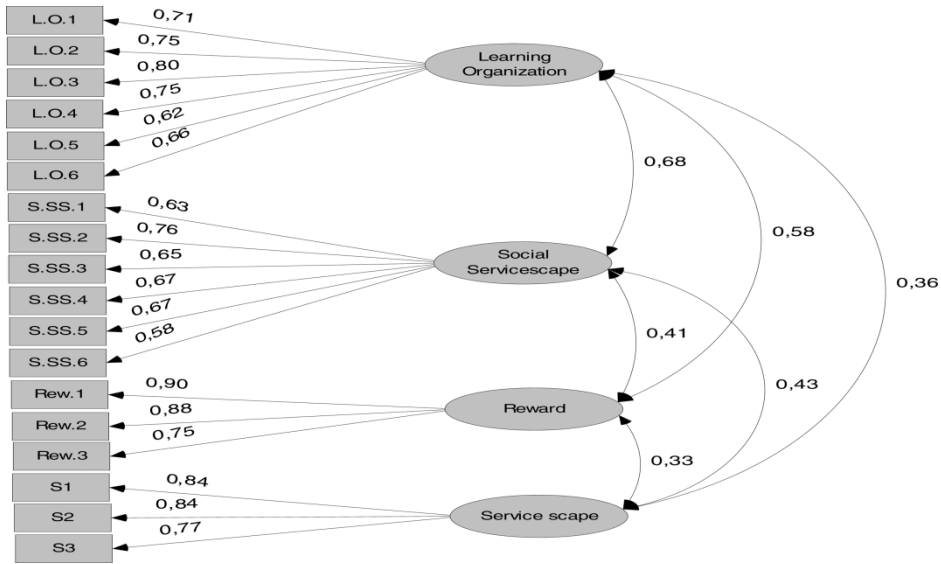


Figure 1. Confirmatory factor model (CFA) for the four correlated factors.

Table 2. Summary statistics for six nested models of IMO.

Model	Number of factors	$\chi^2$	df	CFI	GFI	AGFI	SRMR	RMSEA
1	Four orthogonal	660.794	130	0.873	0.855	0.810	0.315	0.096
2	Four correlated	257.187	124	0.968	0.945	0.924	0.062	0.047
3	Second order	272.293	126	0.965	0.942	0.921	0.068	0.049
4	Three correlated	758.816	127	0.849	0.832	0.773	0.112	0.102
5	Two correlated	1177.83	129	0.749	0.745	0.662	0.125	0.131
6	One	1474.71	130	0.679	0.714	0.623	0.140	0.147

Note: CFI, comparative fit index; GFI, goodness-of-fit index; AGFI, adjusted goodness-of-fit index; SRMR, standardised root mean residual; RMSEA, root mean square error of approximation.

Table 3. Squares of the parameter estimate between factors.

	LO	Social servicescape	Reward	Servicescape
LO				
Social servicescape	$z = 0.680$ ( $z^2 = 0.4624$ )			
Reward	$z = 0.578$ ( $z^2 = 0.3340$ )	$z = 0.409$ ( $z^2 = 0.1672$ )		
Servicescape	$z = 0.578$ ( $z^2 = 0.3340$ )	$z = 0.425$ ( $z^2 = 0.1806$ )	$z = 0.326$ ( $z^2 = 0.1062$ )	

Note: Interfactor correlations ( $z$ ) and square of interfactor correlations ( $z^2$ ) appear below the diagonal.

possibilities, were also estimated and compared with each other. The four factors were collapsed into one higher order factor, as well as into one, two, three and four uncorrelated factor structures. The results, as presented in Table 4, support the superiority of the selected model. Summarising, the EFA and CFA results support our first hypothesis, that IM may be described by a set of 4 linked factors, including the LO, the reward systems, social servicescape and servicescape.

Table 4. Tests for convergent and discriminant validity of the tested model.

	Convergent validity	Discriminant validity
LO		
Reliability	0.86	$(\text{Corr})^2 = 0.46 - \text{AVE}/(\text{Corr})^2 > 1$
Variance extracted	0.515	
Reward		
Reliability	0.88	$(\text{Corr})^2 = 0.33 - \text{AVE}/(\text{Corr})^2 > 1$
Variance extracted	0.72	
Social servicescape		
Reliability	0.82	$(\text{Corr})^2 = 0.44 - \text{AVE}/(\text{Corr})^2 > 1$
Variance extracted	0.44	
Servicescape		
Reliability	0.85	$(\text{Corr})^2 = 0.18 - \text{AVE}/(\text{Corr})^2 > 1$
Variance extracted	0.67	

### Testing for the IM: IC satisfaction link

Our second hypothesis suggests that 'Internal marketing aspects have a positive direct effect on overall satisfaction perceived by internal customers'. Four distinct IM features (LO, rewards, social servicescape and servicescape) are employed to represent the hypothetical structural relationship of IC satisfaction. The fit and predictive accuracy of the model was estimated with the use of AMOS software. All goodness-of-fit, incremental and parsimonious tests exceed the 0.90 cut-off point, thus supporting the good fit for the tested model presented in Figure 2. More specifically,  $\Delta\chi^2 = 365.703$ ,  $df = 124$ ,  $GFI = 0.925$ ,  $AGFI = 0.896$ ,  $NFI = 0.919$ ,  $RFI = 0.900$ ,  $\Delta^2 = 0.945$ ,  $CFI = 0.945$ ,  $RMSEA = 0.064$ ,  $AIC = 459.703$  and  $ECVI = 0.964$ , with all path estimates identified as statistically significant, in the predicted direction and with standardised residuals within the acceptable limits. The path estimate results indicate that 'reward' is of considerably greater importance (0.41) than any other IM element, in terms of predicting and explaining satisfaction, followed by 'servicescape' (0.21) and leaving 'LO' and 'social servicescape' at an almost equal, but last position (0.19). However, the relative ability of the tested model to explain variance in satisfaction (as measured by  $R^2$ ) is 0.57 which, although higher than the level identified by Lings and Greenley (2005) ( $R^2 = 0.245$ ) and exceeding the 0.5 threshold, calls for some further testing of the model's predictive ability.

Multinomial logistic regression was applied to test the predictive ability of the model, using as covariates, the factor scores extracted in the previous subsection and, as a response, a dichotomous summated response, denoting whether the respondent was or was not generally satisfied with his/her work. All factors were found to be statistically significant, which implies that they are important for the definition and analysis of overall satisfaction. The equation produced predicts the probability of an event and the logistic coefficients of  $\text{Exp}(b)$  the relative importance of each variable. Finally, the value of the likelihood ratio test can be interpreted as an indication of how well the model fits the data, whereas the classification accuracy table represents the level of predictive ability of the model. A  $-2 \log$ -likelihood score of 532.7 significant at the 0.000 level and a predictive accuracy of 71.3% indicate an acceptable model fit, further supporting our second hypothesis.

### Testing for moderating effects

The third hypothesis assumes that the relationship between IM and IC satisfaction is moderated by the service role or the kind of work performed by each employee. Initially, the

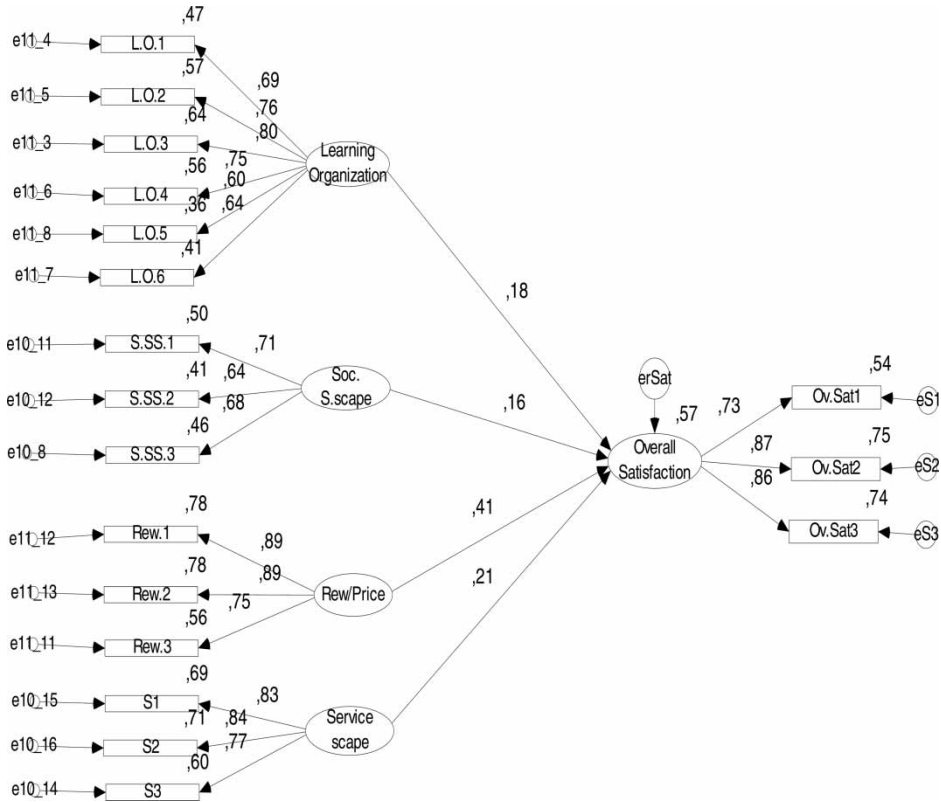


Figure 2. Structural equation modelling.

responses of each group to each question were compared and the statistical differences examined. A typical Pearson's chi-square test of independence between the response and the kind of work was applied, based on the exact significance level. The ANOVA method was also employed to test the hypothesis of equal mean scores. The results, which reveal differences in a variety of questions, are presented in Table 5.

In order to further test the above hypothesis and, because of the nature of the data, a multiple group analysis (AMOS 7) was selected to test the moderating effects by using the unstandardised beta coefficients of the different groups (Baron & Kenny, 1986). Three models were produced, each representing the service role (medical, nurse or administrative) under consideration. Initially, the three models were tested unconstrained. Subsequent models, gradually imposing constraints in the relationship between groups, were then tested and the effects on model fit estimated.  $\Delta\chi^2$  increased from 1.85 to 1.96 and is statistically significant at the 0.000 level even from the first constraint assumed, and therefore, the moderating effect of the service role on the relationship of IM to IC satisfaction is justified (Hair et al., 2006). Our third hypothesis is thus supported and the relevant weights of each IM dimension on IC satisfaction for each group are presented in Table 4.

## Discussion

The contributions of this study are various. Firstly, the IM construct has been conceptualised in a similar way to that used by accepted models of external marketing. In pursuing this

Table 5. Standardised loadings and mean scores.

	Medical	Administrative	Nursing	
LO → satisfaction	0.16	0.19	0.16	
Social servicescape → satisfaction	0.18	0.17	0.15	
Reward → satisfaction	0.45	0.39	0.40	
Servicescape → satisfaction	0.25	0.21	0.20	
R <sup>2</sup> (satisfaction)	0.66	0.59	0.50	
				<i>p</i> -value
<i>LO</i>				
The feasibility of being trained	3.114	2.613	2.625	0.000
The feasibility of learning from other, more experienced individuals	3.437	2.805	2.881	0.000
The feasibility of improving yourselves	3.277	2.868	2.763	0.000
The feasibility of fairly competing with your colleagues/organisational justice	3.315	2.724	2.827	0.000
Potential for promotion	3.129	2.688	2.590	0.000
The feasibility of using your own initiative	3.407	2.973	3.006	0.001
The feasibility of learning from your own mistakes	3.417	3.125	2.964	0.002
<i>Personnel interrelations</i>				
The behaviour of your superior or departmental head	3.653	3.806	3.605	0.241
Frustration and pressure perceived	3.195	3.510	3.042	0.007
The behaviour of your colleagues	3.845	3.893	3.798	0.672
Workload distribution among your colleagues	3.275	3.178	3.199	0.748
The transparent and fair operation of your head	3.269	3.412	3.125	0.122
<i>Rewards and incentives</i>				
The reward from the hospital for your best performance	2.166	2.086	1.965	0.264
The reward from the hospital for using your own initiative	2.192	2.168	1.886	0.029
Measuring and evaluating employee performance	2.500	2.525	2.383	0.521
<i>Servicescape</i>				
Cleanliness of workplace	3.199	3.603	3.329	0.013
Lighting and ventilation of workplace	3.192	3.591	3.412	0.019
Layout, design and aesthetics of workplace	2.768	3.228	2.905	0.006

Note: All paths are statistically significant at the 0.000 level.

objective, the research deviates from the market-orientated concept of the majority of previous work in the area (Lings & Greenley, 2005; Gounaris, 2006, 2008). Grounded on the dimensions introduced in earlier work, this manuscript proposes that intelligence is the key principle when addressing the IM concept. However, it supports the notion that any company should make a continuous effort to provide sufficient intelligence generation, dissemination and responsiveness. The key difference is that organisations do not simply capture and process intelligence or information from the market and adapt or respond to it. In order to be efficient, they have to actively reshape and reschedule their mechanisms on an ongoing basis, so as to create knowledge. Hence, the role of the LO is introduced. The main characteristics of this type of organisation – cohesiveness, participation, team work – are also evident in the LO. In addition to that organisational form, a learning approach enables working across borders, whether interdepartmental or at the service encounter. This further allows for the introduction of external marketing methods and

tools for measuring the IM of an organisation and establishing the ‘symmetric orientation’ (Piersy, 1995) between customers and employees. Therefore, “four distinct internal marketing dimensions”, directed towards IC satisfaction, have been generated: two of them, servicescape and social servicescape, are at the forefront of recent external customer satisfaction metrics, whereas the concepts of the LO and rewards have their origins in the recent IM and employee satisfaction literature. The latter two factors have been considered so as to encapsulate the differences between internal and external customers, as well as the ongoing efforts of organisations to transform themselves into ‘customer-focused entities’ (Dunne & Barnes, 2000). The data indicate that IM is a four-dimensional first-order construct, consisting of the pre-mentioned dimensions. Especially with respect to the notion of the LO, this is the first work that examines this concept in relation to the IM construct, thus providing evidence which supports the conceptual work of Cahill (1995). The assessment of the instrument’s internal consistency and discriminant validity is particularly satisfactory and its fit outperforms those of similar competing models.

A second objective of the study was to examine the relationship between IM dimensions and IC satisfaction. The results indicate that IC satisfaction is positively and directly affected by the four IM dimensions. The results of both structural equation modelling and logistic regression suggest that IM has a significant impact on IC satisfaction. The explanatory ability of the construct is almost 57%, which exceeds the 25% of Lings and Greenley and provides more empirical evidence on the IM–IC satisfaction link. The direct impact of IM on satisfaction establishes an antecedent relationship, by accepting, in line with Lings (2004), that the IMO entails the ‘behaviours associated with creating satisfied and motivated employees’ and not a ‘marketing-like’ philosophy associated with IM practices (Gounaris, 2008). The IM features are not, of course, equally important. The results support the notion that reward is by far the most important aspect of IC satisfaction, whereas the other three dimensions entail the potential of major internal marketing differentiation strategies. As these strategies equally affect the external customers as well, the approach adopted in this manuscript seems more pragmatic *than those used previously*, and the role of the suggested instrument appears to be more general. Finally, this study, as Lings (2004) proposes, applies internal segmentation based on differences in the characteristics of employees, so as to reflect the company’s efforts at implementing strategies and creating knowledge. Three distinct segments within a hospital were examined, medical staff, nurses and administration, and the moderating effects of the service role in question (medical, nursing and administrative) on overall satisfaction are identified.

### ***Managerial implications***

The IM dimensions and the concept presented in this paper yield several implications for practitioners. Firstly, IM is employed not only as an important means of providing IC satisfaction but also of aligning the internal and external efforts and objectives of a company. In particular, it has shown that both the physical and the interactive environment or the servicescape (physical or social) affect employees by influencing their behaviours. As servicescape has been identified as a major determinant of customer satisfaction as well, this provides further evidence on the significant role of the servicescape in the achievement of company objectives. The continuous achievement of these objectives may well be addressed through the formation of organisations that learn (LOs), thus shaping intelligence-exchanging communities. Moreover, this research introduces the varying impact of each one of the four IM dimensions identified (servicescape, social servicescape, LO and rewards) on IC segments. This clearly reveals the different strategies and tactics

available to managers. For example, employee satisfaction may be achieved, not only through rewards, but also by improving the physical environment or by altering the organisational or procedural structure within an organisation. It is evident that, in an era of limited resources, the existence and the use of cost-efficient solutions may benefit all: owners, managers, employees and customers. However, the application of internal and external customer-focused behaviours should be symmetrical and in balance, as the one directly or indirectly shapes the other.

### **Limitations and future research**

Future research should replicate this study, both in an international context and in different sectors. This implies that it should examine whether IM dimensions are similarly perceived by other groups, before the process is adopted more widely. Another line of enquiry that a future endeavour could usefully address is the internal customer satisfaction operationalisation itself. Experiments and indirect methods may be employed to fully capture the richness of the issue. Other intervening variables may be also tested in an attempt to increase the exploratory ability of the model.

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