# Marketing Orientation, Internal Marketing and Discretionary: an Exploration of the Relationships

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#### **Abstract**

This paper details research exploring relationships between marketing orientation, internal marketing and discretionary effort. We propose that in order for firms to undertake successful marketing activities in dynamic business environments, employees must be willing to offer the required effort to adapt quickly and effortlessly to external environmental change. Further, we propose that internal marketing will assist in encouraging discretionary effort and this will be fostered by a marketing orientation within the context of the organisation's culture. A self-complete questionnaire was used to collect data from 213 respondents. Results support the proposed relationships amongst the variables of marketing orientation, internal marketing and discretionary effort. An important implication for management is that customer culture and internal marketing are valuable (and inter-related) antecedents to a firm's competitive advantage.

#### Introduction

This paper proposes internal marketing as a solution to ensuring that an organisation is able to be flexible and respond to a constantly changing marketplace. The internal market of employees has been determined to be an important target market for firm-related marketing efforts (e.g. Morgan and Hunt, 1994) and 'internal marketing' is established as the term encompassing marketing efforts directed towards this market (Gronroos, 1982) of internal customers (Berry, 1980). Internal marketing has also been previously proposed as an important precursor to successful external marketing activities (e.g. Gronroos, 1994; Foreman & Money 1995).

Successful marketing efforts are reliant upon employees' ability to adapt to change quickly. This requires high quality communication so as to inform employees as to the nature and importance of external environment change. This can be deemed a typical internal marketing activity (Ahmed & Rafiq, 2002) and generally requires firms to focus upon customers and adopt a market orientation (e.g. Kohli, Jaworski & Kumar 1993).

Whilst strong communication enables staff to understand the need to adapt quickly (and when change is required) it is not enough to guarantee success with marketing activities. Moreover, a purely market-focused firm is insufficient in this context. Instead, the impetus for staff to actually respond and react quickly to required changes comes from within. Specifically, staff have to 'desire' to provide individual effort required to adapt. Although a strong organisational culture which encourages and rewards positive responses to change provides the environment to foster high levels of job effort, it is nevertheless reliant upon the individual discretion of each employee as to nature of the effort they will put in, that is whether they are willing to exceed requirements or to merely meet expectations.

Part of the competitive advantage achieved through flexibility in marketing efforts is the rapidity of responding to the constantly changing environment, and particularly, accommodating the unpredictability in the external environment. Therefore such organisations endorsing flexible marketing approaches require employees who are willing to

put in the extra effort to achieve a competitive advantage through dynamic adaptation. This is called discretionary effort. However, to date, "discretionary effort' has received minimal attention in the literature. Furthermore, the links between market orientation, internal marketing and discretionary effort has not yet been investigated. On this basis, this research addresses the following research question: Will the discretionary effort of employees rely on internal marketing efforts and the marketing orientation of a firm?

#### **Literature Review**

## **Internal Marketing**

Marketing has traditionally emphasised a focus on external consumers rather than viewing the organisation's employees as 'internal' customers (Caruana & Calleya, 1998; Spitzer & Swidler, 2003). The concept of internal marketing emerged from the development of business structures and services marketing (Varey & Lewis, 2000). In particular, internal marketing has been perceived as a means of creating a sustainable competitive advantage in the marketplace (Sargeant & Asif, 1998) through the provision of high service quality (Cronin & Taylor, 1992). Although originating within the services marketing literature, internal marketing is now viewed as applicable in all industry contexts (Ahmed & Rafiq, 2002; Cahill, 1995; Foreman & Money, 1995; George, 1990). For the purposes of this research, internal marketing is defined as; "...a planned effort using a marketing-like approach directed at motivating employees for implementing and integrating organisational strategies towards customer orientation" (Ahmed & Rafiq, 2002, p.10). That is, internal marketing is seen as encompassing the efforts of the firm to encourage employees to respond to the market, which includes being able to adapt quickly to (often unpredictable) change within the external market.

Although the concept of internal marketing has been examined within the marketing literature over the past 25 years, it still lacks prominence within current business practice (Ahmed & Rafiq, 2002). Whilst previous research has presented models of internal marketing with practical applicability to organisations, and internal marketing activities have been linked to enhanced performance (e.g. Ballantyne 2000), researchers cite a need for the development of simplified internal marketing models so as to promote greater acceptance of internal marketing practices within the wider business community (Varey, 1995). Benefits resulting from this approach include building a universal business vision, employee empowerment, increased employee interaction and employee skills and knowledge development (Cahill, 1995). Hence, there is a need to "sell" the concept of internal marketing to businesses.

Previous research suggests that internal marketing is an important element of organisational development and change (Varey & Lewis, 2000) and that an absence of internal marketing may result in employees having a stronger resistance to change and adaptation (Sargeant & Asif, 1998). Internal marketing can assist in creating a working atmosphere and environment in which employees are valued and able to improve service delivery and business performance and foster long term competitive advantage through the creation of strong organisational cultures (Ahmed & Rafiq, 2003). This is achieved through breaking down bureaucratic processes and barriers and facilitating efficient and flexible interaction between management departments and groups within organisations (Varey & Lewis, 2000). Furthermore internal marketing may enhance employee creativity, innovation and performance (Varey & Lewis, 2000). For example, the Ericsson company used internal marketing as a means to establish a flexible organisational culture necessary to compete with competitors (Varey & Lewis, 2000).

Hence, internal marketing appears a proficient method of changing the attitudes and behaviours of employees so as to recognise the importance of meeting external consumer expectations and satisfying customer needs.

#### **Market Orientation**

In order for a firm to be customer-focused, there is a view that *every* aspect of the firm should in fact be focused on delivering superior value to customers (Webster, 1992) and that marketing should pervade all aspects of the organisation. 'Market-orientation' is the term which has been developed within the marketing literature to describe firms exhibiting a customer-focus in their culture and behaviours (Deshpande, Farley & Webster, 1993; Kohli, et al, 1993; Narver & Slater, 1990).

Previous research has linked market orientation to firm performance (Kohli & Jaworski, 1990; Shoham, Rose & Kropp, 2005). However, links between 'employee belonging', 'job satisfaction' and 'commitment' (Kohli & Jaworski, 1990) have not yet been empirically tested. Furthermore, although market orientation research determines the actual level of customer-orientation, the role of internal marketing in the fostering of a market- focused orientation has not been investigated, although intuitively an impact would be expected. As such, the following hypothesis will be tested:

H1: There is a positive relationship between market orientation and discretionary effort

### **Discretionary Effort**

Discretionary effort is defined as "the difference between that level of effort which is minimally necessary and that of which we are in fact capable" (Catlette & Hadden, 2001, p.14). That is, discretionary effort is the level of maximum effort produced by an employee less the minimum requirement of effort by the organisation (Grazier, 1992). However, firms need to be mindful that employees should *want* to put in the effort due to their commitment to the organisation, and not just due to business requirements (Carleton, 2006).

The importance of discretionary effort has been implied by a number of researchers. For example, in their service-profit chain model, Heskett et al (1997) linked internal marketing to employee satisfaction, defining internal quality as an employee's feelings towards their work, colleagues and organisation which had a resultant impact upon how customer contact personnel interacted with and valued their ability to achieve results for their customers (Heskett et al, 1997). This suggests that the perception of that value will directly impact upon the discretionary effort of employees. Carleton (2006) described discretionary effort as being concerned with the improvement of employee effort and energy levels, which may be important in both realizing and sustaining competitive advantages in dynamic environments.

Issues including employee empowerment, utilisation of employee strengths, celebrating employee successes and building better communications in business settings between employees and management are thought to be important methods of improving discretionary effort levels in employees (Carleton, 2006; Emde, 1996), suggesting a link between firm-level internal marketing efforts and employee discretionary effort. The following hypothesis was tested:

H2: There is a positive relationship between internal marketing and discretionary effort

#### Research method

A quantitative study was conducted using a student sample of 214 respondents. The typical respondent was aged between 20-24 years of age (83%), female (58.5%), had between 3 and 7 years work experience (35.1%) and had worked for their current employer for less than one year (43.6%). Most respondents fall into the work categories of Accommodation, Cafes and Restaurants (30.3%) as well as Retail Trade (non-food) (22.6%) and Retail Trade (food) (16.2%).

Internal marketing was measured using Foreman and Money's (1995) internal marketing scale. Three items taken from Benkoff's (1997) measure of 'extra effort' were used to represent discretionary effort. MARKOR, a 20-item instrument developed by Kohli et al (1993) was utilised to measure market orientation.

Each measure was assessed for factor structure and reliability using principal component analysis using varimax rotation (where appropriate). This was followed by correlation analysis to investigate the relationships amongst the variables and regression analysis to determine the nature of the effects of market orientation and internal marketing on discretionary effort. Results are summarised in Table 1.

#### **Results**

The principal component analysis of the set of items used to measure internal marketing indicates one distinct component with an Eigenvalue greater than one (eigenvalue = 7.27) explaining a total of 55.91 % of variance. The scree plot confirms the single factor. All components load heavily on this single factor and internal reliability is acceptable with a Cronbach's alpha of 0.93 which is greater than the 0.7 cut off required by Nunnally and Bernstein (1994).

For market orientation, a two-component solution explains a total of 45 % of variance. Thirteen items load heavily onto the first factor which is named 'market responsive' as all items relate to research of the external environments of the firm. The remaining seven items load onto the second factor which is named 'market non-responsive' as these items relate to a firm's inactivity in responding to customer and market changes and trends. Internal reliability for each component is acceptable with Cronbach's alpha at 0.89 and 0.80.

The three items measuring discretionary effort all load satisfactorily onto a single factor, explaining 67.18% of variance. Internal reliability is also acceptable according to Nunnally and Bernstein's (1994) requirement exhibiting a Cronbach alpha of 0.75.

	Mean	S D	Reliability	IM	МО	MR	MnR
1. Internal Marketing	3.28	0.825	0.93				
2. Market Orientation	2.94	0.491		.333(**)			
3. Market Responsive	3.19	0.777	0.89	.676(**)	.616(**)		
4. Market Non-Responsive	2.68	0.783	0.80	248(**)	.661(**)	199(**)	
5. Discretionary Effort	3.66	0.855	0.75	.367(**)	.059	.218(**)	149(*)

Table 1 Correlation analysis results

<sup>\*\*</sup> Correlation is significant at the 0.01 level (2-tailed).

<sup>\*</sup> Correlation is significant at the 0.05 level (2-tailed).

Composites were then created to undertake the analysis of inter-relationships amongst the variables of interest. A medium strength positive relationship was found between overall market orientation and internal marketing (r=0.33), suggesting that as the presence of a market oriented culture increases within a firm, so too does the likelihood that internal marketing will also be present. However, given that market orientation is the sum of two polar orientations (market responsive and market non-responsive), the primary focus of this research was in examining the relationship between market responsiveness and internal marketing. A large strength positive relationship was found between internal marketing and the factor component of market responsive (r=0.68), indicating that as either internal marketing or market responsiveness increases within a firm, a large positive effect will result on the other variable. A medium strength relationship was also found to exist between internal marketing and discretionary effort (r=0.37), indicating that as internal marketing increases within a firm, so too does the discretionary effort of employees. Finally a small strength relationship (r=0.22) was found between discretionary effort and market responsiveness. Significant negative relationships were also found to exist for market non-responsive market orientation and both internal marketing and discretionary effort, indicating that the presence of a market non-responsive organisational orientation lessens the likelihood of both internal marketing and discretionary effort.

Multiple regression was then used to examine the actual amount of explanation provided by internal marketing and responsive market orientation on discretionary effort. The correlation between the independent variables was not too high, being below the cut-off of 0.7 (Tabachnick & Fidell, 2001) and multicollinearity was also excluded with the finding of VIF's less than 2, well below the cut-off of 10 (Pallant, 2005). The existence of multivariate outliers was also excluded through an examination of the Mahalanobis distances. A significant ( $F_{(2,204)} = 16.11$ , p < 0.00) multiple correlation coefficient (R) of 0.37 indicating that 14% ( $F_{(2,204)} = 16.14$ ) of the variance in discretionary effort can be explained by internal marketing and responsive market orientation. However, only internal marketing was found to statistically significantly predict discretionary effort ( $F_{(2,204)} = 16.14$ ) uniquely explains 9% of the variance in discretionary effort, suggesting that responsive market orientation indirectly effects discretionary effort via internal marketing.

# **Implications and Conclusions**

The findings of the research indicate a positive effect of market responsive orientation and internal marketing on discretionary effort of employees. Moreover, a market non-responsive orientation has a significant negative effect on both internal marketing and discretionary effort.

Limitations relate to the generalisability of the research findings measurement of discretionary effort. Replication using new data in a variety of international settings is recommended to remedy this. Further exploration of the concept and measure of discretionary effort is also recommended to provide validity for this measure.

A central assumption of this research is that discretionary effort is the basis upon which employees make the decision to engage in, and respond positively and quickly to, an organisation's adaptation efforts within the marketplace. Future research is needed to explore other related issues, such as the link to organisational structure as an enabler of discretionary effort. The effect of organisational structure on internal marketing efforts also warrants exploration as previous research suggests that many organisations are skeptical of the likely benefits of internal marketing due to its incompatibility with traditional hierarchical

approaches to management (Varey & Lewis, 2000). In particular, the impact of an internal marketing orientation (Lings, 2004, 2005; Gounaris, 2006) upon improvement to marketing orientation, internal marketing and discretionary effort warrants investigation. Further, an investigation into supportive management styles in the context of internal marketing and discretionary effort may be a valuable line of enquiry. In particular, although supportive management styles may enable internal customers to cope with change and remain positive towards their work environment and work-related tasks (Lings, 1999; Sargeant & Asif, 1998) we do not currently know how these approaches impact upon internal marketing and discretionary effort.

We believe that discretionary effort is a crucial factor for enabling flexibility throughout a firm. We have demonstrated that a responsive market orientation together with internal marketing provides a strong impact on the discretionary effort of employees. Hence, organisations that are focused on their internal and external customers (and are particularly attentive to their internal marketing efforts) are likely to have a positive impact on the discretionary effort of employees.

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