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A RELATIONSHIP MEDIATED THEORY OF
INTERNAL MARKETING

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A Relationship Mediated Theory of Internal Marketing

Key words: Action research, internal marketing, knowledge management, market orientation, organisational development, organisational learning, relationship marketing, total quality management

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**To the memory of Richard Ballantyne, Myrtle Ballantyne and
Jo Lalor**

They would have been delighted

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This body of work has come together over 12 years. Along the way, it has changed my life and the life of my family in many ways. My wife **Jackie Ballantyne** never wavered in her support, and never doubted that my quest for understanding was worthwhile. Our children **Perrie Ballantyne** and **William Ballantyne** suffered the shock of a change of homeland on my scholarly account - from Australia to UK and back to Australia again – so my hope is that their personal scorecards of gains and losses from this experience measure abundantly in their favour over coming years.

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Finally, some words in honour of the original customer service “**Groupies**”. Their dedicated diagnostic work at the Bank became the catalyst for my reflective odyssey into the nature of internal networks and the relationship based dynamics of knowledge renewal. Of all the 1,200 or so “Groupies”, I especially acknowledge the inspiring contribution of **Jennifer Chandler** who trusted me to set up and facilitate the first action cycles, and **Glenn Twidale**, **Liz Brown (nee Wright)** and **Rod Ruthven** who supported me, and never lost the faith.

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Part One

A Relationship Mediated Theory of Internal Marketing

1. Introduction

This is an introductory review of my relationship mediated theory of internal marketing. It contains a synthesis and overview of the research process, the conclusions and the recommendations. It also serves to introduce six key articles and papers which I have had published on this topic in refereed marketing journals and texts from 1991 to 2003 (see Part Two). In terms of research aims, each of these articles and papers is complete in itself. Presenting them together, they become a body of published work in support of a new theory of internal marketing. This introductory review deals with the evolution of ideas within this body of work. At the methodological level, the hermeneutic development of these ideas demonstrates the ‘theory in the making’.

Since Berry (1981) first advocated treating retail banking employees as *internal customers*, this has been the central guiding principle for internal marketing in services marketing and other contexts. However, this unity of first principles hides a number of divergent perspectives. I would argue that the traditional view of internal marketing is essentially flawed, covertly hierarchical, and limited by its narrow ‘tool box’ applications. By way of an alternative, my thesis argues a case for redefining internal marketing as a relationship-mediated strategy for the purpose of knowledge renewal. This approach involves planned preparatory learning phases, and innovative action phases, through which ‘taken for granted’ organisational knowledge is challenged by employees and changed in ways that impact positively on external market performance. In this process, employee relationships intervene in how organisational meaning (knowledge) is constructed and reconstructed.

1.1 Problem definition

It is almost 20 years since Porter (1985) provided a *value chain* blueprint for coordinating traditional organisational functions around both external supply and external demand imperatives. Since then, various strategic ‘value chain’ approaches have become part of marketing orthodoxy. Coordinating resources and activities within the firm and between firms are issues adequately brought together by the ‘value chain’ metaphor. However, the problem today is not so much the coordination of physical resources and activities, or even the circulation and storage of explicit

knowledge that guides activity and the movement of resources in the value chain. The contemporary problem is to learn how to use the everyday experience of skilled employees creatively, because it is the everyday experience of employees that represents a firm's hidden (tacit) knowledge – and this kind of knowledge capital is difficult for competitors to copy (see for example, Wikstrom and Normann, 1994; Nonaka and Takeuchi, 1995; Inkpen, 1996; Sveiby, 1997).

Put simply, 'knowledge' is what we deem to be useful for making our way in the world. However, there is a particular kind of knowledge associated with internal marketing, as highlighted by Grönroos (1981). He called it *customer consciousness*, meaning the customer mindedness of employees demonstrated in their everyday work activities. One might argue that this concept today is or should be part of a broader concept of *market orientation*; however, to follow up on this point would be diversionary. The key point here is that Grönroos' 'customer consciousness' is essential to his concept of internal marketing. In this he gave equal emphasis to the problems of getting 'motivated' and 'customer conscious' staff at various levels within the firm.

Customer consciousness of employees in the language of today is that kind of *tacit knowledge* (from Polanyi, 1966) which is concerned with the marketing-like orientation of employee work efforts and the skills put to use in meeting the needs of external customers capably. In Grönroos' (1981) original formulation, this was to be done by improving open two-way communications and by better coordination of tasks between support staff and front-liners.

1.2 Research question

These ideas on getting motivated and customer conscious staff still hold up well as a blueprint for marketing action, for cross functional dialogue between employees beyond what is already known and explicit, beyond Porter's (1985) value chain coordination. But how is this to be achieved? Marketing activity within the firm is by no means a simple matter, given functional organisational structures and the division of organisational tasks. Any functional group will tend to act to preserve their hegemony with resultant 'silo effects'. Of course *process re-engineering* is one way to attempt to overcome these cross-functional constraints. De-layering

organisational structure is another. Treating the employees as if they were *internal customers* and valued participants in the creation, circulation and diffusion of new knowledge is another. This last approach is the subject of this thesis.

Bold ideas are seldom taken up in large organisations unless innovators with courage and persistence move them along. However, new ideas do take hold when there is common understanding that the conditions that have supported the old assumptions have become untenable, or when new ideas demonstrably work better. Thus support gradually takes hold in an evolutionary sense. In relating this organisational imperative to internal marketing, the research questions of interest to me evolved and became: How can *customer consciousness* be developed and encouraged? How can *employee motivation* be developed and encouraged? And in particular, how can these two aims combine in a single strategy?

2. Methodology and scientific approach

The beginnings of my theory of internal marketing developed from personal involvement in an *action research* project for customer service improvement at a large Australian retail bank during the years 1986-1991. My methodological starting point therefore is this action research project. The project was conceived at the retail banking (branch banking) division and implemented Australia-wide with Board level approval (a case summary is set out in Appendix A). I was a career banker, marketing specialist, and participant in the project from its beginning. I started as a team member, then became a full time project leader for Australia after the first year, and later became an ex-officio advisor when I took up an academic appointment at Cranfield University in UK, in 1989.

The action research approach adopted by the Bank head office team was a pragmatic learning strategy, given uncertain knowledge of what service improvements were really necessary and how to proceed. Also, there was a determination to avoid ‘top down’ prescriptive change processes that had failed in the past. The problem was not about getting good market research or customer service data. Rather, it was about dealing with uncertainty about the handling of the complex task of interpreting

customer critical service issues in actionable organisational terms, and framing them into new policies, procedures and processes.

The intent of action research is to bring about changes in organisational, institutional, business or community relations. However, there is often a tension between these aims. For example, whose interests are to be served? In the Bank case, the key stakeholders were customers, staff and shareholders. The intent was to deliver benefits to each of these stakeholder groups; otherwise the project would not have a long life. The project was not called action research in internal communications because the term ‘research’ in the Bank culture of the day often meant ‘paralysis’ by analysis! Instead, it was initially called a Customer Service Improvement Program (CSIP) and later, *Customer First!* The strategy was to involve project teams of volunteer employees in recommending changes to retail bank policies and procedures. Board level approval legitimised the customer focus and also the employee involvement. Customer service improvements and cost savings were expected, and indeed there were many. However, I have not set out to ‘prove’ the success of the original bank project by attempting to trace the causal links through to the Bank’s market place performance. That would require a different methodological approach and deflect attention away from theory development.

Action research as a form of inquiry is different from other strategic change methodologies in its emphasis on *participative action* and *learning* (Dick, 2001, p. 21). Learning becomes a consequence of participating in the action and participating in the action becomes a consequence of the learning. One cycle of action and learning leads to another. It is a transformative, emergent process. In other words, to various degrees in individual projects, action research develops around the actions of its participants and their critical reflections about the consequences of their own actions. In this way, learning – between two or more participants – occurs and becomes amplified through dialogue or research as a basis for further action. Possibly the most common form of ‘research’ in action research is generated in dialogue between the participants, although this may of course be supported by more formal research inputs.

The status of action research knowledge claims is a matter of ongoing debate within the social sciences community - as to what constitutes acceptable theory within and outside the dominant, deterministic world view of positivist science. The scientific approach to the development of this thesis is clearly outside the scope of the positivist paradigm. I could never be an independent observer of action in the 'field' when I was an active participant, interpreting what was going on, and sometimes making changes to the phenomena under investigation. Knowledge claims made for action research are almost always interpretivist (Guba and Lincoln, 1994, p. 108). And that is so here.

My thesis is a case study in *retrospective* action research. In other words, it comprises in a large part research conducted some time *after* the original project wound down. My direct involvement and insider experience in the original action research project was invaluable as a form of *pre-understanding*, which is a term used by Gummesson (2000, pp. 57-67). In other words, this thesis developed from an insider's view, and so it has an *emic* research orientation. Since then, my 'lived experience' in action research and my post-event reflections have to some extent been *triangulated* using personal diaries, published documents of the times, and post-event interviews with key participants.

There is scholarly support for this kind of *retrospective action research/science*, which is a concept introduced to management research by Gummesson (2000, p. 122). Gummesson argues that real depth of research understanding is often difficult for 'arms length' academic researchers to achieve, and that a retrospective approach to action research becomes useful where unique tacit and explicit knowledge of past events cannot be *accessed* any other way, where past participant reflections and interpretations are presented systematically (not just as 'memoirs'), and where the research endeavour is theory generating (2000, p. 122).

There is an under-acknowledged distinction in my view between three modes of 'research' that can occur in action research. This becomes especially evident in retrospective work but evident (or latent) in other kinds of action research as well -

1. Dialogue and data sharing that occurs within the context of an action research project cycle, directed towards the ongoing needs of the project and its stakeholders.
2. Evaluative reports, or new interpretative work, prepared following the completion of a project as a *summative evaluation* for sponsors, or as *summative research* for academic publication (for example, see Flood, 1999, p. 142).
3. *Retrospective action research*, where post-event reflections and theory generating interpretations are brought together systematically as a research summary(ies) some time after the original project has wound down, prepared in a form suitable for academic publication.

My thesis has touched on all of these research modes, starting with the *pre-understanding* from the original action research project, then proceeding in a *hermeneutical spiral* similar to that recommended by Gummesson (2000, pp. 70-71, pp. 177-84). Specifically, this hermeneutical spiral involved developing a series of research articles and papers to clarify different aspects of the original action research project that were unclear to me, so building a more complete pattern of understanding over time. The publication of one article or paper led to new understanding, but that raised further questions best dealt with in a new article or paper. And so on, in a continuing series of research steps, from descriptive accounts of customer service improvement at first, through to various interpretive reports, and then to a coherent theory of *internal marketing*, all the time grounded in my understanding of the original action research project. Like Gadamer (1965, p. 124), I found that “there emerge continually new sources of understanding, which reveal unexpected elements of meaning”.

All things considered, my thesis is a retrospective, interpretive case study of an action research/customer service improvement project. In this inquiry, my research method has been inductive and theory generating. The series of articles and papers contained in Part Two of this thesis give tangible evidence of the outcome of my hermeneutical circle (or spiral) of inquiry. Each article or paper brings to the fore a particular part or perspective of the whole inquiry. Taken together, they contribute to a new relationship mediated theory of internal marketing. So the whole becomes something

more than the sum of its parts. Overall, my aim has been to summarise my experience in a way useful to others, “to consolidate what has been learned through the process of implementing the [action research] project” (Flood, 1999, p. 142).

3. Theoretical links

Approaches to internal marketing have evolved sporadically since the 1980s. A full literature review is set out in the articles and papers which follow under various literature themes such as internal marketing, relationship marketing, knowledge management, and organisational learning, in particular. Here I cover only the key theoretical links as they apply to my thesis.

In Berry’s original formulation (1981), the concept of internal marketing was based around viewing jobs as if they were ‘internal products’ offered to employees. The logic was that *internal customers*, that is, the employees of the firm, had needs to be satisfied and those needs were bound up in their jobs (as ‘job products’). The idea was that the satisfaction of internal customers, especially employees with front-line jobs, impacts directly on achieving satisfied external customers. If this view is accepted, the internal marketing task is to improve the job ‘products’ using marketing thinking to gain new insights and deliver new benefits to employees. This seems a commonsense notion, except that the direct link between internal and external satisfaction does not hold up in practice. The reason turns out to be simple. It is because not all job attributes are equally connected to external customer satisfaction (Ballantyne, 1997, p. 356). Thus management might unwittingly be ‘pulling the wrong levers’ and ignoring critical employee issues. Furthermore, there is a top-down *hierarchical* assumption operating here that says top management knows what is best. This kind of ‘job products’ approach does not require employee involvement in their own job (re)design other than responding to the changes.

As has been discussed, Grönroos (1981), writing at a similar time, gave more emphasis to getting motivated and customer conscious staff at all levels of the firm. This was my departure point for examining and interpreting the Bank case and my experience in it over the period 1986-1991. I have also been influenced by the work

of Gummeson (1987) in his observations on the Ericsson case, where internal marketing, as was then understood, is seen to be entwined with service quality, total quality and cultural issues.

Internal marketing's basic unifying proposition, that organisations have internal 'customers,' can accommodate many different approaches to internal marketing. However, Rafiq and Ahmed (1995) say that the early formulation of the internal customer concept was 'seriously flawed' because it did not adequately emphasise the link between internal customers *and* internal suppliers in creating value for the external market. I agree. However, my thesis goes further. By attending to employee group bonding and personal growth within the Bank project environment, I found that small employee teams of volunteers willingly worked on service (re) design projects using their experience-based knowledge as well as market based information sources (Ballantyne, 1991).

As a consequence, new innovative work practices were developed for senior management's appraisal, ideas were tested and the best adopted to enhance customer value. Throughout this process, relationships among participating employees developed strongly because they needed each others' knowledge and skills and because the work goals were seen to be worthy of their voluntary efforts. This virtuous cycle had positive consequences for the employees' sense of customer consciousness and motivation. Another strength was that dedicated grass roots networks sprung up literally everywhere once 'word of mouth' results began to circulate through the Bank branches and administration centres (Ballantyne 1997). The project planning imperative then was to facilitate the process rather than control it, to be ready for the spontaneously unexpected, and to work towards improving customer benefits, improving employee trust in the process, and reducing organisational costs, all under the one internal relationship development rubric and external customer focus (Ballantyne, 1998).

Clearly, my perspective on internal marketing has strong antecedent links to *Total Quality Management (TQM)* practice. The TQM idea is that internal suppliers and internal customers should be aware of how their work is connected, and then they can work on improving the reliability and responsiveness of the process. These

synergistic aims were expressed another way by Christopher, Payne and Ballantyne (1991, p. 30):

Fundamental aims of internal marketing are to develop internal and external customer awareness and remove functional barriers to organizational effectiveness.

Such sentiments also resonate well with the work of *participative management* theorists and *action research* practitioners, whose ideas provided much of the original knowledge base for the Bank project. However it is the *customer focus* that internal marketing brings to its review of internal (cross functional) activities that allows marketing the legitimacy to participate in what would otherwise be ‘none of their business’. I believe this to be an important historical and theoretical conjunction, one which gives support to a reframing of the early *transactional* perspectives on internal marketing (from the 1980s), and it opens up a *participative* perspective whereby marketing’s role can be seen as a co-creator of value and not as a competitor for internal resources. Put another way, the relationship marketing notion that unique value can be created within *networks of relationships* (Håkansson and Johanson, 1992; Gummesson, 1999) is turned inward to give another layer of explanation to the behaviour of employees in the Bank project (see especially Ballantyne, 2000b, pp. 282-5).

My thesis of relationship mediated internal marketing accommodates a shift in focus from internal customers, to internal suppliers *and* internal customers, and more, to include eclectic networks of internal volunteers, all in the service of challenging internal barriers, and co-creating value that benefits external market performance and employees alike.

What seems to puzzle some marketers is that implementing a broader range of internal marketing strategies cannot be achieved as marketing’s task alone. It requires marketers to work collaboratively with non-marketers (senior managers and cross-functional groups of employees) to access and mutually re-interpret what they know and take for granted, and to do so within a suitably structured learning and knowledge-generating environment. This is parallel to the views of Varey and Lewis

(1999, p. 941) when they claim that “Internal marketing is the relationship and knowledge management required for the ‘new organisation’”.

In summarising this section, there are two points to make:

First, working on the cross functional complexities of knowledge generation within the firm are really outside the remit of *transactionally* based marketing. Relationship development and collaboration across department borders is necessary to create the conditions of trust in which new knowledge is generated and circulated. This takes internal marketing well beyond turning the ‘4Ps’ inward (as recommended by Ahmed and Rafiq, 1995; Piercy, 1995). Instead, *relationship mediated* internal marketing provides the logic, legitimacy and the motivation for collaborating with HRM, Operations and others key stakeholders within the firm - sharing intellectual tools and coordinating team based plans and actions.

Second, internal marketing planning must be agile enough to leverage the firm’s knowledge creating processes into new areas of investigation if such opportunities arise (Ballantyne, 1998). Thus relationship mediated internal marketing may occur in response to emerging possibilities, as well as in response to top-down ‘logical rational’ strategic agendas.

4. Empirical input

Empirical input to theory development comes from my involvement in the Bank project during the years 1986-1991. The tangible evidence of this involvement includes personal notes and diaries, and extensive historical project records. Also some depth interviews were conducted by me with three key participants after the project wound down. However, my direct project experience (or tacit knowledge) has been my main source of empirical input. This is the *pre-understanding* referred to earlier. In spite of the risks of bias, it is difficult to see how the rich data from this project could have been accessed by any other means.

As a way of beginning to reflect on this experience, *post priori*, I delineated four project phases that seemed to identify themselves naturally (Ballantyne, 1997, pp. 347-364). These project phases still seem to hold up well as a way of revealing the major evolutionary patterns. They are:

- **False start.** Opinions and recommendations from staff Australia-wide were sought on the classic ‘send us your suggestions’ model. It proved not to work.
- **New start.** Here the action research strategy was decided and adopted Australia-wide. Good progress was made in learning together but not all policy and procedural changes that were developed and recommended were approved by head office decision makers. It was time to build up a critical mass of participants.
- **Evolutionary.** The project was devolved down to branch levels, and began to create excitement and a new ‘customer consciousness’. The staff volunteers brought together numbered around 20 in any one team at any one time. Each team was divided into smaller cells of 3-5 participants and each was set a customer improvement task based on solid customer service research. A fixed deadline (usually three months) was agreed for working through the task and preparing formal recommendations. One cycle led to the next, and in a growing climate of trust, a network of supporting relationships developed among participants, and self-initiated learning took place with innovative outcomes for customers. Also the learning from earlier action research cycles began to contribute to the improvement of the problem solving tools in use.
- **Routinisation.** Here many experimental ‘in action’ theories from the earlier phases were made explicit in new workshop designs, teaching aides, in-house magazines and resource kits for participants.

With hindsight, I could also add a *demise* phase, when the project wound down due to other conflicting agendas in the serious economic recession of the early 1990s.

The important point to bring out from this simple historical phase-review is that the strategic intent of putting the ‘customer first’ remained constant throughout the project but the means by which it was acted out shifted according to the prevailing opportunities and constraints. It is this constancy of market orientated purpose which to my mind legitimises this project as an exemplar of internal marketing.

Almost 100 iterations of the action research cycle were completed, involving over 1200 staff. These activities continued progressively for five years, Australia-wide (see also a summary of the case in Appendix A).

5. Analysis and interpretation of empirical material

In Part Two there are six key articles and papers on this Bank case, published previously by recognised academic publishers and in refereed journals. My concern now is to reveal the evolution of ideas contained within this body of work, and show how the articles and papers fit together in the context of the development of a relationship mediated theory of internal marketing. In total, this series of articles and papers comprise my hermeneutical circle of inquiry and my retrospective knowledge claims.

5.1 Ballantyne (1991)

This is a descriptive *participant account* of the Bank project. It emphasises the shift to ‘customer orientation’ that was encouraged, and describes a concept of *customer care* that goes far beyond front line service training, using volunteer staff diagnostic groups for solving critical customer service issues, and using *service quality management* tools (some of which were invented in-house). Creating a supportive organisational climate for internal marketing then becomes the aim, which involved the levelling of status hierarchies among participants, group bonding and personal growth, encouraging the development of networks of change agents as if they were a *social movement*, and emphasising the concept of ‘invisible leaders’ to demonstrate and create a more participative (relational) and less autocratic system of management within.

On reflection, what is interesting now is how the prevailing language of the day, for example, ‘customer care’ and ‘social movements’, crept into in this description. I would prefer today to talk about such phenomena as the development of ‘customer consciousness’ within ‘networks’ of relationships. While the emphasis on *service quality management* is also part of the language of the day, the simple but powerful analytical tools used then might still be used today.

5.2 Ballantyne (1997)

This is an interpretive account of historical phase stages of the project. However, the article goes much further. The earlier report of a customer service improvement project (involving customer care and service quality management) is now reframed as *internal marketing* in action, based on a relationship development process, the sharing of *know-how*, and the sustaining importance of internal networks of participant employees.

Also, the nature of internal marketing, interpreted from the Bank case, is now developed into a more general hypothesis for possible application to any organisation (Ballantyne, 1997, p. 354), as follows:

Internal marketing is a relationship development process in which staff autonomy and know-how combine to create and circulate new organisational knowledge that will challenge internal activities which need to be changed to enhance quality in market place relationships.

Next, relationship development modes were derived inductively. These were ‘energising’, ‘code breaking’ and ‘border crossing’, and also the strategy/structure dimensions of ‘path finding’ and ‘routinising’ (see Figure 1). These modal characteristics were examined against theoretical insights from General Systems Theory (Katz and Kahn, 1966, pp. 14-29; Kast and Rosensweig, 1970/1985, pp. 102-120).

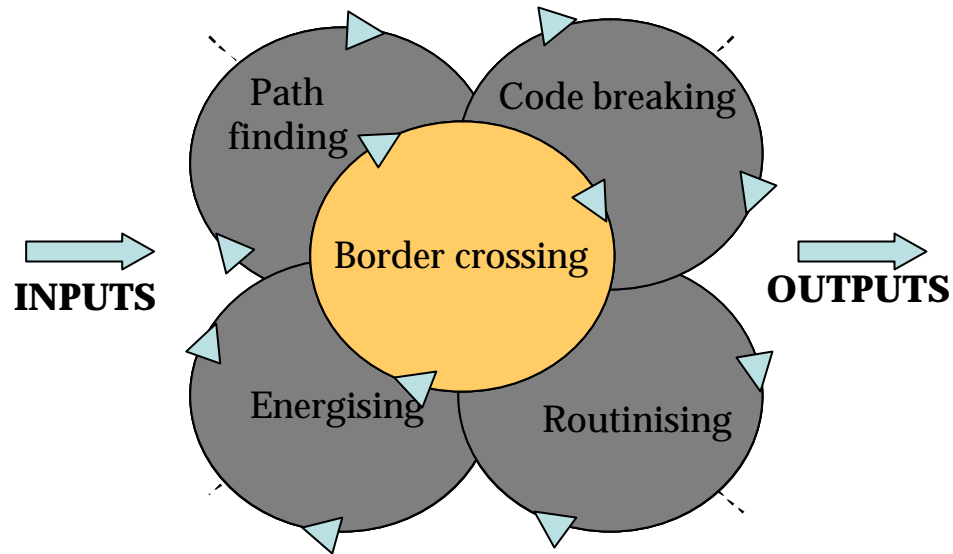


Figure 1
Network organisation for internal marketing
 Source: Ballantyne 1997, p. 361

In this way the empirical evidence of internal networks at work in the Bank case was compared with the theoretical concept of ‘open systems’, which lead to the following insight:

Open systems allow inward and outward energy flows beyond their boundaries and tend to a greater differentiation of outputs, which in turn require greater complexity of organisation within.
 (Ballantyne, 1997, p. 360)

How the Bank’s network of practitioners and supporters (they called themselves *Groupies*) could sustain their commitment is one of the more interesting aspects of this case, especially when the satisfaction of employees was not the primary organisational goal. Putting the ‘customer first’ was the primary goal (Ballantyne, 1997, p. 355). However, this ‘customer first’ goal certainly put the participants on a discovery journey to review the internal activities and processes that needed to be challenged and changed. Participant satisfaction was overwhelmingly high - related

to shared values and trust, voluntary participation and free will, the congruence of project purpose and self worth underneath all the excitement - and importantly, the courage to act outside familiar boundaries coming from a supportive network of relationships.

These aspects of satisfaction also contributed to self motivation, and to word of mouth advocacy that spread the good news. Even so, the many interactions and their consequences seem highly *systemic* (Ballantyne, 197, pp. 359-61). In other words, my view then and now was that the explanation for participant satisfaction and customer service improvement was not to be found in any single cause but in the synergistic effects of many small details.

5.3 Ballantyne (1998)

This paper is a reflective piece on *systemic thinking* and how this might inform marketing planning, especially the internal market dimensions and their interactions with other aspects of external market management. A theoretical discussion unfolds on the relational weaknesses and problems inherent in hierarchical management, given the interdependency of internal and external market factors which require cross functional attention.

The discussion starts with the difficulty of moving from a relationship marketing philosophy to actual market planning and managerial practice. The paper argues as many other authors have done for a shift in strategic orientation away from short term resource cost allocations (the traditional 4Ps marketing mix). However, it argues further that finding a way forward will mean bringing together rival managerial orientations in synergistic ways. For example, as parallel planning activities, consider the conjunction of crafting two-way value propositions (mutual benefits), building mutual trust (positive behavioural judgments), and reducing exchange costs between a firm and its customers (analysing financial consequences). As a unified way of seeing the potential landscape for marketing action, a heuristic devise is offered, called the 'relationship rubric', guiding managerial thinking towards a new relational synthesis (see Figure 2).

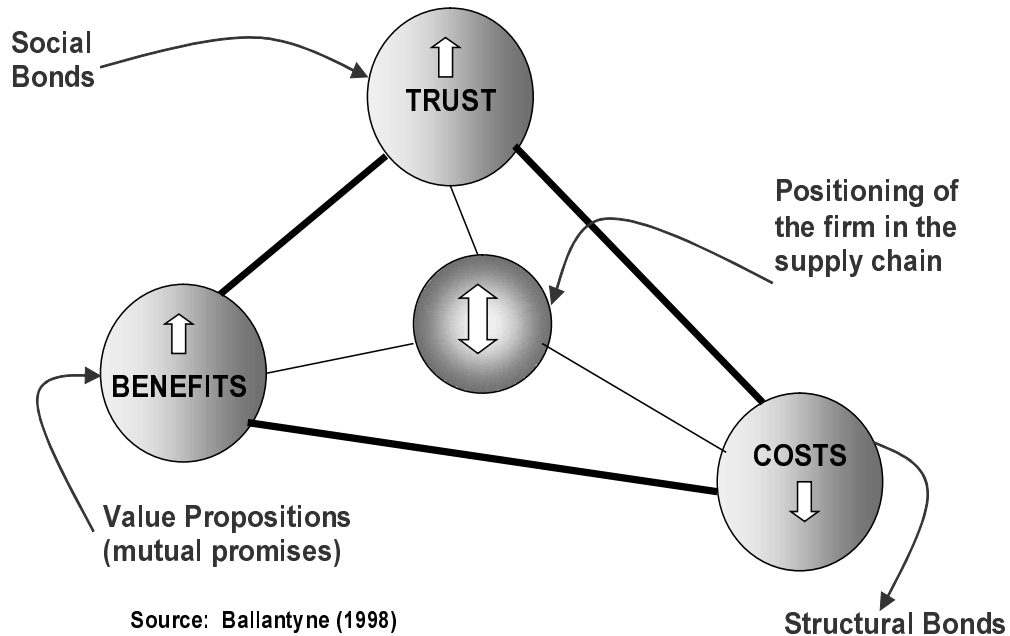


Figure 2:
Relationship rubric for marketing planning

This *systemic* rubric may be viewed inwardly, or outwardly. That is, the three-point orientation of the rubric can apply to relationships within the firm, between the firm and its customers, and indeed between the firm and *any* stakeholder groups.

5.4 Ballantyne (2000a)

This paper emphasises the strength and weaknesses of internal marketing from both transactional and relational perspectives. The question of what could count as ‘internal marketing’ is discussed for the first time. An argument is put that internal marketing is *legitimised* by its orientation to an external market. Thus internal marketing requires a market-oriented style of management; otherwise it is difficult to see how it qualifies as marketing at all. Also, an important distinction is made between a transactional level of internal marketing (monologic), and a relational level (dialogic). The Bank case is clearly located in the second camp, because it emphasises interaction and collaborative methods. However, while transactional approaches to internal marketing may well turn the 4Ps inward, a relational *approach*

to internal marketing involves cross functional collaboration within the firm, so its *methods* can come from any disciplinary source (Ballantyne 2000a, pp. 44-48). This is an important distinction in the literature that had not been made clear before.

This paper also contains a new inductively generated conceptualisation of internal marketing, one still based on *relationship development* between participants, but this time giving emphasis to patterns of learning behaviour that run parallel with creating and circulating new organisational *knowledge*. Four cyclical steps in the internal marketing cycle are highlighted, as ‘energising’, ‘code breaking’, ‘authorising’ and ‘diffusing’ (see Figure 3).

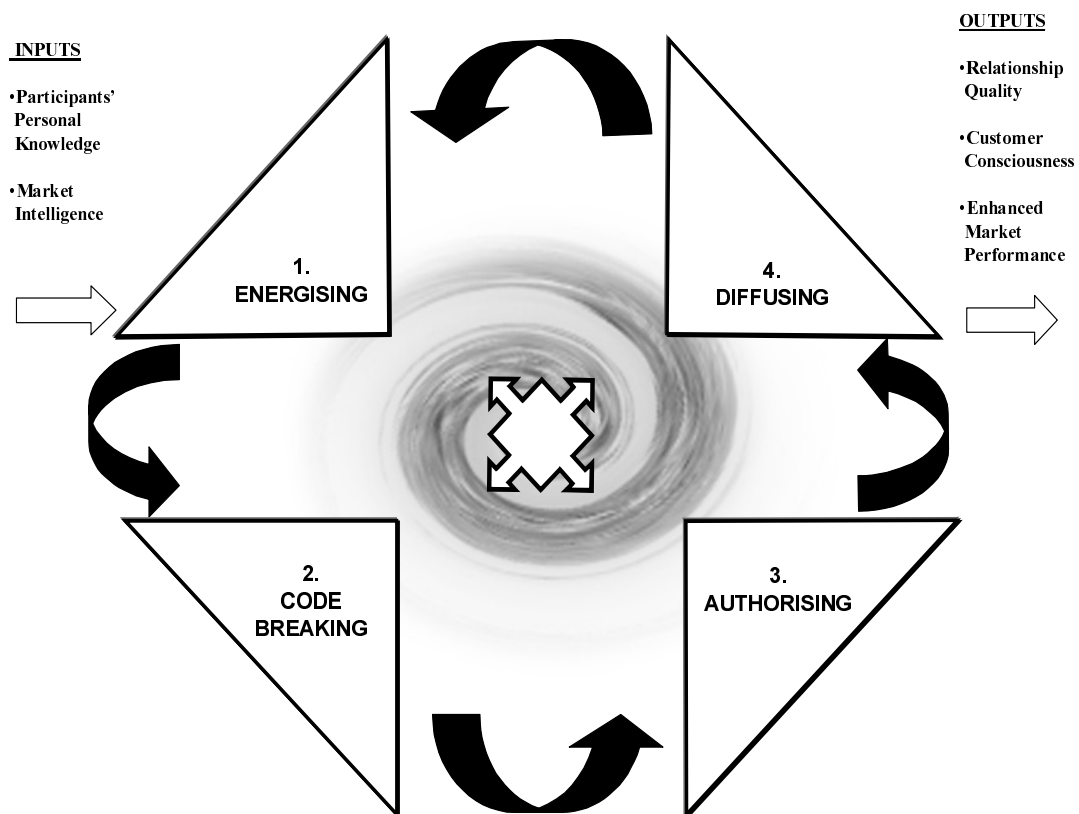


Figure 3
The internal marketing cycle
 Source: Derived from Ballantyne 2000a

Each of the four steps is seen as complementary and contributes to the cyclical ‘spin’, from one to another. In this sense they are inter-dependant. Together they provide a measure of structure, when enacted. Thus each phase of activity contributes

something to the whole. In Ballantyne (1997), the term *border crossing* was used but in this paper it was split into two parts - ‘authorising’ and ‘diffusing’.

Dixon (1999) has cautioned that learning is *not* the accumulated knowledge of an organisation (its intellectual capital), but instead, it is the continuous construction and reconstruction of meaning. I claimed then and now, that this applies to generating knowledge in the context of the Bank case, as well to the hermeneutical development of my theory based on that case. Much of what we call new knowledge occurs when we recognise new patterns, which is to say, we are constantly caught up in a process of new *pattern* recognition.

Finally, this paper further explores the concept of internal networks as they played out in the Bank case, with *catalysts* representing the core project team, *coalitions* representing head office departments, and *constellations* representing clusters of customer conscious participants and advocates. Taken together, this suggests a spread of interdependencies within various types of networks.

5.5 Ballantyne (2000b)

This article brings a number of earlier themes together with more coherence. It takes up the theory development task from the previous paper, examining again the recurring patterns of employee behaviour associated with the Bank case. First, the four modes of *learning activity* are more clearly specified. Second, the knowledge dimension of the process is reframed as *knowledge renewal*, which involves a ‘reconstruction of meaning’ (Ballantyne, 2000b, p. 280). Third, the intertwining of these is supported by relationship development between participants as they act out their personal learning to customer consciousness within a climate of *spontaneous community behaviour* (Ballantyne, 2000b, pp. 282-3). Fourth, a new definition of internal marketing is offered, as a “relationship development strategy for the purpose of knowledge renewal” (Ballantyne, 2000b, p. 277).

The article also emphasises an important correspondence between internal marketing theory and the network-interaction concept in industrial marketing (Håkansson and Johanson, 1992), when turned inward to account for three emergent strands of internal

marketing structure - mentioned above as *learning activity*, *knowledge renewal* and *spontaneous community* behaviour (see also Figure 4).

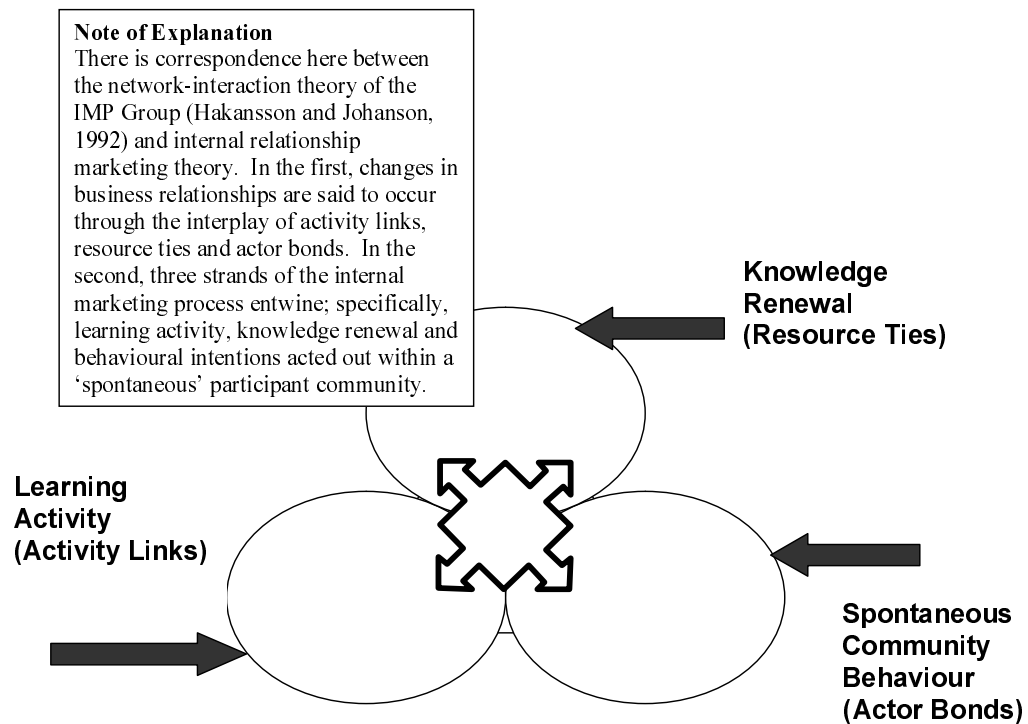


Figure 4
Networks of relationships
 Source: Ballantyne 2000b, p. 285

The article concludes with the observation that, following Gummesson (1999, p. 73), all marketing activity develops through interactions within networks of relationships.

5.6 Ballantyne (2003)

Finally, a *theoretical synthesis* of internal marketing is offered, bringing past hermeneutically developed perspectives together. It is argued that market oriented internal marketing is a dialogical, relationship mediated, learning and knowledge generating activity. Also expressed more clearly is the notion that knowledge transfers between individuals and also at broader organisation levels are *mediated* by 'spontaneous community behaviour'. Special motivational factors operating are *exchanges of value* (two-way value propositions) between individuals and between departments, which lead to the development of commitment, trust, and obligation (Ballantyne, 2003, pp. 1254-5). A simple but adequate structural model (see Figure

5) is provided to show the relationship between learning activity (which is planned), spontaneous community behaviour and knowledge renewal (which are emergent).

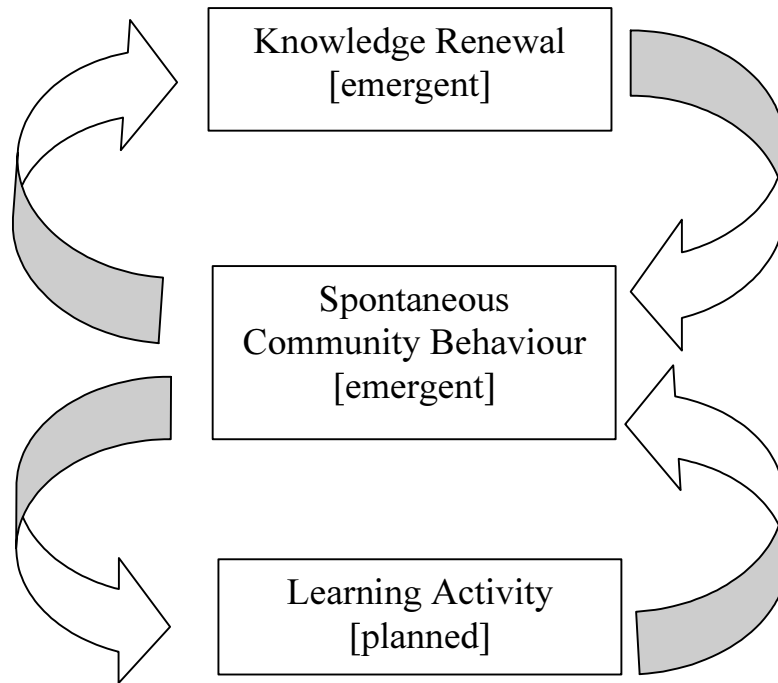


Figure 5
The structural levels of internal marketing relationships
 Source: Ballantyne, 2003, p. 1252

The four cyclical phases of action and learning remain unchanged from the previous article, wherein employee groups generate and renew internally valid knowledge for the improvement of external market performance.

Also, no changes are made to the definition of internal marketing provided in the previous article – as a relationship development strategy for the purpose of knowledge renewal. However, three kinds of knowledge exchange patterns within organisations are discussed. These are *hierarchical*, *inter-functional* and *network* exchanges (see Ballantyne, 2003, pp. 1245-6).

A key point to emphasise is that the fully developed theory now presented has a *processual* dimension (Figure 3) and a *structural* dimension (Figure 5). Together they comprise the internal marketing *system*. The relationship of these parts to the whole is set out in Appendix B in a matrix form. In terms of theory development, I

could go further and say that the structural (cognitive) dimension of the theory emerged from the processual (action) dimension, and then in turn gave support to it.

In developing my theory of internal marketing, I first developed the four phases of the internal marketing cycle (Figure 3). This is a *process model*, the patterns of which derive from my own observation and reflection. Later, I 'discovered' the three structural dimensions of the theory inductively (Figures 4 and 5). This structure gives support to the internal marketing process through its phases, and the process as a whole through various cycles elaborates the structure. In human systems it seems appropriate to say that structures 'emerge' over time - that is, although the structural dimensions for individuals and networks of individuals can become relatively stable even in a constantly changing world, cognitive structures nevertheless modify and are modified by the interactivity in which we are all embedded.

Common sense would suggest that 'observing' comes first in any theory development, but as has been mentioned, people also resort to their 'pre-understanding', a past-learning cognitive structure which provides a means for interpretive understanding. And without some interpretive understanding, there is no theory making.

6. Conclusions and contributions to the knowledge of internal marketing

I set out to introduce readers to a coherent *relationship-mediated* theory of internal marketing,¹ one which has knowledge renewal as its purpose and market orientation and improved market based performance as its end goal. Knowledge exchange patterns within organisations are shown to be *hierarchical*, *inter-functional* and *networked*. A four-phase internal marketing cycle taps into these knowledge exchange patterns. The internal marketing cycle is supported by three structural strands, which

¹ Any author should be cautious about making extravagant theory claims. However, I was given some timely reassurance by one reviewer of my final article (Ballantyne, 2003), when he said, "[this article] meets all the criteria of a good theory as set out by Whetten (1989)." When I looked up this reference I was surprised and delighted to find that I had indeed covered all the bases he had recommended, without prior awareness of this apparently seminal article by a past editor of *The Academy of Management Review*.

are *learning activity*, *spontaneous community*, and *knowledge renewal*. Relationship development for internal marketing is based on exchanges of value, with benefits intended for customers, employees and the sponsor company. Most importantly, relationship development has been shown to be the mediating variable between learning activity and knowledge renewal, and a pivotal factor in internal marketing.

I have also reflected on the notion of *customer consciousness* as a necessary outcome of internal marketing activity (Grönroos, 2000, p. 333). The Bank case supports this. It does seem to me that, in the language of my thesis, customer consciousness is the sum of employees' market oriented *tacit knowledge*. Customer consciousness is generated, shared and enhanced in iterative cycles of action and learning through internal marketing.

Based on the Bank case and my interpretation of it, internal marketing is a relationship development strategy for the purpose of knowledge renewal. This therefore becomes my preferred definition. I have put forward five key propositions in support of this definition (Ballantyne, 2003, p. 1257), as set out below (reordered slightly):

- Internal marketing gains its legitimacy through external market orientation
- Internal marketing requires a process of learning activity
- Knowledge renewal (at the organisational level) is the purpose of internal marketing
- Relationship development mediates between learning activity and knowledge renewal
- Relationship development begins with exchanges of mutual value between participants.

The lesson I have learned in my involvement in this project and in its review is that our diverse capabilities as humans working together in businesses are underutilized. Many ideas lie dormant, perhaps because they are perceived as a challenge to authority and its homogenizing mediocrity. Establishing a creative knowledge-generating climate within the firm may in the end depend upon the willingness of those in authority to allow it and support it in the face of what may seem to be

uncertain outcomes. My positive experience in one large scale internal marketing project may therefore be insightful and give courage to others.

7. Recommendations for future research

The fact is that every internal marketing project will have its own action driven research requirements, and these may not align with broader scholarly interests or the time scales of academic researchers. This can lead to tensions and conflicts of interests, compromising either the academic research objectives, or the objectives of one or more of the project stakeholders. However, there is another way. As I have done, academic publication may need to wait until the critical phases of a particular project have run their course. The approach recommended for academic research therefore is to follow a *hermeneutic* learning approach, as has been discussed, using case studies in a time-spaced series to consolidate various project stages, or to provide different interpretive case perspectives. This approach should have application in many marketing management contexts; for example, in studies on improving market orientation, sales management, product development, service system redesign, and supply chain management.

8. Recommendations for practitioners

The specific implications of this research for the practical development of internal marketing are set out below, based on Ballantyne (2000b, pp. 284-5):

- The potency of internal marketing begins with activating the four-phase cycle (see Figure 3) in a way that encourages the evolution of a voluntary staff network of willing advocates.
- Three structural strands of the relationship development process work interdependently. These involve a planned learning activity, the spontaneous community behaviour of participants, and knowledge renewal (see Figure 5). Each is necessary. Each supports the sustainability of the other.

- Transactional methods of internal marketing (especially one-way communication) have a limited role to play in knowledge renewal, except for promulgating explicit and undisputable facts.
- The more complex the project task, the more important it is to work through all four phases of the internal marketing cycle. In particular, the ‘energising’ (reflecting) and ‘authorising’ (legitimising) phases are vital and often misunderstood.

On a cautionary note, internal marketing of the ambition and scope of the Bank case is unlikely to succeed as a stand alone marketing department effort. Marketing may provide leadership but the cycle of activity demands collaboration between departments, which may have to be earned, just as the co-operation and trust of employees has to be earned over time.

In all this there is a critical role for an authentic senior sponsoring partner, as a *catalyst*, providing some constancy of purpose and maintaining a climate of legitimacy for the internal marketing activity. However, there would seem to be no reason why internal marketing might not proceed at any level of the organisation, providing the political scope is not overreaching and there is a sponsor.

Finally, the strength of internal (relationship mediated) marketing is its market focused strategic commitment and participative approach. The forgotten truth is that organisational knowledge can be renewed through dialogue and learning, through being trustworthy and gaining trusting employees in return. The traditional (or transactional) marketing mindset blinds us to the fact that with collaboration, across departmental borders, what is otherwise impossible may well become possible.

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Appendix A

The retail banking case study – A brief summary

It started with an ambitious idea to put the ‘Customer First’, ratified at board level. This gave legitimacy to working in staff teams on changes to internal policies and processes that would facilitate better customer service. The strategy was that customer service improvement would lead to better customer relationships, and thereby complement the organisation's marketing activities. Overall, this would contribute to customer retention and better long-term profitability.

The marketing department was actively involved in designing market research to locate the critical customer service issues, but the direction of the strategy was in the hands of a small customer service group set up to facilitate the change in orientation. The group composition had a strong marketing and human resource management background. What they shared was a common commitment to make ‘Customer First’ work, for whatever their individual motives and personal histories.

The core idea was to bring together groups of staff volunteers; around 20 in number at any one time, and these were called *diagnostic review groups*. Each group was divided into smaller cells of 3-5 participants and each was set a customer improvement task based on solid customer service research. After early trials, a three-day preparatory workshop became the standard way of introducing the plan to the staff volunteers. The task meant challenging and reviewing the internal activities that needed to be changed to bring about service improvement. A fixed deadline (usually three months) was agreed for working through the task and preparing formal recommendations.

This mode of working produced rich variety. It meant that senior line executives had a choice of customer focussed operational solutions from which selections could be made as to relative costs and benefits. The most practical changes emerging from this process were implemented. Many were far from trivial and some involved a major re-configuration of internal branch banking designs and head-office policies. On the other hand, many innovative ideas did not succeed.

As a consequence of staff participation in decisions that affected both them and customers, profound changes occurred in terms of the depth of staff ‘know-how’ and commitment to the task. A more orthodox marketing approach would have been to try to change staff attitudes by formal communications alone. After some trial and error, this was rejected early in the program as too superficial and unidirectional.

These activities continued for five years from 1986-1991. During that time almost 100 iterations of the cycle were completed, involving over 1200 staff.

Source: Ballantyne (2003)

Appendix B: Four phases of the Internal Marketing cycle and three structural dimensions

Internal Marketing cycle >>>>>>>>	1. Energising	2. Code breaking	3. Authorising	4. Diffusing
Learning activity (planned)	Learning how to work together on useful marketplace goals that are outside the bounds of any individual job description.	Learning how to apply personal 'know-how' in working together to solve customer problems, create new opportunities and change internal procedures.	Learning how to review choices between options on a cost-benefit basis and get policy decisions from the appropriate line authority.	Learning how to circulate and share new knowledge across managerial domains in new ways.
Spontaneous community (emergent)	Two-way value propositions. Trust in fellow participants.	Creative dialogue. Obligation to stick at it.	Knowledge application. Trust in management.	'Customer consciousness' confirmed in actions.
Knowledge renewal (emergent)	Common knowledge of the complexity of the task emerges between community members in open exchanges about their own work experiences. These interactions are understood as a movement from tacit to tacit levels of knowing.	New ideas relevant to the task are discovered and a range of customer oriented internal change proposals are developed. This phase is understood as raising tacit knowledge to explicit levels with the added input of market based customer research.	Cost-benefit knowledge is used to evaluate and rank the policy proposals for discussion with line and specialist management. These decision-seeking interactions are understood as a movement from explicit to explicit levels of knowing.	Knowledge is codified into new designs, procedures and training programs, then tested in action and integrated into the working ways of the organisation. This final phase of the cycle is understood as a diffusion of knowledge from explicit to tacit.

Part Two

Published articles and papers (in order of publication) that comprise the main body of this thesis

1. Ballantyne, David (1991), Management of the Diagnostic Review Process in Service Quality Management: ANZ Bank, a Case Outline, *The Finnish Journal of Business Economics*, No. 4, 338-344.
2. Ballantyne, David (1997), Internal Networks for Internal Marketing, *Journal of Marketing Management*, Vol. 13, No. 5 (July), 343-366.
3. Ballantyne, David (1998), Relationship Marketing Management: The Internal and External Market Dimensions in Marketing Planning, in Turnbull, Peter and Naude, Peter, *Network Dynamics in International Marketing*, Oxford: Elsevier, Ch.14, 272-288, ISBN: 0-08-043358-8.
4. Ballantyne, David (2000a), The Strengths and Weaknesses of Internal Marketing, in Varey, Richard and Lewis, Barbara (Eds.), *Internal Marketing: Directions for Management*, London, Routledge, Ch. 3, 43-60, ISBN 0-415-21318-5.
5. Ballantyne, David (2000b), Internal Relationship Marketing: A Strategy for Knowledge Renewal, *International Journal of Bank Marketing*, Vol.18, No. 6, 274-286.
6. Ballantyne, David (2003), A Relationship Mediated Theory of Internal Marketing, *European Journal of Marketing*, Vol. 37, No. 9, 1242-60.

