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Pregledni članak

APPLICATION OF THE INTERNAL MARKETING CONCEPT IN THE CROATIAN FINANCIAL SECTOR

Although the internal marketing concept emerged in the 1970s from service marketing, it has not been widely accepted in the business environment. One of the reasons lies in the fact that the concept and the components had not been precisely defined. The purpose of this paper is to assess the extent of the acceptance of the internal marketing philosophy in the Croatian financial sector and to identify the components of internal marketing. The conducted research highlights that the acceptance of the concept in the Croatian financial sector is mediocre. This confirms the insufficient application of the concept in practice. The study findings also suggest that internal marketing is perceived through three dimensions, e.g. development and communication to employees, rewarding and training and organization's vision. These findings underline the issue that managers have to take into consideration when designing internal marketing programs, in order to achieve IM objectives. Furthermore, this study contributes to the literature by determining the components of the internal marketing that are somewhat different of the components indicated by previous research.

Keywords: internal marketing, internal marketing components, employees, financial sector

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1. Introduction

The internal marketing concept emerged in the 1970s in order to stress an employee's role as a key element in determining service quality (Ahmed and Rafiq, 2002). Its main aim was to get everyone who was involved in service encounters to perform better in customer interaction.

Therefore the most prominent view on internal marketing (IM) is the idea that IM has most relevance to service organizations, and that all employees are a part of the internal market and should deliver excellent service to customer to support overall strategy (Foreman and Money, 1995). In addition, according to Berry's (Ahmed and Rafiq, 2006) original views, IM is used by an organization to achieve satisfaction of internal (employees) and external users.

The employees in the financial sector, especially the first line employees, are faced with special challenges due to specific features of the financial services such as intangibility, complexity and enormous variance (O'Loughlin and Szmigin, 2005) and due to the extreme competitiveness of the financial sector (Thwaites and Lee, 1994; Gilmour, 2003; Bergeron, Roy, Fallu, 2008).

Furthermore, a number of authors (Ahmed and Rafiq, 2002; Kotler, Wong, Saunders and Armstrong, 2006; Papasolomou-Doukakis, 2003; Dunmore, 2002; Varey and Lewis, 2000; Ahmed and Rafiq, 1995; Jones, 2007; Ind, 2001) evidenced many positive results of the IM implementation.

Despite all these facts, relatively few organizations fully implement the internal marketing concept in a strategic way (Quester and Kelly 1999; Papasolomou-Doukakis, 2003; Ahmed, Rafiq, 2006; Farzad, Nahavandi, Caruana, 2008; Bannon, 2005). One of the main problems contributing to this is that there is no clear definition of what the components of the concept are (Ahmed and Rafiq, 2006).

The study attempts to answer the following research questions: (1) Is the concept poorly implemented in practice i.e. among financial institutions, as the literature seems to suggest? (2) Do the changes and increased competition in the financial services sector induce the broader application of the internal marketing philosophy in this sector? (3) Does the financial services sector satisfactorily take advantage of substantially evidenced positive effects (such as achieving higher service quality, employee and customer satisfaction, loyalty and long term customer relationships) of the internal marketing? (4) Does the literature identify the underlying components of the internal marketing as a condition for the greater acceptance of the concept in practice, especially in regard to the financial services?

The main purpose of the paper is to research the internal marketing concept acceptance in the financial sector and indicate its strengths and weaknesses and point out its key dimensions.

This study will add to the body of knowledge by showing the level of acceptance of the IM concept among financial organizations and by identifying the exact IM components. By highlighting the exact components of internal marketing, the basis will be created for organizations to design internal marketing strategies aimed at their employees with the goals of achieving their satisfaction as a prerequisite for achieving the customer satisfaction, loyalty and long term relationships. In addition, the definition and the precise specification of the components of IM will allow more effective operationalization of this, not enough studied, concept. Furthermore, measurement and empirical evidence will allow better understanding of the concept, which may contribute to wider acceptance and application of internal marketing in the business environment.

The paper is composed of four chapters. After the introduction, the second chapter is dedicated to the literature review and hypotheses development. In the third chapter methodology and results of the conducted research are presented. The conclusion synthesizes the most important implications of the conducted research, managerial implications, contribution to the literature, research limitations are specified and guidelines for further research are proposed.

2. Literature review and hypotheses development

The financial services sector has experienced significant demand and supply side changes over the last decade which resulted in the removal of traditional lines of demarcation between institutions and in greater competition (Thwaites and Lee, 1994, p. 380). Mergers and acquisitions (Gilmour, 2003), rapid technological developments (Thwaites and Lee, 1994; Gilmour, 2003) and deregulation on a global scale (Gilmour, 2003; Bergeron, Roy and Fallu, 2008) have had (and will continue to have) the effect of increasing competition in the financial markets. At the same time new technologies have enabled financial services users to become more informed, demanding, and most importantly, less likely to remain with the same provider than before (Bergeron et al., 2008). The changes and competitions in the financial service industry indicate the importance of focusing on employees and accepting the internal marketing concept from the aspect of achieving some of its primary tasks such as high quality services delivery (Ahmed and Rafiq, 2002), customer satisfaction, and therefore loyalty (Kotler, Wong, Saunders and Armstrong, 2006) and long term customer relationships (Varey and Lewis, 2000).

Despite over 30 years of development, relatively few organizations apply the concept in practice (Ahmed and Rafiq, 2006; Farzad, Nahavandi, Caruana, 2008; Bannon, 2005). Moreover, in the majority of organizations internal marketing is

not accepted at a strategic level and there are no formalized plans for it (Quester and Kelly 1999; Pappasolomou-Doukakis, 2003) although certain IM activities are implemented.

Previous research of financial sector internal marketing reached different conclusions. Pappasolomou-Doukakis (2003) indicated the importance of successful implementation of internal marketing in the financial sector (i. e. banking sector) and the importance of further study and development of the internal marketing implementation models. Some researchers pointed out the majority of the internal marketing ideas being accepted in organizations with a large number of employees (Quester and Kelly, 1999). The acceptance of internal marketing was confirmed by Bouranta and Mavridoglou (2003) however this applied only to the banking sector. O'Loughlin and Szmigin (2005) found there was an awareness of the importance of internal marketing in financial institutions, but at the same time reached the conclusion that it was not effectively implemented. Certain research (Snell and White, 2009) indicates that internal marketing is practised with varying degrees of sophistication. However it also provides evidence suggesting that professional service organizations do not readily identify and understand internal marketing. Concerning the study of the acceptance of the internal marketing philosophy among Croatian organizations, the Paliaga, Strunje and Pezo (2010) research suggests there exists a high level of implementation of the concept. Based on the discussion above, the following is suggested:

Hypothesis 1: The internal marketing concept is not widely accepted in the Croatian financial sector.

As previously mentioned, the internal marketing concept has not been widely accepted by managers. Some of the main reasons lie in the fact that there is no unified concept of what is meant by IM and of what is IM constituted (Ahmed and Rafiq, 2006).

Understanding the concept as well as the components that constitute it, is a prerequisite for understanding and developing a specific approach to the internal market by using IM if the goal is to achieve previously mentioned internal and external objectives. Bouranta and Mavridoglou (2003) identified three dimensions of internal marketing labelled as Strategy, Policy and Tactics highlighting the importance of top down communication of internal marketing philosophy and the need to integrate all employees into the concept. Foreman and Money (1995) recognized three distinct components that they named Development (items having to do with developing employees), Rewards (items having to do with rewarding employees) and Vision (giving employees something to believe in). Moreover, in the same research it was noted that these components reflect the three essential aspects of IM practise identified by Berry and Parasuraman (Foreman and Mon-

ey, 1995, Caruana and Calleya, 1998). Caruana and Calleya (1998) in their research of retail bank managers highlighted that the three factors identified as parts of the internal marketing construct (e.g. Development, Reward and Vision) can be seen as closely related to a terms used in human resources management. Based on the above, and with the goal to advance the field's knowledge on this issue, the authors hypothesize:

Hypothesis 2: The internal marketing concept consists of three main (underlying) components: vision, reward and development.

3. Research on the internal marketing concept acceptance in the Croatian financial sector

3.1. Research objectives and methodology

Since 1970's and the emergence of the idea, internal marketing has been often studied. However, many authors point out that internal marketing in general and its individual components in particular have not been studied enough (Foreman and Money, 1995; Pitt and Foreman, 1999; Pitt, Bruwer, Nel and Berthon, 1999; Ahmed and Rafiq, 2002; Lings, 2004; Tortosa-Edo, Sanchez-Garcia and Moliner-Tena, 2010; Williams and Nauman, 2011).

The authors have conducted research with the goal of determining the acceptance of the internal marketing concept and indicate its strengths and weaknesses in the Croatian financial sector and determining particular dimensions (components) of internal marketing. The level of acceptance of internal marketing was measured using a slightly adjusted 15-item questionnaire developed by Money and Foreman (1995) with the added questions about the subjects' gender and expertise and the formal existence of internal marketing plans. In operationalizing the internal marketing construct these authors utilise focus group discussions with managers of service firms and checklists on internal marketing from Berry and Parasuraman's (Caruana and Calleya, 1998, p. 110). The questionnaire consists of three components - vision, development and reward. In accordance to the researchers' suggestions on employees in charge of internal marketing activities implementation (Foreman and Money 1995; Quester and Kelly, 1999), the questionnaire was aimed at marketing managers, human resource managers or persons in charge of internal marketing. Every statement was associated with the Likert scale with five levels of intensity (from 1 = strongly disagree to 5 = strongly agree). The research covers 180 financial sector organizations in accordance to the regulations listed at the internet sites of the Croatian Agency for Financial

Services Surveillance (HANFA) and Croatian National Bank (HNB). The questionnaire was sent to email addresses of 31 insurance companies, 27 insurance and reinsurance intermediaries, 7 pension fund management companies, 25 brokerage companies, 31 investment management fund companies, 22 leasing companies, 5 savings banks and 32 banks. 63 questionnaires had been answered completely and correctly which gives an acceptable 35% response rate. The research was conducted between November 2011 and May 2012. The data was analysed using SPSS for Windows statistical package. The subjects were 38% male and 59% female. Furthermore, 6% of the subjects had medium expertise, 16% had higher expertise, 54% had high expertise and 22% had an M. A. or doctorate degree.

3.2. Research results

The measuring instrument was calibrated with a 0.94 value by the Cronbach-alpha reliability coefficient. It is generally accepted that a 0.7 or higher value of the Cronbach-alpha coefficient represents high reliability (Nunally, 1978).

Hypothesis 1 stated that the internal marketing concept is not widely accepted in the Croatian financial sector and the results support it. The mean and standard deviation of all the received values is 3.47 and 1.231, respectively. Considering that higher scores on the scale indicate higher levels of internal marketing, we can deduce that acceptance of the concept of internal marketing in the Croatian financial sector is mediocre. The results received are not in line with the research conducted by Paliaga, Strunje and Pezo (2010) whose work on the large and medium organizations in the Republic of Croatia indicates a high level of implementation of the internal marketing concept. Furthermore, the results are not in line with the results of the research conducted by Bouranta and Marvidoglou (2003) who only studied the banking sector of Greece, and the research by Quester and Kelly (1999) who determined significant acceptance of the internal marketing activities in the Australian financial sector, especially in the organizations with a large number of employees. However, the research is in line with the research conducted by Snell and White (2009) and that of O'Loughlin and Szmigin (2009) who pointed out deficiencies in understanding and implementing internal marketing. A high score of items 3 and 4 indicates that the managers in the Croatian financial sector are aware of the importance of preparing employees for good execution and that they see the contributing knowledge and skill development as investment rather than cost. A somewhat lower score of items 1 and 7 indicates the lack of vision the employees can believe in and that they still do not receive a complete education, regardless of the importance of skills and knowledge. The items with the lowest score received are those giving employees something to believe in i.e. Vision com-

Table 2:

MEAN AND STANDARD DEVIATION

Items	Mean	Std. Deviation
Vision	3.16	1.391
1. Our organization offers employees a vision in that they can believe in.	3.08	1.429
2. We communicate our vision to the employees clearly.	3.22	1.361
Development	3.60	1.212
3. We prepare our employees for a good execution of tasks.	3.79	1.233
4. Our organization views the development of our employees' knowledge and skills as an investment, rather than cost.	3.89	1.166
5. Development of our employees' knowledge and skills is a continuous process in our organization.	3.62	1.325
6. We teach our employees „why they have to do things“ and not just „how they should do it“.	3.75	1.092
7. Our organization provides more than training, our employees are provided with complete education.	3.14	1.176
8. Our employees are provided with adequate training in order to fully accomplish their role of service delivery.	3.67	1.150
9. Our organization is flexible in adapting to various needs of employees.	3.41	1.145
10. In our organization we invest significant effort to communicate with our employees.	3.52	1.293
Reward	3.39	1.163
11. Our performance rating and rewarding systems are directed at encouraging co-operation between employees.	3.32	1.119
12. We rate performance and reward employees who contribute most to the achievement of our organization's vision.	3.43	1.132
13. The data we collect from the employees is used to improve their jobs and develop our organization's strategy.	3.25	1.135
14. Our organization communicates to the employees the importance of their role in service delivery.	3.59	1.240
15. We reward employees who provide excellent service.	3.38	1.197

Source: Author's calculations.

ponent (mean = 3.16). Development is scored with the highest grade (mean = 3.60). Those results highlight what should be the focus of marketing managers or human resource specialists in order to enhance the effects of the conducted IM activities in a financial sector. Furthermore, 30% of examinees stated there was a formal in-

ternal marketing plan in their organization, 49% stated there was no such plan and 21% did not answer the question. Previous researches (Quester and Kelly 1999; Papsolomou-Doukakis, 2003) highlight that there are a relatively low number of organizations with a formal internal marketing plan, but all organizations implement internal marketing activities. The research results reinforce these findings. That indicates internal marketing is often not accepted in a strategic continuous form, i.e. it is not a planned effort.

Hypothesis 2 predicted that the internal marketing concept consists of three main (underlying) components: the vision, the reward and the development. Findings did not support this hypothesis. After the descriptive analysis, an explorative factor analysis was conducted in order to determine components – dimensions of the internal marketing concept in the Croatian financial sector. By factor analysis three factors in total were extracted which was in line with the results of the previous researches (Foreman and Money, 1995; Bouranta and Mavridoglou, 2003; Caruana and Calleya, 1998). In the process of factor extraction statement 9 was voided due to low communality (<0.5). Bartlett's test of the data to be used in the final factor analysis was statistically significant ($\chi^2 = 650.84$; $p < 0.05$), while the KMO measure of sampling adequacy was 0.88 (>0.5), hence factor analysis could be applied to the remaining set of variables. The factors were extracted by the principal component method, using the Kaiser Guttman rule and the Varimax factor rotation. After rotation, the three extracted factors explain 72.2% of overall variable variance.

The results of the factor analysis are shown in the table 3.

The obtained results are mostly in line with the research conducted by Foreman and Money (1995) and Caruana and Calleya (1998) whereas they are in complete disagreement with the Bouranta and Mavridoglou (2003) research.

In regards to the results analysis of the conducted research, factor 1 can be named „development and communication to employees“, factor 2 relates to „rewarding and training“, and factor 3 pertains to „organization's vision“. The difference regarding the Foreman and Money (1995) research is in the „development“ and „rewarding“ factors. Namely, in their research the communication related variables (statements 10 and 14) and the training related variables (statements 7 and 8) have been a part of the „rewarding“ factor (statements 14 and 7) and „development“ factor (statements 10 and 8). Similarly, the difference regarding the Caruana and Calleya (1998) research is in the “development” and “reward” factors. The communication related variables are part of the “development factor” while the training related variables are part of the “reward” factor. Bouranta and Mavridoglou (2003) reached conclusions that were not in line with previous researches. They also identified three dimensions but they labelled them Strategy, Policy and Tactics, highlighting the importance of top down communication of

Table 3:

RESULTS OF THE EXPOLORATIVE FACTOR ANALYSIS

	Factors			Communality
	1	2	3	
STATEMENT1	.141	.352	.836	.843
STATEMENT2	.277	.315	.800	.816
STATEMENT3	.788	.353	.159	.771
STATEMENT4	.752	.322	.152	.693
STATEMENT5	.840	.378	.082	.856
STATEMENT6	.654	.133	.520	.716
STATEMENT7	.483	.635	.224	.686
STATEMENT8	.344	.681	.186	.616
STATEMENT10	.584	.317	.384	.589
STATEMENT11	.228	.741	.262	.670
STATEMENT12	.262	.828	.229	.807
STATEMENT13	.458	.558	.173	.551
STATEMENT14	.680	.229	.496	.760
STATEMENT15	.233	.759	.326	.737
% of variance explained after rotation	28.26	26.82	17.13	
% of total variance explained				67.47

Source: Authors' calculations

the internal marketing culture and the need to integrate all employees into this concept. Conclusions by Bouranta and Mavridoglou (2003) are similar to the approach to the internal marketing process given by Gronroos (Ewing and Caruana, 1999; Gudmundson and Lundberg, 2009) according to whom it can be realised on two different levels, strategic and tactical. On the strategic level the objective is to create an internal environment that supports customer-consciousness and sales-mindedness among the employees. The tactical level includes the effective communication between the employees and the business.

Still, based on the results obtained with the conducted research it can be concluded that the examined subjects – employees in charge of implementing internal marketing in financial organizations operating in Croatia - believe that employee development should be connected with the expected role of employees which should in turn be adequately communicated by the management. It is in line

with the claim that the major thrust of the internal marketing concept is to ensure that employees feel that management cares about them and their needs (Ewing and Caruana, 1999, p.20). Furthermore, it can be concluded that training and education of employees should be tightly connected with the goals the employees are expected to achieve and accordingly lead to a fitting reward. These findings appear to underline the issue that managers have to take into consideration when designing internal marketing programmes in order to achieve IM objectives. These components that are pointed out are well connected and similar to the components of the Berry's and Gronroos' model of internal marketing (Rafiq and Ahmed, 2006). They suggest that employee satisfaction as prerequisite for better service quality and customer satisfaction is a function of adequate training, employee discretion and participative management. Moreover, the above mentioned model emphasizes the need for good communication and for the employees to realize the importance of their role.

In addition, the conducted research highlights the importance of the managers' communications skills. Good communication skills allow managers to clearly communicate the internal marketing goals and strategies, as well as the role of the employees in the implementation of such strategies and achieving goals. Furthermore, while designing internal marketing strategies the managers should plan for adequate reward and implement adequate reward system and also provide employees with the right training in order to allow organizations to meet their goals. The highlighted directions for the management might be seen as increased cost but the positive outcomes of higher service quality deliver can substantially overcome it by attracting additional customers and by the increased revenue from the repeated purchase which is especially important in a highly competitive financial market. In addition, while developing an internal marketing mix the management should pay special attention to internal communications/promotion component.

4. Conclusion

Internal marketing implies satisfaction of employees' needs and their customer oriented collective action in order to accomplish an organisation's goals. Therefore, the benefits of internal marketing concept implementations are many. Researchers agree the purpose of internal marketing is achieved on the internal and external market. Primarily, customer satisfaction is the foundation for building loyalty to an organisation's service and it is conditioned by a high-quality service that can be created only by satisfied, loyal and productive employees.

Even though internal marketing influences many business aspects, with many authors pointing out its importance and role in modern business, there are not many instances of empirical research. The lack of research and the internal marketing's complex and multiple effects, together with the lack of systematic models and the insufficiently studied internal marketing components are some of the reasons for the insufficient acceptance of internal marketing. The current research has determined a mediocre acceptance of the internal marketing in the high competitive Croatian financial sector. This indicates the insufficient use of theoretically evidenced positive effects of IM by the financial institutions. The work points out the non-existence of internal marketing plans even in the most developed sector which is traditionally on the vanguard of implementing new concepts. Furthermore, the existence of the three dimensions of internal marketing („development and communication to employees“, „rewarding and training“ and „organization's vision“) has been partially confirmed to be in line with previous researches. Those are the elements managers should focus on in order to achieve the set of internal marketing goals.

With internal marketing, managers whose primary task in an organisation is customer satisfaction can have a powerful tool. Based on the obtained results of the research on the internal marketing dimensions, it is possible to suggest recommendations for managers in charge of an organization's internal marketing. According to the three dimensions highlighted by the research, managers should plan for clear goals and design long term internal marketing strategies in accordance with the specific characteristics of employees, taking into account the features of the financial services sector. Managers should develop their communication skills to fully understand the needs of the employees and successfully motivate them. In addition, by developing communication skills they can ensure that the goals of the organizations and the expectations of the employees are fully understood. Furthermore, adequate interaction with employees' calls for the development and implementation of two-way internal communication channels between managers and employees through which plans and expectations can be more easily conveyed and implementation of the internal marketing instruments can be ensured. Organization of appropriate events where better personal interaction between the management and employees can be achieved is also an option. Finally, in order to fully develop their employees' potential, managers should constantly assess and invest in education and training via lectures, seminars and workshops.

The conducted research also provides additional evidence for the currently limited body of empirical evidence regarding the IM concept. Furthermore, this study contributes to the literature by determining the components of the internal marketing that are somewhat different from the components indicated by previous research. The results in great extent fit to the Berry and Gronroos (Rafiq and Ahmed, 2006) model of internal marketing. The importance of communication and

training in designing internal marketing strategies is emphasized by the research. The study also adds to the body of knowledge by showing how IM concept is applied in the Croatian financial sector. The results show that the implementation of the internal marketing concept is mediocre among Croatian financial institutions. This highlights the well known problem of the internal marketing, the insufficiently applied in practice.

The limitations of the conducted research mostly stem from the sample size and structure. A larger sample, structured more proportionally in regard to an organization's size would have yielded more reliable and valid results and allow for the testing of differences according to demographic characteristics. It would also be useful to investigate, on a larger sample, the correlation of the difference in the internal marketing components and the size and/or type of financial institutions. However, the results can be considered indicative and the conclusions should be confirmed by a new, larger sample based research. Furthermore, in order to obtain a complete picture of internal marketing acceptance, all employees and not only those in charge of the internal marketing implementation should be examined. Moreover, the existence of the internal marketing concept and its components should be tested on other activities which would provide wider generalization of the results.

The obtained results may be a basis for further testing and verification of the internal marketing concept's measuring instrument. With preliminary testing, the obtained three-component concept can be used in future researches of the influence of the internal marketing concept on other dependent variables such as job satisfaction, organizational commitment, job involvement, and work motivation.

In accordance with the aforementioned, internal marketing can be fully implemented only by co-operation between marketing theorists and managers. The powerful expansion of personally intensive service economy, adds further weight to the above claim, thus making the employees who communicate with users crucial in an organisation's success.

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PRIMJENA KONCEPTA INTERNOG MARKETINGA U HRVATSKOM FINANCIJSKOM SEKTORU

Sažetak

Iako se koncept internoga marketinga pojavio 1970-ih godina u uslužnom marketingu, u poslovnom okruženju dugo nije bio široko prihvaćen. Jedan od razloga leži u činjenici da koncept internog marketinga kao i njegove komponente nisu bili precizno definirani. Svrha ovog rada je istražiti prihvaćenost koncepta internog marketinga u hrvatskom financijskom sektoru i odrediti njegove komponente. Provedeno istraživanje ističe da je prihvaćenost internog marketinga u hrvatskom financijskom sektoru osrednja. To potvrđuje nedovoljnu primjenu internog marketinga u praksi. Rezultati provedenog istraživanja ukazuju da se interni marketing percipira putem tri dimenzije odnosno razvoj i komunikacija sa zaposlenicima, nagrađivanje i trening te organizacijska vizija. Ovi rezultati ističu elemente koje menadžeri moraju posebice uvažavati prilikom oblikovanja internih marketing programa, ukoliko žele uspješno ostvariti interno-marketinške ciljeve. Nadalje, ovo istraživanje pridonosi znanosti ističući i definirajući komponente internog marketinga koje se manjim dijelom razlikuju od komponenti navedenih u prijašnjim istraživanjima.

Ključne riječi: interni marketing, komponente internog marketinga, zaposlenici, financijski sektor