Improving Internal Marketing Programs as Organization Development Interventions to Enhance Market Performance:
A Case Study of L’VIORS in Surabaya, Indonesia

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Abstract

This action research was originated from the inner inspiration and vision of the researcher toward the goal of developing and helping the organization to solve a problem. The problem addressed was the lack of employee market orientation behavior and organizational commitment. These were affecting the market performance of L’VIORS, and they were addressed by a set of internal marketing programs as OD Interventions. Internal marketing programs consisting of training, discussion, and one on one coaching, have proven to be an appropriate OD Intervention in solving the problems facing the company of L’VIORS, a leading beauty clinic in Surabaya, Indonesia. In this instance the internal marketing programs were not only able to solve employee problems, but at the same time able to increase organizational commitment and to create a market orientation on leader and employee behavior, which in turn improved the market performance of the company that has been stagnant for the last three years since 2012. This study used a model of action research through 3 stages of pre-ODI, ODI, and post ODI and simultaneously qualitative and quantitative analyses were also employed in this research. Primary data was collected through informal interviews, direct and indirect observations, and survey by using questionnaires, as well as in-depth interviews. In addition, secondary data were also drawn from several documents from the company. Overall, through the OD Intervention process conducted by the researcher at the company, positive responses and appreciation was given by the leaders and employees of the company. These were due to the fact that after the company implemented Internal Marketing Programs as an OD Intervention, there have been changes in market orientation behavior not only by employees of the company, but also been indicated by customer’s post research perceptions of L’VIORS. Internal Marketing programs as ODI have succeeded in creating a change in mindset, attitudes, and behavior, as well as employee commitment to the company. Furthermore, significant changes have been apparent at the level of individual, group, and organization of the company L’VIORS.

Key words: internal marketing, organizational commitment, market orientation, market performance, organization development interventions (ODI)
Introduction

Organizations today face an increasingly competitive environment. Consequently, an organization needs to enhance its performance to survive in such an environment. These adaptive capabilities are very important for organizations if they are to deliver superior value to customers consistently (Slater & Narver, 1994). One method of developing this work environment which initiates and maintains the culture that may create the appropriate behavior is through market orientation (Hartline & Ferrell, 1996). Market orientation is argued to have a synergistic effect in achieving organizational performance (Baker & Sinkula, 1999). In order to create superior value for the customer, the company must understand the needs and desires of its customers. The basic meaning of market orientation is the identification and satisfaction of customers through fulfillment of expressed and latent needs, which consequently creates superior value for customers and superior performance for organizations (Narver, Slater, & MacLachlan, 2004).

The informal interview with the leaders of company addressed the question, why does L’VIORS need internal marketing? The researcher explained that the employees of a service company, especially the front lines, have direct impact on customer’s satisfaction. In this context, internal marketing was introduced. At the time, the researcher provided knowledge about internal marketing to the both of leaders and employees in L’VIORS. Finally, the researcher and the Director determined that internal marketing would be implemented in L’VIORS according to an understanding of internal marketing as a set of marketing programs that align, motivate, and empower employees to increase their knowledge and understanding of their role in the marketing process within the organization.

Due to further growth of the services industry, it has been suggested that internal marketing affects market orientation, whereby the employees play a critical role in this performance. Accordingly, employees need to be involved and encouraged in order to
develop attitudes and behavior that are conducive for market orientation through internal marketing. Internal marketing is becoming much more important because of the rapid development that occurs in the service industry, where contact personnel become a critical component of the customer evaluation of the service. Therefore, if the service organization wants to ultimately provide a better service experience for their customers, it is recommended that more attention be directed toward enhancing organizational commitment among personnel, with a focus on the effective criteria of internal marketing (Ahmed & Rafiq, 2003).

More specifically, Homburg & Pflesser (2000) have stated that among the four components of a market-oriented organizational culture, only behavior had a direct performance impact. Market performance was defined as the effectiveness of an organization's marketing activities and was measured by items pertaining to achieving customer satisfaction, providing value to customers, retaining customers, and attaining the desired market share (Homburg & Pflesser, 2000).

Beauty clinic skin care business competition has increased on a national scale, growing by an estimated 20% in 2014. Overseas brands also see Indonesia as a big market due to its total population of up to 245 million, making Indonesia a huge potential market for beauty care products.

The main problem addressed in this action research was the need for improved employee market orientation and organizational commitment in L’VIORS. The poor service quality given by employees to customers, in the sense that employees only provided the minimal service needed by customers, not giving what the customers wanted. Also, the employees and leaders were not aware yet of who their close competitors are within the same industry in Surabaya. These three factors automatically influenced the market performance of L’VIORS which had been stagnant over the last 3 years. Therefore, the
researcher determined that the main problem was the need to create employee market orientation behavior and increase organizational commitment to L'VIORS. The researcher chose to resolve this problem through the formulation and implementation of a set of internal marketing program as appropriate OD interventions. The intended results were to increase employee market orientation behavior and organizational commitment, which in turn would enhance the market performance of L'VIORS.

**Research Objectives**

The following research objectives were set out as the basic focus for the study.

- To assess and diagnose the current situation regarding the overall performance of organization (pre-ODI).
- To implement internal marketing programs as the appropriate OD interventions (ODI stages) to increase market orientation behavior and organizational commitment in L’VIORS.
- To evaluate the initial impact of internal marketing programs as OD interventions (post ODI) on market orientation, organizational commitment, and market performance of L’VIORS.

**Research Questions**

1. What is the current situation of the organization in term of internal marketing, market orientation, and organizational commitment?
2. Are "internal marketing programs" the appropriate OD intervention in L’VIORS to enhance market orientation, organizational commitment, and market performance?
3. Are there the enhancement of the level of internal marketing of leaders, internal marketing of employees, market orientation, organizational commitment, market
performance, and service quality of L’VIORS, between pre-ODI and post-ODI through implementation of internal marketing programs as an OD Intervention?

4. What is the initial impact of implementing OD interventions on the market performance of L’VIORS?

Review of Literature

Based on the topic that has been decided, the researcher reviewed the relevant literature with the goal of laying focused theories that underpinned this study, such as internal marketing, market orientation, organizational commitment, and market performance. Furthermore, the effects between each variable were explained in detail through the relationships between concepts as below:

The Effect of Internal Marketing on Market Orientation

Internal marketing is a significant structure and foundation for market orientation in a customer service organization. Erdil (2000) attempted to describe organizational culture and its management in the framework of human resources activities and internal marketing in order to emphasize on customers' needs and demands or market orientation. Pierce and Morgan (1991) have shown in their studies that internal marketing had a direct relation to service improvement and customer orientation.

Kim (2003) conducted a study of the relationship between internal marketing and market orientation and organizational performance. He used the organization's customer-orientation, competitor orientation and inter-functional coordination components to assess and measure market orientation. He has shown a relationship between internal marketing and market orientation and its effect on organizational performance in a sample of service organizations in England. The direct impact of internal marketing on market orientation had been emphasized in this study, on the other hand the market orientation of the
organization had been measured as an important factor in organizational culture using the indexes of Slater and Narver (1990).

The Effect of Internal Marketing on Organizational Commitment

In the services marketing literature, one can find a direct or indirect effect of some of the internal marketing concept dimensions (examined in an isolated manner) on some categories or dimensions of business performance indicators, primarily: improving service quality, mitigate the rate of personnel turnover, creating customer orientation employees, enhancing employee commitment to the organization (George, 2009). Caruana and Callewa (1998) argued that internal marketing also had a positive impact on organizational commitment. Thus, one of the important consequences of internal marketing was to increase the organizational commitment of employees (Tansuhaj, Randall, & McCullough 1991).

The major leverage of the internal marketing concept was to ascertain whether employees felt that management cared about them and that their needs were met. The successful implementation of the concept was translated into positive employee attitudes towards their work including organizational commitment, job involvement, work motivation and job satisfaction (Tansuhaj, Randall, & McCullough 1991).

Hogg (1996) has recommended that internal marketing could be the answer to obtaining employee commitment, succeeding where traditional internal communications programs have failed. Furthermore, Ajay and Sabir (2009) noted that well-being in terms of six dimensions included: a manageable workload; personal control over the job; encouragement from colleagues and supervisors; good relationships at work; a reasonably clear role; and a sense of involvement in changes within the organization, which positively related with affective and normative commitment.
The Effect of Organizational Commitment on Market Orientation

Organizational commitment emerged in the literature as an employee’s strong desire to remain a member of a particular organization, a willingness to exert high levels of attempt on behalf of the organization, or a defined belief in, and acceptance of, the values and the goals of the organization (Mowday et al., 1982). Therefore, if the service organization wants to ultimately provide a better service experience for their customers, it is recommended that more attention be directed toward enhancing organizational commitment among personnel, with a focus on the effective criteria of internal marketing (Ahmed et al., 2003). Committed employee is widely accepted as source of organizations’ resources that increased the potential for achieving sustainable growth.

Some scholars argue that effective market-oriented activities require the participation of employees at all levels and in all functions of the firm (Gummesson, 1991; Kelley, 1992; Harris, 1997; Martin et al., 1998). Schlosser and McNaughton (2007) suggest that an organization cannot create a market orientation without each employee’s active understanding, willingness, and ability to engage in market-oriented behavior. Thus, market orientation requires organizational commitment to ensure that market orientation can occur consistently over time. Furthermore, Sivaramakrishnan et al., (2008) found that committed employees were likely to be more willing and more able to implement and adopt a market culture than less committed employees. This study demonstrated that organizational commitment was a very important antecedent to market orientation.

The Effect of Market Orientation on Market Performance

Narver and Slater (1990, p. 21) defined market orientation as, "the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for customer and, thus, continuous superior performance for the
The market orientation directly affects the performance of the company (Farrel, 2008). Empirical evidence shows that the activities involved in market orientation provide the focus for the attempts and projects of individuals within the organization, and result in superior performance for the organization (Greenley, 1995a; Greenley, 1995b; Jaworski & Kohli, 1993; Slater & Narver, 1994; Ruekert, 1992). The presence of market-oriented behaviors in an organization has had a positive impact on market performance (Homburg & Pflesser, 2000). These authors also assumed that performance in the market was a necessary and important antecedent of financial performance. The literature on performance implications of customer satisfaction and customer loyalty (Anderson & Sullivan, 1993; Fornell 1992; Rust & Zahorik, 1993) provides evidence that these components of market performance have been positively related to financial performance.

The Effect of Organizational Commitment’s on Market Performance

Empirical studies conducted by Meyer & Allen differentiated between three types of commitment. They found that affective commitment, rather than continuous commitment or normative commitment, had the strongest and most encouraging relationship to an organization’s specific outcomes, as well as to task performance and organizational citizenship behavior (Mathieu & Zajac, 1990; Meyer, Stanley, Herscovitch & Topolnytsky, 2002). Several authors have found that employee commitment to the organization may positively have an impact on organizational performance, since employees with commitment will be more willing to work to achieve common goals and objectives and to provide their contribution wholeheartedly to organization and to customer, and then will promote the organization (Petty, McGee, & Cavender, 1984; Kim, 2003).
Conceptual Framework

Figure 1 The Conceptual Framework

The result of the significant model above was described with PLS software. The model, as depicted in figure 1, shows market performance as an outcome of internal marketing through organizational commitment and market orientation. Based on previous studies there is a causal relationship that starts with the effect of internal marketing on market orientation and organizational commitment which then enhance market performance.
Action Research Framework

Pre - ODI | ODI | Post - ODI
---|---|---
**Evaluation of Variables:**
- Meeting with Owner/Director Director
- Observation to Employees Employee
- Observation to Competitors with
- Interview with Owner/Director Market
- Informal Interviews with Leaders
- SWOT Analysis
- Survey Questionnaire to Customers, Leaders, and Employees
- Survey Questionnaire to Customers, Leaders, and Employees
- Pre-ODI level of 6 Variables with Paired t-sample
- The Relationship of Variables with Multiple Regression

**Pre Measurements:**
- Meeting with Owner/Director
- Observation to Employees
- Observation to Competitors with
- Interview with Owner/Director Market
- Informal Interviews with Leaders
- SWOT Analysis
- Survey Questionnaire to Customers, Leaders, and Employees
- Pre-ODI level of 6 Variables with Paired t-sample
- The Relationship of Variables with Multiple Regression

**Post Measurements:**
- Meeting with
- Observation to
- Internal Interviews with Leaders
- Secondary Data of Performance
- Survey Questionnaire
- The Same Customers, Leader and
- Post-ODI level of 6 Variables with Paired t-sample
- Final Report ODI to Management

Figure 2 The Action Research Framework

Research Methodology

The study was conducted in the form of action research which consisted of three phases, namely: Pre ODI, ODI, and Post ODI. The surveys cover all variables of service quality, internal marketing, market orientation, organizational commitment, and market performance. The researcher collected the data, using both a qualitative approach and a quantitative approach. The data collecting instrument used data from three different instruments to support each other, the observation checklist, the interview guide, and the questionnaires as survey instruments. The survey was self-designed by the researcher and
the numbers of respondents were 50 people, consisting of leaders and employees. All survey instruments and data were in the Indonesian language and have been translated here into English. Data analysis was divided into qualitative and quantitative analysis through paired sample t-test, the multiple regression model, and SEM (Structural Equation Model).

\textit{Table 1}
The Validity and Reliability of Research Variables

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{Pre ODI} & \textbf{Post ODI} \\
\hline
\textbf{Test of Convergent Validity} & \textbf{Test of Convergent Validity} \\
(AVE > 0.50 means valid) & (AVE > 0.50 means valid) \\
\hline
\textbf{AVE} & \textbf{AVE} \\
\textbf{Internal Marketing} & 0.550713 \textbf{Internal Marketing} & 0.534552 \\
\textbf{Market Orientation} & 0.546509 \textbf{Market Orientation} & 0.650136 \\
\textbf{Market Performance} & 0.767535 \textbf{Market Performance} & 0.707832 \\
\textbf{Organizational Commitment} & 0.568084 \textbf{Organizational Commitment} & 0.557434 \\
\hline
\end{tabular}
\end{table}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|}
\hline
\textbf{The Cronbachs Alpha} & \textbf{The Cronbachs Alpha} \\
\hline
\textbf{Cronbachs Alpha} & \textbf{Cronbachs Alpha} \\
\textbf{Internal Marketing} & 0.907900 \textbf{Internal Marketing} & 0.900985 \\
\textbf{Market Orientation} & 0.933431 \textbf{Market Orientation} & 0.958274 \\
\textbf{Market Performance} & 0.924219 \textbf{Market Performance} & 0.896460 \\
\textbf{Organizational Commitment} & 0.890289 \textbf{Organizational Commitment} & 0.885998 \\
\hline
\end{tabular}
\end{table}

Pre ODI

\begin{table}[h]
In this phase the researcher tried to capture the current conditions of the organization and found a gap between the organization's goals and the ongoing process. This led the researcher to consider the need for change in the organization. The first obstacle faced by the researcher was that both the owner and the management of L’VIORS did not understand the term or form of action research. The cores of activities during pre ODI were data collection and preliminary analysis to prepare the appropriate OD interventions. Based on the identification of the problem area as the result of pre ODI data collection, the researcher made a deliberate intervention to improve ‘internal marketing programs’ as appropriate OD intervention to solve the problem faced by the employees and management in L’VIORS. Internal marketing programs as OD intervention were delivered by the researcher to the employees through training, discussion, and one-on-one coaching in the ODI processes. Mehra, Joyal, and Rhee (2011) highlighted the importance of training employees for improving profitability of the firm because satisfied and trained employees will be more able to deliver important quality service properly to satisfy customers.

**ODI**

This stage consisted of implementing the OD interventions within the organization and the duration of intervention was 5 months, from September 2014 – January 2015. The purpose of internal marketing practice as OD intervention was to create employee market orientation behavior and organizational commitment to L’VIORS through internal marketing programs. The research design of the intervention was based on practical observations, as well as interviews to get feedback from owner, employees, co-workers, and customers.
**Table 2**
The Activities of Internal Marketing Programs as OD Intervention

<table>
<thead>
<tr>
<th>INTERNAL MARKETING PROGRAMS AS ODI</th>
<th>OBJECTIVES</th>
<th>TARGET AUDIENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 <strong>Training</strong>: Vision, Mission, and Goals of the L’VIORS</td>
<td>The employee will be able to identify and understand the vision, mission, goal, and expected outcomes of L’VIORS.</td>
<td>Leaders &amp; Employee</td>
</tr>
<tr>
<td>2 <strong>Training</strong>: Goal setting</td>
<td>The employee will align their goals with the goals of the company.</td>
<td>Leaders &amp; Employee</td>
</tr>
<tr>
<td>3 <strong>Training and Discussion</strong>: Customer Analysis</td>
<td>The employee will be aware about the STP (Segmentation, Targeting, and Positioning) strategy and how to implement it in deliver service to customer.</td>
<td>Employee</td>
</tr>
<tr>
<td>4 <strong>Training and Discussion</strong>: Competitor intelligence</td>
<td>The employees will have a greater sense to know of what is done by its competitors, including its competitive advantage.</td>
<td>Employee</td>
</tr>
<tr>
<td>5 <strong>Coaching and Training</strong>: Excellent Service Quality</td>
<td>The employee is to be motivated and understand the reason why they need to provide superior value to the customer.</td>
<td>Employee</td>
</tr>
<tr>
<td>6 <strong>Coaching and Training</strong>: Boosting The Market Performance through Inter-functional Collaboration</td>
<td>The employee to be motivated and encouraged to do more with the appropriate strategy.</td>
<td>Employee</td>
</tr>
<tr>
<td>7 <strong>Training &amp; Discussion</strong>: Internal Communication System</td>
<td>The leaders will be more understanding about how to communicate with internal customers better.</td>
<td>Leaders</td>
</tr>
<tr>
<td>8 <strong>Training &amp; Discussion</strong>: Stakeholder Engagement Strategy</td>
<td>The employee will learn and know strategies to communicate with external customers.</td>
<td>Employee</td>
</tr>
</tbody>
</table>
Discussion with the owner as a supervisor of the researcher

One-on-One Coaching
To monitor and control the adoption of follow-up internal marketing.

Hence, the researcher made the internal marketing program as a “learning process” which was followed and implemented by all leaders and employees simultaneously, so that the value of this intervention really could be experienced as beneficial for everyone in L’VIORS.

During the learning process, the researcher worked to assure that all leaders and employees understand the importance of knowledge of market orientation and organizational commitment. In the following step, the researcher gave examples and asked employees to gradually and directly practice the skills which were needed to implement the market oriented behavior toward customers and competitors, as well as to improve their competitor awareness. This was very important because if they have a clear understanding, they can internalize the value, attitude, and skills which are needed in order to apply the marketing to their behavior.

Figure 3 Framework of the Internal Marketing Program line as an ODI program

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As a result of the role play of “The Internal Marketing Programs line as an ODI Program,” the employees compared the differences between doing a task “with market oriented” and “without market oriented” behavior in a service context. They learned to self-reflect, share experiences, and to learn from each other. During the role play session, participants presented their individual work situation and received input from their colleagues about how to adjust the new-learned behavior at their work setting. If the organization continues constantly performing and improving the cycle of action, observation, reflection, and plan again, the change expected from the design of the internal marketing program as an ODI can occur at the level of the individual, group, department and the whole of the organization in the future due to changes in mindset, attitude, and behavior of employees. Furthermore, the improvements of internal marketing programs have strengthened the internal marketing program as an appropriate OD intervention in L’VIORS.

Post ODI

The Post OD Intervention consisted of evaluation of changes in behavior within L’VIOR and external customers. The data gathered after the intervention, measured and determined the effects of the intervention. The researcher fed the results of the data analysis back to the organization, which led to re-diagnosis and new action. After the proposed interventions, the researcher compared data of pre-ODI and post-ODI to determine the effects of the OD Intervention on L’VIORS with Paired Sample t-Test. The data analysis measured level of service quality, internal marketing of leaders, internal marketing of employees, organizational commitment, market orientation behavior, and market performance. The data was collected using the survey questionnaires, quantitative analysis with paired sample t-test and multiple regression analysis, and prepared in a final report to management.
Results

Finally, the internal marketing programs as appropriate OD intervention have solved the presenting problems and improved overall organizational performance, especially the market performance of L'VIORS. There were several impacts on internal marketing programs as an Organization Development Intervention (ODI) in L'VIORS. ODI was implemented through training, discussion, and one-on-one coaching programs which consisted of eight themes that were in line with the intervention goals and the company’s needs. ODI progressed well and got positive responses from both employees and company leaders. In the post ODI, the researcher continued to monitor and direct the results of the implementation of the OD intervention through discussions with the director, and one on one coaching with the company supervisors. This served to maintain two-way communication between the company and the researcher.

The OD intervention has succeeded to bring change to the mindset, attitude, and behavior of the company leaders and the employees. There were some changes of behavior within the employees which happened after the OD intervention had been implemented. There are key findings of overall rating of ODI activities and outcomes that were successful and effective based on the results from the qualitative data in a variety of the significant behavioral changes in general that occurred such as: The Company organized an internal marketing training which was conducted once a year, while leaders formed a communication forum which meets every Monday; employees and leaders have a new mindset and attitude, resulting in new behavior and the priority to give superior value; employees established a small group in each department as a forum for sharing problems and finding solutions; all company leaders and employees were committed to giving excellent service and to build good relationships with their customers; the marketing team routinely sought feedback from customers and implemented comprehensive a Customer
Satisfaction Index; employees willingness to understand the product and service provided by the company and its difference from competitors; and the employees fulfilled the required working hours and did not arrive late or leave early.

If the organization continues constantly performing and improving the cycle of action, observation, reflection, and plan again, the change expected from the design of the internal marketing program as an ODI can occur at the level of the individual, group, department and the whole of the organization in the future due to changes in mindset, attitude, and behavior of employees.

**Conclusion**

The researcher used action research and determined that the main problems were the need to create employee organizational commitment, market orientation behavior, and competitor awareness. The researcher made a deliberate intervention to improve ‘internal marketing’ as appropriate OD Intervention. There were no major areas left unanswered or unresolved. There is increase in the mean values between pre-ODI and post-ODI of the level of internal marketing of leaders, internal marketing of employees, market orientation, organizational commitment, market performance, and service quality of L’VIORS.

Overall it could be concluded that internal marketing could serve as an appropriate ODI for L’VIORS, and this intervention brought individual, group, and organizational changes, all of which have had a long term effect on the organization’s development. The researcher was sure that by continuously maintaining the ODI results, the company would have a competitive advantage which could not be easily imitated and which would strengthen the company’s position in the competition in beauty clinic industry in Surabaya.
Recommendations

This study contributed to marketing and organizational behavioral research in several ways. The results were consistent with a substantial body of conceptual frameworks and thereby strengthened the findings on internal marketing improvement that suggested the internal marketing can be developed in other OD research by placing internal marketing as OD intervention. The researcher emphasized that internal marketing as OD intervention was very effective to direct and motivate the employees and leaders to change the behavior as an attempt to provide superior value to customers.

Internal marketing as an OD intervention has also been successful in increasing employee skills and behavior according to standards of market orientation. This is very important because it is the employees who hold an important role in service companies. They interact directly with customers, hence the performance of the company was perceived by customers through them.

Although this research specifically was done to L’VIORS, the researcher has thought that internal marketing could also be successfully implemented in other businesses and locations. For example, in organizations such as banks, universities, and hospitals; organizations that are highly dependent on 'touch points' for a direct interaction between employees and customers. As long as that kind interaction between employees and customers occurs in the organization's business, then the role of internal marketing is indispensable as an ODI approach.

References


