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Strategic Labor Relations Management in Modern Organizations

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Chapter 11
Internal Market Orientation and Strategy Implementation

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ABSTRACT
Managing People within organisations is a complex and intricate challenge much insight can be gained from complementing the mainstream trends with other research fields. This Chapter shall focus on the role Internal Marketing Orientation (IMO) as a key element that contribute to link the strategy design and its implementation. IMO is an emerging paradigm that enables organisations to focus on the needs and wants of their employees by defining them as primary internal clients. To have the right people in the right job is crucial. Hence the importance of strategic design and implementation. Consequently, in order to be successful, any decided strategic direction must rely first and foremost on the alignment of its employees with mission and overall corporate objectives: ultimately with its business model. This focus on internal clients, is what mainly makes possible the delivering of the promise of value offered by organizations and influences the management of human capital. It has been empirically analyzed how IMO contributes to improve job satisfaction and employees’ commitment.

1. INTRODUCTION
Many countries are now immersed in a deep global economic recession that is substantially affecting firms, societies and, what is more important, on individuals. But, as it is frequently noted, a crisis can be a magnificent opportunity for change. These changes can aid companies to become more flexible and adaptable, which are necessary qualities for enduring and succeeding in uncertain and intensely competitive environments.

This situation is inducing business leaders to redefine the strategy of companies with blazing speed in order to respond to such environments. To do so, they need the full involvement of every employee

that in most of the cases are the actual actors in the implementation of a successful strategy. To align business models, strategies and people is therefore their first and most radical challenge.

Companies that are more oriented to the needs of its customers will be those that get more competitive advantages. But is it possible that companies really are oriented to their customers if they are not priory oriented to their employees? Moreover, can companies get satisfied customers without first having satisfied employees? Job satisfaction and employee commitment are antecedents of customer satisfaction and this will improve the service delivery and will maintain high quality standards.

The belief that employees play a vital role in the implementation of strategy is not new (e.g., Lee and Miller, 1999; Gagnon, Jansen and Michael, 2008; Salih and Doll, 2013). Nonetheless, this has been addressed mostly from a human resources perspective and following organizational theories. Subsequently, in the present Chapter the focus is still on employees but through the use of a newly suggested lens: the Internal Marketing Orientation (IMO) perspective. Subsequently, this Chapter summarizes the current views on strategic management, IMO and how they need to be combined into a new business model that guides future managerial action and academic research.

2. STRATEGY: BACKGROUND AND DEFINITIONS

Academically, the field of strategic management is relatively recent, borrowing most of its theoretical background from economic and organizational theories. Early foundations include therefore Frederick Taylor’s scientific management, Max Weber’s bureaucratic organizations and Chester Barnard’s administrative functions and open system organizations (Coulter, 2013). As a result, acknowledging its military roots, many definitions of strategy have been suggested (e.g., Chandler, 1963; Porter, 1996; Mintzberg, 2007) that ultimately share similar dimensions. As such, strategy can be said to refer to a long term overall direction or orientation that guides the organization forward in all managerial levels.

It is however important to distinguish between concepts which are usually used as synonyms such as: business model, strategy and tactics. Casadesus-Masanell and Ricart (2011, p.107) suggest that all organisations have a business model but not all have a strategy. For these authors, a business model refers to the overall company logic and their system of choices and consequences. In turn, strategy would be the contingent plan to create a unique and valuable position involving a distinctive set of activities. And tactics represent the range of options available to compete which are determined by the chosen business models.

The field has come a long way since its early origins, military roots and definitions, with many theories serving as the background for the definition and process of strategy implementation. In an interesting article on the strategic management theories and research, Hoskisson et al., (1999) explain how the evolution of the field has been one of a pendulum, swinging back and forward from an inside-out towards an outside-in perspective of the organization. In turn, Jelenc (2009) categorized four main streams of strategic management perspectives or schools of thought. These perspectives vary in the way they define and interpret strategy outcomes and include a Classical approach, that argues the need for strategic planning, followed by the Environmental and Competitive perspectives which acknowledge the contingencies and influence of the external environment, and finally the Contemporary school which focuses on individuals and their cognitive traits.

In addition to the decision to look at companies from an inside-out or and outside-in perspective as suggested in table 1, scholars and managers also need to consider the different approaches when imple-
menting (and learning) strategy. There are two ways of looking into the study of strategy and the strategic management process: the tools-driven approach and the problem driven approach. From a tools-driven approach, the focus is on understanding a step-by-step process in which several tools (such as PESTEL, Porter’s 5 Forces, SWOT matrix and so on) are used to analyse the external and internal environments and formulate, implement and evaluate strategy decisions. From a problem-driven approach, the focus is instead on the paradoxes and philosophical basis of strategic decisions, that is, on strategic thinking itself other than the process or the tools used to analyse it (Wit & Meyer, 2014). Both the strategic thinking and the tools are needed for efficient decision making in the strategic management process.

2.1. The Strategic Management Process Approach

Following the Classical school of thought and a tool-driven approach, the strategic management process argues for a step-by-step approach to the learning and teaching of strategy that includes four stages. As illustrated in Figure 1, this is a continuous cycle that can be broadly classified into strategy design and strategy implementation. In the strategy design stage, organisations analyse their external and internal environments and formulate a coherent strategy. Following this, the designed strategies are then implemented and evaluated in order to determine whether they are working as expected.

This strategic management process occurs at different organizational levels that need to be clearly distinguished before any decisions are implemented. A common trend is for managers to implement as a strategy many of the buzzwords that seem to be the trendiest at a given point in time or, even worse, confuse between what a strategy really is and the actions or goals directed at achieving a strategy. In doing so, companies’ lose track of what they are trying to achieve.

Therefore, first and foremost, the different levels of strategy decision making as well as the different types of strategy need to be clearly understood. These include corporate, business and functional level decisions (see Figure 2).

According to Johnson, Whittington and Scholes (2011) at a corporate level, strategic decisions refer to overall organizational directions, intentions and span. This includes growth, stability and renewal strategies. In growth strategies, companies expand their products, markets or their operations through current

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**Figure 1. The strategic management process**

*Source: Based on Coulter, 2013; Johnson et al., 2011, 2014.*
or new businesses. In turn, stability strategies are used when resources, capabilities, or competencies are being used to full capacity so trying to grow might actually hinder the organization’s competitiveness. In what regards renewal strategies (through retrenchment or turnaround), these are used to put the organization back on track in order to successfully achieve its strategic goals.

At the business level strategy, managers focus on how to compete in a specific market and how to determine their competitive advantage in the achievement of whichever corporate strategy and strategic goals that have been set. In defining business level or competitive strategies, scholars and managers have used different approaches. Traditional approaches studied in the field include Miles and Snow’s (1978) strategies (viewing organisations as prospectors, defenders, analysers and reactors), Mintzberg’s (1988) Generic Competitive Strategies Adaptive Strategies (that distinguish between differentiated and undifferentiated strategies), Porter’s (1996) Generic Competitive Strategies (which include cost leadership, differentiation and focus) and Integrated Low Cost-Differentiation. Miles and Snow’s (1978) approach is based on the strategies organizations use to adapt to their uncertain competitive environments. They identified four strategic postures: prospector, defender, analyzer, and reactor. Prospectors are known to continuously innovate and take risks, find new market and growth opportunities. In turn, defenders protect their territory, retrench and hold the current market. Analizers maintain current markets and engage in moderate innovation and finally reactors have no clear strategies and tend to imitate everyone else. In turn, Mintzberg (1988) identified six Generic Competitive Strategies including: differentiation by price, differentiation by marketing image, differentiation by product design, differentiation by quality, differentiation by product support and undifferentiated strategy. In differentiation by price the goal is to charge below-average market prices. In differentiation by marketing image, companies use intentionally created perceptions as competitive weapons. Differentiation by product design is an attempt to compete on the basis of providing desirable product features and design configurations. In differentiation by quality the competitiveness lies in delivering higher reliability and performance at a comparable price. Differentiation by product support emphasizes customer support services through an all-encompassing
bundle of services. In an undifferentiated strategy companies follow a copycat approach. Alternatively, Porter (1996) suggested three main competitive strategies: cost leadership, differentiation and focus. The cost leadership strategy (or low-cost strategy) is one in which an organization strives to have the lowest costs in its industry, producing standardized products for a broad customer base. In a differentiation strategy companies provide unique (different) products with features that customers value, perceive as different, and are willing to pay a premium price for. The focus strategy is when an organization pursues either a cost or differentiation advantage but within a limited (narrow/niche) customer group or segment. However, instead of having to pursue either low cost or differentiation, research has shown that organizations can successfully pursue an integrated low cost–differentiation strategy, that is, a strategy that involves simultaneously achieving low costs and high levels of differentiation (for example: McDonald’s, Southwest Airlines, Google and Toyota) (Coulter, 2013).

Finally at an operational or functional level, strategic decisions refer to how the different departments align with these hierarchically superior decisions to deliver the desired strategies. In doing so, each department needs to align and consistently manage processes and most importantly their tangible (such as assets, capital, infra-structures, etc.) and intangible (such as human capital and organizational culture) resources.

As a result of these clear interdependencies in the different strategy levels, it is easily understood that independently of the job role, position or hierarchical position, people will always be involved in, affected by strategy and they will also influence strategy themselves and the strategic management process. Hence the importance of considering the “internal clients” when strategizing and implementing the strategic decisions taken.

3. INTERNAL MARKETING ORIENTATION

Since the early ‘90s, Internal Marketing has been defined as the philosophy of treating the employees as if they were internal customers (Berry and Parasuranam, 1991). A few years later Gummesson (2000) stated and supported that internal customer satisfaction was a requirement for external customer satisfaction. In spite of the extensive research on Internal Marketing conducted over the years, it was not until 2005 that a new paradigm began to be developed: the Internal Market Orientation (IMO). This new approach merged and adapted the concept of internal marketing and the paradigm of Market Orientation (MO) developed by several authors, among them Kholi and Jaworski (1990). Established as the primordial research framework for decades, this Market Orientation consists of three dimensions: 1) generation of market intelligence; 2) communication and dissemination of such intelligence; 3) response to needs. The newly suggested paradigm embraces this and is understood as the company seen from within and as a philosophy that creates and offers value for the internal market, that is, employees.

Drucker (1988) thought that marketing referred to looking at the organisation from the point of view of the customer. Following that logic, we could say that Internal Marketing is therefore looking at the organisation from the point of view of the internal customer. When employees (the internal customers) are confident that the company will fulfill their promises, this vision will facilitate behaviours that develop higher quality and enrich the excellence of service and the delivery of value to the customer. This means that Internal Marketing is built on trust (Ahmed and Rafiq, 2003) which represents internal added value for employees and ultimately for final (external) customers.
In this general environment of huge loss of confidence between employers and employees, in order to build trust and commitment, managers should know their employees quite well and then align their decisions based on the needs of internal customers. It would be kind of an incongruity to pretend meeting the needs of external customers, ignoring the needs of the employees. In this sense, “marketing myopia” expressed by Levitt (1960) can also be extended to the internal market (Gummesson, 1994). This author coined the expression of part-time marketers (Gummesson, 1991) to refer to those employees who do not belong to the marketing department, but in fact play an essential role due to their level of contact with customers. For this reason, Internal Marketing can help mature the mentality of internal service (Kelemen and Papasolomou, 2004) and enhance employees to move in the same direction (Lings and Greenley, 2009). In fact, Lings and Greenley (2005) and shortly after Gounaris (2008) did research on the IMO showing its positive impact on job satisfaction. In line with this research an empirical research was conducted in the Spanish hotel sector showing a positive impact of IMO on Job Satisfaction and Employee’s Commitment (Ruizalba et al., 2014). Furthermore, these authors also contributed to the literature by first introducing and measuring in these models the factor Work Family Balance. The four main IMO factors with a higher positive impact on job satisfaction and employees’ commitment were the following: (1) Internal Communication; (2) Management Concern of the managers to the employees; (3) Training of employees; (4) Work Family Balance. Other studies have also supported these findings, so in an attempt to summarize the literature in this filed, the main results discussed so far are listed:

- Internal Marketing can contribute to improve job satisfaction and employee’s commitment (Internal customers).
- Higher job satisfaction and employees’ commitment levels can enhance the quality of the service (this is especially relevant in those sectors in which the role of employees is key in the service delivery process).
- An improvement in the quality of the service delivered, enabled through Internal Marketing, can contribute to a positive perception and to increase the external customer’s satisfaction.
- External customer’s satisfaction can enhance economic outcomes and business performance.

To conclude, Internal Marketing Orientation (IMO) refers therefore to the degree of orientation of a company to the needs of their employees. The adoption of this philosophy is clearly inspired by the Equity Theory, since employees will evaluate what they offer to the firms where they work and what they receive from these companies (Adams, 1963). As a result, the implementation of Internal Marketing plans and the development of an Internal Market Orientation may have positive effects on the development of employees and business results.

In accordance to this, IMO is also considered a major driver that can either enable or hinder the execution of the strategy. This reveals to be a fundamental element of the strategic success equation because a strategy without a good execution is nothing. For Bossidy and Charam (2002) execution is essential and there are three core processes of execution: Strategy, People and Operations. The role of people is particularly important, including employees and logically leaders because they are those who will set the strategy of enterprises. In terms of economic prosperity, gaps are hidden by success but when economic problems arise, these gaps come to light. Companies with the best human capital are those that are making a difference because as strategy changes, people and operations must change too.
3.1 The Link between Strategic Management and Internal Marketing Orientation

Building upon the Resource Based View perspective (Penrose, 1959, Barney, 1991), the competitive advantage is said to be set by the resources available and how they set you apart from your competitors. For IMO, this is particularly relevant when human capital is considered. Unlike when doing an external analysis, where you focus on the overall industry and the outside competitive environment (following for example an industrial/organisation perspective or a contingency approach), when doing and internal analysis, companies focus on the identification of their resources (tangible and intangible), competences and distinctive capabilities, that is, they focus on identifying what they have, what they do well and what they do better than others. The human capital or workforce tends to be considered at this level of the strategic management process and receives emphasized focus as the crucial element of the implementation of the devised strategies (as shown in Figure 3).

In the context of the strategic management process, IMO is seen as a management philosophy that allows managers not only to *add value* but also to *create value*. Therefore, as shown in Figure 4, we believe that IMO is fundamental in all stages of this continuous and cyclical process.

Unlike traditional approaches in which internal clients were only considered relevant in the implementation stage of the strategic management process, the present Chapter argues the need to implement new strategic business models which incorporate IMO at the core, acknowledging the importance of internal clients both in strategy design and implementation. As a result, the next section suggests a new model for the process of designing and implementing strategy.

4. IMO AND THE DEVELOPMENT OF SUSTAINABLE BUSINESS MODELS

Many companies have obtained an important lesson from the economic crisis: this is not going to be “business as usual” anymore and their strategies must incorporate all the human capital to make it pos-
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Figure 4. The association between the strategic management process and IMO.
Source: Own elaboration (based on Coulter, 2014; Johnson et al., 2011, 2014).

Figure 5. The service marketing triangle and IMO.
Source: adapted from Grönroos, 1996.

sible to survive through an excellence in operations. New business models are therefore required and IMO can be a key element of these business models.

The concept of business model was suggested by from Peter Drucker (1954) and was later analyzed by Casadesus-Masanell & Ricart (2010, 2011). Drucker expressed that a “good business model” provides answers to the following questions: who is the customer and what does the customer value and what is the underlying logic that explains how we can deliver value to customers at an appropriate cost. Casadesus-Masanell and Ricart (2011) go further and suggest that a business model refers to a series of managerial choices (categorized into policy, asset and governance choices) and their aggregated effects (rigid or flexible). Subsequently, a good business model can be said to be that one that incorporates a set of managerial decisions that allow the creation of customer value. And this is where the concept of IMO fits in perfectly since it makes possible the delivery of the promise made to the external market.

This idea of promise fulfillment is best explained by Grönroos (1996) expressed by the concept of service marketing triangle which includes three equally important types of marketing: external marketing, interactive marketing and internal marketing. This clearly shows that employees add value through their role in enabling and keeping the promises made to customers, hence the central role of IMO in this process (see Figure 5).
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From the aforementioned, and adding to the idea of creating new and sustainable business models (Casadesus-Masanell and Ricart, 2011), a new approach to business model is proposed which incorporates IMO at the core (see Figure 6). Following this, we argue here that, when it comes to the strategic management process, employees should be involved both in strategy design and implementation, unlike traditional approaches in which they were only considered relevant in the implementation stage. In doing so, an alignment between the external and internal marketing strategies is needed through the use of IMO as a subjacent management philosophy.

More importantly, Casadesus-Masanell and Ricart (2011) conclude that good business models align with strategic goals, generating self-reinforcing and virtuous cycles. Accordingly, the model proposed suggests that, by developing and maintaining satisfied internal clients through an IMO approach, organisations are building their competitive advantage by investing in idiosyncratic and unique resources that ultimately enable them to implement sustainable business models which in turn reinforce right-minded current practices.

5. CONCLUSION

As we reach the end of this Chapter it becomes clear that if firms are not oriented to their employees as internal clients, it will be difficult for them to be oriented to their customers in a sustainable manner.

IMO increases job satisfaction and employees’ commitment, so firm’s managers should focus their efforts on the needs and wants of their employees. This will facilitate the adoption by employees of attitudes and behaviours beneficial for the firm’s strategy. Thus, reinforcing this through the implementation of sustainable business models that recognize IMO’s role in internal and external strategies reveals fundamental for success in the new post-crisis, highly competitive business environments.

But what managerial implications can the IMO approach have in the strategy considered as the design and implementation of a business model? This was empirically tested (e.g, Lings and Greenley, 2005; Gounaris, 2008; Ruizalba et al. 2014) suggesting that firms should implement actions for improving the main IMO factors (internal communication, management concern of the managers to the employees, training of employees and Work Family Balance) in order to enhance the satisfaction of the employees at the workplace and their commitment. Much of this requires directed action but much of it is also about perception and feelings of appreciation and belonging (the idea of earning an emotional salary).

In this Chapter we have tried to emphasize the need to design and implement business models which include IMO at the center of the strategy – Figure 7 summarizes and combines the main ideas. Our hope

Figure 6. IMO at the core of sustainable business models
Source: own elaboration.
is that this generates some reflection and at the same time helps to put into action some managerial decisions that help the implementation of their business model, strategy and tactics with the improvement of job satisfaction and employee’s commitment.

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