

STRATEGIC HUMAN RESOURCE EFFECTIVENESS, INTERNAL MARKETING AND PERFORMANCE IN THE PUBLIC SECTOR

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Internal marketing (IM) focuses on acquiring and retaining customer-oriented employees and is seen as particularly relevant to service organisations. Critics of internal marketing claim that the term is simply a synonym for good human resources management. The concepts of Internal Marketing and Strategic Human Resource Effectiveness (SHRE) are considered and suitable measures are identified. Data is collected from the Australian public sector and a regression analysis is used to investigate the hypothesised relationships. The study provides empirical evidence of a demarcation between IM and SHRE; that SHRE is an important antecedent to IM and that SHRE has both a direct and indirect effect on performance. Management implications are considered and directions for future research offered.

INTRODUCTION

In general, the marketing of physical products has focused on external customers. Often the implementation of marketing has been achieved by adopting a form of organisation that includes a marketing department. This has frequently been organised along brand, product or category management lines, with brand managers responsible for the implementation of marketing plans directed at customers outside the organisation. Inter-departmental rivalry and organisational politics often result in these plans being treated as 'secrets' and the level of cooperation between functional areas within the firm has tended to be rather limited. Until fairly recently, customers were defined only to be those external to the organisation and indeed many managers will argue that it is difficult enough to get the marketing to external customers right without further complicating the matter by introducing the notion of internal customers.

The importance of the interaction process between the contact persons of the organisation and external customers has been highlighted by a number of authors. Jan Carlzon (1987) of Scandinavian Airlines fame was perhaps one of the first to

recognise their importance in the 1980's referring to them almost emotionally as 'moments of truth' for the organisation. Service employees are critical because the product being provided is a performance (Lovelock, 1983) and the interactive process is a crucial aspect as it enables the development of long-term relationships thereby assuring customer retention and long term success.

The successful service company must first sell the job to employees before it can sell its services to customers (Sasser, 1976) and the satisfaction of internal customers is important to the success of a service firm (Gremler, Bitner and Evans, 1994). Indeed Rosenblunth and Peters (1992) have gone as far as arguing that the needs of the customers should come second to those of employees, as customer needs will only be successfully met after those of employees have been satisfied.

The Australian public sector has previously been found to be market-orientated and furthermore, market orientation in the public sector has been positively linked to performance (Caruana, Ramaseshan and Ewing, 1997). It has also been established that (1) internal marketing is positively linked to performance (Money and Foremen, 1996) and that (2) HRM effectiveness leads to performance, with strategic human resources effectiveness (SHRE) providing the greatest leverage (Huselid, Jackson and Schuler, 1997). More recently, we have come to learn that relationship between technical human resources effectiveness (THRE) and internal marketing is moderated by SHRE (Ewing and Caruana, 1999). This study therefore seeks to fill a notable gap in the literature by addressing the SHRE – internal marketing – performance relationship. Specifically, we examine whether SHRE and IM practices in the public sector has an effect on performance. Results of a survey among executive managers of public sector organisations are reported. Findings are discussed, implications are drawn and suggestions made for ongoing research.

HUMAN RESOURCE EFFECTIVENESS

Human resource management, by name and concept, was largely a product of US writings in the early 1980s where its link to organisational effectiveness was clearly identified and used as a justification for its adoption within firms. Early organisational behaviour writings were significant at the time in that they began to recognise the potential contribution of human resources to meet corporate performance objectives. Devanna, Tichy and Frombrum (1981) have noted that human resource management is increasingly recognised as an important force in driving organisational effectiveness. Similarly, Beer and Spector (1985), in outlining their conceptual overview of human resource management, argue that HRM policies affect both immediate and long term outcomes. They go on to contend that policy choices made by managers affect the overall competence and commitment of employees, as well as the degree of congruence between the goals of employees and those of the organisation. The link has subsequently been expanded to incorporate internal-external alignment, integration and coherence

and the investment in human resources to increase capabilities (Walton, 1985; Foulkes, 1988; Hendry and Peltigrew, 1986; Guest, 1987, 1992). The transition of the HRM concept into practice has by no means been automatic. There are ideological, environmental, functional and structural issues to address - all demanding time and resources (Blyton and Turnbull, 1992). It is therefore not be surprising to find firms still attempting to implement fundamental aspects of the concept in the late 1990s.

More recently the HRM focus has shifted to effectiveness as a determinant of organisational performance. Huselid, Jackson and Schuler (1997) for instance, recently argued that strategic and technical HRM provide different configurations in regards to policies and practices leading to different levels of human resource effectiveness and organisational outcomes. The dichotomy between technical and strategic HRE is a reflection of the distinction between personnel management (particularly functional specialisation) and human resources management (Huselid et al, 1997). Consequently, technical HRM is more advanced in practice than strategic HRM, implying that the greatest potential gains can be achieved through improved effectiveness in the strategic domain as this tends to be the area where firms are currently least proficient.

INTERNAL MARKETING

The internal marketing concept holds that the organisation's personnel are the first market of a company. The main objective of the internal marketing function is to obtain motivated and customer conscious personnel at every level (George, 1990; George and Grönross, 1989; Grönross, 1981). Grönross (1981) distinguishes between the implementation of internal marketing at the strategic and technical level. At the strategic level, IM should create an internal environment that bolsters customer consciousness and sales mindedness among employees. The key facilitators are seen to be supporting management methods, personnel policy, internal training and planning procedures. At the technical level the aim is to sell services, campaigns and other marketing efforts and initiatives to the personnel. Once the employee is also seen as a customer it is possible to talk of an internal market. The internal market of employees is best motivated for service-mindedness and customer oriented behaviour by an active, marketing-like approach where a variety of activities are used internally in a coordinated way (George, 1990; Grönross, 1990). The thinking underlying internal marketing is that employees are viewed as 'internal customers' and jobs as 'internal products'. Job products must attract, develop and motivate employees thereby satisfying the needs and wants of these internal customers while addressing the overall objectives of the organisation (Berry 1981; Berry and Parasuraman, 1991). Similarly, Kotler (1991) defines internal marketing as the task of successfully hiring, training and motivating able employees to serve the customer well. In this respect it represents elements of good human resources management (Bateson, 1991).

The theory of transaction costs can provide the conceptual underpinning for internal marketing. Transaction cost is a macro theory conceived at an abstract level. It considers the theoretical inter-relationship among individuals, organisations and the general market. Transaction cost theory expressly directs itself towards the dilemma of how organisations should define or set organisational boundaries in order to maximise the efficiency of economic exchange (Jones, 1987; Williamson, 1975). Transaction cost rationale lends itself well to identifying the governance mechanism that will allow exchange to occur at the lowest cost thereby maximising the efficiency of exchange between the organisation and employees. It is important to distinguish between the micro and macro level as although the theory is conceived at the macro level, the operationalised constructs are measured at the micro level and reflect the actual 'on the job experience' of respondents. In operationalising the internal marketing construct into a 15 item instrument, Money and Foreman (1996) utilise focus groups discussions with managers of service firms and the checklists on Internal Marketing from Berry and Parasuraman (1991) and Berry, Conant and Parasuraman (1991).

PERFORMANCE

Organisational theory and strategic management offer much of the basis on which performance construct is measured, providing at least three fundamental theoretical approaches to measuring organisation effectiveness. In the goal-based approach the organisation is evaluated on the basis of the objectives it sets itself (Etzioni, 1964). The systems approach improves on this by considering multiple, generic performance aspects (Georgopolous and Tannenbaum, 1957; Steers, 1975), while the multiple consistency approach considers the degree to which the different stakeholder performance goals are met (Connolly, Conlon and Deutsch, 1980; Pennings and Goodman, 1977; Pfeffer and Salancik, 1978; Thompson, 1967).

Strategic management integrates these three views and considers multiple dimensions in terms of financial performance (Venkatraman and Ramanujam 1986) and operational performance (Hofer and Sandberg, 1987, Kaplan 1983). Venkatraman and Ramanujam (1986) provide a comprehensive two-dimensional framework for classifying performance measures, integrating financial and performance measures into a single collection method. On one dimension financial vs non-financial or operational variables are considered while on the second dimension primary (questionnaire-interview) vs secondary (archival) data sources are considered. Mintzberg (1996) attacks the myths of measurement in government, an ideology, which he holds, is embraced with religious fervour by the management movement. He notes that many of the benefits of measurement do not lend themselves to government and that many activities are in the public sector precisely because of measurement problems. A main reason for this is that in some sectors, the appropriate output measure is not clear. Hensher and Waters (1993) describe three types of measures of productive efficiency in organisations

in the public sector. These are: (1) econometric model estimation (2) Non parametric Data Envelopment Analysis (DEA) and (3) Non parametric Total Factor Productivity (TFP). Subjective and objective measures each have their own merits.

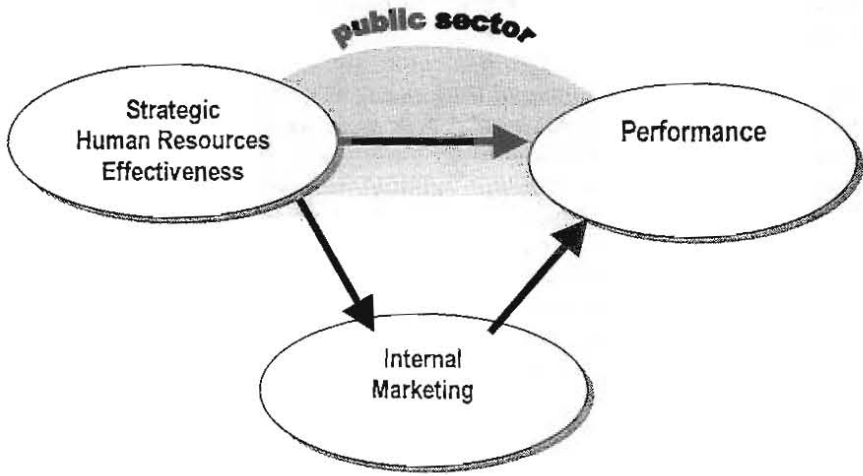
It was thought impractical to expect busy managers to collect actual performance data as that mentioned above, even if they were agreeable to divulging such information. Obtaining data from documentary sources was not seen to be a viable alternative given that such data is often incomplete and when available is generally a minimum of twelve months out of date. Pearce, Robbins and Robinson (1987) have shown that the collection of subjective data is a reliable means for measuring performance in business firms. To measure performance in this study we employ the instrument developed by Dess and Robinson (1984). All items were measured with 7-point Likert-type scales anchored on 1 = Very Poor/Very low to 7 = Very Good/Much More. Higher scores on this scale indicate higher levels of performance.

INTERNAL MARKETING AND HUMAN RESOURCE EFFECTIVENESS

The major thrust of the internal marketing concept is to ensure that employees feel that management cares about them and their needs. Human resources practitioners might argue that they are already charged with this responsibility. Nevertheless, the successful application of the IM concept is translated into positive employee attitudes towards their work including organisational commitment, job involvement, work motivation and job satisfaction (Tansuhaj, Randall and McCullough, 1991). There is some empirical support for a significant relationship between internal marketing and consumer satisfaction (Tansuhaj, Wong and McCullough, 1987) and between internal marketing and service quality (Richardson and Robinson, 1986). As a result employees will be capable of providing maximum effort, thereby better satisfying the needs and wants of external customers (Berry, 1981; Donnelly, Berry and Thompson, 1985; George, 1990; Sasser and Arbeit, 1980).

A review of the literature revealed that there is no prior empirical evidence for a direct link between SHRE and Performance, although IM - Performance and SHRE - IM links have previously been established. We envisage SHRE to have a direct effect on both IM and Performance, and in turn, expect IM to have a positive effect on performance. We set out to consider whether the effect on performance arises from SHRE or IM separately, or whether the effect of SHRE on performance is moderated by IM.

Figure 1: Proposed Model



CONSTRUCT MEASURES AND DATA COLLECTION.

To investigate the relationship between SHRE, IM and performance in government departments we employed a research design involving postal questionnaires to a cross-section of heads of departments. The final questionnaire consisted of measures of internal marketing practices (IM), strategic human resources practices (SHRE) and performance together with 4 classificatory variables. Internal marketing was measured using the 15-item scale developed by Money and Foreman (1996). In their study these authors report results of two samples and reliability coefficients (Cronbach, 1951) of .942 and .948 for internal marketing. To measure SHRE use is made of the 7-item measure developed by Huselid, Jackson and Schuler (1997). To measure performance, use is made of a scale developed by Dess and Robinson (1994). The items were suitably amended to reflect the situation in government departments. Thus items asked about improvements achieved; the level of service provided to customers; the level of cost effectiveness achieved; as well as the overall performance of the department. Respondent perceptions and evaluations about the four items in the scale were collected on the basis of senior management experience during the 'last three years'.

496 questionnaires were mailed to 215, 151 and 130 heads of government departments in Queensland, Victoria and Western Australia respectively. The survey was conducted in September 1997 and by the cut off date three weeks later a total of 155 replies were received, of which 135 could be used, representing an effective response rate of 27.4%. We decided on the Australian public sector since the government is a key stakeholder whose expectations are particularly relevant in shaping HRM activities (Baron, Jennings and Dobbin, 1988).

Respondents reported that they had worked in the public sector for an average of 16.1 years with a standard deviation of 3.1. In terms of budgets administered, 12 departments had annual budgets of A\$20m or less, 40 departments between A\$21m and A\$200m, 35 departments between A\$201m and A\$1000m and 44 firms over A\$1000m (5 respondents did not complete the question). This indicates sufficient depth in the sample and we proceeded to check for non-response bias. An extrapolation procedure was used to assess whether 'late' respondents are similar to theoretical 'non-respondents' (Armstrong and Overton, 1977). Independent t-tests were used to determine whether significant differences between the mean for the sum of the constructs for SHRE and IM differed between the two sub-samples consisting of respondents in the first and last quartile. No significant differences were observed, suggesting that there appears to be no differences between respondents and non-respondents for the variables and the sample can be considered sufficient to draw conclusions about Australian government departments for the variables under study.

RESULTS

The mean, standard deviation and coefficient alpha (Cronbach, 1951) for each of the dimensions and overall for the three constructs were computed. Table 1 presents a summary of the descriptive statistics.

Results for the entire SHRE, IM and Performance scales are presented in Table 2. All coefficient alpha's are greater than .7 and therefore acceptable (Nunnally, 1978).

Having established the psychometric properties of the three instruments, the relationship between the constructs was investigated using mediated regression analysis. A mediation is demonstrated if three conditions are fulfilled (Robinson, 1996). The first condition stipulates that the independent variable and the proposed mediator must each be significantly related to the dependent variable when considered separately. This is confirmed from the results reported in columns two and three in Table 3, with significant adjusted R^2 's of .40 and .52, respectively. The second condition requires the independent variable to be significantly related to the proposed mediator. This is established in column 4, Table 3, providing an adjusted R^2 of .58. The last condition stipulates that the relationship between the independent variable and the dependent variable should be weaker or non-significant when the proposed mediator is in the regression equation than when not. Column 5 in Table 3 confirms the mediating effect of IM on the link between SHRE and Performance. The regression provides a higher adjusted R^2 of .48, with the mediator effect (SHRE*IM) replacing SHRE.

Table 1: Mean and standard deviations for instruments and scale items used

Internal Marketing Scale	Mean	Std Dev
1. Our organisation offers employees a vision that they can believe in.	5.43	1.33
2. We communicate our organisation's vision well to employees.	4.99	1.34
3. We prepare our employees to perform well.	4.82	1.32
4. Our organisation views the development of knowledge and skills in employees as an investment rather than a cost.	5.60	1.27
5. Skill and knowledge development of employees happens as an ongoing process in our organisation.	5.39	1.17
6. We teach our employees "Why they should do things" and not just "how they should do things".	4.95	1.30
7. In our organisation we go beyond training and educate employees as well.	4.68	1.39
8. Our performance measurement and reward systems encourage employees to work together.	5.01	1.24
9. We measure and reward employee performance that contributes most to our organisation's vision.	5.08	1.19
10. We use data we gather from employees to improve their jobs, and to develop the strategy of the organisation.	5.19	1.43
11. Our organisation communicates to employees the importance of their service roles.	4.19	1.48
12. In our organisation, those employees who provide excellent service are rewarded for their efforts.	3.80	1.55
13. In this organisation, the employees are properly trained to perform their service roles.	4.33	1.45
14. This organisation has the flexibility to accommodate the differing needs of employees.	4.96	1.27
15. We place considerable emphasis in this organisation on communicating with our employees.	4.06	1.53
Strategic Human Resource Effectiveness Scale	Mean	Std Dev
Describe your perception of how well your organisation's Human Resource Management function develops your staff in terms of:		
16. Staff participation and empowerment.	4.69	1.36
17. Staff flexibility and development.	4.78	1.25
18. Staff productivity and quality of output.	4.93	1.30
19. Management and executive development.	4.67	1.23
20. Succession and development planning for managers.	3.71	1.33
21. Advance issue identification / strategic studies.	4.39	1.55
22. Employee and manager communications.	4.87	1.32
Performance	Mean	Std Dev
23. The overall performance of our organisation in the last three years has been very good relative to that of other public sector organisations.*	5.54	1.36
*24. In relation to the resources committed the improvements achieved by this organisation in the last three years has been very low	5.27	1.58
25. The level of customer service provided by this organisation in the last three years has been much more than that offered by other public organisations.	4.96	1.32
*26. The level of cost effectiveness achieved by this organisation in the last three years has been very low.	5.21	1.52

*reverse-scored

Table 2: Mean and standard deviation, correlation matrix and reliability coefficients constructs (N=135)

	Mean	SD	items	SHRE	IM	Performance
SHRE	32.01	7.61	7	.9117	.765	.637
IM	72.33	14.93	15		.9392	.722
Performance	20.89	4.63	4			.8093

All correlations are significant at $p < 0.001$.

Cronbach alpha coefficients appear in the diagonal.

Table 3: Results of Regression Analyses

	Performance	Performance	IM	Performance
Adj R ²	.40	.52	.58	.48
F	83.43***	130.31***	160.08***	106.73***
Beta				
SHRE		.637***		NS
IM	.722***			
SHRE*IM				.753***

Standardised beta values are shown in the table above.

*** = $p > .001$

DISCUSSION

The results highlight the important role of internal marketing in fostering effective human resource management. They show that performance results from SHRE, but mediated via IM. Our model suggests that internal marketing ought to be treated as a separate construct and not merely the representation of a number of human resources management functions. The results underline the need for a organisation-wide market orientation in the sense that internal marketing should not be restricted to the marketing department. A marketing/HRM interface is therefore critical in fostering improved organisational performance. The interface between marketing and HRM reflects the importance of coordinating functional strategies thereby facilitating effective overall corporate strategy implementation. Grönroos (1990) was one of the first to recognise the unnecessary duplication of effort that occurs so frequently in the wider field of business study. In describing the important interface between marketing and organisational behaviour, he challenges marketing practitioners and academics on the one hand, and human resources development people and academics from the field of organisational behaviour on the other, to work together. Of course, among other things, this requires that '...the traditional borderlines that far too often have become insurmountable walls between marketing and personnel as business functions and academic disciplines are challenged and, if necessary, torn down'. From a managerial perspective, there appears to be considerable scope for an integrative, interdisciplinary approach.

The limitations of the study are fairly self-evident. Both the internal marketing and HRE constructs require further theoretical and empirical refinement. In

addition, this study was confined to public sector organisations in three Australian states and in this respect any generalisations to other countries or the private sector must be done with care. Lastly, the use of self-reported measures of practices clearly have limitations and may not accurately reflect actual effectiveness.

Further elaboration of the internal marketing construct could provide an opportunity for more research to extend internal marketing beyond service firms and public sector organisations to firms that market physical products. An important characteristic of services is intangibility. However intangibility is not an absolute but can be thought of as a continuum and any product offering is to some degree physical and service (Shostack, 1977). Thus even product offerings that are normally considered as physical goods, such as bottles of soda, also contain a considerable degree of service. Indeed to a large extent the distribution aspect of the product element is a service. Thus, although the concept of internal marketing was seen as being appropriate to service firms it may have applications beyond this and may also be valid for firms in the consumer and industrial sectors. Irrespective of whether a firm markets physical or service products, it seems important that they practice both external and internal marketing in collaboration with other functional areas, in particular, human resources management if they are to be successful in building long-term and profitable relationships with their customers.

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