

An Empirical Study into the Current State and Structure of Internal Marketing in Japanese Companies

Tatsuya Kimura⁺

Waseda University

Abstract. For the market introduction of innovative products which consumers will take a strong interest in, concurrent and swift innovation in technical and marketing areas is required. To achieve this, the company's marketing capabilities must be enhanced through company executives and marketing staff, as well as all other employees, becoming marketers. In this paper, the current state and structure of internal marketing in Japanese companies is empirically examined in search of the relationship between the degree of penetration of internal marketing and corporate performance. Using the survey data, we extracted five key factors that affect the business performance of Japanese companies from an internal marketing perspective and analyzed the relationship between them, applying structural equation modeling. The results indicate that internal collaboration between functions and operational strength are two main factors for the realization of their market development. Furthermore, internal collaboration was particularly influential in the companies which successfully conducted external marketing.

Keywords: internal marketing, collaboration, marketing by all, leadership, operational strength

1. Introduction

Gummesson (1987, 1991) reasons that to build favorable customer relations, not only full time, but part time marketers are also crucial. The term "part time marketer" refers to all employees even remotely connected to the customer; in other words, all employees at that particular company.

Marketing aimed at employees rather than customers is known as internal marketing. We define it: "communication or a series of processes for collaboration among company's functions carried out so that the organization may achieve their mid- to long term goals."

The concept of internal marketing originally came from research into service. This concept is proposed from the viewpoint that in order for the service industry to "sell" their service to customers it is first necessary for employees to understand the value and significance of the service itself. If that is possible, not just those in charge of marketing, but all employees can become more conscious of their marketing. In today's market, where to meet customer needs the boundaries between service and manufacturing industries are rapidly disappearing, the importance of internal marketing is being proclaimed even in many of the successful manufacturing sectors.

This research empirically examines the relationship between the degree of penetration of internal marketing and corporate performance in Japanese companies. Firstly, based on survey results, the constructs indicating the structure of internal marketing are explored. Next, an analysis model is employed to examine the types of patterns which exist in the relationships between corporate performance and internal marketing. Lastly, we make some recommendations for corporate innovation and internal marketing.

2. Research Method

⁺ Tel.: +81-3-5286-3978; fax: +81-3-5286-3978
E-mail address: kimura@waseda.jp

2.1. Data Collection and Survey Design

In order to collect data for analysis for the purpose of this study, a questionnaire-type survey was conducted using an Internet research panel in October 2009. We approached 1,843 panel members in marketing positions of departmental chief or higher in companies of a hundred or more employees. In response, completed forms were received from 511 respondents (final collection rate: 27.7%).

The survey contained 20 questions for measuring the level of internal marketing within an organization. Additionally, one question on the perceived degree of success of external marketing and four questions regarding actual corporate performance were included. As a result, the overall survey was composed of 25 questions. All questions except the four questions regarding corporate performance were measured through a six-point Likert scale (1. Strongly Disagree to 6. Strongly Agree).

2.2. Expansion of Concept

After collecting data from the companies, exploratory factor analysis was carried out using the principle factor method on the 20 questions regarding internal marketing. Following this, five new interpretable factors were defined based on the factor loadings after promax rotation.

As for Factor 1, due to high loadings on items related to whether or not the management team establishes clear mid- to long term guidelines, and whether they are thoroughly communicated within the company, Factor 1 was interpreted as a factor for “Leadership.” The high loadings on items related to the degree of cooperation and inter- and intra-divisional freedom in discussion, cooperation, and collaboration led us to interpret Factor 2 as a factor of “Collaboration.” Factor 3 is interpreted as a factor of “Degree of Information Utilization” from being formed of items relating to the degree of collection and utilization of information from inside and outside the company. Factor 4, from the high loadings on items regarding efficient responsiveness on site, is named “Operational Strength.” Finally, Factor 5 is interpreted as a factor of “Market Developmental Strength” as it relates to ability to develop and expand new products and services.

3. Findings and Considerations

In order to shed light on the relationships between the five factors (or structured concepts) and corporate performance, the model in Figure 1 was put forward and analyzed, using covariance structure analysis.

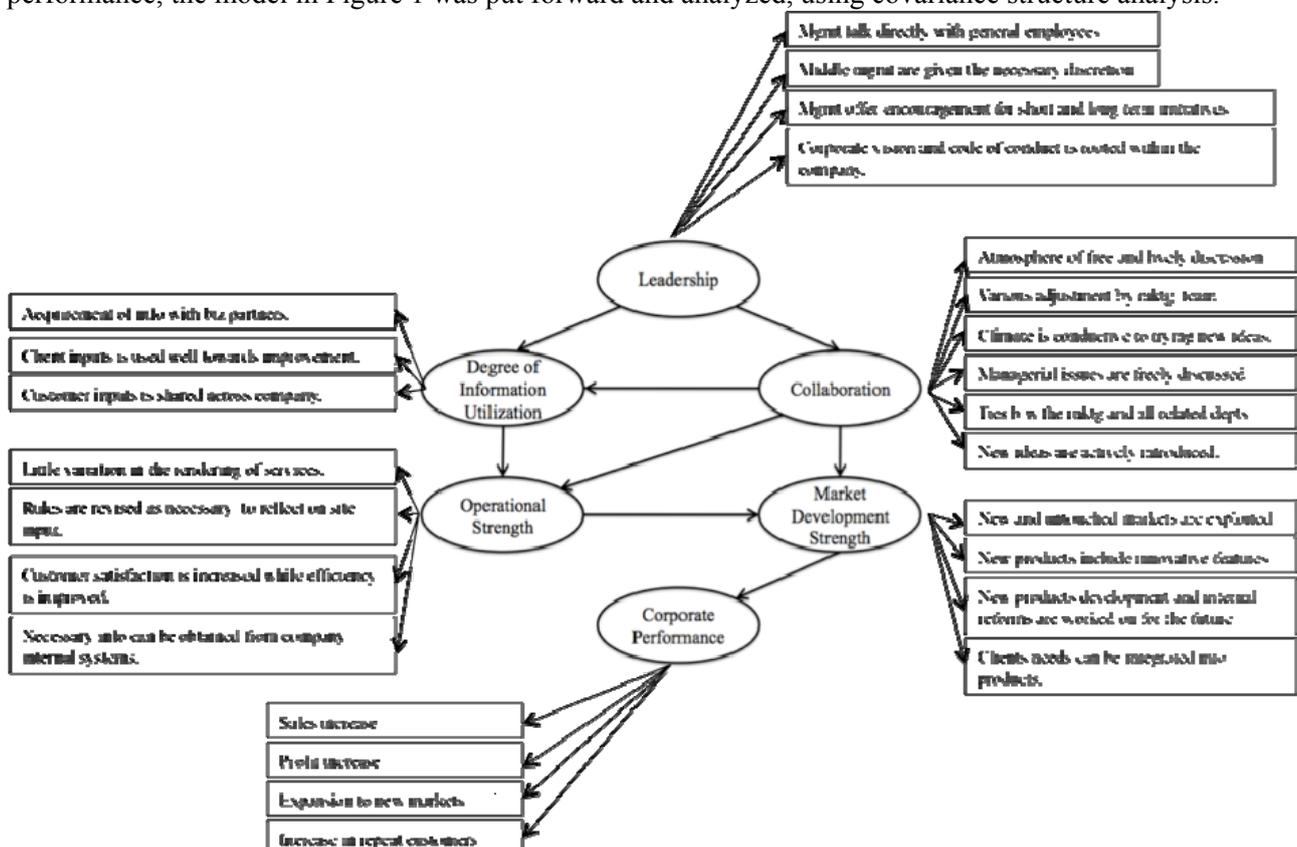


Fig. 1: Analytic Model

The samples were separated into two groups: those who responded that their external marketing was going well (who answered 4 through 6 to the question) and those who responded that their external marketing was not going well (who answered 1 through 3 to the question). Covariance structure analysis was carried out on each of the groups. Figure 2 compares the estimated values of the model in the two groups.

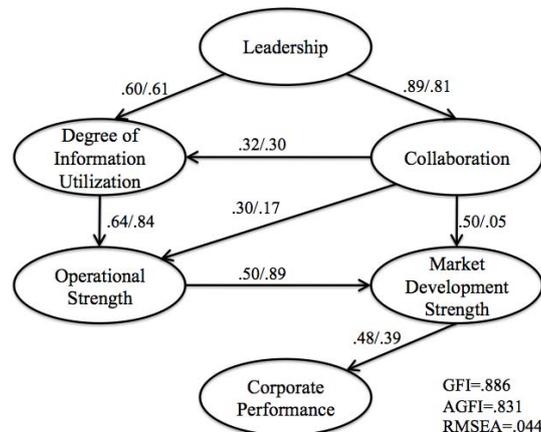


Fig. 2: Internal Factors Affecting Market Results

Note: The survey was conducted targeting Internet research panel monitors from October 1 to 5, 2009. There were 511 respondents who were separated into two groups on the basis of whether they thought their marketing activities in the past year were going well or not. Numbers of the samples are 224 and 287 respectively. The two values above the arrows are the coefficients that represent the groups for companies that responded that their marketing activities were (left figures) or weren't going well (right figures).

Using this model, comparing the responses of those who felt their company's marketing activities were "going well" to those who felt they were "not going well" shows some interesting findings: namely, the companies that were "going well" have stronger ties between the collaboration and marketing developmental strength factors when compared to companies that were "not going well", which have stronger ties between operational strength and market developmental strength factors.

"Collaboration" refers to internal teamwork amongst employees and divisions and the degree of activity of the marketing department, for example, the existence of free and lively discussion in the company, an atmosphere supportive of new approaches and ideas, the framework to conduct projects across sections and a marketing section that leads product planning and can coordinate smoothly with other sections. On the other hand, operational strength refers to efforts at the front line such as the standardization of services, improvement of rules and manuals based on front line input and aiming to maintain customer satisfaction while increasing efficiency.

While this analysis alone is not necessarily conclusive, in conjunction with the results from a large number of our interviews with business persons, it becomes clear that the greater the internal collaboration, the more marketing activities will go well across the board leading to actual improved company performance. Contrastingly, in companies whose marketing activities are not going well, new services and products arise from daily business improvement activities and rarely lead to innovation.

It cannot be denied that macroscopic environmental factors affect sales and profits beyond the control of any single company. To appropriately handle these, managers must first aim for the realization of "marketing by all" by utilizing company human resources to the maximum extent. The foundation required for this - internal marketing - is becoming indispensable.

4. Conclusions

To discover how internal marketing affects corporate performance, five factors (constructs) were extracted from the results of exploratory factor analysis. An analysis model was built based on these five factors, upon which covariance structure analysis (a structural equation model) was carried out.

We analyzed the five constructs and indicators of current corporate performance, and compared and examined the groups who responded that their marketing activities were going well and those who answered that they were not, in a relative manner. As a result, it became clear that there were differences in their paths to market results. To create the innovation needed for company growth, internal collaboration should be enhanced.

5. References

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