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## **Improving the quality of human resources by implementation of internal marketing**

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## CHAPTER III

# Improving the Quality of Human Resources by Implementation of Internal Marketing<sup>1</sup>

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*Ioan Done<sup>2</sup>, Ivana Domazet<sup>3</sup>*

**Abstract:** Internal marketing includes programs intended for employees and their development. It is targeted on identifying, motivating and retaining customer oriented employees. For that reason, it is of great importance for labour intensive, and especially service oriented companies, since knowledge, expertise, activity and behavior of employees create overall business portfolio that the consumers/clients are buying on external market. Regardless of its industry, adoption and implementation of internal marketing concept lead to long-term growth and success of the company. Internal marketing has important points of contact with human resources field of activity; therefore the analysis of internal marketing concept and its basic dimensions is a significant factor for creating competitive advantage in current business environment. The goal of internal marketing is to focus attention of employees on internal activities that need to be developed, maintained, and promoted for the purpose of business and strengthening competitiveness of the company on the external market. Human resources management through qualifying and motivation of employees to fulfill customer market needs as much as possible, namely to recruit appropriate personnel, and maintain and improve long-term relationship with them, is one of the key prerequisites for company's business success.

**Key words:** *Human Resources, Internal Marketing, Competitiveness Improvement*

**JEL Classification:** J24, M31

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## INTRODUCTION

Basic goals of internal marketing are the choice, motivation and retention of high-class and competent personnel, who are focused on the quality of overall portfolio of the company in order to improve its profitability. Practicing of internal marketing concept leads to high level of fulfillment of business obligations, internal competitiveness, as well as considerable improvement of the quality of the personnel. In this context, internal marketing is often connected to human resources management and the model that a company uses to develop its business culture. While analyzing the internal marketing concept, one must take into consideration the tasks of the human resources management, concerning motivation of employees and creation of such personnel structure that will assure highest possible level of overall interactions efficiency. Here, internal marketing plays an important role, since its implementation is related to development and retention of internal business culture that contributes to fulfillment of company's goals.

### THE CONCEPT AND SEGMENTATION OF INTERNAL MARKETING

More than twenty years ago, Leonard Berry has applied the term *internal marketing*, defining it as a theoretical and practical marketing implementation in respect to servicing of external customers in a way that purports: employing and retaining of best personnel and their readiness to accomplish their tasks at their best (Little and Marandi, 2003, p. 114).

Internal marketing includes programs designed for employees and their development. It is targeted on identifying, motivating and retaining customer oriented employees. For that reason, it has extreme importance of labour intensive, and especially service oriented companies, since knowledge, expertise, activity and behavior of employees create overall business portfolio that the consumers/clients are buying on external market. Some of the internal marketing critics claim that it is a synonym for human resources management, but researches show that they differ. Human resources management is a wider concept than the internal marketing, and has four meanings: branch of science, management function, special business function within the organization and specific management philosophy.

Basic internal marketing goals are:

- Successful fulfillment of personnel business obligations in a whole in order to accomplish company's goals,
- Motivation of employees to perform their tasks as customer oriented experts, concentrated to quality of the product/service,
- Attract and retain high-class personnel, focused on company's clients.

Internal marketing demonstrates its results externally. The company might have brilliant ideas, but if it fails to accomplish, there is no object in doing that. The time and money spent on product promotion are a waste, if employees do not understand the product and its value. The time, process, resources and knowledge must operate mutually and effectively if the company wants to make a profit on external market.

The core of internal marketing lays in a fact that the employees should treat their colleagues, who come after in the business process, as their customers, and that the principles of internal marketing are implemented through the organization. If all personnel is to accept marketing principles, then each and every employee is trying to make the work of his colleagues easier. On internal market, the company treats its employees as consumers/clients.

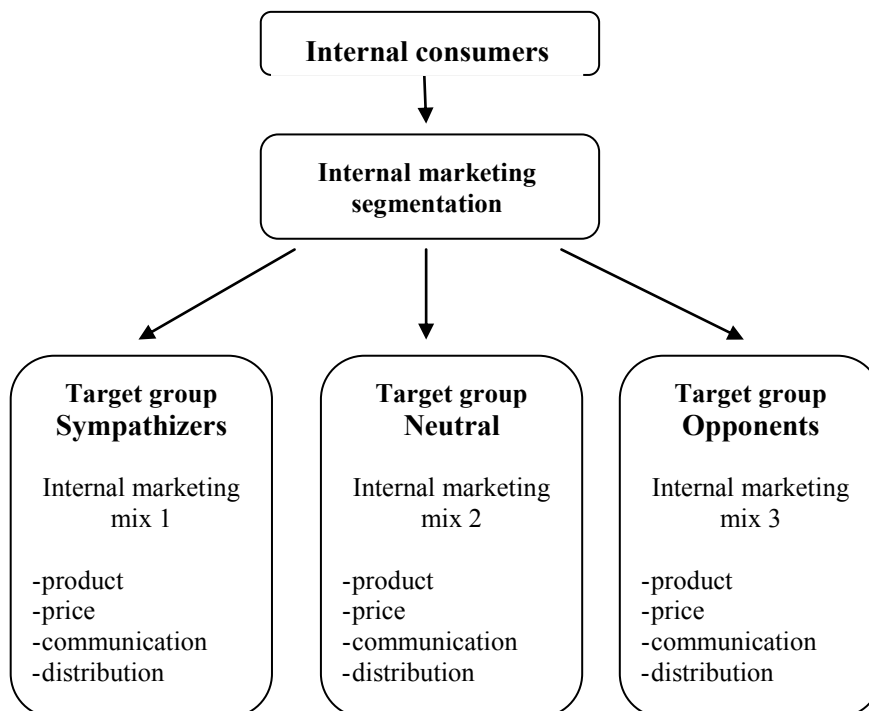
Internal and external markets are quite different. Therefore, for the successful implementation of the marketing on internal market it is important to adopt specifics and to develop appropriate approach. Internal market is reserved, and here, the supply and demand relation is relatively fixed. In addition, the influence of external factors on the internal market participants is significantly reduced. For that reason, the communication of internal market parties and exchange of values between them is of key importance. Accordingly, the psychological aspects and the quality of relations between the internal market participants are a key for accomplishing results that are measured with motivation and satisfaction intensity, professional task performance, etc.

Segmentation of internal market has to be conducted due to the existence of heterogeneous preferences of internal consumers within the company. People differentiate in respect to their role as consumers on external market, as well as when they are acting as employees on internal market. Internal customers (clients) have fractional or no choice in respect to

who they will make business with, while consumers on external market can (unless in the case of monopoly) choose between several suppliers.

Internal marketing is focused on internal consumers, i.e. internal market that includes employees and segmentation of internal market is shown in Figure 1 (Jobber, 2005).

*Figure 1 - Internal marketing*



*Source: Jobber, 1995*

Three fundamental internal market segments consist of the following groups of employees:

- Sympathizers – those who support changes;
- Neutral – those who have no opinion in respect to labour organization changes and
- Opponents – those who are against the changes, and who would like to retain status quo.

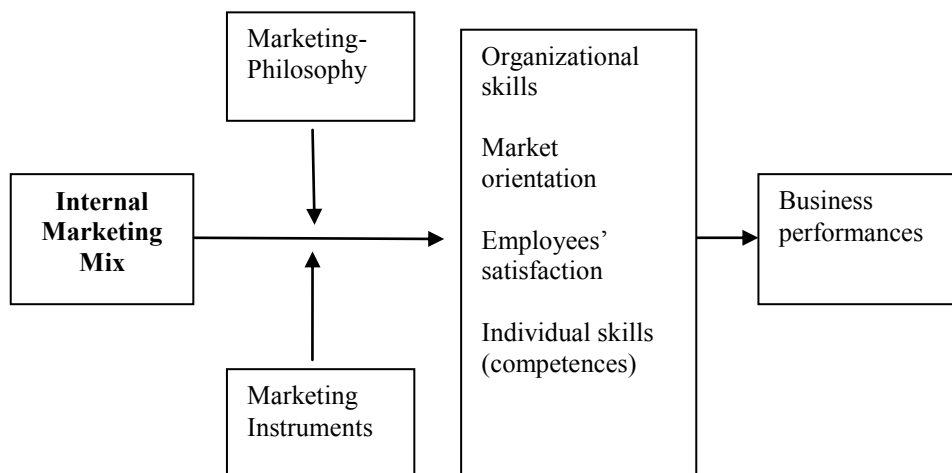
## **THE ELEMENTS OF INTERNAL MARKETING MIX**

Basic instrument of the company's management, in the process of satisfying and motivation of personnel, and in order to accomplish the best quality of service possible, consist of additional elements of internal marketing mix (Saad, Ahmed, Rafiq, 2002, p. 33):

- Strategic rewards,
- Internal communication,
- Internal coordination,
- Education and training of personnel,
- Organizational structure,
- Senior management,
- Physical environment,
- Employment, future employees choice,
- Motivation system,
- Invigoration and
- Operational/process changes.

At a glance, it looks like there is no difference between the motivation system and the strategic reward. Nevertheless, the nuance that differentiates the strategic reward is that it influences behavior, functioning and achievements that contribute company's progress in accomplishing business goals. The motivation system refers to principal reimbursement system defined within the company, aiming to establish organizational culture, through remuneration of business activities, behavior and values that senior management would like to encourage. Stipulated elements of internal marketing mix are control susceptible and it is necessary to implement them properly in order to achieve desired results, defined as organizational possibilities that have the direct influence on business performance.

*Figure 2 - Internal marketing elements*



*Source: Saad, Ahmed, Rafiq, 2002, p.34*

Market orientation, employees' satisfaction and special/individual competences are presented as the instrument that intermediates internal marketing mix and organization's business performance. Market orientation stands between that relation, sin a proper o that the organization can take cognizance and properly react on customer's needs and capabilities of the competitors. Market orientation creates competitive advantage in consumers' perception, and leads to better organizational performances (Domazet, 2011, p. 265).

The essence of internal marketing means that the key for gratifying business results resides in creating satisfied and motivated employees oriented towards external clients.

The company is governed by various factors arising from external environment. Although those factors cannot be influenced on, and are unchangeable, they have to be constantly monitored and familiarized by the company in order to adjust business goals and accomplish planned results. Unlike external environment, for the internal environment it is necessary to provide peremptory conditions for business goals realization using the best possible combination of the following elements:

- People with their knowledge and skills,
- Technologies and
- Labour organization.

Primary results of internal marketing mix instruments implementation are high-class, capable and motivated employees, who are focused and service oriented. On the other hand, important factors of internal marketing are (Ferdous, 2008, p. 25):

- Duties (business tasks);
- Environment in which the tasks are performed;
- Authority, rights and responsibilities of the employee;
- Resources that the employee can utilize;
- Shaping processes themselves: organizational structure, task force or group structure, structure of rights and responsibilities delegation, remuneration structure;
- Operational aspects (i.e.: when, where and how the meetings are held; who can run them, etc.).

Duties or business tasks, should motivate employees to answer management demands, related to shaping, implementing and customer oriented development of successful interactive and external marketing, in adequate manner.

Important element that must not be neglected while shaping marketing reflects in a situation that almost all companies, even in most developed countries, are facing. Job attraction for employees is reduced, and on the other hand expectations and stress are increasing, and more flexibility is demanded. Inversely, there is no appropriate progress, in terms of status, material resources and benevolence towards the employees. In such an environment, it is quite challenging to maintain the attractiveness of offered product (workplace) in stagnating or even aggravated market conditions. Marketing acts towards development of techniques and procedures that can assure employees' skills and desires for offering high-quality services. Employees' and clients' satisfaction are tightly interlinked.

In the context of internal marketing it is advisable to consider the price as the balance between the benefits/values and the cost for the company and its' employees. The price is mainly determined through traditional concept of expenditure (financial and non-financial) with respect to the value derived in return. Thus, it is possible to calculate the cost of the employee (for example, psychological demands and time spent) when he is asked to change his behavior at his workplace, as well as what benefit/value can be achieved with such change. For example, the employee can be asked to perform higher quality, to



practice different working tasks, to master new knowledge and skills (from his point of view those are expenses), but in return the employee could gain: more freedom in decision making process, promotion, supervise higher number of employees, higher salary, or become more competitive on internal (and external) labour market, etc. Accordingly, internal marketing price is considered related to invested efforts, time, work applied and other criteria connected to expenditures, with respect to value that the employee is granted for the role he plays within the organization. That value should reflect employees' personal satisfaction while maximizing his performance.

Sales and distribution as internal marketing mix instruments include sales activities and distribution channels, as well as the combination of both, in order to achieve desired targeted market segment. Sales and distribution are visible and tangible, but also invisible and intangible workplace and business environment aspects. They are related to physical workplace and the atmosphere in which the transactions between the company and its' employees are made, as well as company's culture and symbolic values of the company. Since for the external marketing it is highly important to have optimal combination and coordination of sales and distribution activity, in internal marketing it is important to shape adequate surrounding. The number, the structure, and the hierarchical level of workplaces, on one hand, and delegation of rights and responsibilities on the other, will create the environment that should enable successful business on internal and external market.

Researchers conducted in the US, questioning "*What the employees desire?*" have a dominant answer – "*Open communication*" (Lings and Brooks, 1998, p. 330). In those researches salary is ranked 16<sup>th</sup>. When the examinees are asked why they want to quit, common answer was that they want an acknowledgement for their contribution, and not to feel as they are working in the vacuum. Communication as an internal marketing mix element implies flow and information sharing. This information can be transmitted via: company journals, direct mailing, video presentations of new skills and practices, and a like. Information is transferred in order to increase employees' level of consciousness, so that they can act in accordance with demands set by the company.

The goals of internal communication can include (Domazet, 2011, p. 270):

- communication and analysis of arguments pro change,

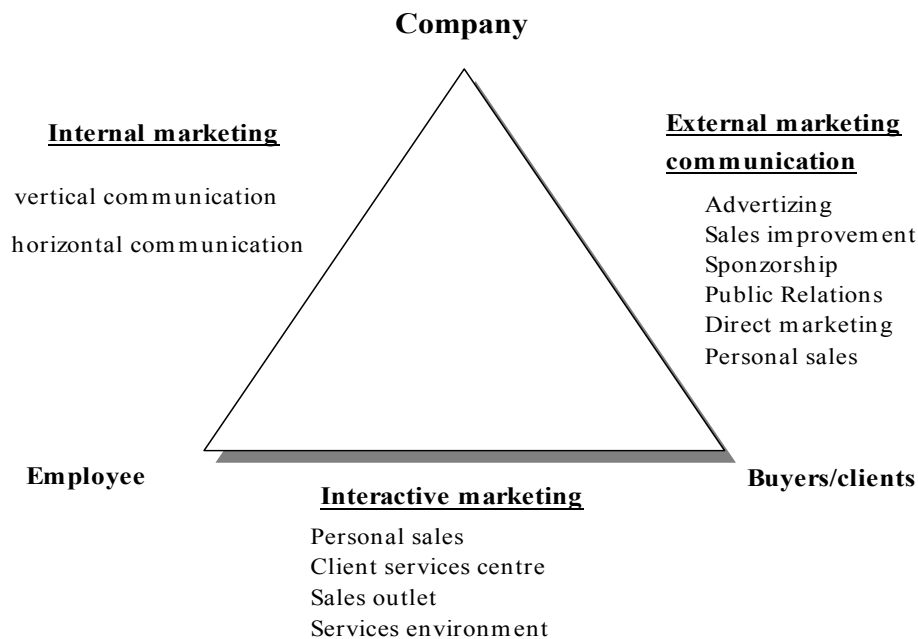
- motivation of employees (communication meaning that employees' concerns and interests are observed and included in new practices planning),
- motivation of employees and mediators to accept the significance of the change,
- education and training of employees for new practices,
- admonishment of all employees in respect to requirements and implemented changes,
- Q&A and problem solving,
- Feedback.

Internal communication and promotion are successful in introduction of employees with the facts regarding to what is expected in business performing. In this way, each employee has clearly determined role in the company.

Stauss and Hoffmann are differentiating communication goals depending on desired influence on knowledge, attitudes and behavior of employees (Stauss, Hoffmann, 2000, p. 145). If the goals are related to knowledge, the communication has the purpose to inform the employee (for example regarding to consumers/clients demands, product/service attributes, and a like).

Communication connected with the attitude of the employees is related to, for example, shaping and adoption of the orientation towards the consumer/client. Knowledge and attitudes influence the behavior, and appropriate communication is aimed to accomplishing active, independent engagement into process of solving various challenges.

*Figure 3 –Communication within the company – Golden Triangle*



*Source: Kitchen, 2004, p. 112*

Figure 3, apart from two primary communication flows between the company and its' clients, shows the third communication flow directed towards internal public (employees), in other words – internal marketing.

Communication flows directed towards customers/clients include the following:

- External marketing communication – through advertising, sales improvement, sponsorship, PR, direct marketing and personal sales, one is communicating with targeted clients;
- Interactive marketing – oriented on establishing contact with services personnel and/or services environment with the client and communication is transmitted via personal sales, call and contact centers, the sales outlet itself and services ambient with all its elements.
- Internal marketing is aiming to enable free communication within the company, as through different levels in organization structure (vertical), as well as various organization departments, or business functions (horizontal communication).

It is extremely important to improve internal communication, namely to ensure free communication within the company through internal marketing, as through different levels

in organizational structure (vertical), as well as various organization departments, or business functions (horizontal communication).

Internal marketing mix can generate satisfactory results only if the following conditions are fulfilled (Grönroos, 2000, p. 232):

- Internal marketing is a part of strategic management
- Internal marketing program must not be disabled by existing organizational structure,
- Management of the company must have continuous positive attitude in respect to internal marketing process.

Internal marketing and internal marketing mix elements implementation is in the early phase of development, and it is considered that this area of marketing will experience intensive research and applying in practice in near future. Growing necessity for internal marketing exists due to dominant peoples' role in doing business in today's competitive business environment. The presence of transformation of industrial into services activity is growing. The meaning of the service and "service know-how" have more and more importance since well educated, trained and service oriented employees are the most critical resource that a company needs. The basis for top-quality business is the investment into high-class employees. Even more companies are delegating responsibilities to higher number of employees in order to build long-term relationship with their clients, thus increasing the necessity for continuous improvement of their task force. New ways of doing business demand that the employees adopt new skills and practices. Numerous enterprises are constantly transforming. Acquisitions, alliances, demerging and taking over occur. All this processes demand continuous communication with employees.

Internal marketing concept has been adopted by successful companies, and especially by world leading service enterprises. The best known world enterprise that successfully practices internal marketing concept is The Walt Disney Company. Internal marketing is impeccably functioning in other American companies, such as Delta Airlines, The Marriott Corporation, Dun Bradstreet (consulting), etc. In Europe, we must highlight British Airways, SAS – Scandinavian Airlines, Marks & Spencer, and Ericson.

Current researches show that the implementation in Europe is not that often as in the US. Nevertheless, these studies indicate that the European examples that have formally shaped internal marketing programs are still relatively inconsiderable. Although the internal marketing implementation in Serbian companies was not the subject of systematic research, occasional data collected in respect to the level of its application, point out that there are numerous activities that by their nature respond to internal marketing (for example: employee training, election and remuneration of best employees, remunerative impetus trips, etc.). Those activities are commonly planned and conducted without formal internal marketing plan, and usually are a part of a human resources management practice within the company.

### **INTERNAL MARKETING ACTIVITIES**

Selection and motivation of appropriate personnel, as well as maintaining long-term relationship with them, represents the basis for internal marketing installation. Integral process starts with the selection and choice of appropriate staff. Selection criteria are knowledge and skills that the potential employees possess, their willingness to educate and progress together with the organization, as well to adopt its goals. To that effect, the development of internal marketing strategy includes three-stage approach (Egan, 2004, p. 164):

1. Create a business environment that promotes safety of employees;
2. Designing organizational structure and lines of communication with no functional barriers;
3. A clear vision of the internal organization by top management.

The company should create a business environment where the employees will feel safe. In this way the company demonstrates its commitment to human resource development and creating conditions for proper communication with employees, including the creation of organizational structure in which the functional barriers are cleared. A good way for effectively erasing functional barriers of employees and managers is organizing various trainings for promotion of team spirit (Team building), which quickly removes the distance between managers and employees. The main task of these meetings is to present and solve potential problems without the pressures associated with the function of the company.

The profitability of a company depends on a company's ability to continuously adjust to the dynamic and competitive environment. Hence, the entire company's development strategy must incorporate high-class internal marketing strategy whose main activities are:

- Education of employees in order to adapt to the changing environment;
- Concern and motivation of employees;
- Creation of team spirit through the promotion of mutual interaction and
- Development of appropriate infrastructure in order to avoid barriers to internal marketing communications.

Today's conditions have forced companies to harmonize their business with innovations, if they want to keep pace with market processes. One of appropriate ways to follow trends of the modern world is the continuous education of employees.

Education is indispensable in hiring new staff, while introducing new products or services, or while introducing any innovation in the company's operations, because it contributes to improving knowledge and performance of employees and their productivity. Particular importance is education of employees in the process of accepting new technologies. Development and application of new technologies are reflected through increased effectiveness in communication and execution of tasks in the internal environment, but also by increasing the effectiveness of the process of developing good long-term relationships with customers. The success of the company in a competitive market largely depends on the extent of finding the optimal integration of new technologies, but also the creation of appropriate ways for overcoming employees resistance, which is a priori present when introducing new technologies related to work performed by employees.

Most of the companies have educated their employees and thereby reduced resistance to change and trained them to use new technologies in performing their daily tasks. In doing so, companies have pursued different strategic approaches and tactics. One of the most successful internal marketing tactics is to include training, with the aim to encourage formal and informal communication, while at the strategic level internal marketing expands to a wider acceptance of management styles and personnel policies that promote employees, customer services training and planning procedures (Egan, 2004, p. 164).

Studies that develop investment models in the areas of employees' performance, if implemented properly, result in company's profit growth. The results of studies that have focused on the impact of training on ROI (Return on Investment) were an increase in productivity of 17% and achieving long-term relationship with a company of 14% (Trust Technology Solutions).

However, if we want the results of implementation of these models to be even better, through the concept of internal marketing, it is necessary to incorporate interactivity, as basic determinant of direct communication of managers and employees. The reason is simple - a traditional internal mass marketing practices (distribution of company's newspapers and other information in writing within a company) become insufficient, since they do not communicate with staff in a proper way, and therefore it is necessary to add a social dimension in the interaction with employees (Gummesson, 2003, p.198).

Concern for employees and motivation of employees by the company's management directly, determines creation of long-term relationships between the employees and management, and are thus an important dimension of the entire management process. The main task of any manager is to continuously analyze the environment, correctly anticipate development trends and to guide the company in step with changes in it. Hence, the role of manager implies the identification of the maximum interest arising from cooperation between the organization, its employees and external environment. As an important factor for success during the process of cooperation, excels the emotional intelligence of managers.

Emotional intelligence is the ability to recognize feelings, their clear identification, and understanding, ability to control and use to express thoughts. In this regard, the importance of emotional intelligence of managers in business and everyday stress situations, or the decision making process is understandable. The involvement of managers in solving problems of employees, their empathy, increases the motivation and loyalty of employees. Expression of empathy, along with the knowledge and skills, is of particular importance in contact between employees and customers. Show genuine interest and involvement in a friendly conversation with people you might meet, represents so called emotional effort (Zeithaml, Bitner, 2003, p. 322). To reach employees with these skills, organizations should carefully select people who are able to bear emotional stress, but at the same time

conduct trainings towards acquiring the necessary knowledge and skills. Managers, at which a high degree of emotional intelligence is present, are able to motivate others in the organization. Such a mode of communication between managers and employees, combined with properly created system of mutual interactions, significantly improves the quality of business environment.

Enhancing mutual interaction and communication reduces the risk of potential conflict between employees at a minimum, but also acts preventively in terms of reaction to potential problems among employees. The business environment in which all employees will feel well and do their best as a team, can cause an increase in the quality of delivered products and services, whose customers are satisfied with the purchase and as such potentially loyal to the organization. In this segment of internal marketing resides an evident cause and effect relationship between employees and customer satisfaction, since the team effort investment in improving the quality of provided services is the purpose of internal marketing activities.

To make these activities produce a synergistic effect, it is necessary that all employees, including all levels of management: be loyal to the company, that there is a high degree of mutual trust and to believe in the quality of their products. If your employees are at the same time consumers of products that are being produced or sold, their effect in contact with external customers will be higher. Then, we might call the company employees – internal clients. Moreover, if the employees are loyal to the company, they will be the best promoters of their surroundings, thus the value of propaganda "by word of mouth" would come to the fore. If the company takes care of employees outside business environment as well, and if it understands and meets their individual needs, the impact of loyalty will not fail. In addition, it is important that the employees can trust each other, and especially their superiors.

Mutual support in performing business tasks can create an atmosphere where there will be less conflict, or will they, if they occur, be quickly resolved. A proper system of rewards and sanctions, the effective exchange of information in the function of acquiring knowledge and information, and treating employees as the most valuable resources are key factors for achieving the effectiveness of internal marketing.



The internal marketing is a concept that works as a system, so it is necessary that the elements of the system produce the appropriate synergetic effect. Consequently, it is necessary that all activities are synchronized to the positive influence on satisfaction and employee loyalty. The basic condition for the coordination of activities is to establish effective information exchange system that would improve internal communication between the marketing staff at all levels (the vertical and horizontal basis). Possible barriers of internal marketing communications are (Wright, 2004, p. 374):

- Unawareness of the highest management level of their strategic importance,
- Lack of formal or informal strategic approaches,
- Lack of communications system,
- Bureaucratic structures and a like.

In order to improve the final effect of all internal marketing activities, it is necessary to bear in mind the potential limitations, especially in the field of internal communications. Tool that can simplify and speed up communication is provided in the form of new information and communication technology (ICT). Managers and employees who have the knowledge of information and ICT have the chance to progress faster than the others. Continuous improvement of business procedures in accordance with the progressive development of new technologies enables companies to establish effective internal communication. In this way it is possible to prevent potential conflicts in the field of internal communication and also promote activities that constitute an internal marketing. In addition, internal communications systems set in this way present a solid basis for developing effective communication with customers.

## **INTERNAL MARKETING AND CUSTOMER SATISFACTION**

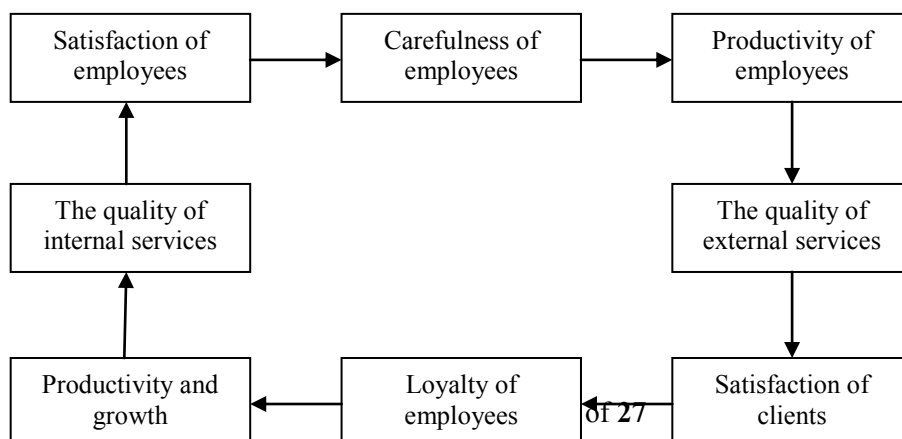
Internal marketing is aimed at improving employees' satisfaction, which will, through increased company loyalty, impact on customers' satisfaction with whom they are in direct or indirect contact. Hence, employees should be informed about the company offerings, but also to understand the business mission, goals, strategies and organizational processes. According to Gummesson, internal marketing has emerged from the service marketing and its purpose was to influence the personnel in interactive contact with customers/clients (i.e. first-line employees) towards better management of the business portfolio and the

manifestation of greater autonomy in dealing with customers/buyers. In services industry, delivery channels are shorter, and the buyer is usually in direct contact with service providers (producer of service). The services are inseparable from the service and cannot be stored, so it is very important that the service provider is satisfied his task and the conditions he operates in. Employees are promoters of their company even when away from their jobs, so their behavior in public may affect the company's image. Employee satisfaction affects customer satisfaction (Little, Marandi, 2003, p. 123).

If the employees believe in what the organization does and means, they are motivated to work harder and their loyalty to the organization is grater (Bradley, 2004, p.7). In the external environment, the outcomes of implementation of customer retention strategies are directly dependent on their satisfaction with product/service. In the internal environment, employees' retention depends on their job satisfaction and the quality of internal services.

The positive correlation between these dimensions implies the implementation of various activities that should be organized and coordinated in order to achieve continuity. If one dimension is not displaying properly, activities carried out further will not make any sense. This is the reason why there is no evidence that there is causality between employee- and customer satisfaction (Egan, 2004, p. 165). In other words, employee satisfaction alone is not sufficient. However, if properly directed and if it refers to the work environment in which a quality product/service is created and delivered, it can be a factor in customer's satisfaction and loyalty and, consequently, greater profitability of the company. The basis for linking employee satisfaction and satisfaction and loyalty of customers/clients and, consequently, making profit, is shown using the service-profit chain that is basically the same as a positive feedback and employee satisfaction as shown in Figure 4.

*Figure 4 – Circle of employees and customers satisfaction*



*Source: Adapted on Zeinhaml, Bitner, 2003, p. 320*

Dependency between satisfaction and loyalty of employees, and customer's satisfaction, shows a positive feedback loop, because the profitability increases if there are more loyal customers, which means that we should make special efforts to maintain good long-term relationships with existing customers, and to the direction of expanding cooperation. Also, customer loyalty increases if they are satisfied, and their satisfaction is even higher if the quality of service is above their expectations. This value will be delivered only by employees who are satisfied and motivated, and who know their job well.

The service profit chain illustrates the relationship between internal services quality, satisfaction of employees, their productivity, the value of services provided to customers and ultimately – the satisfied clients, maintaining long-term relationships with them and profit. The essence of their explanation rests on the following points (Zeinhaml, Britner, 2003, p. 229):

- Hire the right people;
- Retain the best people (reward high-class and professional staff);
- Educate employees to deliver best quality services (trainings for technical and interactive skills);
- Promote team work;
- Provide the necessary support systems by measuring the quality of internal services and to provide supporting technology and equipment;
- Develop internal employee-oriented processes.

Considering the above stated, internal marketing can be defined as a set of management activities conducted to ensure conditions for the delivery of quality services through activities related to recruitment, training, motivation, remuneration of staff and provision of modern equipment and technology (Zeinhaml, Britner, 2003, p. 230). As the concept of internal marketing includes the activities listed in this definition, there is an evident connection with the quality of employees that comes in the form of products/services delivery, or the advancement of their knowledge and skills. On the other hand, the quality of the offer defines customer satisfaction and his willingness to become loyal and, as such,

valuable for the organization. However, in addition to quality of the offer, there are several factors that can affect customer satisfaction. One of the most important relates to the perception, and preformed expectations of the customer. If expectations are greater, the less likely that the customer will be satisfied and vice versa. Therefore, the process of customer relationship management (CRM) should be used as a tool to comply the planned product quality with the customer's expectations. In other words, customers perception that depends exactly on their expectations, results in customers' satisfaction.

### **THE ROLE OF CRM**

CRM involves the concept of capability, methodology and technology that allows the company operates through improved customer relationships. The purpose of CRM is to enable more effective (and efficient) implementation of company's goals through a more analytical review of real customer's needs. CRM is focused on creating and maintaining long lasting relationships with customers. Although there are several commercial CRM program packages on the market that support the CRM strategy, it is not technology itself, but a fundamental change in organizational philosophy whose emphasis is on the consumer. These program packages, namely the development of appropriate software and hardware, enable that CRM system becomes largely automated process, with a mission to provide not only information but also to serve as an important tool for decision making and the market analysis. However, successful CRM strategy cannot be implemented simply by installing and integrating a software package and cannot be implemented overnight. The changes are necessary at all levels, including corporate policy, training of employees, marketing systems, information management and the like. This means that all aspects of business must comply with the principles of CRM (Domazet, Zubovic, 2007, p. 83).

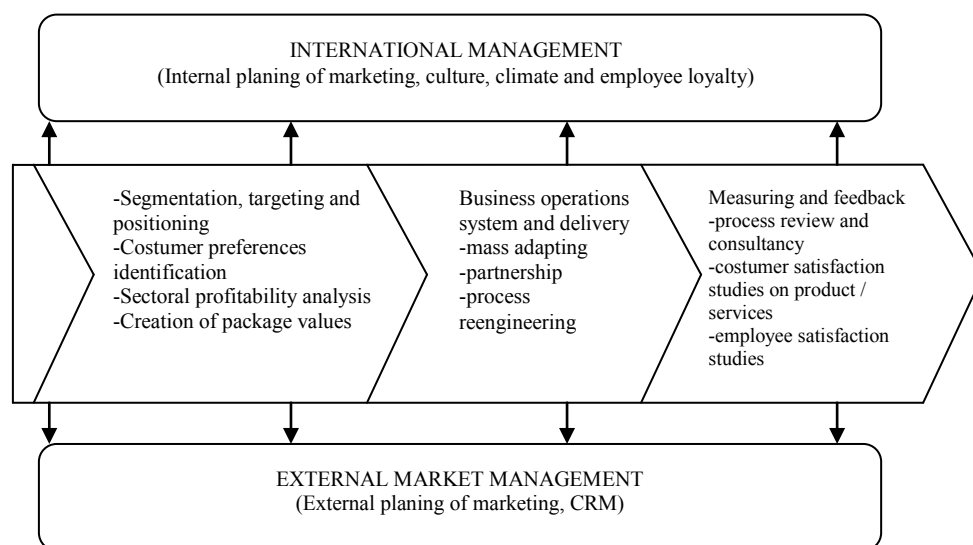
CRM represents the alignment of business strategy, organizational structure and culture of the company, customer information and information technology, in order that all contacts with clients meet their needs and achieve business benefit and profit. Client's business strategy that sets the client in the center of business activities provides the answer to a question that many companies often cannot answer – how many clients do they have and which of them are really profitable. The effectiveness of CRM processes, which should be integrated throughout marketing, sales and customer relationships, includes (Domazet, 2010, p. 197):

- Identification of factors that contribute to a successful relationship with customers,
- Development of customer relationship practices,
- Development of processes that will serve the customers,
- Formulating questions that would most appropriately help in solving potential customer issues,
- Suggesting solutions for customer complaints regarding to product/service,
- Tracking sales and customer support.

CRM model could be applied in the internal environment as well, but then it would comprise modified activities of the bid value, segmentation, targeting and positioning, the system of business operations and delivery, metrics and feedback, external and internal market (Figure 5).

By the selection and hiring of employees, the organization creates the right foundation for growth and development, continuously identifying new processes for the maximal utilization of personnel potential. Internal marketing as a concept that links employee satisfaction, their commitment to the organization, together with improvement of business expertise and skills, and consequently customer satisfaction and loyalty, points to the necessity of creating individual relationships with them in order to establish attractive work environment.

*Figure 5 – CRM chain*



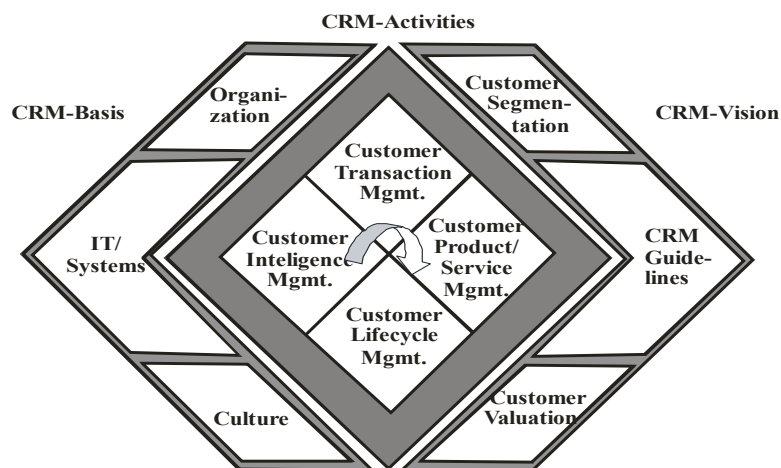
*Source: Adapted on Lovreta et al. (2010, p 180)*

Analogous to strategies in an external environment that consists of a wide variety of customers, companies need to create a personalized relationship with their employees, in order to get to know their range and utilization of their potentials towards developing a working environment that will, together with the promotion of human resources, profitably meet the needs of customers/clients and the thus achieve *raison de vivre* of each company – the profit. CRM concept can significantly improve the relationship with customers, but also internal communication within the company.

Fundamental requirements for successful implementation of CRM include: appropriate business skills and competition intelligence; understanding of end consumers in depth, market way of thinking, synchronized company behavior – an integrated approach to managing channels of communication, sales, and database development. These assumptions form the basis of a conceptual framework for developing the CRM strategy (Payne A, Frow P. 2005, p.171). Here, one must emphasize and recapitulate that CRM process includes: defining bid value, segmentation, targeting and positioning, operations and delivery systems, measurement and feedback, external and internal market as shown in Figure 5.

This process requires strategic approach in its implementation. Possibly the most adequate strategic approach to organizational design was given by Mack et al. (2005) in which they organized the elements of a successful CRM strategy into a Diamond framework as presented in Figure 6. It focuses on vision and basic business activities as key factors for successful implementation of CRM.

*Figure 6 - CRM diamond*



*Source: Adapted on Mack, Mayo and Khare (2005, p. 100)*

Buttle (2001) presented “The CRM value chain (Figure 7) as a proven model which businesses can follow when developing and implementing their CRM strategies. The model is grounded on strong theoretical principles and practical requirements of business”.

The ultimate purpose of the CRM value chain process is to ensure that the company builds long-term and mutually-beneficial relationships with its strategically-significant customers. Not all customers appertain onto this group of customers. Indeed, some customers are simply too expensive to acquire and service. They buy little and infrequently; they pay late; they make extraordinary demands for customer service and sales resources; they demand expensive, short-run, customized output; and then they defect to competitors.

CRM value chain refers to primary and secondary activities in the process of creation of long term relationships with customers, in order to achieve higher level of their satisfaction as the basis for long-term loyalty.

Five primary activities in the CRM value chain include:

1. Customer portfolio analysis – analysis of the customer database aiming to offer different products to them (cross sales).
2. Customer intelligence – activities in respect to understanding individual or groups of consumers and setting up database accessible to all stakeholders whose decisions and activities may affect the attitudes and behavior of consumers.
3. Networking – building a strong relationships network with employees, suppliers, partners and investors who understand the requirements of target consumers. Central role in the model is reserved for customers, who are surrounded by other elements: suppliers, owners, investors, employees, and partners. Management and coordination, according to these elements, can ensure the structuring, communication and delivery of preferred products to customers.
4. Development of products/services value –development of proposals which are creating value for the customers and the company.
5. Managing relationships with customers – with a focus on structures and processes.

Supporting activities are aimed at: culture and leadership, procurement processes, Human Resources, data management process and company organizational design. There are different approaches for defining what necessary elements are needed for successful implementation of CRM strategy. According to Zubovic, Bradic and Dzopalic (2010) fundamental requirements for creation of high quality CRM models are:

- Customers satisfaction and loyalty
- Data protection
- Business intelligence tools
- Enterprise resource planning
- Creation of integrated business systems.

### **RECONSIDERING THE MOTIVATION FOR CHANGE**

Any strategy in management and marketing must be built on a permanent and full compliance fund with specific labor market. Without proposing any comprehensive overview of issues involved, consider the following significant components:

- uneven, inconsistent and segmented elements which are limiting flexibility and labor factor mobility;
- rigid, sensitive and prone to conflict
- confrontation between supply and demand occurs with direct involvement of the main carriers of interest - employee, employers and the state, things which determine the presence of some restrictions of economical, social and political nature;
- equilibrium price, namely salaries are determined by the reduction of the supply accepted because a priority is to maintain and sometimes to increase the wages, even if it determines certain inconsistencies in the sphere of profitability and competitiveness;
- it is a market where intervention elements are based on direct participatory democracy foundations that do not exclude the occurrence of elements from the dictate's area;
- it is the market that has the most domestic and international regulations, which gives the status of an imperfect market. (Done I, 2000, p. 22 )



Obviously, any marketing strategy aims to create and to maintain the balance between different markets and focus on harmonizing specific elements. In this context, giving the fact that labor market is "the active and the decisive factor of any production," it requires respecting specific priority. Not accidentally the labor market is presented as a "sphere of consequences", while other market influences are found in the "sphere causes". For example, it is enough to think that the employees cannot spend money on consumer goods if they didn't sell their labor force for a sufficient wage, and the producers will not make any hiring unless they have sold or contracted a physical production, which by selling it ensures the expenditure's recovery and economical profit. (Gilbert Abraham-Frois, 1994, p.304)

A marketing strategy that aims for the harmonization of human needs, under the existing economical and social imbalances, has to pay a particular attention to moral motivation, especially cultivation of behaviors that ensure the fundamental human rights. In this context, it is essential to stimulate fundamental economical correlations, particularly the correlation between production and consumption, between the temptations of consumerism, the ostentatious and potential recovery of themselves in the factors of production. Life has shown that when people are strongly and positive motivated by the values and the nonconsumist sources, they are less inclined to consume more than what is normal and they are willing to help and support those who have problems. This strategy is known as "voluntary simplicity." (Amitai Etzioni, 2002, p.98.)

Although the position of various states in ranking happiness and well-being are not identified and not sufficiently correlated with GDP per capita level, studies show that the real motivation for performance is conditioned by the existence of a functioning and competitive market economy.

Anyone who would establish a state economic policy in transition economies, as in Romania and Serbia, and wants to join the European Economic Area must be based on the fact that, from the six criteria of convergence of the European community of values, four are being related to human factors: work is a strong cultural value as pleasure; increasing the value of multiple social relationships (friendship, partnership, voluntary association etc.); orientation towards global self; foreshadowing quality of life as a new religion.

## CONCLUSION

Application of new technologies in all aspects of business require that companies and employees continuously acquire new knowledge and skills, where building of a learning organization is the key of long-term market success. The goal of internal marketing is to focus attention of employees on internal activities that need to be developed, maintained, and promoted for the purpose of business and strengthening competitiveness of the company on the external market. In this context, implementation of internal marketing aimed at continuous improvement of the quality of employees, their motivation and satisfaction is crucial to create a highly competitive and progressive companies. Therefore, internal marketing as a concept focuses on the impact and importance of human resources management, because the attraction and selection of competent personnel who are also willing to grow along with the company, is the basis of successful business. Employees are willing to take initiative and identify their goals with corporate goals if there is concern about the company's employees who are educated, motivated and progressing continuously. An organization's ability to take care of employees depends on recognizing the importance of the concept of internal marketing, but also of the level of development of emotional intelligence of managers. In fact, from the managers' point of view, internal marketing influences the development of organizational competencies and improve business performance through the implementation of marketing as a philosophy focused on the external business environment, and human resources, that are the most important instrument for implementing strategy and achieving company goals. This concept includes a well-established and implemented system of education, motivation and stimulation of employees as the basis for their loyalty, without which the management of the company cannot expect optimal results after applying the concept of internal marketing.

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