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## **Linking Internal Marketing with customer outcomes**

### **Abstract**

This study explores how the adoption of an internal marketing (IM) program in a retail banking setting enhances some positive employee behaviours that promote customer perceived service quality. A multilevel research design is adopted which draws evidence from branch managers, employees and customers in order to investigate whether branch manager's adoption of an Internal Marketing philosophy affects front-line employee responsiveness to the firm's internal marketing strategies and their levels of motivation, empowerment and organizational identification respectively. The equity theory and the social exchange theory constitute the theoretical background of this study. Results indicate that manager's IM adoption can enhance employee adoption of IM and raises their levels of motivation, empowerment and organizational identification. The moderating role of manager-employee dissimilarity is also discussed. Finally, findings confirm that employee motivation, empowerment and organizational identification affect customer perceptions of service quality.

## 1. Introduction

Due to an increasing pressure on retail banking firms to raise their service standards in order to differentiate from competitors (Opoku et al., 2009; Papadoulomou-Doukakis and Kitchen, 2004), front-line employees have become key enablers to the achievement of a competitive advantage (Liao and Chuang, 2004). It has been proposed that implementing specific management strategies that favour the adoption of a customer-oriented culture eventually enhances the delivery of superior service quality (Sellgren et al., 2007; Wirtz et al., 2008). Scholars, however, have long neglected the multi-layered nature of the strategy implementation process embedded in retail firms (Wieseke et al., 2009), ignoring branch managers' role for enhancing employees' responsiveness to the diffusion of organizational values and philosophy (Bell et al., 2004; Slåtten, 2009). As a result, practitioners' understanding of branch managers' role for aligning front-line staff with firm's strategic orientation remains limited (Lichtenstein et al., 2010b; Boukis and Gounaris, 2014).

This study discusses brand managers' role for employees' alignment with internal marketing philosophy and identifies some customer-related gains from IM implementation. Internal Marketing (IM) has been proposed as a philosophy which focuses on firm's employees with the aim of rendering them more effective to the delivery of superior customer service (George, 1990; Lings and Greenley, 2009). Branch managers constitute our focal point, as they are the linking pin between top management and branch employees and remain pivotal in aligning individual performance with superordinate goals (Edwards and Peccei, 2010; Homburg et al., 2009). Thus, our first objective is to uncover whether branch manager's adoption of IM philosophy affects some critical aspects of employee performance so that top management gain a more comprehensive understanding of the value of implementing

an internal marketing program throughout the organization. The impact of some established internal marketing outcomes (i.e. organizational identification, motivation and empowerment) on customer perceptions of service quality is also assessed, as scarce evidence identifies external customer outcomes from internal marketing initiatives (Tortosa et al., 2009). The association of IM practices with positive customer outcomes will provide key decision-makers with a clear picture of whether their strategic goals are served through the adoption of an IM program or not (Yang and Coates, 2010; Peltier et al., 2013).

Acknowledging that most management problems involve multilevel phenomena (Hitt, Beamish, Jackson, and Mathieu, 2007), a hierarchical research design is adopted with nested data from three different levels (i.e. managers, employees and customers). This multilevel approach views the internal marketing implementation process from a more spherical view and is expected to provide practitioners an empirically informed understanding of routes through which branch manager's internalization of the firm's strategic orientation contributes to the achievement of customer-related goals.

The article is constructed in the following way. First, we provide the theoretical background of our conceptual model. Next, we develop our research hypotheses, analyse the research design and present the results. Finally, we discuss the implications of our findings and provide some avenues for future research.

## **2. Theoretical Background**

The formation of effective relationships between managers and employees, which is one of the focal points of internal marketing theory, is based upon the **social exchange** theory and the **equity theory**. Social exchange involves the exchange of

tangible and intangible resources between interdependent parties with an expected benefit to both of them (Homans, 1958; Cropanzano and Mitchell, 2005). Social exchange relationships are based on the feeling of common purpose between different parties of a specific relationship and its fulfilment (Gouldner, 1960). These parties, however, will not fulfil their obligation in this exchange relationship unless they perceive that the other party has something of value to offer in this relationship (Chiaburu and Marinova, 2006). Therefore, fulfilling obligations constitutes the key aspect in any social exchange relationship (Rousseau, 1990). For example, beneficial actions directed at employees by the organization and its representatives facilitate the establishment of high-quality exchange relationships that create obligations for employees to reciprocate in positive ways (Settoon, Bennett and Liden, 1996).

Employees' beliefs regarding the reciprocal obligations existing between them and their managers also rely on the **equity theory** (Robinson and Rousseau, 1994) which states that employees evaluate their work by comparing their inputs and associated outputs (Huseman and Hatfield, 1990). As a consequence, managers face the challenge of balancing employee perceptions of inputs and their outputs in their work in order to enhance their perceptions of work-related value and consequently increase various aspects of their performance (Boukis and Gounaris, 2014). Equity theory constitutes the theoretical background of any benefits derived from IM adoption, as employee perceptions that firm's management acknowledges their individual needs will enhance their perceptions of job-related value. This surplus of value will result in growing willingness to reciprocate the firm through higher motivation and organizational identification producing in this way more favourable customer outcomes. Therefore, the main argument of this study is that diffusing

internal marketing philosophy can increase employee perceptions of job-related value, encouraging their reciprocal response towards firm's customers.

### **3. Literature Review and Model Development**

Internal Marketing was initially introduced as an internally directed marketing philosophy focusing on jobs that satisfy the needs of employees so that, eventually, the company's objectives can be met (Ballantyne, 1997). It represents the company's philosophy to create and offer value for its internal market (Lings, 2004) with the aim of encouraging them to enact the firm's external marketing objectives (Lings and Greenley, 2010). Internal marketing programs include activities that improve internal communication effectiveness and customer-consciousness among employees as well as contribute to higher employee motivation and job satisfaction (George, 1990). These activities make employees feel that they are protagonists in the organization and encourage their positive response towards firm's customers (Bell et al., 2004).

The extant literature has identified several internal marketing outcomes at the employee-level such as job satisfaction, empowerment (Gounaris, 2006) and commitment (Caruana and Calleya, 1998). Prior studies also stress the role of IM for internal service quality (Kang et al., 2002), indicating that employees will deliver superior service quality once they have the necessary resources (Schneider and Bowen, 1985) and that service organizations can promote a service culture by rewarding service excellence (Bowen and Schneider, 1988). However, the role of IM for external marketing outcomes is rarely addressed in the extant literature (Opoku et al., 2009; Tortosa et al., 2009), as little research scrutiny is attracted to its impact on any customer consequences (Gounaris et al., 2010; Bell and Menguc, 2002).

The conceptual model developed in next adopts a multilevel perspective of the internal marketing implementation process and investigates the impact of branch manager's adoption of IM philosophy on four front-line employee outcomes (i.e. perceptions of IM, organizational identification (OI), motivation and empowerment) as well as examines the moderating effect of employee-manager dissimilarity on these relationships. In addition, the influence of employee perceptions of IM on organizational identification, motivation and empowerment levels is assessed. Third, the impact of employee organizational identification, motivation and empowerment on customer perceptions of service quality is examined. In this regard, the use of a multilevel approach will allows us to capture manager, employee and customer views, while simultaneously maintaining the appropriate level of analysis for the independent variables (Wech and Heck, 2004).

### *3.1 Branch manager's IM and front-line employee outcomes*

Traditional internal marketing approaches exclusively focus on single level perspectives (i.e. how individual perceptions of IM affect behavioural outcomes) and not on how cross-level interactions influence the success of an internal marketing program (Suh et al., 2011; Lings and Greenley, 2009; Tsai and Wu, 2011). Branch managers' role remains particularly indispensable in retail services, as they are pivotal in implementing organizational strategies at the branch level, by providing appropriate guidelines, directions and support to front-line employees, as well as through their personal interaction with firm's customers (Theodosiou et al., 2012). Despite some recent evidence stressing the importance of cross-level interactions for successful internal marketing efforts (Tsai and Wu, 2011), few research scrutiny is attracted to

whether supervisors can actually enact subordinates to embrace the internal marketing philosophy (Wieseke et al., 2009; Boukis and Gounaris, 2014).

This study advocates that branch managers can enhance employee perceptions of IM on the basis of the social learning theory. Social learning theory proposes that individuals learn either from others by observing their behavior (Bandura, 1977) or other colleagues' performance shapes their perceptions of self-efficacy (Bandura et al., 1980) and acknowledges two types of learning: *experiential* and *vicarious* learning (Huber, 1996). Experiential learning takes place when individuals learn from the consequences of their behaviour and thus, they are more likely to adopt behaviours that result in positive consequences (Bandura, 1977). On the contrary, individuals can engage in vicarious learning by observing other individuals in order to deal with comparable tasks before engaging in a particular behaviour (Manz and Sims 1981). Drawing from these insights, employees' adoption of IM philosophy can be vicariously actualized as branch managers will exert a greater normative influence on them due to their role modeling behavior (Davis and Luthans, 1980). In addition, on the basis of experiential learning, when employees observe their supervisor's behavioural patterns they are expected to form similar outcome expectancies and to adopt behaviours congruent with their supervisor's orientation (Manz and Sims, 1981). On these grounds, we advance the hypothesis that

*Branch manager's IM will enhance employee perceptions of IM (H1).*

Organizational Identification is defined as the extent to which organizational members perceive oneness with the organization (Mael and Ashforth, 1992). Scholars consider the formation of organizational identification as an ultimate goal of IM adoption (Riketta, 2005). The ground for this relationship can be attributed to the social identity theory (Tajfel and Turner, 1979). Managers that endorse employee-

oriented approaches are perceived by employees as being more committed to organizational mission and values that they may consider worth pursuing (Berry and Parasuraman, 1992), while their group-oriented actions are considered as evidence of a positive organizational climate (Van Knippenberg et al., 2004). We contend that branch managers with high focus on employee needs will render the firm as a more attractive target for employees and thus, more easily engage them to the achievement of customer goals. Despite some normative assertions suggesting that manager's IM philosophy shapes positive subordinate consequences (Ahmed et al., 2003), surprisingly, this link remains unchallenged (Wieseke et al., 2009). Therefore,

*Branch manager's IM will account for employee Organizational Identification (H2), after and beyond employee perceptions of IM (H3).*

Motivating front-line employees to their highest performance levels is a critical task of service managers (Latham, 2007). The importance of motivation grounds on the belief that external marketing success is based on motivating front-line employees, as they are the main representatives of a service firm (Hartline et al., 2000). Scholars claim that the extent to which individuals strive to meet their needs is associated with the level of "motivational force" they encounter (Wieseke et al., 2011) and in particular, with the support they receive from their managers (Schmit and Allscheid, 1995).

Applying an employee-oriented philosophy can enhance front-line employee motivation levels through the use of training programs, the provision of performance incentives and a vision about service excellence (Lings and Greenley, 2009). Training programs develop employee skills and abilities that their job description requires enhancing in this way, their service efficiency (Malhotra and Mukherjee, 2003). When employees are appropriately rewarded they are more willing to deliver high-

quality service and display reciprocal behaviours (Guest and Conway, 2002). Third, the provision of an organizational vision worth pursuing helps service firms to motivate employees (Berry and Parasuraman, 1991). Communicating such a vision to employees can help the diffusion of the organisational service culture across the firm (Morgan, 1991) which eventually will render front-line staff more likely to deliver superior service quality (Liao and Chuang, 2004). As no previous study has investigated whether branch manager's internalization of internal marketing can leverage front-line employee motivation levels (Lings and Greenley, 2009), it is hypothesized that

*Branch manager's IM will account for employee motivation (H4), after and beyond employee perception of IM (H5).*

Empowerment refers to allowing employees the discretion to make decisions about routine job-related tasks (Bowen and Schneider, 1985). Scholars argue that empowerment is a structural component of internal marketing programs and thus, high employee focus likely leads to more empowered employees (Gounaris, 2006, 2008). In fact, when front-line employees are allowed to decide themselves how to perform a task they derive extra value from their work (Kelley, 1993), whereas when this creative discretion is restrained, the result is often disappointment and discontentment (Harris and Ogbonna, 2000). A company highly oriented towards its internal market will seek to enhance perceived employee value through responding to employee needs (Gounaris, 2006) and developing their own abilities and self-efficacy (Hartline and Ferrell, 1996). However, scholars solely investigate the role of IM for empowerment at the individual level of analysis (Lings and Greenley, 2005; Gounaris, 2008), ignoring whether branch managers can actually foster a more active work

orientation where employees feel able to shape his/her work role (Webber, 2011; Ellinger et al., 2010). Under such circumstances,

*Branch manager's IM will account for employee empowerment (H6), after and beyond employee perception of IM (H7).*

This study also acknowledges the importance of manager-employee dissimilarity during the investigation of cross-level effects, as the dissimilarity within the manager-subordinate dyad may play a role in these cascading effects (Glomb and Welsh, 2005). Perceived dissimilarity refers to the perception that subordinates' values and attitudes differ from the manager's ones (Harrison and Klein, 2007). We focus on perceived dissimilarity as it may be more important to the process of manager-subordinate influence than the actual one (Tepper et al., 2011). Extant studies associate perceived manager-employee dissimilarity with negative employee outcomes, such as lower job satisfaction (Turban and Jones, 1988). Consequently, it is expected that high perceived dissimilarity will reduce branch manager's impact on front-line employee behavioural responses. So,

*Manager-employee dissimilarity will reduce the impact of manager's IM on employee perceptions of IM (H8a), organizational identification (H8b), motivation (H8c) and empowerment (H8d).*

### *3.2 Antecedents of Perceived Service Quality*

Customer perceived service quality remain of high importance within retail banking (Evanschitzky, Sharma and Prykop, 2012), as the increasing pressure on retail banks to improve their services in order to differentiate themselves from competitors led several banks to implement service quality programmes as a means of gaining and retaining competitive advantage (Papazolomou, 2006). A significant

stream of research has established how employee-customer interactions determine customer outcomes within a retail banking setting (Schneider et al., 1980; Yavas and Babakus, 2010; Evanschitzky, Sharma and Prykop, 2012). For example, Keltner (1995) found that a service-quality-focused strategy contributed significantly to the fact that German banks performed better than U.S. banks. Pugh (2001) found that tellers' display of positive emotions was directly associated with their customers' positive affect and subsequently with positive evaluations of service quality. Moreover, Schneider et al. (1998) proposed that service quality rests on a set of organizational "foundation issues" which were positively associated with branch service climate, which was positively associated with customer evaluations of service quality. Following this research stream, we assert that management commitment to IM will ensure that employees adopt appropriate behaviours to provide high-quality services.

The role of internal marketing for external marketing outcomes has only recently acknowledged (Opoku et al., 2009; Tortosa et al., 2009; Tsai and Wu, 2011). This lack of knowledge prevents practitioners from understanding its contribution to the achievement of customer-related goals (Wieseke et al., 2009) and discourages senior executives from launching an internal marketing initiative. Against this background, an extroverted perspective of IM is required as well as the identification of specific employee behaviours that will ensure the inside out communication of organizational mission and corporate values to customers (Suh et al., 2011). In this vein, three critical employee behavioural outcomes are discussed as drivers of customers' perceptions of service quality; organizational identification, empowerment and motivation.

The importance of organizational identification for perceived service quality lies to the fact that the manner in which employees communicate the company identity to customers is affected by their level of identification with their employer (Lichtenstein et al., 2010a; Ahearne et al., 2005). OI is thought to engage employees more actively in behaviours that benefit their organization (Ellemers et al., 2004), rendering them more aligned with organizational goals (Van Knippenberg and Sleebos, 2006) and more conducive to the delivery of superior customer service (Riketta, 2005). However, scholars largely ignore its customer-related implications (Webber, 2011; Maxham et al., 2008). Based on the notion that efforts directed at improving the organization often stem from organizational identification (Dutton et al., 1994), it is assumed that

*Higher employee organizational identification will enhance customer perceptions of service quality (H9).*

We also highlight the role of front-line employee motivation for customer perceptions of service quality. Motivation is considered as a key antecedent of customer satisfaction (Lings and Greenley, 2009) and, insofar, its value within the service encounter context remains relatively unchallenged (Chebat and Kollias, 2000). The rationale for this link grounds on the reflection that by delivering front-line employees a surplus of perceived benefits in exchange for their labour inputs, their service delivery efforts will increase and customer perceptions of service quality can be enhanced (Schneider et al., 2005; Yoon et al., 2001), as front-line employees' efforts constitute an integral part of their experience with the firm (Bitner, 1990). Second, as front-line employees' job effort is also enhanced by their perceptions of value they receive from their manager (Schmit and Allscheid, 1995), they can become

more willing to put the extra effort to deliver superior customer service. On these grounds, we assume that

*Higher employee motivation will enhance customer perceptions of service quality (H10).*

Allowing front-line staff to use their discretion in serving customers has many positive influences on their behavioral responses during the service encounter such as reduced role stress and role ambiguity (Niehoff et al., 1990; Singh, 1993). When no tangibles are delivered, the service provider is often the service from the customer's view, and empowerment allows the employee to customize the service so as to satisfy the customer's needs and wants (Bitner, 1990). Moreover, the increased discretion and flexibility experienced by empowered front-line employees is likely to increase their confidence in performing job-related tasks and render them more responsive to deliver superior customer service (Chebat and Kollias, 2000). As rare evidence exists regarding the link between employees' feelings of empowerment and customers' perceptions of service quality (Hartline and Ferrell, 1996; Snipes et al., 2005), the following hypothesis is advanced:

*Higher employee empowerment will enhance customer perceptions of service quality (H11).*

**Insert figure I**

## **4. Methodology**

### *4.1 Sampling and data collection*

The retail banking industry was selected as the empirical setting for this study for several reasons. First, branch managers' internalization of strategic orientation, organizational norms and corporate values are directly related to their behaviour when

carrying out their job responsibilities (Rigopoulou et al., 2012). Second, the extended network of retail branches renders branch managers as key actors in implementing organizational strategies at the branch level, by providing appropriate guidelines, directions and support to front-line employees, as well as through their personal interaction with customers. In such service contexts, strategic orientations will not succeed unless the branch manager and the employees remain aligned with superordinate goals (Cadwallader et al., 2010). Furthermore, branch manager's alignment with firm's strategic vision is a key determinant of different decision frameworks and strategy implementation. As a result, retail bank branches provide an appropriate setting for exploring how organizational strategic orientations translate into specific work-related behaviours that drive store performance.

A single Greek retail bank firm was selected where the educational learning phase of an internal marketing program was completed a few months before this study takes place and thus, the investigation of our research objectives was facilitated. The educational learning stage consists of teaching employees the basic skills of creating superior value for employees whereas the "market-back approach" stage, which follows, involves experimentation with actions specific to the company's internal market with the aim of delivering higher value to both the customers and the employees. Despite the inherent difficulty to generalize findings from a single organization, evidence from several retail banks was not included in our study for two reasons. First, the number of retail banks in the Greek finance sector is decreasing due to several M&As (Chouliaras and Stergios, 2013) and additionally, it remains significantly low in comparison to other service industries.

Regarding the data collection process, in first, we received the top management's approval for this project and then contacted branch managers asking

for support in the research. Fifty three branches agreed to participate in the study. This number of groups is a relatively satisfactory occurring number (Maas and Hox, 2004), given that the standard errors of the higher-level variances are not estimated too small when the number of groups is around 50 and therefore, this size is acceptable (Maas and Hox, 2005).

An important feature of this study is that it is based on triadic data drawn from branch managers, front-line employees and customers. The number of employees per branch ranges from 7 to 16 and in average we collected data from each branch manager, approximately four employees and 15 customers per branch. In total, we obtained 53 questionnaires from branch managers through personal interviews (81.3% response rate), 212 usable questionnaires from front-line employees (67.6% response rate) and 769 questionnaires from customers (35.4% response rate). Branch manager data is collected through personal interviews. Regarding front-line employee data, the researchers provide a separate return envelope for each respondent. After receiving approval, we randomly contacted branch customers from each of the branches participating in the study. We addressed to all customers that were visiting each branch for a three-day period. Research assistants requested each customer to participate in the study after entering the branch. All customers were requested to evaluate overall levels of branch service quality (not just the performance of a single employee) on the basis of their previous visits in the specific branch during the last month. Therefore, we included in our sample only customers that had visited the specific branch more than one times during the last month but also had been customers of the same branch during the last year.

Regarding sample demographics, branch managers range in age from 34 to 53 with an average age of 41 years. In addition, 83% of branch managers were males

whereas 17% were females, 50.9% possessed a post-graduate title and 88.6% had a university degree. Regarding the respondents' working experience in the specific position, 20.7% of the respondents were branch manager from 1-3 years, 26.4% had an experience from 3-5 years whereas 52.9% had an experience for more than five years. Front-line employees had an average age of 36.3 years, 60.3% were male and 84.4% has a university degree. Regarding customer demographics, respondents were spread across all age groups. Approximately 18.5% of the respondents were between the ages of 18 and 25, 22.4% between the ages of 26 and 35, 21.3% between the ages of 36 and 45, 25.8% between the ages of 46 and 55 and 12 % over 56 years.

#### *4.2 Measures*

All measures employed in this study are based on extensive review on the services marketing and OB literature. Given that we draw evidence from multiple sources three different structured questionnaires were designed and employed, one for each sample unit. All constructs have a 7-point scale, with anchors of strongly disagree (1) and strongly agree (7). Branch managers report on the 'IM' and the 'perceived dissimilarity with subordinates' constructs whereas employees generate data on 'organizational identification', 'IM', 'empowerment' and 'motivation' constructs. Finally, customer's sample is used to generate data on the 'service quality' construct. Front-line employees did not rate service quality, as this measurement practice is prone to create common method bias which may provide biased estimates (Doty and Glick, 1998).

The Internal Marketing scale is adopted from Foreman and Money's (1995) 15-item scale and is employed for both managers and employees. This scale measures three dimensions of IM: service training programs (7 items), performance incentives

(3 items) and vision about service excellence (5 items). We selected the specific scale as this study focuses on the impact of IM practices on employees' perceptions and not particularly on operational aspects of IM (i.e. formal communication channels). Perceived dissimilarity with subordinates was based on Tepper et al.'s (2011) five-item measure. We measured this construct from branch managers given that employees may not feel comfortable to express their dissimilarity with their manager or may overrate their similarity levels and thus, their responses may be biased. To measure OI, Mael and Ashforth's (1992) six-item scale is employed. Service quality relies on the Gounaris et al.'s (2003) 25-item measure. We select this scale because it has been previously employed for assessing service quality at the branch level (Gounaris et al., 2003), in line with several scholars suggesting that service quality measures should be both industry- (Ford et al., 1993) and country-specific (Karatepe et al., 2005). Motivation was measured with three items on the basis of Patchen's (1970) measure while the empowerment scale is based on Hartline and Ferrell's 8-item measure (1996).

#### *4.3 Data Analysis Technique*

The commonly used approach to survey members of one level about their perceptions of variables that are relevant at more levels incorporates a risk of common method bias and raises the issue of informant bias due to the specific hierarchical position of the surveyed subjects (Smidts, Pruyn, and van Riel, 2001). As a result, a hierarchical approach was selected to test our model in order to minimize common method bias among respondents. The HLM software considers data that are "nested" at different levels when deriving parameter estimates, minimizing this way common method bias (Raudenbush and Bryk, 2002).

Regarding the nested data structure of the study, branch managers are the main unit of analysis (level-3) and employees are nested within branch managers (level-2). Customers (level-1) are nested within branches (level-2) in the sense that employee responses were summated at the branch level, as most service encounters involve repeating interactions with multiple branch employees and not just of the performance of a single front-line employee (Liao and Chuang, 2004). Moreover, on the basis of the attraction-selection-attrition theory (Schneider, 1987), the shared branch climate often results in homogenous front-line employee behaviours which shape customer overall experience and better predict customer outcomes (Borucki and Burke, 1999) and therefore, customers' perceptions are shaped by the cumulative level of front-line employee service delivery efforts during their previous visits to the branch.

## **5. Results**

To justify the use of predictors from other levels, we ran five null models to determine whether there was significant between-group variation. These null models are intercept-only models in which no predictors are specified for the higher levels of analysis. For each model we first estimated the null model with no predictors at any level in order to partition the variance into within and between-branch components for each of the dependent variables (Raudenbush and Bryk, 2002). The results reveal significant between branch variance for all dependent variables; IM ( $x^2=1020.74$ ,  $p<0.001$ ), OI ( $x^2=616.20$ ,  $p<0.001$ ), motivation ( $x^2=631.63$ ,  $p<0.001$ ), empowerment ( $x^2=943.27$ ,  $p<0.001$ ) and perceived service quality  $x^2=660.38$ ,  $p<0.001$ ). These null models also provide info for computing the intraclass correlation coefficient (ICC) which indicates the proportion of between-groups variance relative to the total variance exhibited by a variable. This index represents the maximum amount of

variance in a lower variable that can potentially be explained by a higher level predictor.

#### **Insert table I**

Table I also reports on descriptive statistics, ICC indices and internal consistency reliabilities whereas table II presents intercorrelations of all study variables. As table I indicates, all the measurement scales have reliability indices that exceed the 0.70 threshold (Nunnally, 1978) and AVE is greater than 0.50 (Fornell and Larcker, 1981). Additionally, CFI and TLI indices exceed the 0.90 threshold while the RMSEA index is lower than 0.08 for all the measures of the study (Hu and Bentler, 1999).

#### **Insert table II**

Four HLM models (models 1-4) were performed in order to examine the hypothesized effects from branch managers to front line employees and one model for employees' effect on customers (model 5). Tables III and IV provide an overview of the results of these HLM models. Concerning cross-level effects, we find strong support for the manager IM-employee IM relationship ( $\gamma=0.93$ ,  $p<.01$ ) and thus hypothesis H1 was verified. Furthermore, hypothesis H2 was supported as manager IM significantly predicted front-line employees' OI ( $\gamma=0.61$ ,  $p<.01$ ). We also find that branch manager's IM is strongly related to front-line employee level of motivation ( $\gamma=0.84$ ,  $p<.01$ ), in support of hypothesis H3. Results indicate as well that manager's IM influence front-line employee empowerment ( $\gamma=0.66$ ,  $p<.01$ ), in support of hypothesis H4. Considering single level effects, individual perceptions of IM are positively related to organizational identification ( $\gamma=0.42$ ,  $p<.05$ ), motivation ( $\gamma=0.75$ ,  $p<.01$ ) and empowerment ( $\gamma=0.51$ ,  $p<.01$ ), supporting thus hypotheses H5, H6 and H7 respectively. Perceived manager-employee dissimilarity significantly moderated the

manager IM-employee IM relationship ( $\gamma=-0.03$ ,  $p<.05$ ), the manager IM-employee motivation link ( $\gamma=-0.05$ ,  $p<.01$ ) as well as the manager IM-employee OI relationship ( $\gamma=-0.07$ ,  $p<.05$ ), in line with hypotheses H8a, H8b and H8c. However, the moderating effect of perceived manager-employee dissimilarity on the manager IM-employee empowerment was not supported ( $\gamma=-0.05$ ,  $p>.05$ ), rejecting thus hypothesis H8d.

### **Insert table III**

The results of the cross-level effects from front-line employees (level-2) on branch customers (level-1) are provided in table IV (Model 5). The model performed suggests that front-line OI is a predictor of perceived service quality ( $\gamma=0.19$ ,  $p<.05$ ), in support of hypothesis H9. Similarly, employee motivation as a significant driver of perceived service quality ( $\gamma=0.23$ ,  $p<.05$ ), in support of hypothesis H10. Results also indicate a significant effect of front-line employee empowerment on perceived service quality ( $\gamma=0.21$ ,  $p<.01$ ) supporting thus, hypothesis H11.

## **6. Discussion**

Prior literature is largely prescriptive with little in the provision of empirical evidence of whether retail firms can enhance their performance when they focus on their internal market (Papasolomou, 2003; Tortosa et al., 2009). The lack of bridging different levels of analysis across the organization prevented retail managers from developing a comprehensive understanding of how cross-level interactions between different organizational echelons affect the implementation of the firm's strategic orientation. Against this background, this study provides an important shift by formally including internal marketing into multilevel marketing research and establishes another link in the IM-organizational performance relationship,

uncovering some behavioural routes through which the positive effects of IM can add to the achievement of firm's external marketing objectives.

On the basis of the equity and the social exchange theory, this study confirms a downstream flow of influence from branch managers to front-line employees, verifying that effective internal marketing efforts highly depend on managerial behaviours and actions. We also emphasize social learning theory within the realm of an internal marketing perspective by producing the first study to combine these theoretical domains into a single conceptual model. The integration of these areas is important as social learning theory can constitute the theoretical underpinning of the diffusion of the marketing philosophy across retail organizations.

Retail branch managers are posited at the heart of the firm's internal marketing efforts, as their high levels of IM can render front-line staff more identified with the firm, more empowered and more motivated to serve customers. This study is the first to provide strong empirical evidence for the impact of branch manager's IM on employees' organizational identification. This is a notable finding as branch manager's IM can reduce the amount of organizational resources required to increase front-line employee OI, increasing levels of staff retention. Branch manager's actions, and not just strict organizational policies employed within bureaucracies, determine the effective adoption of organizational directives. Findings also indicate that branch manager's IM levels shape employee motivation, displaying thus, the importance of non-financial job-related aspects that influence retail store performance. On the other hand, perceived manager-employee dissimilarity can be considered as an inhibitor of IM adoption, as high levels of manager-employee dissimilarity suppress manager's impact on employee OI and motivation levels. Therefore, managers should pay

attention to the selection of the appropriate staff that engages to communicating organizational directives and goals and ensure a high employee-supervisor fit.

From a methodological view, the use of a nested research design allows us to explore how managerial behaviours stress positive employee consequences in line with recent studies in the field highlighting manager's pivotal role for the diffusion of marketing philosophy across the firm (Lam et al., 2010; Wieseke et al., 2011). This approach enables managers to realize how top management initiatives are performed down the organizational pyramid and interpreted at different levels of the organizational hierarchy. By incorporating customer perceptions in our model, we depart from traditional introverted internal marketing approaches and emphasize the extroverted nature of IM which is reflected upon the achievement of some customer-related goals. Despite calls for an integrated conceptualization of the marketing philosophy notion that should deliver benefits to several stakeholders (Gounaris et al., 2010), surprisingly, this study is the first to provide evidence of a broadened view of IM by linking its adoption with customer outcomes. Unless some positive customer-related implications are associated with IM adoption, its importance for retail banking firm performance cannot be justified, as the fact that organisational structure determines branch employees' work in retail banking cannot be overlooked (Papazolomou, 2006).

## **7. Managerial implications**

The results of this study have some important practical implications for retail banking firms. Branch manager's IM adoption is anticipated to render employees more responsive to the delivery of service excellence. Acknowledging that front-line employees do not work in a vacuum but instead their performance is influenced by

contextual factors, manager's IM adoption emerges as a critical prerequisite before other management efforts are made to deliver higher value to employees with the aim of delivering superior customer service. We set branch managers as the most crucial group of internal customers that top management should address and promote the organization before implementing an internal marketing program across the whole firm. Although financial services are primarily driven by utilitarian considerations (Wallace and de Chernatony, 2011), banks should concentrate their efforts to a greater extent on branch managers for two reasons. First, their normative influence on employees can facilitate employee internalization of organizational strategies and directives in a more efficient and resourceful way. Additionally, branch managers appear to improve store performance by shaping some positive employee behavioural outcomes that boost customer perceptions of service quality. Moreover, their influence on employee organizational identification is crucial, as lower OI is often associated with higher turnover rates (Edwards and Peccei, 2010).

The most vital practical implication of this study is that implementing an IM program is for the very first time associated with some tangible benefits for retail banking firms. The existing lack of evidence about gains associated with adopting such an expensive and time-consuming program may discourage several managers from allocating significant organizational resources to the adoption of an IM program. Our findings stress the contribution of IM towards the more effective implementation of organizational directives and strategies, acknowledging the inability of bureaucratic structures to intrinsically motivate and leverage non-controllable aspects of individual employee performance.

## **8. Limitations and Future research**

As with all research, there are some limitations inherent in our study that restrict its potential generalizability. First, we draw evidence from a moderate number of a single firm's branches and thus we cannot generalize our findings in another retail service context. Another inherent limitation is that we examine the impact of the implementation of an internal marketing program without collecting longitudinal data regarding customers' perceptions of delivered service quality before and after the implementation of this program. The lack of controlling for potential exogenous effects or other contextual factors that affect IM adoption is also an important limitation of this study. Additionally, we neither investigate for other managerial behaviours which can shape positive front-line employees' behaviours nor incorporate individual-level characteristics which may moderate the manager's influence on employees.

In considering future avenues that stem from this study, we emphasize the importance of incorporating evidence from multiple organizational levels, as the services marketing literature largely ignores how cross-level influences affect retail store performance. Additionally, the importance of diffusing IM philosophy for enhancing market orientation behaviours should be more explicitly considered as well as for formal or informal corridors through which these effects are actualized. Future research should also explore the impact of work group socialization and interpersonal clashes on the contact employee-manager dyad in order to be determined whether interpersonal factors account for employee responsiveness to the firm's internal marketing efforts. Finally, scholars should explore whether IM diffusion can create other customer related implications such as reducing customer complaints.

In conclusion, the results presented in this study clearly suggest an important first step in understanding how IM philosophy can be effectively implemented within

a retail banking context. In addition, this study paves the way for a paradigm shift and adopts an extroverted IM perspective, breaking loose from its internal focus and considering a far more important scope, that of generating gains for diverse groups of stakeholders, such as the company's customers and the company's employees.

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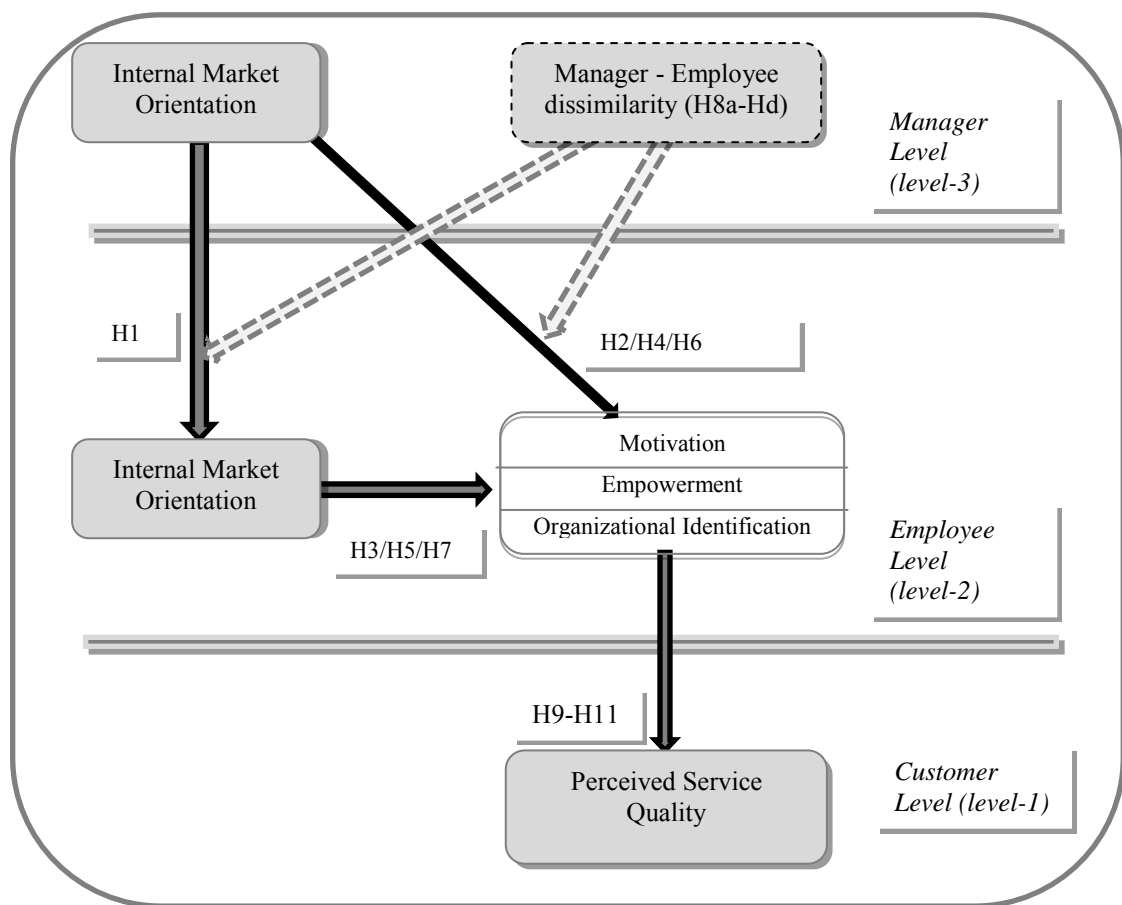
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**Figure I**



**Table I – Means, Standard Deviation, ICC and Reliability indices**

<b>Variables</b>	<b>Mean</b>	<b>SD</b>	<b>CFI</b>	<b>TLI</b>	<b>RMSEA</b>	<b>Cronbach A</b>	<b>ICC</b>
<b>Level-3</b>							
<b>M_IM</b>	4.34	0.89	0.921	0.932	0.047	0.854	-
<b>M_DIS</b>	3.37	1.27	0.968	0.955	0.039	0.912	-
<b>Level-2</b>							
<b>E_IM</b>	3.93	0.96	0.944	0.957	0.046	0.869	0.68
<b>E_OI</b>	4.31	0.95	0.962	0.971	0.035	0.911	0.62
<b>E_MOT</b>	4.32	1.47	-	-	-	0.828	0.64
<b>E_EMP</b>	4.61	0.98	0.938	0.927	0.027	0.891	0.67
<b>Level-1</b>							
<b>C_PSQ</b>	4.09	0.76	0.913	0.908	0.056	0.783	0.55

M\_IM=branch manager IM, M\_DIS=perceived manager-employee dissimilarity, E\_IM=front-line employee IM, E\_OI=front-line employee organizational identification, E\_MOT= front-line employee motivation, E\_EMP= front-line employee empowerment, C\_PSQ= customer perceived service quality.

**Table II- Correlation Matrix**

	<b>E_MOT</b>	<b>E_OI</b>	<b>E_EMP</b>	<b>E_IM</b>	<b>PSQ</b>	<b>M_DIS</b>	<b>M_IM</b>
<b>E_MOT</b>	1						
<b>E_OI</b>	.596**	1					
<b>E_EMP</b>	.524**	.657**	1				
<b>E_IM</b>	.672**	.580**	.675**	1			
<b>C_PSQ</b>	.008	-.012	-.074	-.156*	1		
<b>M_DIS</b>	-.038	.089	-.251	-.212	.014	1	
<b>M_IM</b>	-.155	-.231	.042	.218	-.146	-.527**	1

\*\*. Correlation is significant at the 0.01 level (2-tailed). \* / Correlation is significant at the 0.05 level

(2-tailed).

**Table III –Estimation of HLM results (with robust standard errors)**

<b>Model (dependent)</b>	<b>Model 1 E_IM</b>	<b>Model 2 E_MOT</b>	<b>Model 3 E_EMP</b>	<b>Model 4 E_OI</b>
<b>Intercept</b>	3.96**(0.05)	4.30**(0.09)	4.63**(0.09)	4.34**(0.08)
<b><math>\gamma</math> (SE)</b>				
<b>M_IM</b>	0.93**(0.04)	0.84**(0.10)	0.66**(0.11)	0.61**(0.08)
<b>E_IM</b>	-	0.75**(0.20)	0.51**(0.10)	0.42**(0.14)
<b>Interaction Effects (SE)</b>				
<b>M_DIS x M_IM</b>	-0.03*(0.01)	-0.05*(0.02)	-0.05 (0.02)	-0.07*(0.02)
<b>Model Deviance</b>	313.11	433.66	335.71	394.50

\*\* . Correlation is significant at the 0.01 level (2-tailed). \* / Correlation is significant at the 0.05 level

(2-tailed). **M\_IM**=branch manager IM, **E\_IM**=front-line employee IM, **E\_MOT**= front-line employee motivation, **E\_EMP**= front-line employee empowerment, **E\_OI**= front-line employee organizational identification, **M\_DIS**= manager-employee dissimilarity.

**Table IV - Estimation of HLM results (with robust standard errors)**

<b>Model (dependent)</b>	<b>Model 5 – C_PSQ</b>	
<b>Intercept</b>	4.34** (0.06)	
	$\gamma$ (SE)	<b>t-value</b>
<b>E_MOT</b>	0.23* (0.07)	2.98
<b>E_EMP</b>	0.21** (0.06)	3.42
<b>E_OI</b>	0.19* (0.08)	2.19
<b>Model Deviance</b>	1601.70	

\*\*. Correlation is significant at the 0.01 level (2-tailed). **E\_MOT**= front-line employee motivation, **E\_EMP**= front-line employee empowerment, **E\_OI**= front-line employee organizational identification.

