

Do Strong Internal Relationships Really Lead To Strong External Relationships: An Initial Examination

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Abstract

This paper examines the link between internal relationship strength and the ability of employees to develop relationships with external customers. The results of a survey of employees measuring the strength of the relationship an employee has with the firm and then their perceived ability to develop relationships with customers demonstrated that such an association does exist. A moderately strong association was found to exist. Hence, the degree to which employees feel that they have a strong relationship with their employer does have some influence on the way they feel they are able to build strong relationships with customers. Further research is recommended exploring the link between these in greater detail as well as extending the research to a larger survey group. Perceived ability to develop external relationships needs further development as a construct.

Introduction

Heskett et al (1994) first proposed that what happens inside the firm has an impact on what happens external to the firm. Looking from the perspective of service quality, they proposed that internal service quality and satisfaction impacts on external service quality and satisfaction, ie the way that the employee is served, subsequently impacts on the way that the employee then serves the customer. Subsequent empirical support has been found for their theory (for example Schlesinger & Zornitsky 1991; Rucci, Kirn & Quinn 1998; Loveman 1998). However, the internal/external link has received limited attention (Loveman 1998). Further, the service-profit chain has been restricted to examination of service quality. To date, there has been no expansion into examination of the part that relationships play in the provision of service quality. In other words, the service-profit chain is yet to be expanded to include a relationship marketing perspective.

Relationship marketing focuses on the importance of relationships to success with customers. There has been some work which proposes that internal relationships impact on external relationships (for example Grönroos 1996, Payne et al 1994, Reynoso and Moores 1996). However, empirical examination of this is lacking, with the majority of literature merely proposing the existence of such a link (Gummesson 2000; Liljander 2000). As a result there have been quite a few calls for more research related to the impact of internal relationships on external relationships (eg Voima 2000).

Hence, the current research focuses on empirically exploring this notion that internal relationships impact on external relationships.

Literature Review

Relationship marketing has long been seen to constitute an important approach to marketing to maximise returns for the firm (Gronroos 1994). Considerable attention has been given to

the advantages provided by relationship building with external customers. It is now recognized that a competitive advantage can be gained through retention of customers as well as additional business that is gained through positive word of mouth (Gummesson 2002; Christopher, Payne & Ballantyne 1991; Webster 1992; Morgan & Hunt 1994). Overall, relationship marketing is seen to be good for business.

Traditionally, relationship marketing has been measured using trust and commitment as indicators of the existence of relationship marketing (Morgan & Hunt 1994). This provides a good overall measure of relationship marketing activities within a firm. Relationship strength, on the other hand, has more recently been seen to provide an indication of the strength of individual relationships. As would be expected from the marketing perspective, much of the attention of relationship marketing has been on relationships with external customers.

Relationship marketing focus has also moved inside the organisation. For example, more recent marketing orientation literature has broadened to consideration of a relational exchange process towards the firm's employed resources (Helfert, Ritter & Walter 2002). More recently, however, there has also been a focus on internal relationship building. Much of the literature to date has merely mooted that internal relationship building is important (for example Bejou 1997). However, there is also some evidence of measurement of internal relationship strength (for example Bond et al 2004; Herington 2004; Herington, Scott & Johnson 2005).

Although there has also been some recognition of the link between internal relationship strength and external relationship strength, there is yet to exist an attempt to verify such an association with empirical evidence. Hence, the purpose of this study was to provide an initial examination of the link between internal relationship building and external relationship building.

Methodology

The research utilized a convenience sample size of 96 front-line employees from an SME in the medical services industry. Whilst the size of the dataset limits the generalisability of the results, some initial indication of the link between internal and external relationship building is able to be provided by the research. Reliability of results were assessed using Armstrong and Overton's (1977) approach.

The association between the relationships was measured from only one perspective in this initial study, that is the front-line employees. This enabled examination from just one perspective for opinions about both relationships. Hence, from a determination of the strength of their relationship with their employing firm (the internal relationship), those employees who have face-to-face contact with customers were also able to provide an opinion about how they felt they were able to develop strong relationships with customers (the external relationship).

Firstly, the strength of the relationship between the firm and the employee was measured from the perspective of the employee, using an internal relationship strength scale developed by Herington (2004). Because it is this front-line employee who then serves the customer, the perception of their ability to develop a strong relationship with customers was then measured, using items developed especially for this research.

Internal relationship strength has been found to be a higher order construct represented by a number of different indicator constructs (ie communication, attachment, shared goals and values, respect, cooperation, balanced power, trust and absence of damaging conflict) (Herington 2003). For the purposes of this research, each of the individual constructs were assessed for reliability and validity prior to a composite single variable being calculated for each of the indicator constructs. This resulted in internal relationship strength being treated as a first order construct represented by the 8 composite items. Structural equation modeling was then used to determine that the model provided a good fit to the data, although results are limited by the small dataset. This validation of the overall internal relationship strength model would then enable the creation of a single variable as an overall indication of the level of internal relationship strength perceived by each respondent, thereby constituting a total aggregation approach (Bagozzi & Heatherton 1994). The main advantages of the total aggregation model is simplicity, the ability to capture the essence of the underlying meaning of a concept and the smoothing of random error (Bagozzi & Heatherton 1994; Baumgartner & Homburg 1996).

Employee perceptions of their ability to develop external relationships was measured using a single item which asked respondents to indicate their degree of agreement or disagreement (1=strongly disagree to 5 = strongly agree) with the statement “I am able to develop strong relationships with customers”.

A Pearson correlation was then utilised to determine the nature of the association between the composite internal relationship strength variable and perceived ability to develop external relationships.

Results

The 96 collected responses represented a response rate of 76% of the front-line employees of the surveyed firm. Respondent characteristics indicated respondents typically female (77%), aged between 30 and 39 (35%) and working for the firm from 0 to 5 years(34%). Assessment of early versus late respondents indicated that no significant differences were found in response, thereby supporting reliability of the results (Armstrong & Overton 1977).

Each of the individual indicator constructs of internal relationship strength were found to be reliable (with Cronbach alphas reported between 0.79 and 0.86). CFA using EQS was used to determine that the measurement scale for each of the constructs provided a well fitting representation of the relevant construct. Assuming the possible violation of distributional assumptions given the small sample size (Byrne 1995), the ‘robust’ statistics available with EQS were utilised. All measurement models passed the cut-off requirements for the corrected CFI (CFI*), and the normed Satorra-Bentler chi-square ($S-B\chi^2/df$) (Satorra & Bentler 1994) as well as SRMR. Results are all reported in Table 1. Composites of each of the constructs were then computed and an overall assessment of the internal relationship strength model was undertaken using the composites in a partial aggregation (Bagozzi & Heatherton 1994) examination of the fit of the model to the data. A good fitting model was found, indicating that the internal relationship strength construct was appropriate and internal relationship strength could be treated as a higher order construct. At this point, the entire internal relationship strength was transformed into a single composite variable to represent internal

relationship strength under undertake the examination of the association between internal relationship strength and external relationship building.

To answer the main hypothesis for this research, the internal relationship strength composite and the single item measure of ability to build external relationships were then correlated. A moderately strong correlation was found ($r=0.55$), thereby rejecting the null hypothesis and indicating that quite a strong association does exist between the level of internal relationship strength and the ability to build external relationships by respondents to this survey.

Table 1 – Results of confirmatory factor analysis

Scale	Sample item	S-B χ^2 / df	CFI*	SRMR	α
Cooperation	People in this organization feel like they are “in it together”	2.1	0.99	0.02	0.80
Balanced power	I have significant autonomy in determining how I do my job.	0.6	1.00	0.01	0.80
Communication	Open communication exists between management and employees.	1.5	0.99	0.02	0.86
Attachment	Management and employees get along well together.	1.6	0.99	0.01	0.76
Shared goals and values	I feel that the values of this organization match my own	0.7	1.00	0.01	0.83
Respect	I feel that I am held in high regard in this organization.	0.5	1.0	0.01	0.83
Trust	Employees in this organization can count on management to be sincere.	1.9	0.99	0.02	0.86
Absence of damaging conflict	Disagreements are resolved quickly in this organisation.	2.8	0.99	0.03	0.79

Discussion

The results indicate that there would appear to be an association between internal relationship building and external relationship building, thereby confirming the theorized academic literature. The findings also support frequent anecdotal evidence presented from firms and leaders who espouse the virtues of building strong internal relationships and their positive impact on external relationships, despite not being able to actually ‘prove’ this (for example, Rosenbluth & McFerrin Peters 1992, 1998; Freiberg & Freiberg 1998; Pollard 1996). Hence, the results provide some evidence that if an employee feels that a strong relationship exists between themselves and their employer, they are also likely to feel that they can build strong relationships with customers. This finding provides empirical evidence which has hitherto been lacking in terms of actually demonstrating that this link exists. To date the literature has been anecdotal and/or merely theoretical in its supposition that this link does actually exist.

What is not known from the research, however, is whether the association exists because employees naturally feel more inclined to develop a strong relationship with customers, or whether relationship building is more likely to be a natural focus of a firm that works hard at building strong relationships generally, that is a firm that works on building relationships with employees will also be generally focused on helping employees build strong relationships with customers. Perhaps such firms are relationship marketing oriented which creates a general environment for relationship building. This could be explored in future research.

Conclusion

There is growing evidence that building relationships is good for marketing success and therefore good for business. The importance of internal relationship building and its impact on external relationships has been discussed as important, although limited actual empirical evidence exists to support such claims. This research provides an initial exploration of such a link, and as such has provided empirical support of a moderately strong link between the employees perception of their relationship with their employer and their subsequent perceived ability to develop relationships with customers.

As these results are based on a small sample, further expanded research is naturally required to confirm the findings. A larger dataset will also enable a more disaggregated validation of the internal relationship strength construct prior to total aggregation.

Further exploration of a multi-item scale to measure employees perceptions of their ability to develop strong external relationships would enhance the results here as well as provide a useful construct to further and more deeply explore external relationship building. The research could also be expanded through the inclusion of a number of customer relationship metrics, such as internal relationship strength and customer retention, customer value, level of customer expenditure and customer turnover.

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