Internal market orientation as a value creation mechanism

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Purpose - This conceptual paper aspires to re-examine the nature, aim and scope of Internal Market Orientation (IMO) and introduce it as a value creation mechanism for the firm's internal market. A service-dominant logic (SDL)-based perspective of the IMO notion is advanced and the key steps and phases for value creation in the internal market are outlined.

Design/methodology/approach - This conceptual paper bridges the IM discourse with the service-dominant logic literature and the latter's implications for internal marketing theory and practice are discussed.

Findings - Drawing on the premises of the service-dominant logic, IMO re-surfaces as an interconnected operant resource that can be enacted through performing three sets of activities central in the value creation process for internal stakeholders (i.e. value-identifying, value-generating and value-enhancing activities). These groups of relevant value-enabling activities required for IMO enactment are extensively discussed and their role in the value creation process is scrutinized.

Originality/value - This conceptual paper aspires to provide a managerially relevant understanding of value creation in the firm's internal market. A SDL-driven understanding of IMO is advanced setting it as a value creation mechanism appealing to a wider range of organizations.

Keywords: Internal Market Orientation, service-dominant logic, service value co-creation, internal marketing, employees

Introduction

Service marketers have long realized the importance of the firm's staff in enhancing organizational performance and developing a sustainable competitive advantage (Liu *et al.*, 2007). Increased competition and demanding customers render the role of internal stakeholders more vital, as contemporary organizations strive to engage customers in service delivery and enhance the value offered to them (Wang and Netemeyer, 2002). Unsurprisingly, considerable scholarly attention has been dedicated to understanding the role of internal stakeholders (and especially frontline staff) in shaping customers' experience, which is the focus of the internal marketing (IM) discourse (George, 1990; Lings and Greenley, 2005). IM was initially suggested as a philosophy of treating employees as an intermediate set of customers (i.e. internal customers), whose needs should be met first so that they better align with strategic marketing objectives and eventually satisfy external customers' needs (Berry *et al.*, 1991). At the core of this philosophy lies the exchange of value between the firm and internal stakeholders; by enhancing internal stakeholders' value perceptions, they become more likely to reciprocate their firm in the future (Boukis *et al.*, 2014; Berry and Berry, 2016).

Value creation for internal stakeholders is a prerequisite for the success of IM programs (Gounaris *et al.*, 2010), as firms' ability to retain their staff and encourage them to communicate successfully their core promises to customers is dependent on employees' experience with the firm (Grace *et al.*, 2017; Kadic-Magljalic *et al.*, 2018). However, current IM wisdom advances a firm-dominated perspective of value creation (Lings, 2004), without looking into how internal stakeholders (i.e. employees) can actively participate in this process, which remains a key prerequisite for bipartisan value creation, following the premises of service-dominant logic (SDL) (Meijerink *et al.*, 2016; Merrilees *et al.*, 2017). Also, existing IM conceptualizations rarely examine whether and how various IM activities

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enable the creation of value for internal stakeholders or explore the idiosyncratic nature of value creation in the firm’s internal market (Grönroos, 2017). This limited understanding of the sources of value and of the role of service exchanges in the internal market (Ballantyne, 2003) has been further impaired from the lack of an overarching theoretical framework for understanding IM implementation (Papazolomou *et al.*, 2017). As a result, traditional IM prescriptions are not informative enough of how firms can generate and offer attractive value propositions to their staff, limiting the benefits from implementing IM activities. Departing from this atheoretical and outdated view of the IM discourse, this work re-visits the IM discourse and aspires to re-surface Internal Market Orientation (IMO) as a value creation mechanism for the firm’s internal market through the lens of SDL.

This conceptual paper aspires to re-define the aim, nature and scope of IMO with the goal of enabling firms to better understand and manage the creation of value in their internal market. Departing from the firm dominant focus of IMO, IMO is suggested as a value creation mechanism, which becomes appealing to the internal market of a wider range of organizations. Drawing on SDL premises and resource-based frameworks (Vargo *et al.*, 2008; Madhavaram and Hunt, 2008), IMO re-surfaces as an interconnected operant resource, which can be enacted through performing three sets of activities that could enhance value creation in the firm’s internal market (i.e. value-identifying, value-generating and value-enhancing activities). The focus of IMO shifts away from a set of managerial behaviours reflecting top management’s support to employees (Lings and Greenley, 2005; Gounaris, 2006) into a set of activities towards enhancing and sustaining the value created for internal stakeholders. These activities can track down the sources of value and assess the firm’s current value offering; design, communicate and support the firm’s employee value propositions (EVPs); and offer additional opportunities to internal stakeholders to participate in co-creation activities.

The paper is structured as follows. First, a literature review is presented, which critically discusses the internal marketing (IM) discourse as well as existing insights around value creation in the internal market. Next, the key premises of SDL for value creation are examined in the context of the firm's internal market. Then, IMO is re-conceptualized as a value creation mechanism and its underlying nature and elements are extensively described. Last, the theoretical implications of this work for the IM literature are discussed and managerial insights are provided.

A Review of the IM Discourse

Early perspectives on IM arose along with the beginning of the services marketing literature (e.g. Berry *et al.*, 1991; Berry *et al.*, 1976). The IM concept derives from an original focus on enhancing the superior service quality offered by frontline staff through satisfying their needs and motivating them (Sasser and Arbeit, 1976). This stream advances the idea that employees constitute a group of internal stakeholders that needs to be satisfied, before they can meet the needs of the firm's external customers (George, 1990). Hence, IM is suggested as the philosophy of treating employees as customers, whose jobs are viewed as products that should fit their needs (Berry *et al.*, 1991). This early stream of literature advocates a firm-driven perspective of IM where the application of marketing-like approaches to the internal market occurs (Grönroos, 1985) so that employees be more motivated to align their efforts with the firm's marketing objectives (Sasser and Arbeit, 1976).

Following this early work, scholars also viewed IM as an integral part of the 'market orientation' of an organization (Hogg and Carter, 2000) and conceptualised IM as a philosophy aiming at enhancing employees' customer-consciousness (Grönroos, 1985; George, 1990). Pertinent work also advanced an empirically validated model of the traditional IM mix components (Ahmed and Rafiq, 2003), including a variety of elements

such as strategic rewards, internal communications, training and development, senior leadership, staffing and interfunctional co-ordination. In this vein, IM programs should include three key elements: vision, rewards and employee development (Foreman and Money, 1995). Some work in the field also recognizes the value of IM at the strategic level and argues for its importance as a vehicle for successful strategy implementation, which enables organizations to improve their change management strategies (Gummeson, 1987; Ahmed and Rafiq, 2003; Finney and Scherrebeck-Hansen, 2010).

Pertinent work also advances the identification of managerial behaviours associated with IM, which have been conceptualized as a multidimensional construct, namely Internal Market Orientation (IMO), with five distinct dimensions (i.e. formal information generation, informal information generation, communication and dissemination of information, and response to internal market information) (e.g. Lings and Greenley, 2009; Gounaris, 2006). IMO represents a set of managerial behaviors through which the firm identifies employees' needs, generates value for them and ensures that employees' competences and performance remain aligned to the company's marketing objectives (Gounaris *et al.*, 2010; Boukis *et al.*, 2017). In this context, work-family balance is viewed as an additional social element of IMO, reflecting managerial efforts to balance work and family commitments for the firm's employees (Ruizalba *et al.*, 2014). Recent work also argues that IMO can contribute to the wider organizational well-being and help service organizations improve their customers' experience (Boukis *et al.*, 2015; Kadic-Maglajlic *et al.*, 2017) through enhancing employees' brand-related performance (Iyer *et al.*, 2018) and citizenship activity (Boukis and Gounaris, 2014).

Revisiting value creation in the IM discourse

At the core of IM lies the concept of value exchange between the firm and internal stakeholders (Lings and Greenley, 2005; Varey, 1995). Adopting an internal market focus

can give rise to employees' favourable behavioural intentions to reciprocate their firm (Boukis *et al.*, 2014). IM work advocates that value is generated through the use of marketing-like approaches, which enhance employees' well-being (Ballantyne, 2003) and improve their experience with the firm (Ballantyne and Varey, 2006; Heger, 2007). As a result, when employees' value perceptions are enhanced, they become more responsive to the firm's marketing efforts (Lee and Bruvold, 2003; Berry and Berry, 2016). This approach implies the initiation of a value offering by the firm, which is then communicated to the internal stakeholder, with the intent that it be embraced by the latter. If accepted, reciprocal responses and obligations towards the firm are implicitly expected from the internal stakeholder, based on the premises of social exchange and equity theories (Emerson, 1976; Robinson *et al.*, 1994).

Despite the undeniable contribution of this literature towards understanding the drivers of retaining employees and enhancing their service performance efforts (e.g. Ballantyne, 2003; Lings and Greenley, 2009), current IM understanding of value creation remains relatively atheoretical, context-bounded and suffers from some important conceptual ambiguities. Unlike the customer market, where value creation moved from a supplier-initiated perspective to the co-creation of value propositions during interactions between suppliers and customers, IM literature still advocates a firm-crafted perspective of value creation, ignoring the user's (i.e. internal stakeholder's) role in this process (cf. Payne *et al.*, 2008; Ballantyne *et al.*, 2011). Also, the widely-established premises of the SL (i.e. service-logic) and SDL frameworks (Grönroos, 2011; Vargo *et al.*, 2008) that firms cannot offer value to stakeholders independently, without their active participation are widely ignored in this stream (Vargo and Lusch, 2004; Lusch *et al.*, 2007). As a result, IM work does not sufficiently address how its underlying practices and activities could create value for the firm's internal market or for other actors in its wider value network. Hence, the role of

employees as active participants in the value creation and co-creation process needs to further investigated (Echeverri and Skålén, 2011; Merrilees *et al.*, 2017). Without such insights, IM prescriptions remain outdated and confined in service organizations, against the need for a more universal and theory-driven understanding of value creation across different value networks (e.g. Frow *et al.*, 2014).

Pertinent IM work also overlooks the idiosyncratic nature of value creation in the internal market and its differences with value creation in consumer markets (Ghoshal and Moran, 1996; Welch and Jackson, 2007). For example, some of the firm's value offerings to employees might have negative utility for them (e.g. role re-assignment) and employees might have to comply with them to avoid negative consequences (Rafiq and Ahmed, 2000). This departs from the 'double coincidence' premise of the value creation literature, where the exchanges occurring must be of value to both parties (Tsai and Ghoshal, 1998). In addition, the firm's offering of value-based benefits to employees (e.g. training), through IMO, does not necessarily ensure their responsiveness to this increased managerial focus (Beatson *et al.*, 2008), which is one of the key premises of the IM discourse. Last, scarce evidence exists on the nature of firm-employee interactions that underlie IM activities and how they affect value creation from the user's perspective. Likewise, scarce insights exist on the type of activities that should be part of an IMO aiming at enhancing employees' value perceptions (Gounaris *et al.*, 2010; Fang *et al.*, 2014; Papasolomou *et al.*, 2017).

Echoing these limitations and ambiguities of IM work, a more comprehensive IM framework is warranted, which accommodates the idiosyncratic nature of internal markets and enables researchers to understand how the creation of value takes place in a setting that differs significantly from the interactions occurring in consumer markets (Payne and Frow, 2014). To achieve this, the notion of IMO is re-surfaced and its scope, aim and activities are re-defined, drawing on the premises of SDL (Vargo and Lusch, 2004; 2008). This re-surfaced

notion of IMO explores the steps for value creation in the internal market and delineates the role of different activities in this process. In this direction, a first step forward is discussing how the existing SDL premises apply to value creation in the firm's internal market.

A SDL-based view of value creation in the internal market

SDL is a value-co-creation framework that views different actors as resource integrators, tied together in shared systems of exchange. In this context, firms in collaboration with other actors offer value propositions to their customers, promising value-in-use and resources that customers can integrate into their value-creation process (Vargo and Lusch, 2008). Although both SDL and SL extensively address how service is experienced in wider service ecosystems and value networks, they do not thoroughly address how value is created at the micro-level of value networks and especially in the firm's internal market (Ballantyne and Varey, 2006; Hardyman, Daunt and Kitchener, 2014; Grönroos, 2017).

The firm's internal market is viewed as a value network that consists of individual actors (i.e. internal stakeholders) who remain part of the firm's wider value network (Frow and Payne, 2011). The term 'internal market' refers to all individual stakeholders who can engage in service with the firm and can be affected by the achievement of the firm's objectives (Ballantyne *et al.*, 2011). As such, it includes a mix of activities linked together to deliver a value promise for the end user (i.e. employee) (Normann and Ramirez, 1993) and becomes a "spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting", with the aim of exchanging service and co-creating value between its key actors (Lusch *et al.*, 2010; p.20).

In the SDL stream, the notion of *service* refers to a series of activities performed by the actors to achieve a particular goal through exchanging resources with another party (Payne *et al.*, 2008). When individuals utilize the resources they possess, service could generate value for them (Lusch *et al.*, 2010). In the internal market, service occurs through the exchange of

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value propositions between the firm and individual stakeholders. Internal stakeholders are involved in evaluating a range of value propositions offered to them. Through this experience, they can exchange the resources they possess. Firms can interactively create value but they cannot deliver it without internal stakeholders’ participation (Gummerus, 2013; Vargo and Lusch 2004). For value to emerge, the exchange and acceptance of value propositions is required from the internal stakeholder’s side (Ballantyne and Varey, 2006).

The exchange of value propositions between the firm and employees constitutes a milestone in the value creation process (Frow *et al.*, 2014) and it should promote reciprocity between the two parties (Ballantyne, 2003; Payne *et al.*, 2005). Employee value propositions (EVPs) in the internal market represent an invitation from one party to the other to engage in service (Chandler and Lusch, 2015; Payne *et al.*, 2017). The exchange of value propositions should ultimately result in the creation of real value for both parties, which constitutes one of the key steps in the value creation process (Pawar, Beltagui, and Riedel, 2009; Chandler and Lusch, 2015). In an internal market setting, value propositions can be initiated and offered from both parties. Despite the intended reciprocity during the exchange of EVPs, often parties might engage in service with more individualistic motives, without necessarily serving the other party’s interests.

Conceptualizing IMO as a value creation mechanism for the firm’s internal market

Departing from prior conceptualizations that primarily view IMO as a strategic orientation that focuses on the needs of internal stakeholders so that they better serve external customers (e.g. Chang and Chang, 2009; Ruizalba *et al.*, 2014), this study draws on prior resource-based frameworks to re-visit the notion of IMO (Lusch *et al.*, 2007; Madhavaram and Hunt, 2008). The resource-advantage framework considers resources as tangible and intangible entities, which can produce successfully a valuable offering for consumers (Hunt, 2000). Drawing on

the exchange and reciprocity frameworks (Emerson, 1976; Robinson *et al.*, 1994; Chan and Li, 2010), the pertinent literature views value creation as the process of creating value out of resources that are exchanged between different parties (Chandler and Lusch, 2015; cf. Gummerus, 2013).

Scholars also make a distinction between operand and operant resources, arguing for the primacy of operant (e.g. skills) over operand resources¹ (e.g. IT equipment) (Lusch *et al.*, 2007; Gummerus, 2013), advancing a multi-layered view of resources, where higher-order resources are generated from bundles of basic resources (Madhavaram and Hunt, 2008; Ngo and O'Cass, 2009). Following the premises of the resource-advantage framework, Madhavaram and Hunt (2008) propose a hierarchy of basic, composite, and interconnected operant resources/capabilities that allow organizations to develop and sustain a sustainable competitive advantage over time. Each of these groups of resources (including capabilities/competences) are enacted at different organizational levels and possess some unique features.

Building on the aforementioned frameworks, IMO is viewed as an interconnected (i.e. higher-order) operant resource, which can be deployed successfully through the combination of a set of lower-level resources. IMO consists of a set of basic operant resources (i.e. value-identifying activities) and composite operant resources (i.e. value-generating and value-enhancing activities). The integration of a diverse set of lower-level resources is needed first to occur, including the enactment of both basic and composite resources (Daneels, 2002; Ngo and O'Cass, 2009); without them being intertwined, IMO cannot offer value to internal stakeholders. Hence, IMO is viewed as an interconnected resource which includes “a set of

¹ Resources can be categorized into *operand* ones, which represent more tangible resources such as products and facilities, and *operant* resources, which include more intangible assets such as brand name and capabilities (Constantin and Lusch, 1994).

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intertwined activities, processes, and routines that aim towards enhancing and sustaining value for the firm’s internal stakeholders.”

Three groups of activities are embedded in the revised notion of IMO: *value-identifying*, *value-generating* and *value-enhancing* activities. Value-identifying activities generate potential value for internal stakeholders, as they do not include the active participation of internal stakeholders and, therefore, value cannot emerge from their enactment only (Ballantyne *et al.*, 2006; Grönroos, 2011). Value-identifying activities initiate the value creation process for the internal market and value cannot be offered to internal stakeholders without integrating value-generating and value-enhancing activities. Each set of these activities is analytically described in the following sections (see Figure I below).

- Insert Figure I here-

Value-Identifying Activities

The first step towards IMO enactment begins with value-identifying activities. These activities identify and assess the sources and exchanges that determine current employees’ value perceptions, enabling the firm to evaluate the current value offering to its internal market. They constitute basic operant resources and are viewed as “the underlying, lower-level, resources that form (..) higher-order operant resources” (Madhavaram and Hunt, 2008; p.70). Value-identifying activities are usually performed at the tactical level, they can be easily imitated and their role is limited in sustaining value creation over time. These activities are “enablers” of creating and sustaining value in the internal market and include the following activities: (1) identifying the sources of value through value-tracking practices (2) mapping service exchanges for stakeholders of interest and (3) assessing current employee value propositions (see figure II).

Identify the sources of value through value-tracking practices

The first step towards value creation is identifying the sources from which value for internal stakeholders could emerge (Hartline and Jones, 1996). There might be both *internal* and *external* sources of value for internal stakeholders and their relative influence on them might vary (e.g. Bowman and Ambrosini, 2000; Lepak *et al.*, 2007). External sources could affect employees' perceptions of value; such sources are identified from existing IM literature, including labour market conditions, perceptions of the firm's clientele and consumers' advocacy about the firm (e.g. Lings and Greenley, 2005). Indeed, companies often use external sources of value (i.e. LinkedIn data) to assess where their high-performers come from and where they go after leaving the firm.

Internal sources relate to the firm's internal environment and they include both controlled and uncontrolled sources of value. Controlled sources include firm actions, policies and other aspects of the wider organizational environment such as working conditions, leadership actions, etc. (Walumbwa *et al.*, 2011; Van den Broeck *et al.*, 2008). These sources of value are the ones through which resource integration between the firm and internal stakeholders occurs (Vargo and Lusch, 2008) and remain the main focus of value-tracking practices, given that firms can act upon them. Uncontrolled sources of value include aspects of the internal environment, which shape value perceptions but cannot be easily assessed or managed, such as corporate brand reputation, social interactions among staff and perceived corporate ethics (Maxwell and Knox, 2009).

Firms can utilize a variety of intelligence-collecting practices and tools to track and monitor the sources of value for internal stakeholders (Lings, 2004; McClean and Collins, 2011). These practices can take place formally or informally and have an internal or external focus. Formal value-tracking practices include individual performance appraisals, employee satisfaction surveys, etc. whereas informal ones relate to round table discussions, mini

“pulse” engagement surveys and other feedback systems (e.g. internal brand audits) (Gounaris, 2006; Welch and Jackson, 2007). Internally-focused practices mostly draw on data from the firm’s internal environment (e.g. staying in the loop on supervisors’ reports, customers’ impact on frontline staff), whereas externally-focused ones monitor changes in the external environment (e.g. scanning competitor’s value package and their hiring and working policies). Their combined use can offer firms a better understanding of the most important sources of value for their internal market (Lings and Greenley, 2005).

Firms should utilize these value-tracking practices in a proactive and ongoing way. For example, they can perform regular job market trends audits or explore anonymized employee-generated content regarding their own firm and other competitors (e.g. monitor sites like Glassdoor). Firms can also integrate informal communication means (such as user-generated content) (Huang *et al.*, 2015) to assess their current levels of value for their internal staff as well as the aspects of their internal environment that mostly affect their staff’s value perceptions. Another function of value-tracking practices is related to the analysis and use of the firm’s data to improve their understanding of the internal market (e.g. assessing employees’ performance in relation to their working experience). Despite the value of these practices, their use is subject to resource availability and implementation capabilities, as the cost of using some of these practices might exceed their benefit in some cases.

Map service exchanges for stakeholders of interest

The next step forward towards IMO enactment is mapping the service exchanges that occur in the internal market. In line with SDL, service exchanges result in new resource combinations, which become the sources of value creation for employees (Tsai and Ghoshal, 1998; Skålén *et al.*, 2015). Based on these exchanges, internal stakeholders ultimately determine what is of value for them (Ballantyne and Varey, 2006; Vargo and Lusch 2008). Service exchanges in the internal market can be formal (e.g. performance appraisal) or

informal ones (e.g. informal discussion with peers) and might derive from contractual commitments previously undertaken from both parties (e.g. job contract negotiations) or can be required so that staff can meet their role requirements (e.g. supervisor-employee meetings). During service exchanges, resource integration occurs in accordance with internal stakeholders' expectations, needs, and capabilities (Vargo *et al.*, 2008) and firms interactively create value with internal stakeholders. Assessing the importance of service exchanges in the internal market is vital so that firms understand how internal processes, social interactions, communication protocols and organizational policies affect the staff's experience with their employer.

In line with value creation frameworks that consider various actors as resource integrators, the next key activity in this phase is to identify all potential stakeholders of interest in the internal market (Vargo, 2011; Payne and Frow, 2011). Departing from IM prescriptions that employees should be segmented and targeted similarly to the approaches followed in consumer markets (e.g. Marshall *et al.*, 1998; Gounaris, 2006), value-identifying activities should initially aim at gaining an individual-level understanding of value-related attributes. This is an important step towards understanding the value creation process, as value is subjectively and uniquely experienced from different beneficiaries (Frow and Payne, 2011; Vargo and Lusch, 2016), and thus, the role of various value determinants might significantly vary among internal stakeholders.

The insights from mapping employees' value-related attributes can be used towards clustering them in various groups, which could allow the design of more tailored value propositions for different employee groups (Payne and Frow, 2014). Segmentation might rely on psychographic (e.g. aspirations, personality), role (e.g. function-based), behavioural criteria (e.g. engagement levels), life cycle or career phase (Morrow and McElroy, 1987) or a combination of those. For example, knowledge-intensive firms, like XEROX, use their

internal data for employee profiling, with the aim of identifying key criteria (e.g. commuting time) which drive employees' experience with their job. However, generating mutually exclusive and collectively exhausting employee groups might not always be realistic. For example, stakeholders might often belong to more than one groups of interest (e.g. in a project and a department) and their aggregated value perceptions can be shaped from their multiple memberships (Masterson and Stamper, 2003).

Assess current employee value propositions

This set of activities aims at evaluating the attractiveness of existing value propositions offered to internal stakeholders. Traditionally, SDL literature underscores the critical role of formulating and offering value propositions so that they can be accepted from customers (Vargo and Lusch, 2016; Payne *et al.*, 2017). In analogy with customer value propositions, firms often set in place propositions (or promises) to their internal market (Ballantyne *et al.* 2011; Payne *et al.*, 2017), namely employee value propositions (EVPs). For example, strong brands often develop their own value propositions for employees (e.g. 'Do cool things that matter', Google).

Among various definitions, relevant work defines value proposition as a statement of benefits offered to a customer group or as the price individuals are willing to pay (Lanning and Michaels, 1988; Treacy and Wiersema, 1995; Kowalkowski, 2011). Following prior definitions in this stream (Ballantyne *et al.*, 2011; Chandler and Lusch, 2015), an EVP is defined as an invitation from one party (e.g. firm) to the other (e.g. employee) to engage in service, with the aim of a valuable reciprocal exchange for both parties involved.

EVPs might often become misaligned with the firm's strategic direction (e.g. due to changing employees' needs). Hence, a review of the mix of existing EVPs should take place on a regular basis (Ballantyne, 2003). Firms should examine to what extent their current EVP portfolio echoes their strategic orientation, assess the extent to which this portfolio is

successfully communicated to staff as well as staff's perceptions of current EVPs (Ulrich and Brockbank, 2005; Gounaris, 2006). Ideally, firms should proactively develop value propositions for two additional stakeholder groups; prospective employees and newcomers (Gowan, 2004). This will allow them to attract key talent and facilitate new staff to embrace existing norms and organizational values. In embarking on such activities, firms can gain insights about their staff's current experience (i.e. employees' *expectations-experience gap*) and tap knowledge for potential value-adding and value-destructing sources (e.g. supervisor or salary-related) as well as understand the role of different interactions in staff's experience with the firm.

Value-Generating Activities

The SDL literature advocates a variety of practices through which value creation for multiple stakeholders can be facilitated (Ballantyne et al., 2011; Skålén *et al.*, 2015; Plé, 2016). In the internal market, value-generating activities constitute *composite operant resources*, whose enactment enables the firm to design effectively reciprocal value propositions and communicate them to the internal market (Madhavaram and Hunt, 2008; Kowalkowski, 2011). Compared to value-identifying activities, these activities are more demanding to perform and their enactment might become purposeless without previous engagement in value-identifying activities. Value-generating activities aim at (1) co-developing attractive EVPs, (2) communicating them to the internal market and establishing feedback systems and (3) strengthening EVPs' offering through IM activities, allowing the interactive creation of value between the firm and internal stakeholders (see figure II).

Co-develop attractive EVPs

Like customer value propositions, firms should design attractive value propositions for their internal stakeholders with a dual purpose; to offer a superior value package so that they facilitate their staff to embrace them (Osterwalder *et al.*, 2014; Payne *et al.*, 2017); also, to engage them in reciprocal service exchange that could enhance the value created for both parties (Ballantyne *et al.*, 2011). In this vein, firms should promote more tailored EVPs for various internal groups of interest. These EVPs should enable staff to understand the value embedded in their role and the benefits they could gain from service exchange, facilitating them in participating in value enhancing activities. For example, The Ritz-Carlton uses role-tailored EVPs for customer contact staff (e.g. *'I build strong relationships and create Ritz-Carlton guests for life'*), seeking a more active participation and attitude from their employees.

Firms should design EVPs with some specific attributes in mind (Flint and Woodruff, 2014). First, EVPs should be attractive enough so that they can be valued from internal stakeholders and enhance the odds that they co-create them (e.g. Frow and Payne, 2011; Gummerus, 2013). Second, EVPs need to be aligned with the firm's culture and brand mantra. For example, the main tagline of Yelp is described as follows: *"We work hard, throw Nerf darts even harder, and have a whole lot of fun"*, setting clear expectations about the firm's working environment. Third, EVPs should be consistent with the cultural norms and the brand reality that internal stakeholders experience (Wang, He and Mahoney, 2009). Fourth, EVPs should be stated formally and be publicly-accessible so that they are transparent to all internal stakeholders. Fifth, EVPs should be measurable so that they can be associated with specific actions, behaviours and outcomes on behalf of the staff (Kowalkowski, 2011). Sixth, internal stakeholders should be capable of understanding and delivering all these propositions; otherwise, their expectations-experience gap is likely to grow with disruptive consequences for their performance (Hall and Moss, 1998). Equally

important, EVPs should not be uniformly made for all staff and a different mix might be needed for different internal stakeholder groups (Truong *et al.*, 2012). For example, some tailored EVPs are needed for front-line staff, reflecting their extensive interaction with customers.

Having initially formed and communicated EVPs, the next step forward is inviting internal stakeholders to participate in further developing the proposed EVPs (Glaser, 2006; Ballantyne *et al.*, 2006) and reach mutually agreed value propositions (Ballantyne and Varey, 2006; Truong *et al.*, 2012). Reciprocal service exchanges between firm and employees remain the ultimate aim of bipartisan value proposition exchanges (Chandler and Lusch, 2015) and constitute one of the key steps in the value creation process (Pawar, Beltagui, and Riedel, 2009). This way, the benefits expected to be gained and given up for each party can be made explicit (Ballantyne *et al.*, 2011) and robust EVPs can be co-created over time through dialogue, ideas' exploration and knowledge sharing. Nevertheless, developing reciprocal and equitable EVPs does not necessarily result in them being always accepted, but it ensures that internal stakeholders could at least decide what is of value for them (Payne *et al.*, 2017). In line with this logic, firms like Adobe use internal campaigns (i.e. '#AdobeLife') placing the role of brand advocacy into its employees' hands, allowing them to speak for brand authenticity and how the brand supports them in their daily work.

Communicate EVPs and establish feedback systems

Having co-designed EVPs for various internal groups, the next step is to communicate them to the relevant stakeholders and establish feedback mechanisms, which will monitor their effective implementation. Internal communications encompass a variety of channels for communicating EVPs (Cornelissen, 2004; Welch and Jackson, 2007). Initially, EVPs should be communicated within line management, where EVPs' applicability would be discussed among middle-level and senior management executives. At a later phase, EVPs should be

disseminated to all relevant stakeholders. EVP communication should take place in two directions; first, to generate awareness in the internal market (Lings and Greenley, 2005); second, to ensure that employees are informed of their role in achieving the firm's strategic objectives. Pertinent work in the SDL stream provides communication frameworks through which the firm should begin with the formation of reciprocal value promises towards various stakeholders, which clarify the benefits expected to them (e.g. Ballantyne and Varey, 2006). In this direction, firms like Deloitte engage employees in social media campaigns to better understand their perceptions and views around the firm's brand personality, regardless of the corporate guidelines (i.e. '@LifeatDeloitte'). When such kind of feedback mechanisms are in place, firms can ensure the provision of timeliness and ongoing feedback about internal stakeholders' experience with EVPs.

Strengthen EVPs' offering through IM activities

Designing attractive EVPs and communicating them to internal stakeholders does not necessarily result in increased value creation for them. EVPs' communication should be reinforced through IM activities so that they reach all organizational levels and eventually become part of the firm's culture. A number of initiatives that the IM literature prescribes can be used in this direction (e.g. Lings and Greenley, 2005; Gounaris *et al.*, 2010). For example, incorporating and communicating specific EVPs through hiring, training and coaching systems in their interactions with the internal and the labour market could enhance the attraction of high-quality staff (Ulrich and Brockbank, 2005) and align employees better with superordinate goals (Chambers *et al.*, 1998).

Compensation and salary schemes can also be designed to enhance employees' perceptions of current EVPs (Gounaris, 2006). Salary scales and increments can be provided when staff acts in accordance with EVPs (e.g. going beyond role expectations to satisfy customers). Designing job characteristics and role specifications should also be in line with

the tailored EVPs for each internal segment to avoid employees experiencing conflict between the firm's value orientation and their role expectations (Lings and Greenley, 2005). Another action in this direction could be linking EVPs' communication with individual key performance indicators (KPIs), displaying their importance for individual employee performance. Last, ensuring the provision of personal growth and career development opportunities to the internal market is vital so that employees be more prone to accept corresponding EVPs (Chambers *et al.*, 1998). Many organisations (e.g. Hyatt Hotels) emphasize the importance of offering growth opportunities to their staff, as it can enhance employees' intrinsic motivation that derives from their belief that they are developing.

Value-Enhancing Activities

The third step towards IMO enactment is the firm's engagement in value-enhancing activities. Value-enhancing activities constitute *composite operant resources*, as they require the enactment of both value-identifying activities and value-generating activities, so that they can be meaningfully performed. The main aim of value-enhancing activities is to enhance internal stakeholders' participation in co-creation activities and offer co-creation opportunities so that they become active participants in the value creation process (Ballantyne *et al.* 2011). Performing these activities can enable firms to create and sustain value for their internal market in the long-term. The value created for internal stakeholders can be enhanced through their participation in various value-enhancing tasks (Storbacka *et al.*, 2016; Merrilees *et al.*, 2017). These activities include (1) identifying and offering of additional co-creation opportunities and (2) nurturing internal stakeholder-led co-creation activities. Each one of them is described below (see figure II).

Identify and offer additional co-creation opportunities

Although developing negotiated EVPs is an important step towards employees' engagement in co-creation activities (Merrilees *et al.*, 2017), more opportunities should be offered to them so that other aspects of their role can be collaboratively and dialogically developed. SDL views such opportunities as critical in achieving value co-creation successfully (Payne *et al.*, 2008). Following on insights from value-identifying activities, available opportunities within the existing organizational environment should be identified, assessed and offered to the internal stakeholders where possible (Lee, Olson and Trimi, 2012). For example, firms should nurture a more collaborative and engaging organization-wide climate, where employees have ample opportunities to become value co-creators in the context of their role (Frow and Payne, 2011). This could take place through enabling them to actively participate in activities such as (1) the development of customer solutions or dealing with important customer problems (Wirtz *et al.*, 2010); (2) the discussion of new ideas for products and services or new service delivery processes (Lages and Piercy, 2012); and (3) the provision of help and support for other peers through citizenship or mentoring/ knowledge-sharing activities (Chiaburu and Harrison, 2008). Echoing the value of such opportunities, firms like the Westin hotels engage their frontline employees' in focus group discussions for new service delivery processes, seeking to improve their operational efficiency. These co-creation opportunities could significantly enhance the value created for internal stakeholders through increasing their participation in service exchanges that offer value to themselves.

Nurture internal stakeholder-led co-creation activities

A second group of value-enhancing activities encompasses internal stakeholder-driven co-creation activities (Merrilees *et al.*, 2017). These activities are different from co-creation opportunities offered to staff in that they are initiated and led from internal stakeholders themselves and the firm is invited to participate in them. Recent work canvasses, for example, employee-led co-creation activities such as providing innovative ideas for products

and processes and bootlegging (Globocnik, and Salomo, 2015; Merrilees *et al.*, 2017), active feedback-seeking behaviours (Gong *et al.*, 2017) and participating proactively in customer co-creation activities which improve customers' experience (Ramaswamy and Ozcan, 2018). In line with the revised IMO conceptualization, such reciprocal activities not only enhance the creation of value for internal stakeholders but also result in reciprocal service exchange with the firm and its wider value network (i.e. between the firm and customers) (Beirão *et al.*, 2017). The underlying activities of IMO are displayed in figure II.

-Insert figure II here-

Discussion

Departing from the current atheoretical and conceptually blurred understanding of value creation in the IM literature (e.g. Gounaris *et al.*, 2010; Papasolomou *et al.*, 2017), this conceptual paper advances a fresh perspective of the IMO notion and aspires to re-define its scope, aim and nature through the lens of SDL. As the IM perspective of employee-based value creation still remains disconnected from contemporary value creation frameworks (Ballantyne, 2003; Gounaris, 2006; Vargo and Lusch, 2004), this work extends the IM discourse and the value creation literature in advancing a SDL-driven understanding of internal marketing activities. In this direction, the revised notion of IMO is advocated as an action-oriented framework for enhancing the value creation efforts of a wide range of organizations.

This work advances a managerially relevant understanding of value creation in the firm's internal market. In most contemporary organizations, perceptions of value are central to internal stakeholders' experience with their employer (Ballantyne, 2003; Merrilees *et al.*, 2017). This fresh IMO perspective departs from service firm-oriented prescriptions of the IM literature (e.g. Lings and Greenley, 2009) and renders the IM discourse relevant for a wide

range of organizations. This revised conceptualization can prove useful to firms in knowledge- and labour-intensive industries (e.g. retailing, B2B, hospitality, healthcare, start-ups, IT) and not just service organizations, to which the majority of the IM literature appeals. This way, IMO can eventually evolve into a value-enhancing strategic orientation that can help organizations understand how to best offer value to their staff.

From a conceptual point of view, this revised IMO conceptualization departs from managerial focus on tactical processes (e.g. communication) and HR practices so that staff performs better. Rather, its focus shifts towards a group of value-adding activities through which firms can enhance and sustain the value that they deliver to their staff. This conceptualization redirects the focus of IM activities from enhancing employee job satisfaction and performance (e.g. Kaur *et al.*, 2013; Ruizalba *et al.*, 2014; Lings and Greenley, 2009) into developing and offering some valuable and reciprocal EVPs, while seeking employees' active engagement in the value creation process. In mapping these value-adding activities, this work provides an overarching framework through which EVPs can be developed and marketed internally.

Some theoretical insights are also advocated regarding the mix of activities that firms need to undertake to enhance the value offered to their staff. To successfully enact IMO, firms should embark on a number of value-adding activities, which are analytically outlined. First, the engagement in value-identifying activities could facilitate firms to uncover the sources of value, providing them with the necessary tools to assess these sources and their current value offering to their internal market. Second, value-generating activities focus on co-designing and offering attractive EVPs; third, value-enhancing activities seek for additional value co-creation opportunities for internal stakeholders. However, these activities should not be performed independently, but they need to be sequentially completed so that value can successfully emerge for their staff.

Some important implications for practitioners also derive from this work. First, a detailed and action-oriented framework for value creation in the internal market is presented, which is appealing to a variety of industries. This framework allows various firms to re-visit their strategies for improving employees' experience or to design strategies towards facilitating and stimulating their staff's participation to value co-creation tasks and activities. For example, the use of formal management practices such as providing rewards for innovation accomplishments, supporting failure tolerance and increasing formality in ideation processes can help in this direction (Globocnik, and Salomo, 2015).

Second, the steps that firms need to make so that they can plan, design and offer value to their staff in a meaningful way are outlined. This framework allows managers to reflect on the sources of value for their staff and gain a more comprehensive understanding of their relative importance, when implementing employee-oriented practices. Practitioners can also understand their firm's current engagement in the value creation process, enabling them to better plan (or re-design) any employee-oriented initiatives. Against arbitrary and once-off staff-oriented value creation efforts advanced by many organizations, this study stresses the need for consistent, sequential and long-term adoption of IM activities, which would allow organizations to implement the practices needed to develop and sustain value for their staff.

Another insight from this work is the importance of encouraging employees' active participation in various extra-role/citizenship activities and helping actions as well as their proactive engagement in such activities. Such employee activity is indicative of their intentions in joining firm-driven value co-creation actions. In line with the benefits displayed in the employee engagement and citizenship literature (e.g. Matta *et al.*, 2015), employees' enactment as co-creators of such activities is likely to enhance the perceived benefits from their working experience and result in higher value perceptions for them. Against the service context-bounded insights from the IM literature, this perspective becomes important in

allowing a variety of organizations to benefit from IM knowledge and better understand the opportunities for value co-creation in their internal processes and exchanges.

Overall, this conceptual framework does not aspire to re-operationalize IMO, but rather it makes an attempt to shift the current debate of the IM literature into a more value-oriented and theory-driven direction, where IM activities can build and sustain the value offered to internal stakeholders for a wide range of organizations. Adopting this new perspective will allow firms to re-visit their employee experience strategies and focus on specific tasks that could enhance the value offered to various internal stakeholders of interest. Despite this preliminary exploration of value creation in the internal market, there are still several knowledge gaps for researchers to fill, especially around how value can be created in the firm's internal market.

Future studies should look further into the role of different resources in this process and whether different resource exchanges between firm and internal stakeholders symmetrically enhance value creation and co-creation (Boukis and Kabadayi, 2018). The role of different internal marketing and HR practices from a value-adding perspective should be explored and so should their relative contribution to value creation for staff. Moreover, the process of value creation could be examined in emerging value networks (e.g. highly-automated settings) and also in the context of gig economy, where the nature and type of firm-employee exchanges is vastly different from traditional job settings. Last, the formation of value needs to be examined in a variety of working arrangements (e.g. work-from-home or work on demand), which emerge from digital innovations and the sharing economy.

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Figure I

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Figure II

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