

The 12<sup>th</sup> Malaysia - Indonesia International Conference on  
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**MIICEMA**

**Borderless Economy: Opportunities and Challenges  
for Businesses in Southeast Asia**

13 - 14 October 2011

Venue:

Magister Manajemen  
Magister Perencanaan Pembangunan  
Fakultas Ekonomi  
Universitas Bengkulu

**PROCEEDINGS**

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THE 12<sup>TH</sup> MALAYSIA-INDONESIA INTERNATIONAL CONFERENCE ON  
ECONOMICS, MANAGEMENT, AND ACCOUNTING 2011

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## PROCEEDINGS ECONOMICS TRACK

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MAIN ORGANIZER:



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# **The Impact of Internal Marketing and Customer Orientation to Service Quality and Their Implication on Customer Satisfaction of Hospital Service Management**

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## **ABSTRACT**

*The change of the healthcare service paradigm especially in the hospital has not achieve the government's vision as the regulator on the healthcare sector. It signs up by quite big enough gap that happen in hospital activities in term of healthcare service itself, hospital environment and medical action. A concept model was developed to depict the relationship among internal marketing, customer oriented, service quality and customer (patient) satisfaction. The methods are used on this study include descriptive verification and explanatory survey by using a cross section data. The data was collected by using questionnaires and direct interview with 205 respondents. The sample was taken from seven general hospital in Bengkulu Province by using stratified and cluster sampling. Data was analyzed by using descriptive analysis and structural equation modelling (SEM) with LISREL Program. The result indicate that internal marketing and customer oriented are important aspect to provide service quality in healthcare services, whereas internal marketing and service quality have significant effect to satisfy the customer on healthcare service. However, customer orientation has not significant effect to satisfy customer (patient).*

*Keywords: internal marketing, customer orientation, service quality, patient satisfaction, and hospital.*

## **1. Introduction**

Based on hospital services condition, the changing of health service business atmosphere in Indonesia had been carry a fundamental problem in creating of healthy Indonesian community. Competition among hospitals do not provide solution to accomplish and improving healthcare service quality. Thabrany (2003) said that healthcare services in Indonesia had been failed to provide an excellent services for Indonesian people. It means, implementation of market mechanisms in healthcare service in hospital will not and never give benefit to consumer. Even though the approach of healthcare service in Indonesia is using socioeconomic system.

Based on the phenomenon, there indicate that it has a big enough gap on the healthcare services that provide by hospital than patients' expectations, which is marked by numerous complaints from the public and also many medical oversight by physicians. On the other hand, the ability and purchasing power of majority of Indonesian peoples are lower. Therefore, many Indonesian people have not capable to get healthcare service at an adequate class. While many people also feel difficult to

obtain services at a lowest class in hospital. It can be seen from many evident that many lower class patients were refused by many hospital managements in Indonesia.

However, the government as a regulator and also an the organization charge of the national health system in Indonesia always have commitment to fix the national health care system and including healthcare system in hospital. This is indicated by many regulations that produce by government and also increasing allocation of funds in health sector. The implication of the government's commitment is that hospitals must provide a better service quality for all segments of society.

The consequences of the government regulation, the hospitals management are required to enhance their ability that include of medical facilities aspects, physical condition, and the competency of medical personnel. On the other hand, the hospital also required to provide a good quality of service according to patient need. Moreover, Ahmed and Rafiq (2002) was proposed that a service organization that apply the concept of internal marketing can encourage the organization to be a leaders on integrated quality (total quality). It means, the implementation of internal marketing by understanding the needs of employees, putting employees as a partner, and ensure that employees activities should provide of customer satisfaction so that as a result the organization will be have a competitive advantage in running business.

When we examined carefully, many organizations are always working to improve the quality of their services trough internal aspects approach with focus on market demands (Cowel, 2003). When the organization is running business as a vital for people life so the business must be under strict supervision by the government. Therefore, organization must be follow the standard rule that setting by government as the foundation for the guideline running activities. Based on the phenomena, this study was examines the effects of internal marketing performance and customer orientation of service quality and its implications on patient satisfaction.

Consumer orientation has a strong relationship with job satisfaction, commitment, and organization trust to employees (Ruckert, 1997). According to Harris and Lane (2002) said that the employees which have consumer-oriented philosophy tend to be a higher awareness of various aspects the quality of service and focus on customer satisfaction. This research was conducted at public hospitals in Bengkulu Province with focus on internal marketing, customer orientation, service quality, and patient satisfaction.

The purpose of this study was to obtain empirical evidence and find out of the effect of the internal marketing performance and customer orientation on quality nursing care and its implications on the satisfaction of inpatients in public hospitals in the province of Bengkulu. The objectives to be achieved in this research are to:

1. To determine the relationship of internal marketing performance and customer orientation at public hospital in Bengkulu Province.
2. To determine the effect of internal marketing performance and customer orientation orientation to service quality in at public hospital in Bengkulu.
3. To determine the effect of internal marketing performance and customer orientation to patient satisfaction at public hospital in Bengkulu.
4. To determine the effect of service quality performance against patient satisfaction at public hospitals in the province of Bengkulu.

## **2. Literature Review**

Improved the quality of service to internal customers can be done through many approaches. There are including the remuneration system, internal communication, education and training, and empowerment of employees. Managing the dimensions of internal marketing will be impact to employees competency. As a result, the employees will get a high quality of work to serve the consumers.

Based on research that conducted by Lings (2002) found that there was a significant relationship between internal and external market orientation. Based on it findings, it can be concluded that the development of customer orientation for an organization depends on the behavior of individual employees. On the other hand, Chung and Kim (2002) found that internal marketing has a positive and significant relationship to the consumer orientation. In this study variables that has been used include reward system, empowerment, education and training, and management supports.

Compensation as one of the dimensions of internal marketing, there is a major element that concern to every employee in establishing his contract with the organization. The payment of the compensation as objective as that will increase productivity of employees and also improve the performance of the organization. Moreover, determination of fair compensation can improve employee behavior. According Robert's (1996:216), the compensation is a system of remuneration received by individuals as the implications of their performance to the organization. In other words, giving a fair reward to the employees will impact on the behavior of employees for providing service to customers.

On the other hand, better communication within the organization will impact on the quality of employees. Irving and Tourish (1994 : 53) stated that internal communication is a key factor to push up the achievement of organizational goals. Internal communication is one of form communication from management to employees in an organization. Through good internal communication systems, the management will be able to motivate and influence the attitudes of employees according with organizational culture. Lovelock (2004:324) stated that the purpose of internal communication is to assure of the distribution of services as efficient as that can satisfy customers; to achieve of harmonious working relationship, and build trust, respect and loyalty of employees to the company . Moreover, internal communication system also can control the quality of employee working.

Empowerment as one of dimension of internal marketing has an important role in shaping the services quality on the business services sector. As the services business, the process of production and consumption will be done without separate time. Therefore speed of decision that making by employees will be expected by customers. Daft (2003:327) stated that decisions making in the service business must be made quickly by the front liner of the employees so that the consumer desires can be fulfilled. At the hospital services, nurses are required to take decisions quickly, especially when patient's condition is critical, although the nurses have limited authority in performing certain actions.

Empowerment of employees is an attempt to share of the power, the organizations that provide delegation of power or authority to subordinates will provide their employees that they can make decisions quickly (Daft, 2003:333). Therefore, implementation of empowerment will be affect on the quality of work and employee job satisfaction. It is because of the employees that they have the power could act faster to provide the best service for customers. Therefore, empowerment is positively impact on both for employees and the organization performance.

Based on the description above, it shows that internal marketing has a major impact on the success of the services activity to meet consumer expectations. In the other words, internal marketing is one of key factor for providing superior services for customer. Gronroos in Sargeant and Asif (1998:68) states that internal marketing can help employees to understand their position significantly. Internal marketing also creates awareness of how relationships within the organization will be running and increase cross-functional coordination.

Nurses as the spearhead of particular services on the hospital, They are a key factors in forming patient satisfaction. Working in 24 hours a day, They have a very high interaction between nurses and patients. Therefore, if nurses do not have an excellent of competency in providing patient care so that the level of patients' satisfaction tend to be lower. On the other words, managing of nurses is one thing that essential aspect in determining business success, especially at the installation hospital inpatient.

Nurses who have attitude, behavior and high competence will provide a professional nursing care. Nurachmah (2001) states that the professional relationship of nursing care was initiated by the nurses through empathy and willingness to respond and a desire to help patients. Therefore, a nurse who wants to realize such as attitudes and behavior require skills and support from management. Nurses who have such as a potential ability of their jobs so that their will be able to create patient satisfaction and loyalty.

When analyze the relationship between internal marketing and service quality of employees, Thuong (1998:4) states that: "Effective internal marketing is key to customer satisfaction and loyalty". It means that effective of internal marketing is the key to customer satisfaction and loyalty. Furthermore, Oliver in (1999:375) states that "Satisfaction is a central pursuits for Human Beings". This statement has implication that satisfaction is the main target of human life.

Furthermore, Conduit and Quigg (2003) with his research that entitled: "Influencing internal customers through customer orientation: how it leads to exceptional service quality and satisfied customers". Their had conduct of test the variables that have relationship with various aspects of internal marketing and customer orientation. From their study, it was found that there is a positive relationship between quality of employees work and internal marketing. Similarly, a study that conducted by Babakus et.al (2002) with study entitled: "Management commitment to service quality through internal marketing and service recovery performance". These studies concluded that internal marketing has a significant and positive impact on the quality front liner service of employees.

Various studies that evaluated the relationship between internal marketing and customer satisfaction also showed a positive results. This is evidenced by Richadson and Robinson (1986) in Varey (1998:43), they states that "internal marketing can

enhance the relationship by altering employee associated to attitude and behavior in their interaction with the customers". Furthermore Schmalensee (1995) states to make that it happen, managers are required to be able minimize the gap between the employees, consumer expectations, and organizational performance. All of that will be created through the management of internal marketing dimensions.

The relationship of internal marketing and customer satisfaction has also been tested by Bowen and Johnston (1999) through their research that entitled: "Internal service recovery: developing a new construct". From this study they concluded that the managing of internal marketing to improve service quality has a positive impact on customer satisfaction. On the other hand, Jarvi (2000) through his research that entitled: "The internal marketing and the commitment of the employees when managing the customer oriented". The research was conducted through depth interview against individual employees and managers of unit sales as well as top management at retail stores in Finland. From this study was concluded that the effect of internal marketing has impact to employee satisfaction and commitment. The impact also found on customers satisfaction and loyalty.

Based on the theoretical basis that has been explain above, the research paradigm can be formulated as shown in Figure 1.

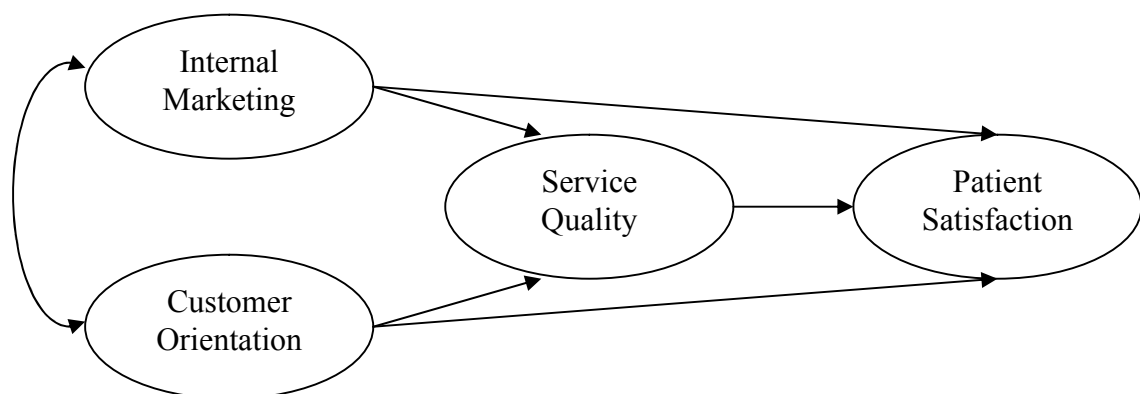


Figure 1. A Research Conceptual Model

### 3. Research Methodology

This study targeted the population of patient general hospital in Bengkulu Province who conducted inpatient treatment. A total of 227 responses out of 450 distribute questionnaires were received. To ensure the accuracy of the data, all questionnaires were thoroughly examined. Result from the questionnaires were cross examined with SPSS 11.0 to ensure that data entry has been completed without any errors. After checking the whole data set, the usable sample size was 205.

The survey questionnaires consisted of the following constructs: internal marketing, customer orientation, service quality and customer satisfaction. To test measurement models, separate Exploratory Factor Analysis (EFA), in order to reduce survey measurement items with low factor loading and Confirmatory Factor Analysis were performed on variable associate within each construct. Then, Structural Equation Model (SEM) was further used to analyse the data. A five-point Likert Scale that range from 1=strongly disagree to 5 = strongly agree was used to assess the

hypothesized construct relationships.

#### 4. Research Results

Reliability analysis was performed on the basis of both internal consistency and interrater agreement methods. Firstly, the internal consistency reliability of all questions was assessed by the Cronbach's alpha coefficients of measurement items for each construct are presented in Table 1. Hair *et al.* (2006) suggested that Cronbach's alpha coefficient over 0.6 is adequate for basic research. The reliability of each construct was assessed by using Cronbach's alpha measure which is in the experiment ranging from 0.713 to 0.921. There are indicating that the scale are internally consistent and reasonably free of measurement error.

**Table 1. Measurement Model Results**

Measures of Constructs	Item Loading	Composite Reliability	Cronbach's Alpha	Average Variance
Internal Marketing (PMI): <ul style="list-style-type: none"> <li>• Internal communication</li> <li>• Reward (salary)</li> <li>• Employee empowerment</li> </ul>	0,620 0,594 0,613	0,852	0,778	0,656
Customer Orientation ( ): <ul style="list-style-type: none"> <li>• Customer Focus</li> <li>• Competitor orientation</li> </ul>	0,744 0,745	0,785	0,713	0,695
Service Quality ( ): <ul style="list-style-type: none"> <li>• Tangible</li> <li>• Empathy</li> <li>• Responsiveness</li> <li>• Reliability</li> <li>• Assurance</li> </ul>	0,692 0,826 0,753 0,683 0,641	0,976	0,886	0,753
Patient Satisfaction ( ): <ul style="list-style-type: none"> <li>• Administration service</li> <li>• Doctor Services</li> <li>• Nurse Services</li> <li>• Physical Service</li> <li>• Medical equipment</li> <li>• Nutrition Services</li> <li>• Medical cost</li> </ul>	0,763 0,836 0,787 0,785 0,687 0,832 0,824	0,941	0,921	0,823

Moreover, the results of the test of convergent validity was supported because all standardized loadings were highly significant. In addition, the average variance extracted for each construct was greater than 0.5. It means, all of the items providing support for the convergent validity of the measure for each construct. Composite reliability was estimated to evaluate the internal consistency of the measurement model. All of the composite reliability measures were above the suggested level of 0.5. As a result, all construct were reliable.

Based on confirmatory factor analysis (CFA), the results indicated that a good fit between the model and the observed data. Table below will show the result of reliability and convergent validity test. Refers to criteria Index of fit, all of criteria that used in this study were fit to the model. It can be seen from GFI, CFI, NFI and NNFI

all exceeded the recommended 0.9 threshold level. In addition PNFI, RMSR and PGFI were lower than 0,5 (Hair, et.al, 2006)

Table 2. Reliability and Convergent Test of Model

<b>Fit Index</b>	<b>Value</b>
Goodness-of-fit index (GFI)	0,9158
Comparative Fit Index (CFI)	0,9279
Normed Fit Index (NFI)	0,9237
Non-Normed Fit Index (NNFI)	0,9154
Parsimony Normed Fit Index (PNFI)	0,6500
Root Mean Square Residual (RMSR)	0,0239
Parsimonious goodness of fit index (PGFI)	0,6616

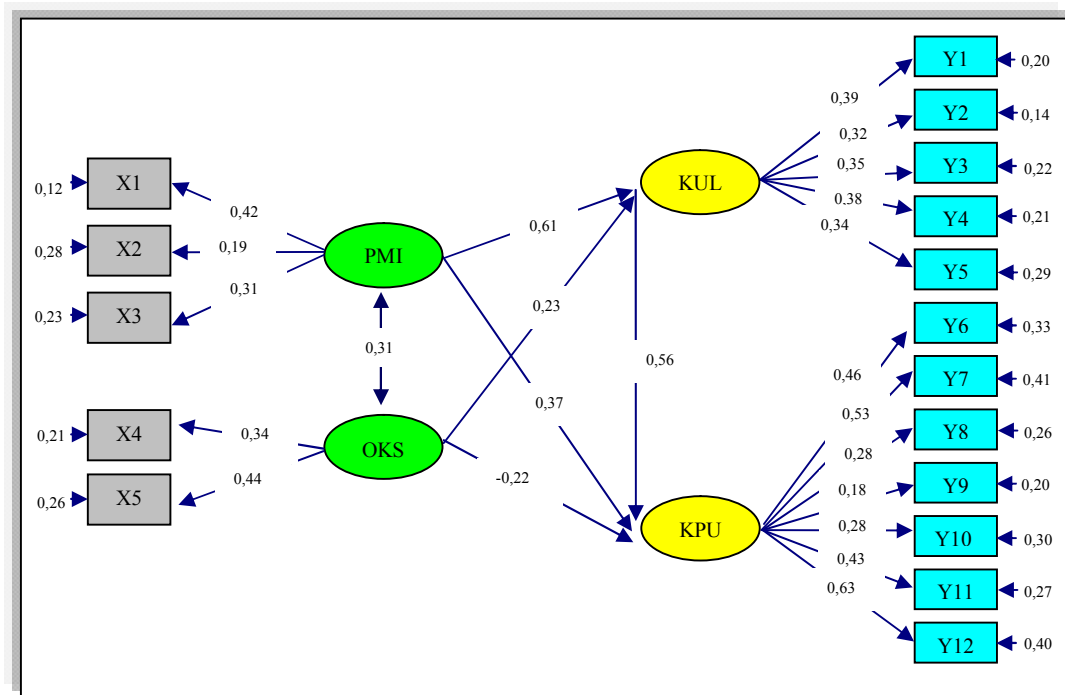
As the model has been fit with the data, therefore the hypothesis could be tested by using LISREL 8.30. The analysis by using LISREL produced a significant result on chi-square statistic. Figure 2 shows the structural model of the study. Each hypothesis corresponded to a path in the structural model. Analyzing technique that use on this study refers to Jackknifing techniques. The result of the study indicate that internal marketing was a significant predictor for service quality (H1) and patient satisfaction (H3). The path coefficient from internal marketing to service quality was significantly was also significantly ( $t = 5,625, p < 0,05$ ). And the coefficient from internal marketing to patient satisfaction ( $t = 2,588, p < 0,05$ ). Customer orientation was significant predictor of service quality (H2). The relationship of those variables were show by the result of t-value and p-value ( $t = 2,588, p < 0,05$ ). However, the relationship between customer orientation and patient satisfaction (H4) was not significant. It can be seen from the t-value that the result was negative. It means that the hypothesis 4 was rejected. Finally, the result of the study indicate that service quality was a significant predictor for patient satisfaction (H5). The relationship was show from grade of t-value and p-value that the result were 3,386 for t-value and p-value  $< 0,05$ .

Table 3. The Result of Hypothesis Testing

<b>Hypothesis (path)</b>	<b>Path Coefficient (b)</b>	<b>t-Value</b>	<b>Supported</b>
H1: Internal Marketing => Service Quality	0,614	4,625	Yes
H2: Customer Orientation => Service Quality	0,230	2,199	Yes
H3: Internal Marketing => Patient Satisfaction	0,374	2,588	Yes
H4: Customer Orientation => Patient Satisfaction	-0,225	-2,064	No
H5: Service Quality => Patient Satisfaction	0,566	3,386	Yes



Figure 2. Structural Model of Study



### 5. Discussion and Conclusion

The goal of this study was to identify the potential component impact of service quality and patient satisfaction at general hospital in Bengkulu. This study has presented a relationship model between internal marketing, customer orientation, service quality and patient satisfaction at public hospital in Bengkulu. Based on the CFA analysis, the model that developed on this study was compatible to the data. According to SEM analysis, the internal marketing and service quality have effect on patient satisfaction. On the other hand, customer orientation has not effect by directly to patient satisfaction at general hospital in Bengkulu. However, by direct effect trough service quality variable, both of those variable have positive effect. Furthermore, internal marketing not only has direct effect on patient satisfaction, but also indirect effect on patient satisfaction by service quality.

Table 4. Direct and Indirect effect

No.	Measures of Constructs	Effect		
		Direct Effect	indirect Effect	Total
1.	Internal Marketing	0,3737	0,3415	0,7152
2.	Customer Orientation	- 0,2251	0,1280	- 0,0971

The findings have both managerial and research implication. For managers of the hospital, managing internal marketing and customer orientation become the essential aspect for running of healthcare business industry. Managing both of those aspects will be impact to provide excellent of service quality. Therefore, establishing great relationship with customer trough service quality at healthcare service has become the urgent to provide patient satisfaction. Moreover, how to maintain a great

relationship with patients also becomes an important issue for the healthcare service industry.

Past research at profit and non-profits hospitals that conducted by Taylor and Baker (1999:15) found that patient satisfaction is strongly influenced by the service quality. From this research also found that the effect on the intensity of repeat purchase in the future that also influence by patient satisfaction. This suggested that service quality has an influence on patient loyalty. We suggest that other researchers could consider other theory and other nonlinear techniques to capture the new phenomenon that happen at healthcare services.

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