

**INFLUENCE OF INTERNAL MARKETING  
TOWARDS ORGANIZATIONAL  
PERFORMANCE WITH MEDIATING ROLE OF  
ORGANIZATIONAL COMPETENCES IN NOT  
FOR PROFIT ORGANIZATION AIESEC  
INDONESIA**

**(Project Based on Exchange HIV/AIDS in 2010 )**



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## **BACHELOR THESIS ORIGINALITY STATEMENT**

Here in undersigned I am, Khaleed Hadi Pranowo, claim that Bachelor Thesis entitled **INFLUENCE OF INTERNAL MARKETING TOWARDS ORGANIZATIONAL PERFORMANCE WITH MEDIATING ROLE OF ORGANIZATIONAL COMPETENCES IN NOT FOR PROFIT ORGANIZATION AIESEC INDONESIA (Project Based on Exchange HIV/AIDS in 2010 )**, is my own writing. Hereby I declare in truth that this Bachelor Thesis is not contains half or entire written by others. In which I took by copy or imitate a set of sentences or symbols that shows other writer ideas, opinions, or thoughts that I admitted as my own, and there are no part of the entire sentences which is copied, imitated, or taken from the other writers without giving confession towards the original writer.

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Semarang, April 13th 2012

Here in Statement,

(Khaleed Hadi Pranowo)

NIM. C2A006080

# THOUSAND MILES JOURNEY STARTED FROM A SINGLE STEP.

-LAO TSU

*Every man has its own opportunity to move forwards, consciously or not. Neither they can do it or not. It is about they want to do it or not*

*Every man has its own past, but if they only face forwards there is something they will miss seing*

*Every man should realize what they have rather than they do not have. face the bottom if you want to feel grateful. Face the top if you want to achieve*

*Face the future, because otherwise one day you'll realize that you've left behind*

*There is only one "O" in "Today". Therefore focus on one "Opportunity" to achieve  
in "Today"*

*There are three "O" in "Tomorrow". Therefore prepare yourself to face those  
"Opportunity" on "Tomorrow"*

*And there is no "O" in Yesterday, but there is one "S". Stories woven as learning and  
memories*

**-Dedicated to my "Bapak" (in memoriam) and "Ibu",**

**i am their legacy-**

## ***ABSTRACT***

*This study aims to determine the effect of application of internal marketing on organizational performance using the mediating role of organizational competencies. This study empirically evaluates the internal marketing as a framework for implementing marketing strategies. Internal marketing variables that are used in this study are strategic rewards, senior leadership, internal communication and training and development as an independent variable. Dependent variable in this research is the organizational performance with the organizational competencies organization involves as intervening variable that mediates internal marketing to organizational performance.*

*Primary data were collected, using questionnaires of 56 respondents who are active members who worked on PBOX HIV / AIDS in Indonesia AIESEC. Two regression models were used to analyze the data. The results of the first model regression analysis, showed that all variables of internal marketing (strategic rewards, senior leadership, internal communication and training and development) significantly affect the competence of the organization. The second model of regression analysis, showed that organizational competences significantly affect organizational performance.*

*From the analysis showed that all of the fourth variables of internal marketing influence variable organizational performance with the mediation of variable organizational competences, variable training and development is factor that has the strongest influence. It can be concluded that more consistent and better training and development program, then the strategy internal marketing can performed well and be successful.*

*Keywords : Internal Marketing, Organizational Performance, Organizational Competences, Strategic Rewards, Senior Leadership, Internal Communication, and Training and Development*

## ABSTRAKSI

Penelitian ini bertujuan untuk mengetahui pengaruh penerapan *internal marketing* terhadap kinerja organisasi menggunakan peran mediasi kompetensi organisasi. Penelitian ini secara empiris mengevaluasi internal marketing sebagai kerangka kerja untuk melaksanakan strategis pemasaran. Variabel internal marketing yang digunakan dalam riset ini antara lain *strategic rewards, senior leadership, internal communication* dan *training and development* sebagai variabel independen. Variabel dependen dalam riset ini adalah kinerja organisasi dan kompetensi organisasi dimasukkan sebagai variabel intervening yang memediasi *internal marketing* dengan kinerja organisasi.

Data *primer* yang dikumpulkan dengan menggunakan kuestioner dari 56 responden yang merupakan member aktif yang bekerja pada PBOX HIV/AIDS di AIESEC Indonesia. Dua model regresi digunakan untuk menganalisis data. Hasil analisis regresi model pertama menunjukkan bahwa semua variable *internal marketing (strategic rewards, senior leadership, internal communication* dan *training and development)* secara signifikan mempengaruhi kompetensi organisasi. Hasil analisis regresi model kedua menunjukkan bahwa kompetensi organisasi mempengaruhi kinerja organisasi secara signifikan.

Dari hasil analisis menunjukkan bahwa dari keempat yang mempengaruhi variabel kinerja organisasi dengan dimediasi variable kompetensi organisasi, variabel *training and development* merupakan faktor yang memiliki pengaruh paling kuat. Dapat ditarik kesimpulan bahwa semakin konsisten dan baik program *training and development*, maka strategi *internal marketing* dapat berjalan secara baik dan sukses.

*Kata Kunci : Internal Marketing, Organizational Performance, Organizational Competences, Strategic Rewards, Senior Leadership, Internal Communication, and Training and Development*

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## CHAPTER I

### INTRODUCTION

#### 1.1. Backgrounds for the Research

In the era of competition, many organizations have to create strategic planning to take the advantage of competition or to win the competition. One key to success in winning a competition is by creating a strategic marketing plan, which will have significant contribution to achieve the organizational visions and goals. Marketing is management process which has a role to maximize the profit (return) to shareholders and its company or organization then creating competitive advantage in product (Doyle., 2000).

As a part of the economics disciplines, marketing originally was nothing more than a simple business activity. Economists had only put it as one form of economic activity. However, based on the approach characterized by more sociological aspects showed the development of institutions, which then referred as the market. Market is a social system in which each party plays their respective roles and will need to meet certain contents.

The development of marketing, found that marketing as an economics activity has been practically done since a long time ago, though the formal study of marketing is relatively new. As a discipline that has been studied, researched, and written systematically, marketing has existed for about 100 years (Fandy Tjiptono, 2007).

In a new scene of company evolution and organization, marketing productivity increasingly plays a significant role for companies or organizations. They were made the

awareness of the importance of marketing role. Sergio Zyman, Coca-Cola's former Vice President of Marketing once said, "The purpose of marketing is to sell more (product) to more people". It is clearly stated that one of marketing's success indicators is the number of products sold, and it takes proper concept to succeed the marketing performance to reach out and achieve the goals. Product is anything that can be offered to a market that might satisfy wants or needs (Philip Kotler, 1972).

The marketing concept emerged in the mid 1950s while the application of marketing within a company and organization was being activated. This concept should be performed with a holistic marketing approach covering an integrated marketing, performance marketing, relationship marketing and internal marketing. (Kotler and Keller 2009, p. 61). The holistic marketing concept is based on the development, design, and implementation of marketing programs, process, and activities that represent the breadth and interdependences. Holistic marketing recognizes that "everything matters in marketing", so integrated perspectives is often necessary.

Marketing principles that were examined in the literature and practiced in various companies and organizations, has been more associated with product marketing that addresses the customer as the last purpose. Customer is a group of people who buy the end of the organization's products or services, or who consume products or services which are provided by organizations (Jim Blythe, 2008).

In customer service world, customers are categorized more often into two classes which are external customers and internal customers. An external customer is a customer who is not directly connected to that organization, whereas an internal customer is a customer who is directly connected to an organization. Internal customers are usually

stakeholders, employees, or shareholders of the company and organization, but the definition also encompasses creditors and external regulators (Juran, 1988).

The marketing disciplines which explains about internal customer, is explained on the last part of holistic marketing which is internal marketing. Internal marketing becomes important because in internal marketing, it has a role in ensuring that everyone in the organization embraces appropriate marketing principles. During this time, in a service business there is a concept of customer first, but more precisely is the employee first. Internal marketing sees employees as internal customers that the company has to build their loyalty to, said Johari Zein the Executive Director of JNE (Marketing Magazine, May 2011).

Its basic premise was “to have satisfied customers, the firm must also have satisfied employees” and that this could be best achieved by treating employees as customers, i.e. by applying the principles of marketing to job design and employee motivation. Internal marketing is the task of hiring, training, and motivating the employees who want to be able serve the customers and is recognized that marketing activities directed inside the company.

Internal marketing requires vertical interdependence with the other departments, everyone understands, appreciates, and supports the marketing effort (Pervais and Rafiq, 2002). The success of the organization in maintaining the organizational and marketing activities can not be separated from the role of its member. The role of members as a spearhead to perform activities of the organization is important, because employees will be faced with challenges in the competition.

Thirty-five years has elapsed since Berry, Hensel, and Burke (1976) introduced the concept of internal marketing into marketing literature. In its original definition, internal

marketing is concerned with making available internal products (jobs) that satisfy the needs of a vital internal market (employees) while satisfying the objectives of the organization. Later developments of internal marketing literature further emphasized the crucial element of *communicating by deeds* organizational values and offering employees a clear vision that is worth pursuing (Berry and Parasuraman 1992, p. 27).

Internal marketing was a new discipline in holistic marketing with the principle that satisfied customers come from satisfied employees (Kotler, 2009). In addition, satisfied employees are those who have a high commitment to roles within the organization in terms to meet organizational goals. By that facts, it is known that implementation of internal marketing will be difficult if the internal customers are not satisfied. Internal customers who are not satisfied to have the same symptoms with external customers who are not satisfied, it is difficult to provide good service to external customers and will impact the organization or company's decline in productivity. Nowadays, best marketers recognized the need of having more complete and cohesive approaches that goes beyond traditional application of marketing concept which is encouragement of the employee.

For not for profit organizations specifically, internal marketing is very important, by implementing the internal marketing as a strategic plan, it is affecting the performance of the organization in general. One of the global youth not for profit organization whom implements the internal marketing is AIESEC. AIESEC that has been established since 1948 and has been spread in over 110 countries and territories, taking into internal marketing as a strategic step in its organizational activities.

AIESEC as an organization that provides services to develop the leadership of its members have a product, namely the *integrated development experience*. Integrated development experience is services which provided by AIESEC to develop its members,

comprised of *leadership opportunities, exchange program* and *global learning environment*.

Leadership opportunities offered to its members to have leadership experience by leading team in scale of project, functional, local, national and international. This experience provided by AIESEC to develop skills of leadership and management of members with practical and theoretical experience.

Exchange program is a product service that offered by AIESEC to its member to have experience in other AIESEC countries and it is divided into *global community development program* and *global internship program*. In each type of exchange has its different roles, job description, duration and requirements. Internship exchange supply powerful learning experience for young people. The focus of its program is not only provide a professional experience to individual but also provide a learning experience, which will lead its member to become more entrepreneurial, cultural sensitive, open minded and active learner.

Global learning environment is integrated tracks and platforms that owned by AIESEC to deliver the knowledge and experience in AIESEC, consist of *individual recovery, team experience, learning circle, seminars/ conferences, mentoring* and *virtual spaces* (myaiesec.net). This global learning environment is built under the AIESEC experience using both physical and virtual spaces where its member can access on their own the full range of valuable learning opportunities. The product namely integrated development experience is the uniqueness of AIESEC and it is their way to develop its member.

AIESEC which has been spread in over 110 countries and territories divided into 3 kind of bases and board, which are AIESEC International, AIESEC National and

AIESEC Local Committee. Globally AIESEC divided into 5 Growth Network which are Libero America, Middle East North Africa (MENA), Western East North Africa (WENA), Europe, and Asia Pacific (AP).

National committee that existed since 1984 is AIESEC Indonesia. In AIESEC Indonesia currently has 6 official local committee, where established on Local Committee University of Indonesia in Jakarta, Local Committee Universitas Brawijaya in Malang, Local Committee Bandung (Universitas Padjajaran, Bandung Institute of Technology, and Universitas Parahyangan), Local Committee Universitas Diponegoro in Semarang, Local Committee Universitas Andalas in Padang, and Local Committee Surabaya (Universitas Surabaya, Universitas Airlangga and Surabaya Institute of Technology).

Exchange program became focus on AIESEC globally, exchange activities held to develop its member to have value of social environment development by raising global issues that exist. Guided by the MDGs or *Millennium Development Goals* which are : *eradicating extreme poverty, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality rates, improving maternal health, fighting disease epidemics such as AIDS, ensuring environmental sustainability and developing a global partnership for development*. One way of contributing global issues, AIESEC held a project that raised *Project Based on Exchange* or PBOX.

One of the major activities conducted by AIESEC, global internship program or *exchange* conducted by AIESEC in the national or the respective country by importing and sending exchange participant or commonly called the exchange of *incoming exchange* (ICX) and *outgoing exchange* (OGX). Exchange participant involve in exchange program with specific tasks in accordance with objective program or issue.

In 2010, all LCs at AIESEC Indonesia implemented the PBOX with issue HIV/AIDS. PBOX is a project that bring global issue to create and develop the awareness of its members and society in terms of raising issue. The uniqueness of PBOX is the involvement of exchange participant from another countries to this project.

PBOX HIV/AIDS can be regarded as AIESEC CSR activities. Because the intended target is the external, and one objective of project is to provide awareness directly to the public on the issues. PBOX HIV/AIDS was supported by Unilever Indonesia, because the issue of HIV/AIDS is an issue that is also appointed by Unilever as one of their CSR programs.

In PBOX HIV/AIDS, AIESEC Indonesia has been implemented internal marketing strategy. Internal marketing performed by national board, national board decided to make strategic rewards and competition policy among PBOX in each LCs. Based on Galpin (1997) policy factors that can affect the success of internal marketing implementations are strategic rewards, internal communications, training and development, senior leadership, staffing, selection and succession, empowerment and operational/ process changes.

In practice, the existing senior leadership or leader policy as the instrument of empowerment from the organization, intently affect the performance of the organization in terms of *exchange realization* and *involvement of external audience* of PBOX. The competition will cause a sense of fulfilling a desire for a challenge, so the internal members will mutually improve performance in order to win the competition. It is also applied in the internal marketing, an organization attempting to bring the atmosphere of competing on the employees or members of organization (Massimo Motta, 2004).

Internal marketing has evolved from the co-operation between AIESEC Indonesia and Unilever Indonesia, Unilever sponsored the PBOX HIV/AIDS held in 6 LCs of

AIESEC Indonesia. Unilever agrees to support PBOX HIV/AIDS were held on January – March 2010 in 6 (six) cities, that are Jakarta, Bandung, Semarang, Malang, Surabaya, and Padang. Based on the agreement Unilever Indonesia provides net fund of Rp. 60.000.000,00 (sixty million Rupiah).

Funds will be allocated to Rp. 30,000,000.00 for the operations of the national committee. Fund for PBOX HIV/AIDS in LC amounted to Rp. 30,000,000.00 (thirty million Rupiah). National board divided to spread project fund into the LC is divided into two phases, the first phase on February 13th 2010, funds were distributed evenly to six LC with a number of Rp. 1,000,000.00 (one million rupiah) for project working capital. The remaining funds of Rp. 24,000,000.00 (twenty-four million rupiah) used for LC competed in six runs PBOX HIV/AIDS.

The agreement details, project and the activities should fulfill the implementation of social projects with issue of HIV/AIDS. Target audience of the project where performed in 6 (six) cities is 1500 audiences in each LCs. Audience or the main participant comes from the Universities that has AIESEC based (University of Indonesia, Universitas Padjajaran, Bandung Institute of Technology, Universitas Parahyangan, Universitas Brawijaya, Universitas Diponegoro, Unibersitas Andalas, Universitas Surabaya, Universitas Airlangga, and Surabaya Institute of Technology), other Universities and schools in Jakarta, Malang, Bandung, Semarang, Padang, and Surabaya.

The implementation of internal marketing was shown by the national board of AIESEC Indonesia. The competition was performed by distributing funds from Unilever as strategic rewards. In the competition using the proportion of the system according to the performance of 6 LCs. National board of AIESEC Indonesia has responsibility to control, motivate and provide direction of the strategic rewards performed. The other role

of the national board were provide training and development of LCs and create an effective flow of internal communication of PBOX in each LC. In essence, competition policy is taken to motivate members in each LC to be more motivated to run the project properly.

Therefore, 6 LCs have to compete on (indicator of measurement) :

1. Numbers of incoming exchange realization on PBOX HIV/AIDS
2. Numbers of involving the youth audience
3. Innovation of project implementation

The competition was held on LC assessed by using proportion system. Benchmarks of the competition assessment are LC which has a exchange realization and involve more participants than the other LC will get more funding in accordance with the regulations. Innovation of project also assessed with a predetermined weight, but the national board will judge the assessment of innovation subjectively. The assessment of innovation carried out by looking at the creativity and quality of project implementation in each LC.

Regulations for the assessment system established by the national board by using a system of proportion, and assessment for each measurement indicator used the percentage weighting system, as follows:

1. No. of exchange weighted 40%
2. No. of educated people weighted 40%
3. Innovation of project weighted 20%

The performance indicators calculated with the formula set by the national board. Each measurement indicator assessed with point system, means fund be given based on

the LC performance. There are several procedures that must be met by the LC in order to legitimately obtain funding from Unilever.

National board has responsibility to perform financial tracking within the competition, set the procedure and track the fulfillment of regulation. The remaining grant was transferred in 3<sup>rd</sup> of May 2010 after the completion of the final report. Amount of grant only be given to LCs which fulfill all the implementation criteria of the agreement.

Exchange realization is one indicator of performance success of AIESEC globally. It can be generated that experience in project as the organizational product for members, exchange participant, and target audience. With increasing of exchange realization which performed by AIESEC, its indicate a result of internal marketing. It was shown dynamics sustainability on organizational performance, especially by significant growth and result on exchange performance both in incoming and outgoing exchange. Compared with previous year in terms of exchange realization and growth, and exchange realization growth on next period.

**Table 1.1****Incoming And Outgoing Exchange Performance on AIESEC Indonesia****Year 2008 - 2011**

Exchange Realization And Growth					
Term	2008/2009	2009/2010	2010/2011	Growth (2009/2010)	Growth (2010/2011)
ICX & OGX	184	488	732	165 %	33 %
ICX	140	354	424	153 %	17 %
OGX	44	134	308	205 %	56 %

Source : AIESEC Indonesia

Seen from the increasing in exchange realization growth of incoming exchange up to 153% on term 2009/2010 from the previous term. And decline on exchange realization growth on term 2010/2011. Incoming exchange department's performance in the period 2009/2009, it is known that many are contributed by PBOX HIV / AIDS. AIESEC Indonesia in the period 2008/2009 and 2010/2011, was not implement cooperation with Unilever as the financial partner for PBOX in AIESEC Indonesia, and also was not perform the internal marketing to PBOX on 2009 and PBOX on 2011.

And the contribution of general exchange performance from the PBOX HIV/AIDS. It is compared with PBOX HIV in 2008 and 2009, there was increasing performance significantly visible from the number of exchange realization and audience involved. The comparison between PBOX 2010 and 2011 shown that there is declining performance on number of actual audience involved.

**Table 1.2**

**Exchange Realization and Actual Audience Involved on Project Based on  
Exchange HIV/AIDS year 2008, 2009, 2010, and 2011**

	2008	2009	2010	2011
Exchange realized	18	34	68	87
Actual audience involved	N/A	3485	9800	3788

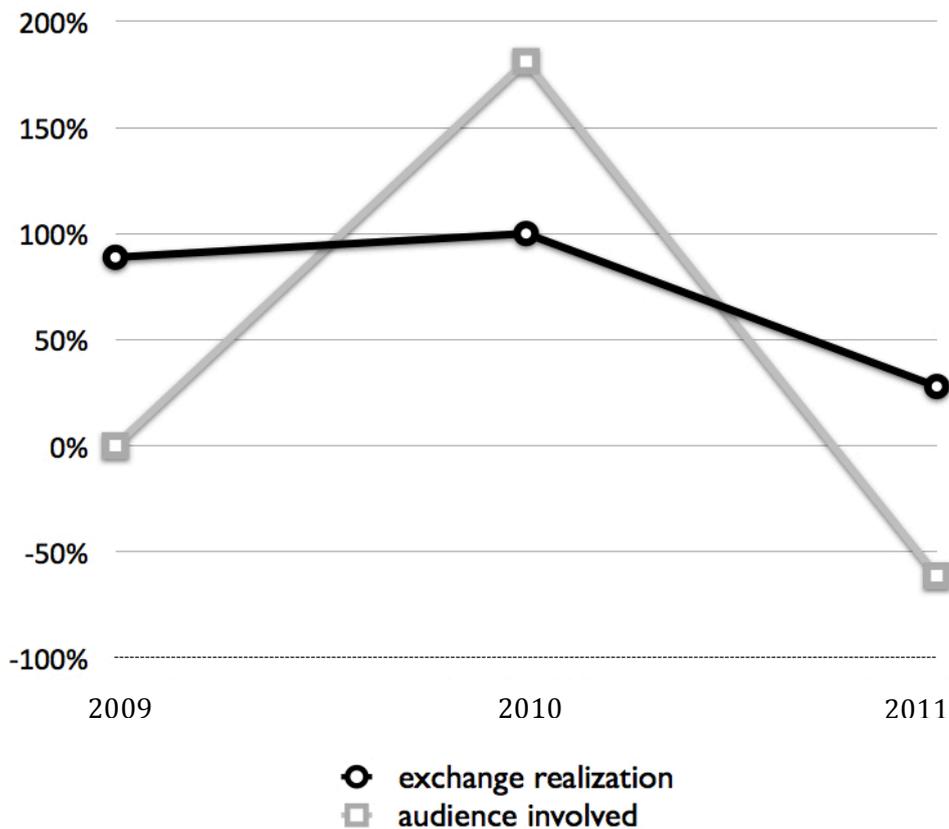
Source : AIESEC Indonesia

From the table, significant increasing performance seen in the PBOX HIV/AIDS 2010 which performed internal marketing strategy. The rise of performance were seen in the number of exchange realization and audience involved compared by the two previous PBOX.

By the comparison to PBOX HIV/AIDS 2011, which at that time was not perform internal marketing, there are decreasing in the growth of audience involved and number of the exchange realization from PBOX HIV/AIDS 2010. Growth development can seen from the figure bellow.

**Figure 1.1**

**Growth of Exchange Realization and Actual Audience Involved on Project Based on Exchange HIV/AIDS 2009, 2010 and 2011**



Source : AIESEC Indonesia

In the proposed model of internal marketing as a strategy aims for the high performance and productivity of the internal customer. Member performance have interdependence with motivation elements and strategic reward from the upper management. Performance is motivation function and ability to fulfill the job (Walker and Blanchard., 1993). It is performed by managing the interdependent elements of the internal marketing to create and achieve greater individual and organizational competence and influence the organizational performance (Pervaiz , et al., 2003).

This study will analyze the implementation internal marketing on AIESEC Indonesia in PBOX HIV/AIDS towards organizational performance. Determination and implementation of internal marketing to internal customer by utilize the organizational competence of AIESEC.

## **1.2. Statement of the Problem**

AIESEC Indonesia period 2009/2010 shown big performance and growth in terms of exchange realization, where exchange realization is one of the measurement of organizational performance. The more contribution in organizational performance of AIESEC Indonesia is coming from incoming exchange, which performed by *Project Based on Exchange* or PBOX HIV/AIDS on 2010.

During the implementation of PBOX, national board of AIESEC Indonesia perform the competition to winning the fund generated. And In general condition, funds that has been received will be directly given to the project. As these funds can be used for operational projects. But in this case national board of AIESEC Indonesia used the funds to implement the internal marketing strategy. After the project finished there was a phenomenon, significant increase in performance of PBOX HIV/AIDS.

Those phenomenon can be replied in accurate figure hence the problem which will be checked need to be specifically formulated. By using research model from Pervais K Ahmed (2003), research questions which will be studied in this research listed as follows:

1. Whether strategic reward influences organizational competence?
2. Whether senior leadership influences organizational competence?
3. Whether internal communication influences organizational competence?

4. Whether training and development influences organizational competence?
5. Whether organizational competence influences organizational performance ?

### **1.3. Purpose of the Study**

Based on the research problem which has been stated, above the purposes of this research are to analyze:

1. Influence of strategic reward towards organizational competences
2. Influence of senior leadership towards organizational competences
3. Influence of internal communication towards organizational competences
4. Influence of training and development towards organizational competences
5. Influence of organizational competence towards organizational performance

### **1.4. Contribution of the Study**

This study makes the following contributions:

1. For AIESEC Indonesia, this study is hoped to give any suggestion for AIESEC Indonesia, about strategic reward, internal communication, training and development, senior leadership, member oriented behaviour, member satisfaction, and individual competence influence to organizational performance. Thus, become consideration in developing strategy in the future.

2. This study is hoped to give literature contribution for other organization who wants to increase the performance with the implementation of internal marketing and organizational competences.
3. For other managerial practitioner, as suggestion to developing strategy on managing their internal customer.
4. This study is hoped to give literature contribution for enhanced understanding implementation of internal marketing and organizational competences.

### **1.5. Definition of Term**

In writing of this research the author presents a systematic discussion of the problem which consists of five chapters, with the systematic is:

#### Chapter I: Introduction

This chapter contains several points that relate to the writing of this background problem, formulation of the problem, the problem definition, research objectives, and the benefits.

#### Chapter II: Review of Related Literature

This chapter contains the theoretical foundation of the problems associated with this writing, among others, related to : theoretical concepts like the concept of internal marketing as independent variables, organizational competences as dependent variables, and organizational competences as intervening variables in the research model and hypotheses formulation.

### Chapter III: Research Method

This chapter discusses the methods used in research conducted in the framework of this writing, including: population and sample research, data sources and techniques of sampling, sample variable definition and measurement, hypotheses testing model and data analysis method.

### Chapter IV: Result and Data Analysis

This chapter discusses the research results based on the description of the data that has been collected and discussed the results of research that has been described, analyzed test results and implications of research findings.

### Chapter V: Conclusions

This chapter contains the conclusions of the research that has been conducted, research implications, limitations and suggestions that can be input for further research.

## CHAPTER II

### LITERATURE REVIEW

#### 2.1 Underlying Theories

##### 2.1.1 Organizational Performance

Performance can be defined as the extent of actual work performed by an individual or to what extent the actual work is shown by an individual. The performance is a result achieved by employee in doing their jobs according to specific criteria that apply to a particular job (Robert J. House, 1995).

Performance according to Robbins (1998) is a result achieved by workers in doing their jobs according to specific criteria that apply to a particular job. Challagalla and Shervani (1992) defines performance is a level where employees or members of organization can achieve the targets imposed on him. The performance of resources is a level where resources can do the job or jobs well and effectively responsible.

Byars (1984) defines performance as a result of the individuals or groups efforts that achieved by presence of able to act in certain situations, performance are closely related to workers who carry out activities of the organization. Thus performance is the result of linkage between effort, ability, and perceptual tasks. Effort is the result of motivation that shows the amount of energy (physical or mental) that is used by individuals in performing a task. While ability is characteristic of organization or individual that is used in performing a job. Ability usually can not be directly affected in the short term. Furthermore, the perception of the task is an indication which individuals believe that they can realize their efforts in the work.

Organizational performance is a concept to measure the achievements of the organization in the market for a product. Any organization interested to know the market performance of its products as a mirror of its organizational success in competition. (Voss, 2002).

Organizational performance is a measurement that is used to analyze the company's success in achieving its intended purpose, a company experienced success in areas where existing practice with all the needs of the constituency realized (Lawler, 1995). And Herbert Robinson (1985) argued that performance improvement has been the subject of studies and initiatives as result of complex internal and external factors.

Based on Mulyadi (1997) organizational performance is the performance over a given period, assessment or performance measurement is the determination of performance in the organization periodically in the form of operational activities, organizational structure, and employee based on objective standards and criteria previously set.

Hanks (2005) suggests there are two approaches used to measure performance, which are objective approach by using data in an objective form of financial accounting data and indicators of success of an organization's performance. And subjective approach based on the perceptions of managers of the company's performance.

Objective approach based on the measurement of financial accounting data has the disadvantage which there is a tendency performed by management board to manipulate data by the variation method, so that performance measurement becomes invalid (Sapienza, Smith and Gannon, 1983). Another difficulty that arises when the need to test the performance of the company based on objective measurements is at the manager or owner who provide information of the organization. Covin (1991) argued that to

anticipate the unavailability of objective performance data, the possibility of using subjective performance approach based on a perception manager can be performed.

Zahra and Das (1993) in Suryanto (2004) proved that performance measurement by subjective approach have high levels of reliability and also the validities are high. In a study, Voss and Voss (2000) in Suryanto (2004) showed that subjective performance measures with objective performance measures are correlate. In this study performance is measured by using a subjective measurement based on the perceptions of staff and managers on the various dimensions of organizational performance measurement.

The dimensions of organizational performance measurement commonly used in various studies is growing (growth), performance based on product and efficiency (Murphy *et al.*, 1996 in Suryanto, 2004). For organizations provide services, quality of service to customers is one measure of organizational performance. Increases and decreases of the organizational growth is evaluation to determine the next strategic step.

Competition among organizations intently in delivering value to customers, should appropriate to what the customer wants and promised by the organization. Every effort is made to satisfy those customers. Acceptance by the customer value indicated by the behavior of the market showed by acceptance or rejection the product, which can be identified through indicators (Ferdinand, 2000).

According to Ferdinand (2002) organization performance constructs or factors commonly used to measure the impact of a organizational strategy. The organizational strategy has always aimed to produce a good performance of the performance such as product volume and performance growth rate. Organizational performance should be built using multiple dimensions of not only measured number of product sales but also

the level of growth due to the volume of sales will depend on how many customers who have been known to the average level of consumption that are fixed.

Pelham (1997) suggested three indicators of organizational performance that are effectiveness of the company, product sales growth, and growth relative advantage, in the study also suspect there is a significant relationship between the effectiveness of the organization strategy orientation and performance growth that will ultimately increase organizational performance.

Narver and Slater (1990) in her study of organizational performance is measured by (1) financial growth, (2) customer growth and (3) ROI (Return Of Investment) / rate of return on investment. When an organization's systems give a chance in a markets, it is the expertise of the organization in a complex social environment of the organization making it difficult for competitors to emulate.

Organizational performance defined as a business measurement, sales growth and the level of corporate profits (Menon er al, 1999). And corporate performance according to Rahayu (2001) is the level of corporate achievement measured in terms of work outcomes (performance outcomes). Based on the results of the study Murphy *et al.* (1996) in Rahayu (2001) indicators of performance measurement and competitive advantage that most frequently used is the market share and profitability.

Wadji (2002) states that an organization's strategy contains a specification of the six-dimensional determinants which consist of:

1. The product is marketed as a tool to compete in a competition.

2. Level of investment, where this involves: investing for growth, investment to maintain a favorable position, the acquisition of new funds that are drawn to the organization's activities.
3. Strategy functional area required in the competition. This includes specific steps in competing, including: product line strategy, positioning strategy, pricing strategy, distribution strategy, manufacturing strategy and logistic strategy.
4. Strategy in terms of the underlying asset or skill acquisition sustainable competitive advantage.
5. Allocation of resources into all business units.
6. Effectiveness of synergy in business as an effort to create value that supports the ability to compete.

According to Day (1994) in Farrell and Movondo (2003) organizational strategy guiding the choice of product market but as a restriction on the product-market. Functional strategy should be based on inter-related strategies that provide information to marketing managers and other managers about the appropriate functional strategies and their executors.

Dermawan Wibisono (2011) stated that several basic question that have correlation with indicators of performance, which are : measures, purposes, relation, formula/ metric, target level, frequency, source of data, who measures and its acts. Then for the indicators of organizational performance as follows :

1. Technology
2. Innovation
3. Profitability

#### 4. Sales productivity

Measurement indicators of technology, indicating the ability of companies to provide the right specifications of technology. The time required to perform the operations of the product or service, thus availability and utilization of technology is the primary measurement. While measurement indicators of innovation, indicating the success rate and impact of the process within the organization to performing. Then the profitability shown from the enhancement and growth of the organizational goals such as revenue. While the dimension to measure the sales productivity were seen from the effective and efficient of sales activities and result (Dermawan Wibisono, 2011).

##### **2.1.2 Internal Marketing**

The internal marketing (IM) concept was first proposed in the mid 1970s as a way of achieving consistent service quality – a major problem in the services area. Its basic premise was ‘to have satisfied customers, the firm must also have satisfied employees’ and that this could be best achieved by treating employees as customers, i.e. by applying the principles of marketing to job design and employee motivation. (Pervais and Rafiq, 2002).

The term internal marketing appears to have been first used by Berry *et al.*, and later by George, Thompson *et al.* and Murray. Even though the term internal marketing was not directly used by them, the idea of internal marketing was also present in Sasser and Arbeit’s article (1976). However, it was not until the publication of Leonard Berry’s seminal article (1981) in which he defined internal marketing as ‘viewing employees as internal customers, viewing jobs as internal products that satisfy the needs and wants of these internal customers while addressing the objectives of the organization that the term entered popular management discourse.

Central to the marketing philosophy are the concepts of customer and exchange, namely that customers receive products they desire in exchange for payment of some kind (that is, a price). In the external marketing exchange situation, products are bought in order to derive some form of utility or satisfaction. Applying these concepts internally, as is implied by treating 'employees as customers', the concepts require some care. (Pervais and Rafiq, 2002).

The concept of internal marketing is essentially a new concept. Initially more of this conception appears in the services marketing literature, but lately was included in the marketing industry. The basic idea underlying the emergence of the concept of internal marketing is that employees (staff or members) in the organization should be viewed as a customer as well as those who directly consume the product or service organization (Sargeant and Arif 1998). In other words, employees are the first customers of the organization that must be served, before the organization they serve external markets (Caruana and Calleya 1998).

A key assumption underlying this view of internal marketing is based upon the notion that 'to have satisfied customers, the firm must also have satisfied employees'. Sasser and Arbeit took this line of argument a step further by contending that personnel is the most important market of a service company. The deployment of marketing techniques in the personnel area is also indicated by Sasser and Arbeit (1976) by their depiction of jobs as products and employees as customers : "Viewing their job offerings as products and their employees as customers forces managers to devote the same care to their jobs as they devote to the purchasers of their services".

Berry and Parasuraman (1981), who with a number of colleagues have carried out some of the most innovative research on service quality, state internal marketing is

attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as customers and it is the strategy of shaping job-products to fit human needs.

From the analysis of the key conceptual and empirical literature, five main elements of internal marketing are identified (Pervais and Rafiq, 2002). These are:

1. Employee motivation and satisfaction.
2. Customer orientation and customer satisfaction.
3. Inter-functional co-ordination and integration.
4. Marketing-like approach to the above.
5. Implementation of specific corporate or functional strategies.

Internal marketing was first proposed as a solution to the problem of delivering consistently high service quality by Berry *et al* (1981). There are 3 phases of existence the internal marketing concept (Pervais and Rafiq, 2002), the phases are :

- Phase 1 : Employee motivation and satisfaction

In the early developmental phase, the majority of the work on internal marketing focused upon the issue of employee motivation and satisfaction. The major reason behind this was the fact that the roots of the internal marketing concept lie in efforts to improve service quality.

- Phase 2 : Customer orientation

The second major step in the development of the internal marketing concept was under-taken by Christian Gronroos (1981), whose starting point was the concern that because contact employees in services become involved, Gronroos termed 'interactive marketing' it is essential that they are responsive to customers'

needs. Gronroos recognized that not only do buyer–seller interactions have an impact on purchasing and repeat purchasing decisions but also, crucially, that buyer–seller interactions provide a marketing opportunity for the organization. To take advantage of these opportunities requires customer-oriented and sales-minded personnel. Hence, the object of internal marketing is, in his view, to ‘get motivated and customer-conscious employees’. In this view, it is not sufficient that staff are motivated to perform better, but they must also be ‘sales minded’. Furthermore, effective service also requires effective co-ordination between contact staff and backroom support staff. Gronroos also views the internal marketing concept as a means of integrating the different functions that are vital to the customer relations of service companies.

- Phase 3 : Broadening the internal marketing concept – strategy implementation and change management

The beginning of the third phase is marked by insights drawn from a number of authors who explicitly began to recognize the role of IM as a vehicle for implementing strategy. Winter (1991) was one of the earliest to bring to prominence the potential role of IM as a technique for managing employees towards the achievement of organizational goals. Winter emphasizes that the role of internal marketing is aligning, educating and motivating staff towards institutional objectives the process by which personnel understand and recognize not only the value of the program but their place in it.

In each of the different phases, it was highlighted that employee or staff motivation through employee satisfaction was the major concern during phase 1 of the development of the internal marketing concept. During phase 2, customer orientation (or ‘customer

consciousness' as Gronroos puts it) and the use of marketing-like techniques received emphasis. In phase 3, the major emphasis was on inter-functional coordination and implementation.

Based on the figure Rafiq and Ahmed (1991) on their article on 2002 (pg. 30) defined internal marketing as planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies.

Berry (1995) provides an illustration of internal marketing by viewing employees as internal customers, sees the jobs as internal products that satisfy the needs of internal customers to assist in achieving organizational objectives. George and Gronroos (1994) see internal marketing as a philosophy for managing human resources based on a marketing perspective.

Kotler (2004) provided a description of internal marketing as the work performed by the company or organization to train and motivate its internal market or member of organization, to work as a team in order to satisfy their end customers, or in this case is the purchaser or end user products.

Two basic principles in understandings, internal marketing is seen as a mechanism to distribute the responsibility of marketing to the entire organization. In order to achieve the effectiveness of a high order, the approach taken is every employee should be encouraged to pay attention to their predecessors. In the chain of services, internal marketing is not just as a tool to help employees understand the importance of their position individually and to create understanding of how these positions relate to others in the organization. By this approach the first role of internal marketing is to develop cross-functional coordination and operation of the organization. Whereas the second role is to

promote, develop and maintain the ethos or culture of good customer service to customers both internal and external customers or end-customers (Kotler, 2004).

Empowerment has been defined in numerous ways, Bowen and Lawler (1992) agree that empowerment is the basic of notion for internal marketing strategy thus the core element of empowerment involves giving creative discretion (or latitude) over certain task-related activities. Creative discretion is exercised where committees themselves have to develop alternative methods of performing a task.

Bowen and Lawler (1992) also include in their definition of empowerment the sharing of information regarding the organization's performance, rewards based on organizational performance, and knowledge that enables employees to understand and contribute to organizational performance.

Berry (1995) goes further and argues that empowerment is a state of mind. An employee with an empowered state of mind experiences feelings of :

- 1) control over how the job shall be performed,
- 2) awareness of the context in which the work is performed,
- 3) accountability for personal work output,
- 4) shared responsibility for unit and organizational performance, and
- 5) equity in the rewards based on individual and collective performance.

Based on Piercy and Morgan (1991), the idea behind the internal marketing mix concept is that a number of elements under the control of management are combined and integrated in order to produce the required response from the target market. Attempts at

applying the marketing mix concept to internal marketing have been structured generally around the 4Ps marketing mix (Product, Promotion, Price and Place) framework.

Treating jobs as products means looking at jobs not only from the point of view of the tasks that need to be performed, but also from the perspective of the employees and the benefits they seek from the job. This means giving consideration not only to financial remuneration, but also to training needs, level of responsibility and involvement in decision making, career development opportunities, and the working environment, amongst other factors that employees value. Treating jobs in this way will facilitate the hiring retention and the motivation of employees. Also, treating jobs as products is a reminder that jobs need to be marketed well in order to recruit the best possible employees (Pervais and Rafiq, 2002).

Galphin (1997), During the implementation the internal marketing, policy factors that can affect the performance success are :

1. Strategic rewards;
2. Internal communications;
3. Training and development;
4. Empowerment;
5. Organizational structure;
6. Senior leadership;
7. Physical environment;
8. Staffing, selection, succession;

9. Interfunctional co-ordination;

10. Incentive systems;

11. Operational/process changes

Operational of the concept of internal marketing, Helmand's Pyne (1992) gives three different categories with respect to internal marketing activities. These three activities are:

1. Marketing to employees in the form employee motivation to improve performance and develop relationships with internal and external customers.
2. Function of internal marketing to market a specific department so that their role is fully understood by the other departments.
3. Market products and services of the organization to employees.

For clear explanation of the internal marketing had been compiled in the table bellow:

**Table 2.1**

**Different Scholarly Approaches in Conceiving IM**

<b>Year</b>	<b>Author(s)</b>	<b>Type</b>	<b>Key points</b>
1976	Berry, Hensel and Burke	Normative	Internal Marketing (IM) result in jobs (internal products) that satisfy the needs of employees (internal market) while satisfying the objectives of the organization, targeted to front-line personnel. IM is a strategy, a marketing program based on communication with employees, the development of their potential and

			motivating-remunerating those who offer excellent service.
1976	Sasser and Arbeit	Normative	IM results into job satisfaction , targeted to front-line personnel . IM is behavioral-instrumental approach where implemented through internal market research and job re-engineering aimed at developing jobs that attract and retain excellent service providers.
1977	William	Normative	IM results in greater job satisfaction, targeted at front-line personnel. Behavioral-instrumental approach, IM is a strategy to deal with status and pay concerns of front-line personnel in order to improve customer service.
1981			IM result in job satisfaction
1987	Berry	Normative	Targeted ay front-line personnel. A behavioral-instrumental approach, IM is a strategy for job re-engineering and internal communication aimed at deriving customer- minded front-line personnel.
1983	Gronroos	Normative	IM results in customer consciousness Targeted at the entire organization and all employees A behavioral-instrumental approach IM is a strategy for developing the required “state of mind” that will allow customer service effectiveness under a broader relationship management paradigm.

1987	Tansuhaj, Wong and McCullough	Empirical	IM results in increased levels of job satisfaction and commitment to the organization. Targeted at front-line employees. A Behavioral-instrumental approach, Responsibility of the company's marketing specialists (Marketing and Sales Departments) IM is implemented through communication with employees.
1987	Gummesson	Case Study	IM results in increased levels of productivity and efficiency. Targeted to all employees involved in the service value-creation chain. A mechanic approach, IM is implemented through communication with employees and culture change mechanisms.
1988	Tansuhaj, Wong and McCullough	Normative	IM results in increased levels of job satisfaction and commitment to the organization. Targeted at front-line employees. A Behavioral-instrumental approach, Responsibility of the company's marketing specialists (Marketing and Sales Departments) IM is implemented through communication with employees.
1990	George	Normative	IM in effective internal exchanges. Targeted at all employees and it is a holistic approach. IM is implemented through coordinating human resource and marketing departments to improve the company's service orientation.
1993	Ahmed and	Normative	IM results in increased marketing strategy effectiveness

	Rafiq		by aligning, motivating and integrating the employees towards the implementation of company strategies Targeted at all employees A holistic approach IM is implemented through the application of marketing techniques along with human resource management practices to facilitate the implementation of the company's market objectives.
1995	Foreman and Money	Empirical	IM may have various objectives depending on who is targeted (specific groups of employees or the entire organization), can be targeted at specific departments or at the entire organization. A behavioral-instrumental approach, it is implemented through communication, development and participative management and motivation and rewards.
1995	Freeman and Varey	Normative	IM results in satisfaction of employees' needs. Both as individuals and service providers. Targeted at front-line personnel, a holistic approach. IM is implemented through internal communication aiming to "sell" the importance of customer service.
1995	Piercy	Normative	IM results in strategic alignment, targeted at those who can influence the implementation of the marketing strategy. A behavioral-instrumental approach, IM allows the removal of interdepartmental barriers for developing and implementing the company's market

			objectives.
1997	Gronroos	Normative	IM results in sales- and service-minded personnel, targeted at all employees. Regardless of job description and hierarchy. A behavioral-instrumental approach, IM should be integrated with the marketing function because marketing is the responsibility of every employee who influences customers' value.
1999	Wasmer and Burner	Normative	IM results in individual employee's objectives alignment with company objectives, targeted at all employees. A behavioral-instrumental approach, IM is implemented through formal and informal internal market research and communication to "sell" the company's objectives internally.
1999	Varey and Lewis	Normative	IM results in change management, targeted at all employees. A holistic approach, IM is the philosophy and the behavior that allow rapid organizational change in response to the company's macro and micro environments.
2000	Rafiq and Ahmed	Normative	IM results in increased productivity and job improvements, targeted at all employees. A holistic approach, IM is the planned effort to achieve employee satisfaction, customer satisfaction and interfunctional coordination through employee empowerment.

2003	Ahmed and Rafiq	Normative	IM results in increased productivity and job improvements, targeted at all employees. A holistic approach, IM is a cultural framework and an instrument to achieve strategic alignment, while building customer service competences, by managing internal relations through internal communication.
2003	Naude, Desai and Murphy	Empirical	IM results in increased job satisfaction and market orientation adoption, targeted at all employees involved in the service value-creation chain. A mechanical approach IM perceived implementation is influenced by individual and organization characteristics.
2003	Ballantyne	Normative	IM results in knowledge renewal, targeted at all employees. A mechanical approach, IM influences service procedures and operations facilitating their re-engineering using input from both the external and internal environment.
2004	Lings	Normative	Internal Market Orientation (IMO) represents a company philosophy IMO results in increased levels of job satisfaction, targeted at front-line personnel. A cultural approach, three major facets of IMO, namely Internal Market Research, Communications, Response.

2005	Lings and Greenley	Empirical	Internal Marketing interchangeably used with Internal Market Orientation to describe the effort to improve internal climate Results in increased levels of job satisfaction, targeted at front-line personnel. A behavioral-instrumental approach Four major facets of such internal marketing program, namely Formal Information Generation, Informal Information Generation, Information Dissemination, and Responsiveness.
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Source : Spiros Gounaris (2006) on The notion of internal market orientation and employee job satisfaction: some preliminary evidence

In relation with the activities of internal marketing, Gronroos (1981) in Caruana and Galley (1998) distinguish the vertical activity of internal marketing, internal marketing that are at the level of strategic and tactical level.

At the strategic level can be described that internal marketing activities involves the adoption of a management style that supports personal policy (recruitment, employment planning, career planning, customer service training, planning procedures and strategic rewards). Thus ensuring that all employees understand and support the systems, mission, goals, and organizational strategy.

While at the level of tactics, internal marketing activities include : an informal internal training and continuous, encouraging informal interactive communication, making periodic internal newspapers, internal segmentation and internal market research. In order to achieve this, the role of marketing management of human resources is essential. Furthermore, marketing management can be the foundation for human resource

management. In other words, the role of marketing management becomes very large in contributing to the achievement of organizational goals. Contribution is what will create and improve organizational performance, and increase competitive advantage. Therefore, it can be said that internal marketing can improve company performance.

#### **2.1.2.1 Strategic Rewards**

Strategic rewards system is a collection of functional dealing with remuneration management in organization. A strategic fit between a organizational strategy and a marketing strategy can help retain and motivate employees and translate into organizational performance and competitive advantage. Based on Porter's generic strategies as business competitive strategies and an extensive literature review (Alen, 1985). A competitive strategy involves a series of systematic and related decisions that give a organization a competitive advantage (Schuler & Jackson, 1987; Dowling & Schuler, 1990). The concept of organizational competitive strategy is primarily derived from Porter's (1985) classifications of generic strategies. He argued that superior performance could be achieved in a competitive industry by pursuing a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to competition.

Miles and Snow (1984) classified business strategies into three types – defender, prospector, and analyzer – and proposed corresponding strategic human resource systems. Schuler and Jackson (1987) used labels slightly different from those Porter to classify three types of organizational competitive strategies: cost reduction, innovation, and quality enhancement. Schuler and Jackson (1987) also designated different types of employee behavior and internal marketing management methods for each competitive strategy. With the three types of Schuler and Jackson's competitive strategy, Dyer and

Holder (1988) reclassified these as inducement, investment, and involvement, respectively. Dowling and Schuler (1990) combined the respective human resource strategies of utilization, facilitation, and accumulation.

Rewards were viewed primarily as the paychecks employees collected every week or month. Today, that definition has expanded greatly. Bush (2003) defined the total rewards as cash compensation, benefits, other non-cash forms, and work experience. By this definition, a reward systems is everything employees perceive to be of value resulting from their employment relationship.

Gross and Friedman (2004) mentioned that rewards now encompass the overall value proposition that the employer offers to the employee. This total package includes compensation (including base pay, short-term and long-term incentives), benefits (including health and insurance, retirement, work/life and other benefits) and careers (including training, development, and career opportunities).

A good reward systems drives performance by motivating workers to achieve new levels of performance, and attracts, retains, and motivates employees to do their best and stay with the organization (Bowen, 2004). A suitable reward systems is essential to ensuring that an organization's investment in its employees is managed effectively. A reward systems also provides a powerful means of implementing an organization's competitive strategy. When properly designed and executed, a total reward systems can be a powerful driver of organizational success (Gross & Friedman 2004).

Howard and Dougherty (2004) have labeled some reward systems, including individual output, group output, human capital, position, and market. Different reward alternatives are likely to have different effects on organizational outcomes as follows:

1. An individual output reward alternative will improve productivity.
2. A group output reward alternative encourages cooperation and collaboration among workers, and fosters commitment to a higher level of goals.
3. A human capital reward alternative encourages people to develop their human capital and entices them to use it. This leads to increased skill scope and level as well as effort. Skill-based pay is often also used to develop flexibility in work scheduling because workers become generally more qualified.
4. A position reward alternative encourages workers to assume responsibility for greater job depth. The strategic consequence of a position reward alternative is greater technical competence within each specialized role in a worker's job description.
5. A market reward alternative that pays these individuals at or above the market rate can prove to be a wise investment, especially if their replacement would be particularly expensive or disruptive. This approach ensures that the firm's pay levels are at least competitive with the labor market.

#### **2.1.2.2 Senior Leadership**

Senior leadership core behaviors consisted of employee recognition, communication, and clear mission. Patient loyalty attributes consisted of would return to the hospital, trust, and reputation (Fisher, 2006).

Senior leadership is accountable for the organizational culture and for leading middle management and staff to create an environment supportive of members/ employee loyalty (Stubblefield; Studer, 2003). Senior leaders need to know what, if any, senior leadership core behaviors support organization's culture that leads to employee loyalty. (Whissell, & Ojha, 2002).

Senior leaders are accountable for the culture, competences, quality and performances, and strategic direction of organization (Stubblefield, 2005; Studer, 2003). Senior leaders provide context, direction, vision, and perspective to directors, managers, and staff (Studer, 2004). Senior leaders set the tone of the organization and the culture of the organization through their leadership behaviors (Studer, 2004).

Al-Mailam (2005) demonstrated certain leadership behaviors of top management influenced employees and subsequently influence the loyalty. By influencing employees, top management were influencing the organizational culture during the employee experiences (Al-Mailam). Studer (2003) and Stubblefield (2005) discussed actions senior leaders should take to create a culture where employee loyalty is positive. Studer and Stubblefield included all employees as part of successful positive loyalty trends. Although Studer and Stubblefield indicated senior leaders are accountable for the strategic objectives of a organization, they made no specific mention of behaviors for senior leaders to develop and apply to strengthen patient loyalty.

To meet the strategic objective of sustaining and growing employee loyalty, core leadership behaviors are important. Communicating the mission of the organization clearly, as well as communicating in general about strategic goals, accomplishments, failures, and successes, occurs in a multidirectional dialogue (Al-Mailam, 2004; Thomas, 2005). Employee recognition, a senior leadership core skill, occurs through conversations, recognitions in the newsletter, celebrations, promotions, and acknowledgments from leaders when goal attainment occurs or a compliment comes from patients, peers, or family members (Studer, 2003).

### 2.1.2.3 Internal Communication

Internal communications has an important role in organization given the evidence that organization effective communication strategies are usually successful, while others tend to fall short of optimal performance (Argenti and Forman, 2002; Tourish and Hargie, 2004).

Internal communication can be defined in many different ways. For example, Bovee and Thill (2000) define internal communication as the exchange of information and ideas within organization. Argenti (2003) contends that internal communication is about creating an atmosphere of respect for all employees within the organization. Communication from management should come directly from one manager to the next, and from supervisor to employee, but as organization grow larger and more complex, this often becomes more difficult – hence the need for internal communication function.

However, internal communications is defined as integrated internal communications, i.e. all formal and informal communications taking place internally at all levels of an organization. Communication consider as being the social process which ordinarily operates when personal interactions takes places. Communications (plural) is used more specifically to indicate the channels and the technological means by which this process may be facilitated (Spence, 1994).

Argenti and Forman (2002), on the other hand, distinguish corporate communication by the former being the process and the latter products of communication, e.g. memos, web site, and e-mails.

Bovee and Thill (2000) believe that effective communication only take place when participants achieve a shared understanding, stimulate others to take actions, and

encourage people to think in new ways. On the other hand, Spence (1994) argues that communication is always a persuasive two-way process, where the sender usually has an intention of influencing the receiver.

Eisenberg and Goodall (2004) are less adamant and view communication as a goal-oriented process only in certain situations. Furthermore, Spence (1994) also contends that for communication to be effective, a message must be received and understood, and only then can it produce resultant action. Therefore, communication is not a neutral process of information transfer and elements of a persuasive process exist.

#### **2.1.2.4 Training and Development**

Organizations attempting to succeed in a global business environment must invest in the acquisition and development of employees, and acquire effective managers throughout the world (Dowling and Welch, 2004; Drost et al., 2002; Schuler et al., 1993). However, as Adler and Bartholomew (1992) have suggested, organizational strategy (the what) is becoming increasingly international faster than its implementation (the how) and much faster than the development of international managers (the who).

International training and development can be seen as one of most crucial activities and the potential benefits of effective training and development are widely acknowledged (Dowling and Welch, 2004).

Training aims to improve current work skills and behaviour, whereas development aims to increase abilities in relation to some future position or job, usually a managerial one (Dowling and Welch, 2004).

Caligiuri et al. (2001) emphasized that there is an association between met employee expectation and provision of training. They stated: Highly relevant cross-

cultural training created either accurate expectations or expectations of real difficulty prior to the assignment.

Baumgarten (1995) suggested that since a training course of very short duration and climate development just prior to departure cannot be effective in changing and/or developing competencies related to attitudes, abilities or personality traits, a phased and cumulative approach be undertaken.

### **2.1.3 Organizational Competences**

Marketing field has interdependence with the competence of the organization. The relationship shows that it links together a number of major issues in the marketing field, namely customer orientation, customer satisfaction, individual and organizational competence. (Pervais and Rafiq, 2002).

One of the most intriguing aspects of the construction of organizational competence is the concept of capacity. Used at times interchangeably with capability, capacity may be understood as the inherent endowment possessed by individuals or organizations to achieve their fullest potential. Capability would refer to the action taken on capacity in order to realize this potential. Clearly, capacity and capability are interrelated concepts, implying a transformative process required to bring about an improvement in status ; with capability developing and expanding capacity to attain competence. As previously noted, capability as involving both commitment and participation (Cottrell, 1977).

Lappe and Dubois (1994) described capacity building as the enhancement of problem solving and integral aspect of “relational self interest” or the linkage of one’s own interest to those of others. Capacity also involves empowerment, it cannot realize

organizational values or goals without power. Power is the capacity to act publicly and effectively, to bring about positive change, to build hope (Lappe and Dubois, 2004).

Boccardelli and Magnusson (2000) term a dynamic capabilities approach. In the dynamic capabilities approach, core competences stem from the dynamic interaction of tangible and intangible resources and organizational know-how, within and between organizations. The dynamics of these interaction allow organizations to move from one set of competences to one that better fit emerging environmental challenges. This dynamic reconfiguration of competences is mainly led by organisational knowledge creation processes and other learning processes.

Garud and Nayyar (1994) have examined transformative capacity, which is described as a capability to accomplish three different tasks: choose technologies, maintain them over time, and to reactive them when required. This transformative capacity essential for palliative care professionals.

Starting from Henderson and Cockburn (1994), it is possible to produce an analytical map, where the development of competences is linked to organizational performance and tools that might facilitate a dynamic mastering of the configuration of competences. The complexity of the palliative care environment requires a dynamic mastering configuration competences as the patient care team.

These combinative competences aim at integrating complex, systematic, and often tacit knowledge. This is a decisive factor in turning a project into a single step of a longer sequence of technological knowledge development (Ivanisti and Clark, 1994) Therefore combinative competences not only work within a single project, but also in a longitudinal sequence and in simultaneous projects such as the treatment.

Team membership is common and teams operate in parallel, with members moving between teams, so the ties between teams are strong. This requires at least a two-way interaction that can assimilate non-codified knowledge that is created because the nature of the teams relationship and interactions invite and enable testing, mistakes and instruction, particularly using complex knowledge (Hensen, 1999).

The competences of selection and transformation are aimed at grasping the residual potential of knowledge. The former allow organizations to concentrate their resource and boost performance because they release resource from the development of old and well-defined competences, while the latter are used to perform the necessary incremental development to obtain and launch numerous applications from the same technological basis. These competences are important when an project has been able to develop something not yet ready for the market, which can be selected to be put aside for future use (Garud and Nayyar, 1994).

The purposes of creative competences is to assist in bringing about radically new products, processes and procedures. Often, this implies finding ways of breaking with established ideas to create room for the application of new perspectives, which can be facilitated by the use of strong metaphors that do not fit with existing frames of interpretation (Nonaka, 1994).

Another key issue is the capability to recognize and exploit technological opportunities (Teece *et al.*, 1997). Based on Davidson and Hyland (2002), organizations can contain at least six organizational competences : managing knowledge; managing information; interdisciplinart operations; collaborative operations; managing technologies; and managing change and its effects.

With regard to competences, it is indicated that up to seven sets of competences are utilized by multidisciplinary teams in palliative care (Davison and Sloan, 2002). These are :

1. Use of organizational artefacts to create trust;
2. Rapid patient inclusion in stable social structures;
3. Added value-based issues;
4. Understand the patient's situation as a basis for care;
5. Working in teams;
6. Collaboration; and
7. Managing ambivalence

Of these set, the first three appear to be used by palliative professionals in relationships with patient-based carers. The last three appear to be utilized between members of the multidisciplinary care teams. The fourth, understanding the patient's situation as a basis for care is apparently used as a bridge linking for the other two groupings of competences.

The IM mix framework is deployed here as a means of creating competencies in organizations. That is, IM is used as a philosophy for managing the organization's human resources based on a marketing perspective to build internal competencies for external success (George and Gro'nroos, 1989). Thus, it is argued that the IM mix is capable of linking organizational competencies and organizational performance. In this model the main objective of the IM mix is to translate the business strategy by adjusting the IM mix in order to create the required competencies and, hence, improve organizational performance.

## 2.2 Previous Research

Previous studies have identified in the context of the internal marketing affect the organization performance. From some previous studies can be retrieved synthesis of research aimed at Table 2.1 bellow:

**Table 2.2**  
**Summary of Previous Research**

No	Researchers and Year of Research	Title Research	Variable of Research	Result of Research
1.	Pervaiz K. Ahmed, Mohammed Rafiq and Norizan M. Saad (2002)	Internal Marketing and the Mediating Role of Organizational Competencies	Internal marketing mix, top management support mix, business process support mix, cross-functional coordination mix, organizational competences, organizational performance, marketing-like philosophy and marketing –like tools	Internal marketing postively impacting on oragnizational performance, IM mix a set of controlllable instruments inside the organization that can be used to influence employee effectively. Its finds on interfunctional co-ordination support one the major themes in internal marketing.
2.	Ing-san hwang and Der-jang Chi (2005)	Relationships among Internal Marketing, Employee Job Satisfaction and	Market Survey, Market Segregation, Product Porfolio, Trading Price, Promotion,	The service sector features highly intensive contact with customer, and

		<p>International Hotel          Performance : An          Empirical Study</p>	<p>Communication, Internal          Marketing, Employee Job          Satisfaction,          Organizational          Performance, Fair          Remuneration, Job          Conditions, General          Concept, Financial          Performance, Service          Performance, Internal          Performance</p>	<p>the quality of service          achieved relies          entirely on the          impression the          customers have of          service person          delivered during the          course of providing          service. Therefore,          experts believe that          the organizational          enterprise must          make job satisfaction          the focus for its          internal employees. It          is indicate that          internal marketing          effect positively to          employee job          satisfaction thus its          also effected on          organizational          performance.</p>
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3.	Vincent Tortosa, Miguel A. Moliner and Javier Sanchez (2007)	Internal Marketing Orientation and Its Influence on Organisational Perfromance	Informal generation, dissemination, formal generation, response, satisfaction of contact personel, interaction quality, physical env quality, outcome cuality, customer satisfactio	Internal marketing orientation having established confidence in our measurement model, it is appropriate turn to an examination of the structural model. In the study of the possible relationship between internal variables (dimensions of Internal Marketing Orientation and satisfaction of the contact personel) and external variables (quality of service by the customer and his/her satisfaction), it can highlight that the influence of Internal Marketing Orientation on the percieved quality service is partyly corroborated.
4.	Sabah Agha (2012)	Effect of Core Competence on Competitive Advantage and Organizational	Core competence, Competitive advantage, Organizational	This study provides initial empirical evidence of the relationship between

		Performance	performance, UAE	core competence, competitive advantage and organizational performance. We consider core competence to be a vital determinant of competitive advantage and organizational performance. Study indicated that all three dimensions of core competence i.e. shared vision; Cooperation and empowerment were significant in explaining organizational performance.
5.	Spiros Gounaris (2006)	The notion of internal market orientation and employee job satisfaction : some preliminary evidence	Internal markets, Internal marketing, Market orientation, Job satisfaction, Employees	The findings presented in this manuscript have various important implications for both academics and practitioners. As far as academics are concerned, the contribution lies in the introduction of

				the IMO notion and its relation with IM and employees' job satisfaction.
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Source : Various Source, 2011

Distinguishing this study with previous research, the methods of analysis and variables. This study analyzes the significant influence of internal marketing towards organizational performance with the organizational competence as the mediating role. Analytical techniques used in this research study multiple linear regression and simple linear regression analysis.

## **2.3 Relationship Between Variables**

### **2.3.1 Relationship Between Strategic Reward and Organizational Competence**

Rewards were viewed primarily as the paychecks employees collected every week or month. Today, that definition has expanded greatly. Bush (2003) defined the total rewards as cash compensation, benefits, other non-cash forms, and work experience. By this definition, a reward systems is everything employees perceive to be of value resulting from their employment relationship. Rewards for employees are important in recognition of employees' contributions to teamwork within organization.

Motivating employees is a challenging task, since their behaviors are driven by varying needs and desires, and expectations and perceptions of equity and fairness can vary. Motivation can be either intrinsic or extrinsic. Intrinsic motivation comes from inside individuals, and is based on their interest and involvement in the work. Motivation

is driven based on the goal of achieving something other than the work itself (Herzberg, Mausner & Snyderman, 1959).

Strategic reward management is now at the heart of the internal marketing and operational agenda in organizations around the world (Armstrong & Brown 2005). It is properly executed and supported reward alternative can also motivate all employees to achieve organizational objectives, improve individual performance, and pursue career growth opportunities (White, 2005).

As competitive conditions grow increasingly turbulent, the importance of developing and sustaining a competitive advantage appears to be increasing exponentially. Mintzberg (1979) proposed the case for a contingency view of structure: there is not one best way to structure an organization; it all depends on the particular contingent circumstances facing the organization. These contingency variables included the age and size of the organization, the dynamism of the competences, the complexity of the tasks being performed, and the technical systems used in the core of the organization.

Strategy is a rational decision-making process in which the organization's resources are matched with opportunities arising from the competitive environment. Decision makers must know what the complementary internal processes are that support the successful pursuit of a chosen strategy. The key implication is that each strategy is accompanied by a unique set of internal processes, and a strong alignment between strategy and these processes translates into successful performance (Kumar & Subramanian, 1998). The resource-based view emphasizes the role of internal capabilities (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993). It is essential to implement the proper internal marketing strategy to accomplish a chosen competitive strategy which is competences (Boxall, 1998).

**It has been hypothesized :**

*H<sub>1</sub> : There is significant and positive relationship between strategic rewards and organizational competences*

### **2.3.2 Relationship Between Senior Leadership and Organizational Competence**

Fisher (2006) stated that communicating with employees by asking tough questions to understand and learn what employees know enables the organization as a whole to reach higher levels of performance. Fisher indicated positive action (policy) by senior leaders influence the behaviors of employee thus create the culture that support the competences.

Collins (2005) understanding of leadership behaviors as positively influencing organizational performance provided the starting point for the selection of organizational. Collins's level 5 leadership model provided insight into characteristics and actions of successful leaders. Collins described excellence in leadership through levels based on the competences of the organization.

A leader distinguishes him or herself through building an enduring greatness through a paradoxical blend of personal humility and professional will (Heffes, 2005). Some attributes of a leader include the ability to select and attract effective personnel who fit the cultural environment and competences of the organization, the ability to communicate with meaning and intent, and the ability to create discipline within the employees of the organization to adhere to the core values of the organization (Antonioni, 2003; Collins; Hesselbein, 2005; Tomlinson, 2003).

**It has been hypothesized :**

*H<sub>2</sub> : There is significant and positive relationship between senior leadership and organizational competences*

### **2.3.3 Relationship Between Internal Communication and Organizational Competence**

Miller (2003) states that organizational communication involves understanding how the context of the organization influences communication processes and how the symbolic nature of communication differentiates it from other forms of organizational culture, behaviour and competences.

Tourish and Hergie (2004) take slightly different view of how people ascribe meanings to messages, verbal and nonverbal communication, communication skills, the effectiveness of communication in organizations and how meanings are distorted or changed while people exchange message, in both formal and informal networks. This latter view comes closest to the definition for integrated internal communications.

**It has been hypothesized :**

*H<sub>3</sub> : There is significant and positive relationship between internal communication and organizational competences*

### **2.3.4 Relationship Between Training and Development, and Organizational Competence**

Dowling and Welch (2004) point out that the question for the multinational organization is how to maintain and leverage its human resources so that suitably trained, internationally oriented personnel are available to support its strategic responses and

contribute to its core competencies. It was found that multinationals are increasingly using training to assist in the coordination of activities.

Osman-Gani (2000) insisted that practical assistance training and development makes an important contribution to the adaptation of both performance of organization and organizational competences.

**It has been hypothesized :**

*H<sub>4</sub> : There is significant and positive relationship between training and development, and organizational competences*

**2.3.5 Relationship Between Organizational Competence and Organizational Performance**

The internal marketing concept has evolved from the original conceptualization of employee satisfaction/motivation by treating employees as customers and jobs as products for improving service quality (Sasser and Arbeit, 1976; Berry, 1981), to customer orientation/market orientation and the use of marketing-like approach and marketing-like tools internally to motivate employees (Gronroos, 1985), the use of internal marketing for the implementation of external marketing programmes (Piercy and Morgan, 1991), and the extension of internal marketing to the implementation of any functional strategy (Rafiq and Ahmed, 1993).

Number of key elements of what term as the IM mix (or the controllable elements inside the organization that can be used to influence and motivate employees) can be identified from the internal marketing literature, including communication, training, education and information (Gummesson, 1991); motivating and developing, educating or training employees (Gronroos, 1985; Cahill, 1995; Foreman and Money, 1995; Varey,

1995); and even attracting, hiring and retaining employees (Berry and Parasuraman, 1991, Foreman and Money, 1995). In addition, Foreman and Money (1995) found that the three components of IM are rewards (rewarding and motivating employees), competence development and providing a vision.

In the proposed model internal marketing is a strategy that aims for the creation of high-performance work systems by managing the interdependent elements of the IM mix to create and achieve greater individual and organizational competencies and ultimately influence organizational performance (Pervais and Rafiq, 2002).

The view of performance has developed which is gaining increasing acceptance in the strategic management literature; the resource-based view. This view is based on the idea that a firm performs well over time because it develops a “distinctive competence” or “core competences” (Prahalad and Hamel, 1990) which allows it to outperform its competitors. Following Prahalad and Hamel (1990), a core competence is defined as an organization-based capability that combines and integrates the skills of a set of practitioners working across different business units, and creates superior value for customers. In other words, a core competence is the organizational version of unique individual know-how (Overmeer, 1997).

Following the resource-based approach, the internal marketing mix framework is deployed here as a means of creating competencies in organizations. That is, IM is used as a philosophy for managing the organization’s human resources based on a marketing perspective to build internal competencies for external success (George and Gronroos, 1989). Thus, it is argued that the internal marketing mix is capable of linking organizational competencies and organizational performance. In this model the main objective of the internal marketing mix is to translate the business strategy by adjusting

the internal marketing mix in order to create the required competencies and, hence, improve business performance. Three indicators of organizational competencies that relate to internal marketing constructs identified in this conceptual model are:

1. customer/market orientation;
2. employee satisfaction; and
3. specific/ individual competencies.

Market orientation mediates this relationship by ensuring that the organization is highly aware and responsive to customer needs and competitors' capabilities. According to Narver and Slater (1990) strong market orientation within a business leads to greater effort being exerted to offer superior value continuously to customers, and so there will be a greater likelihood that superior value will be offered. Market orientation, therefore creates competitive advantage in the customers' perception, which leads to superior organizational performance. Employee satisfaction facilitates superior performance as it leads to greater attraction and retention of the best employees, which enhances the ability of the organization to deliver high quality services (Berry, 1981, Berry and Parasuraman).

Gronroos (1981) postulates that employee satisfaction leads to more highly motivated and customer-conscious employees, which leads to improved service quality and organizational performance.

Development of specific/individual competencies can lead to improved and consistent quality of work. As well as enabling the customization of products and thereby meeting customer needs more accurately. It also helps to improve the self-efficacy of individuals, and thus improving their and the organization's performance (Conger and Kanungo, 1988; Rafiq and Ahmed, 2000).

**It has been hypothesized :**

*H<sub>5</sub> : There is significant and positive relationship between organizational competences and organizational performance*

## 2.4 Theoretical Framework of the Study

The theoretical framework is presented to explain the general research explanation, there is conceptual framework of research to analyze the influence of internal marketing towards organizational performance with the mediating role of organizational competence.

According to theoretical description above, hence can be depicted a conceptual framework on figure below:

### Internal Marketing

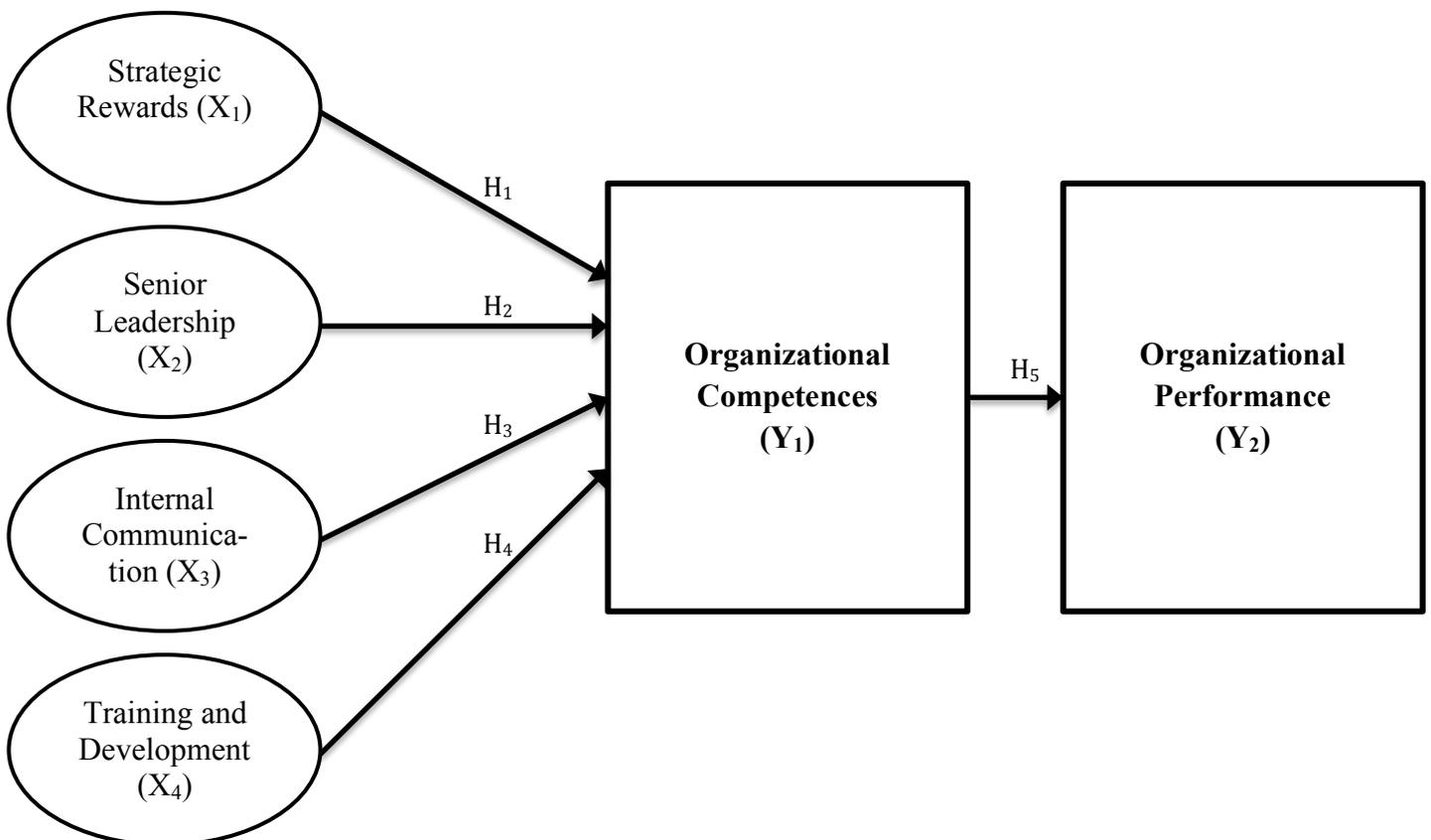


Figure 2.1 Conceptual Framework

Based on the conceptual framework by Galphin there are three variables to analyzed the influence of internal marketing towards organizational performance with mediating role of organizational competeces of Project Based on Exchange HIV/AIDS 2010 on AIESEC Indonesia. And here are the definition of conceptual vaibles.

**Table 2.3**  
**Definition Conceptual Variables**

Variable	Definition Operational Variable	Indicator	Source
Internal Marketing (IM)  • Strategic Rewards (X <sub>1</sub> )  • Senior Leadership (X <sub>2</sub> )  • Internal Communication (X <sub>3</sub> )  • Training and Development (X <sub>4</sub> )	Internal marketing is attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as customers and it is the strategy of shaping job-products to fit human needs.	• <b>Strategic Rewards</b>  • Interdependence  • Transparency  ----- • <b>Senior Leadership</b>  • Moral ability  • Intellectual ability  ----- • <b>Internal Communication</b>  • Sense of belonging  • Understanding	Pervais and Rafiq, 2003

	(Berry and Parasuraman, 1981).	<ul style="list-style-type: none"> <li>• <b>Training and Development</b></li> <li>• Clearness</li> <li>• Consistency</li> </ul>	
Organizational Competences (Y <sub>1</sub> )	<p>The result of collective learning processes and are manifested in business activities and processes. (Sanchez and Heene, 1977).</p> <p>Dimensions of behaviour, which are related to superior job performance. (Woodruffe, 1993)</p>	<ul style="list-style-type: none"> <li>• Customer/ market orientation</li> <li>• Employee satisfaction</li> <li>• Specific/ individual competencies</li> </ul>	Gronroos, 1981 and Berry Parasuraman, 1991
Organizational Performance (Y <sub>2</sub> )	<p>Performance can be defined as the extent of actual work performed by an individual or to what extent the actual work is shown by an individual.</p> <p>The performance is a result</p>	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Innovation success rate</li> <li>• Profitability</li> <li>• Sales productivity</li> </ul>	Dermawan Wibsono, 2011

	<p>achieved by employee in doing their jobs according to specific criteria that apply to a particular job (Robert J. Herbold, 2006).</p>		
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## 2.5 Hypothesis

Hypotheses are provisional estimates a research problem or proposed as explanation for a phenomenon, formulated in a statement that can be tested and explain the influence of two or more changes. Influence between variable in this study have hypothesis, can be identified :

*H<sub>1</sub> : There is significant and positive relationship between strategic rewards and organizational competences*

*H<sub>2</sub> : There is significant and positive relationship between senior leadership and organizational competences*

*H<sub>3</sub> : There is significant and positive relationship between internal communication and organizational competences*

*H<sub>4</sub> : There is significant and positive relationship between training and development and organizational competences*

*H<sub>5</sub> : There is significant and positive relationship between organizational competences and organizational performance*

## CHAPTER III

### RESEARCH METHOD

#### 3.1 Research Variables, Definition Operational and Measurement

##### 3.1.1 Research Variable

The definition of research variable is the concept that has a variation in the values of (latent variable), therefore these variables will be measured through the dimensions and the relevant indicators (Supardi, 2005). Latent variables are key variables that are the focus of attention in this research. This variable is an abstract concept that can only be observed indirectly and imperfectly through their effects on observed variables (Wijayanto, 2006).

The variables in this study are generally divided three two, which are the independent variables, intervening variable and the dependent variable. The independent variable is a variable that explains the type or affect other variables. Dependent variable is the type of variable that is explained or influenced by independent variables (Indriantoro and Supomo, 1999). According to Tuckman (in Sugiyono, 2007) intervening variable is a variable that theoretically affect the relationship between the independent variables with the dependent variable into a relationship that is not and can not be directly observed and measured. This variable is a variable interrupt / between the independent variables with the dependent variable, thus the independent variable does not directly affect the change or the onset of the dependent variable.

Research variables used in this study is the organizational performance as the dependent variable ( $Y_1$ ), and organizational competences as intervening variable ( $Y_2$ )

while the independent variable (X) are commitment of strategic reward (X<sub>1</sub>), senior leadership (X<sub>2</sub>), internal communication (X<sub>3</sub>), and training and development (X<sub>4</sub>).

These variables are obtained by several previous studies. Each item question in this research will be measured using 1 - 10 scale, from strongly disagree to strongly agree.

### 3.1.2 Definition Operational and Measurement

Operational definition variable is the determination of constructs, so the variable can be measured (Indriantoro and Supomo, 1999). The operational definition of research variables obtained in this research are as follows:

**Table 3.1**  
**Definition Operational and Measurement**

<b>Variable</b>	<b>Definition Operational Variable</b>	<b>Indicator</b>	<b>Source</b>	<b>Instrument</b>
Internal Marketing (IM)	Internal marketing is attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as	• Strategic Rewards (X <sub>1</sub> )	Pervais and Rafiq, 2003	• Interdependence • Transparency
		• Senior Leadership (X <sub>2</sub> )		• Moral ability • Intellectual ability
		• Internal Communication (X <sub>3</sub> )		• Sense of belonging • Understanding

	customers and it is the strategy of shaping job-products to fit human needs. (Berry and Parasuraman, 1981).	<ul style="list-style-type: none"> <li>• Training and Development (X<sub>4</sub>)</li> </ul>		<ul style="list-style-type: none"> <li>• Clearness</li> <li>• Consistency</li> </ul>
Organizational Competences (Y <sub>1</sub> )	<p>The result of collective learning processes and are manifested in business activities and processes. (Sanchez and Heene, 1977).</p> <p>Dimensions of behaviour, which are related to superior job performance. (Woodruffe, 1993)</p>	<ul style="list-style-type: none"> <li>• Customer/market orientation</li> <li>• Employee satisfaction</li> <li>• Specific/individual competencies</li> </ul>	Gronroos, 1981 and Berry Parasuraman, 1991	<ul style="list-style-type: none"> <li>• Awareness</li> <li>• Responsiveness</li> <li>• Motivation</li> <li>• Consciousness</li> <li>• Quality of work</li> <li>• Self Efficacy</li> </ul>
Organizational Performance (Y <sub>2</sub> )	<p>Performance can be defined as the extent of actual work performed by an individual or to what extent the actual work is shown by an individual. The performance is a result achieved by</p>	<ul style="list-style-type: none"> <li>• Technology</li> <li>• Innovation</li> <li>• Profitability</li> <li>• Sales productivity</li> </ul>	Dermawan Wibsono, 2011	<ul style="list-style-type: none"> <li>• Availability</li> <li>• Utilization</li> <li>• Impact</li> <li>• Success rate</li> <li>• Enhancement</li> <li>• Growth</li> </ul>

	employee in doing their jobs according to specific criteria that apply to a particular job (Robert J. Herbold, 2006).			<ul style="list-style-type: none"> <li>• Effective</li> <li>• Efficient</li> </ul>
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## 3.2 Population and Sample Determinations

### 3.2.1 Population

All individuals who become the object of research are population (Mostafa, 1998). The population is a composite of all the elements that formed the events, things or people that have similar characteristics, which become the focus of a researcher because it is viewed as a universe of research. The population in this study is an active member of AIESEC Indonesia in local and national level. This population is heterogeneous, and the population size in this study can be seen from gender, educational level, and organization position.

### 3.2.2 Sampel Determination

Definition of sample according to Ferdinand (2006) is a subset of the population, consist of several members of the population. Samples were taken in research for consideration of efficiency and lead to the centralization phenomenon by focusing on the part of the population.

The sampling technique in this study using *sensus sampling*. Sensus sampling is the data collection process in every member that is the object of research. Sensus sampling hoosen by consideration of the purposes of the research. One of the requirements of the sensus sampling is information availability of the sample, that the natures of information

are good and correct. To collect the research data, researcher distributes questionnaires to sample that are the active members of AIESEC Indonesia. Criteria for selection of sample respondents were active members whose work directly and indirectly related to the PBoX HIV/AIDS. In this research, sample must meet several requirements, which are:

1. Organizing committee of PBoX HIV/AIDS in 6 local committees. Which are organizing committee president, organizing committee finance and general secretary, organizing committee program, organizing committee communication, organizing committee logistic, and organizing committee exchange.
2. Local committee executive board (related issue) of AIESEC Indonesia in 6 local committees. Which are local committee president, vice president incoming exchange department, and vice president finance and general secretary department.
3. National executive board (related issue) of AIESEC Indonesia. Which are national president, vice president incoming exchange department, vice president external relation, and vice president finance and general secretary department.

Based on explanation, amount of sample that will be use in this study is 56.

### **3.3 Data Type and Data**

#### **3.3.1 Primary Data**

Primary data are a direct study data which is published by the original collector. This data can be collected by interviewing or spread questionnaire to respondent. In this study, primary data collected by spread questionnaire to respondent by *google spreadsheet form*.

### 3.3.2 Secondary Data

Secondary source is a set of data which has already available in published data, such as journal, book, newspaper or internet website. Secondary data in this study come from internet websites, magazines, and journals.

In this study, secondary data is collected from [myaiesec.net](http://myaiesec.net) and internal tracking performance of AIESEC Indonesia.

### 3.4 Data Collection Method

The study method can determine how the data are collected. Questionnaires, standardized test, observational forms, laboratory notes, and instrument calibration logs are among the devices used to recover raw data (Cooper and Schindler, 2003). (Saunders et al., 2000) note that the greatest use of questionnaires is made by the survey strategy. Questionnaires can therefore be used for descriptive study, such as that undertaken using attitude and opinion questionnaires and questionnaires of organizational practice will enable to identify and describe the variability in different phenomena.

#### 3.4.1 Questionnaires

Primary data collecting method in this study is using questionnaires; Samples (active member of AIESEC Indonesia whose work directly and indirectly to PBoX HIV/AIDS) will answer the questions in questionnaires. Their opinions were measured by requesting respondents to indicate, anchored on 1 = to a very little extent through 10 = to a very great extent.

Questionnaires questions made with opened question such as questions to explained respondent identity and closed question, its question for respondent to choose the answer which available in every question. In this study, the answer given by respondent is score with scale. The Scale orders are:

1. Number 1 (very disagreed) until 10 (very agree) for all variable.
2. Scale 1–10 to make respondent easier in giving appraisal for the questionnaire. Because Indonesian people usual to put priority in number 1-10 in the right order.

Example of much disagree statement or very agreed statement:

1	2	3	4	5	6	7	8	9	10
Very disagree ..... very agree									

### 3.4.2 Observation

Direct collecting data method by observe the object research. In this research, researcher observes PBOX HIV/AIDS AIESEC Indonesia in year 2010. Literature study was done by collecting information from books, journals, magazines, and internet which has correlation with research.

### 3.5 Data Processing

Data processing in this research through some step, such as:

1. *Editing* process

First step in analysis data is editing a collected data from survey. In principle, editing process intents make data become accurate and complete.

2. *Coding* process

Process in changing qualitative data becomes numbers by classified the questionnaires answer base on importance categorized (by giving a code)

3. *Scoring* process

Score determination process for the respondent answer by classified and categorized base on respondent suitable opinion.

#### 4. *Tabulating*

Providing data in tabular, so the readers can see the result of this study clearly.

After tabulating, the data will proceed with statistics software such as SPSS 17.0 version for windows.

### **3.6 Method Analysis**

Statistics is the science of collecting, organizing, presenting, analyzing, and interpreting data to assist in making more effective decision. The data are obtained by measuring the values of one or more variables on the units in the sample or population.

Method analysis that used in this study are:

#### **3.6.1 Qualitative Analysis**

Qualitative analysis due to search a conclusion from qualitative analysis result. Qualitative analysis is a result of analysis data, which explained descriptively. Qualitative data form such as information, descriptively explanation, then keyed to other data in order to find it clearly, in terms of new figure or strenght from a figure before.

#### **3.6.2 Quantitative Analysis**

Quantitative analysis is analysis method using numbers which can calculate and measurable. It is estimated how far relation between one case changing with other case, using statistics analysis tools.

##### **3.6.2.1 Validity and Reliability Test**

Reliability test refers to the degree to which a test is consistent and stable in measuring what it is intended to measure. Most simply put, a test is reliable if it is consistent within itself and across time. If such a scale existed, it would be considered not reliable (Weber, 1998).

Validity test refers to the degree to which the test actually measures what it claims to measure. Test validity is also the extent to which inferences, conclusions, and decisions made on the basis of test scores are appropriate and meaningful.

Validity test is requisite to test reliability. If a test is not valid, then reliability is moot. In other words, if a test is not valid there is no point in discussing reliability because test validity is required before reliability can be considered in any meaningful way. When the test is not reliable it is also not valid (Weber, 1998).

Trial and error this research by trying the instrument once, and analyzed the collecting data. Reliability technique called *Interval Consistency*. Because in this study the answer of each instrument is in tiers or non-dichotomy characteristics (have two alternatives answer) thus used trial technique with *Alpha Cronbach* (Sugiyono, 2001).

When calculate Alpha, using computer software such as SPSS for windows 17.0 use Alpha model. Whereas it is reliability decision making an instrument is reliable if alpha value more than 0.6 (Ghozali, 2001).

### **3.6.2.2 Assumption of the Classical Model**

In order to develop an equation to express the relationship between two variables and estimate the value of the dependent variable (Y) based on a selected value of the independent variables (X). The technique used to develop the equation for the straight line and make their prediction is called regression analysis. Regression equation is an equation that defines the relationship between two variables. Then, Multicollinearity, Heteroscedasticity, and Normality test should be done (Ghozali, Imam, 2001):

#### **1. Multicollinearity.**

Multicollinearity can distort the standard error of estimate and may, therefore lead to incorrect conclusions as to which independent variables are statically significant. Multicollinearity is used to describe correlation among independent variables. When

detected high correlation between two or more predictor variables. Thus high correlations may cause problems when trying to draw inferences about the relative contribution of each predictor variable to the success of the model.

Notice multicollinearity in this study with detection technique of the regression study model from *Variance Inflation Factor (VIF)* value, and *tolerance* value. If tolerance value closed to 1 and *VIF* value is around 1 and not more than 10, inferential that there is not multicollinearity between independent variable in the regression model.

## 2. Heteroscedasticity

The Y populations corresponding to various X values have the same variance. Put simply, the variation around the regression line (which is the line of average relationship between Y and X) is the same across the X values; it neither increases or decreases as X varies. Where: the conditional variance of the Y and population varies with X. This situation is known appropriately as heteroscedasticity, or *unequal spread*, or *variance*.

Heteroscedasticity purposed to trial whether the regression model inequitably variant from one to another observation happened (Ghozali, 2001). Checking there is or is not certain pattern on graphics *Scatter plot* between SRESID and ZPRED, where axis Y was predictable Y. and axis X is residual ( $Y_{\text{predicted}} - Y_{\text{actually}}$ ) had already Studentized (Ghozali, 2001).

Decision making basic for heteroscedasticity test such as (Ghozali, 2001):

- a) If there were certain variant, such as organize shaping dot (waves, fuse, then narrow), therefore heteroscedasticity already happened.
- b) If there were not certain variant, and dots spreads above and below 0 numbers in axis Y, then heteroscedasticity did not happened.

### 3. Normality Test

Normality test purposed to trial and error whether regression method, independent variable, dependent variable, or both have normal distribution or not. Good regression model have normal distribution data or spread statistics on diagonal axis in normal distribution graphics (Ghozali, 2001).

Normality test in this study used by see the *normal probability plot* which compare between cumulative distribution from the exactly data and cumulative distribution from normal data. Whereas basic decisions making for normality test are (Ghozali, 2001):

- a) If data were spread around diagonal line and follow diagonal line or the histogram graphic shows normal distribution, then regression method fulfills the normality assumption.
- b) If data were spread far away from diagonal and or not follow diagonal line or histogram graphics did not show normal distribution, then regression method unfulfilled the normality assumption.

#### 3.6.2.3 Regression Test

Multiple Regressions is a statistical technique that allows us to predict someone's score on one variable on the basis of their scores on several other variables.

The regression equation is as follows:

$$Y_1 = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_1$$

$$Y_2 = \alpha_2 + \beta_3 Y_1 + e_2$$

#### **Explanation:**

$Y_1$  = Organizational Competences

$Y_2$  = Organizational Performance

$X_1$  = Strategic Reward

$X_2$  = Senior Leadership

$X_3$	= Internal Communication
$X_4$	= Training and Development
$\alpha_1, \alpha_2, \dots$	= Constants
$\beta_1, \beta_2, \dots$	= Coefficients Regression
$e_1, e_2, \dots$	= Error

To test the regression equations, simultaneous significance test / F test that indicates whether all the independent variables included in the model have jointly influence on the dependent variable.

The hypothesis tested is:

$H_0$  :no significant effect between the independent variables simultaneously on the dependent variable.

$H_a$  : there is a significant effect between the independent variables simultaneously on the dependent variable.

#### **3.6.2.4 Goodness of Fit**

Goodness-of-fit is one of the most commonly used in non-parametric test, it can be used for any level of data. The first test of significance involves equal expected frequencies. The purpose of the goodness-of-fit is to determine how well an observed set of data. The null hypothesis,  $H_0$  is that there is no difference between the set of observed frequencies there is no difference between the set of observed frequencies. The alternative hypothesis,  $H_1$  is that there is differences between observe and expected sets of frequencies selected the .05 level, which is the same as the type of error probability. Thus, the probability is .05 that a true null hypothesis will be rejected (Mason et al., 2009).

### 1) Coefficient of Determination ( $R^2$ )

R is a measure of the correlation between the observed value and the predicted value of the criterion variable. R Square ( $R^2$ ) is the square of this measure of correlation and indicates the proportion of the variance in the criterion variable which is accounted.

In essence, this is a measurement of how good a prediction of the criterion variable we can make by knowing the predictor variables. However, R square tends to somewhat over-estimate the success of the model when applied to the real world, so an Adjusted R Square value is calculated which takes into account the number of variables in the model and the number of observations (participants) this study model is based on. This Adjusted R Square value gives the most useful measure of the success of study model. (Lynch, 2003)

### 2) F ratio

F ratio provides evidences of existence of a linear relationship between independent variable such as strategic reward ( $X_1$ ), senior leadership ( $X_2$ ), internal communication ( $X_3$ ), training and development ( $X_4$ ), simultaneously with dependent variable such as organizational competence ( $Y_1$ ).

Hypothesis test criteria are:

a. Make a hypothesis for F ratio test above, such as:

$$\S H_0 : b_1 = b_2 = b_3 = 0$$

Means: there isn't any significant relation from independent variable such as strategic reward ( $X_1$ ), senior leadership ( $X_2$ ), internal communication ( $X_3$ ), training and development ( $X_4$ ), simultaneously with dependent variable such as organizational competence ( $Y_1$ ).

$$\S H_1 : b_1 = b_2 = b_3 > 0$$

Means: there is significant relationship between independent variable such as strategic reward ( $X_1$ ), senior leadership ( $X_2$ ), internal communication ( $X_3$ ), training and development ( $X_4$ ), simultaneously with dependent variable such as organizational competence ( $Y_1$ ).

b. Determine F table and F ratio.

c. Trusted degree around 95% or significant level around 5%, are:

§ If F ratio  $>$  F table, therefore  $H_0$  refused. It means there is a significant relationship between each independent variable with dependent variable.

§ If F ratio  $<$  F table, therefore  $H_0$  accepted, it means there is not a significant relationship between independent variable and dependent variable.

3) Partial test (T ratio)

t-ratio is a Constanta significant test between each independent variable such as strategic reward ( $X_1$ ), senior leadership ( $X_2$ ), internal communication ( $X_3$ ), training and development ( $X_4$ ), simultaneously with dependent variable such as organizational competence ( $Y_1$ ).

Hypotheses define as:

§  $H_0 : b_i = 0$

Means: independent variabe unrelated to dependent variable.

§  $H_1 : b_i > 0$

Means: independent variable giving a positive relation with dependent variable.

Significant level test criteria ( $\alpha$ ) = 0.05 determined as:

§  $t_{\text{ratio}} < t_{\text{table}}$ , whether  $H_0$  acceptable

§  $t_{\text{ratio}} > t_{\text{table}}$ , whether  $H_0$  rejected

*Criteria of decision making :*

To decide whether  $H_0$  is accepted or rejected, by analyzing the significance of the results from SPSS output. Criteria used to reject  $H_0$  are:

- $H_0$  is accepted if the significance value of  $\geq 0.05$
- $H_0$  is rejected if the significance value  $< 0.05$

### **3.6.2.5 Path Analysis**

Path analysis is basically an expansion of the correlation analysis, which was built from the hypothesized path diagram by researchers to explain the mechanism of the causal relationship between the variables with a correlation coefficient describes how the direct and indirect influence. Path analysis can be considered as a linear regression analysis with standardized variables. Therefore, the path coefficients is basically a beta or regression coefficient standard. Path diagram constructed by the researcher must have the correct basic theoretical considerations as well as knowledge in a logical and accountable.