

INTERNAL MARKETING IN THE CONTEXT OF DIGITALIZATION

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Abstract

Marketing is a comprehensive management approach in accordance with the requirements of the environment. However, in the conditions of digitization, digital marketing is often perceived and practiced in a narrow sense - as the use of new digital channels for the company's marketing communication with customers. The paper draws attention to the feasibility of understanding digital marketing as a holistic management approach. The case study method is applied and a discussion from the perspective of the contingency theory is presented. The conclusion is that the results of functional marketing activities are contingent on appropriate management processes. Digital marketing requires reasonable organizational and management provision.

Key words: digitalization, internal marketing, contingency theory, organizational structure

JEL: M16, M31

Introduction

Value is a fundamental concept in marketing, wherein it is most often viewed from the perspective of customers and shareholders. However, in the conditions of a complex company environment, the group of interested parties expands. In order to achieve legitimacy in this environment, the company must create value for all the stakeholders important to its business.

An established classification of stakeholders divides them into *external* – customers, partners along the value added chain, such as suppliers and intermediaries, local communities and society at large, governments; and *internal* – employees, members of their families, the shareholders. Good practice structures the process of managing relationships with the company's stakeholders, thus creating value for them. The company manages the processes of identification of interested parties, planning of communications, implementation of the communication plan, monitoring and control of communications. A formal toolkit is used, such as the development of a register of stakeholders, a plan for communications, grouping

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of interested parties, documentation of lessons learned in the process of building and sustaining relationships with them (Project Management Institute, 2021). Expanding the group of interested parties means that marketing communications must reach out to customers, but also to business partners, social partners, and employees. Business practice pays increased attention to communication with employees with the purpose of creating value and experience for the people in the organization. They are treated as internal “customers”. If the employees feel good, the customers will feel good too. According to Diane Gherson, director of human resources at IBM, 2/3 of the customer experience is a result of the employee experience in the workplace, and a 5% increase in customer satisfaction leads to a 20% growth in company revenue (Burrell, 2018). The value to the customer increasingly means speed and responsiveness of the company, not just the best product at the best price. Agility requires a change in the way firms work in favor of a project format that empowers teams to manage projects as soon as the need arises. The manager’s role is changing - from commanding and controlling to coaching and encouraging. The management team is trained to set priorities and goals, to give feedback, to align the career growth of its employees with the needs of the company, to promote healthy and productive team dynamics. Supporting units for the development of team competence are established, which facilitate the work of the teams. Activities are in-sourced back into the company and teams are brought together in the physical space. This is how flexibility and speed are achieved, which in turn creates value for customers. The design of the employee experience is also a team effort – from onboarding of new employees through staff training and development. To get it right, people from different departments should be brought in to form a team. Employees must be satisfied, because dissatisfaction can easily be seen through the “glass walls” of the company.

The paper uses the case study method. Two case studies have been developed that illustrate the scenarios for increasing attention to internal marketing, based on adequate management approaches and organizational processes in the contemporary company. The goal is to achieve speed and responsiveness thus creating value to customers. The analysis of the case studies is prepared from the perspective of the contingency theory of the firm. Its main postulate is that the success of the company requires achieving a match between the features of the environment and the way of organizing the activities in the company - through the choice of organizational structure, decision-making system and control system.

Case Study Research

L’Oreal: #TeamIsTheNewHero

L’Oreal is the largest cosmetics company in the world. However, digitalization contributes to the lowering of barriers to market entry and the emergence of new

players that change the market landscape and ways of working. Nevertheless, L'Oréal reports sales growth, with the biggest contribution from the big brands such as L'Oréal Paris, Maybelline, Lancome and Laroche Posay (Hammett, 2019).

According to Lubomira Roche, the company's digital director, these results are proof that big brands can become even bigger if they manage to adapt their ways of working to new marketing realities, such as short formats, new platforms, touch points with consumers and up-to-date services. „For years, the question has been whether independent brands and new digital players are taking market share away from the big companies. What we can see is that if we manage to integrate the new marketing codes in the conditions of digitalization, if we master the economy of algorithms, the big ones become even bigger. The market has the shape of an hour-glass: the bottom of the market expands, but at the top - the big ones also get bigger if they master the new codes. ... We have changed everything about the organization of marketing teams. The main part of digital transformation is the thinning and overcoming of functional walls. People work as a team in a project format rather than transferring parts of the work process from department to department in a sequential mode – that's the innovation, that's the marketing plan, that's the operational marketing strategy, that's the execution plan. Now, the approach to creating the customer experience is holistic”, says Lubomira Roche (Hammett, 2019).

L'Oréal is piloting the new approach in the UK. The results are positive – employee skills, team productivity, customer satisfaction improve. That is why the company is spreading the new practices in its subsidiaries around the world. At the same time, the parent company recognizes the potential of each of its subsidiaries to create new knowledge – marketing, organizational and management knowledge. The headquarters coordinates the transfer of knowledge within the company. L'Oréal is characterized by a relatively high degree of decentralization. In the conditions of a dynamic marketing environment, in which new platforms appear daily and everywhere, a high degree of independence in local decision-making is an asset for the international company. The heads of the local subsidiaries are a kind of “interpreters” of the institutional environment in the host country into the language of the parent company. The sharing of knowledge and practices at the corporate level makes possible their adapted application in other national markets of L'Oréal's geographical portfolio.

Another integral element of L'Oréal's digital transformation is rethinking the way it works with external marketing agencies. Participants in the marketing infrastructure are also in the process of transforming their functional and organizational processes. L'Oréal continues to rely on partner marketing agencies, but promotes a joint transformation process by bringing back to the company some activities or at least parts of them, for example, part of the media buying. The company seeks to better understand the process of media buying on Facebook, Google and Amazon, to name a few. L'Oréal and its partners learn together and develop digital compe-

tencies through joint direct involvement in marketing practice. A knowledgeable company is a better partner for external agencies and is better able to control the results of their work.

Lubomira Roche summarizes two main problems in digital marketing – the trust and attention of customers, who are disillusioned by bad practices such as fake news and fake followers, and by controversial practices such as remarketing and retargeting (Hammett, 2019). L'Oréal strives for new solutions to create value for customers by optimizing organizational and managerial approaches and processes, both within the company and in its relationships with external partners and marketing service providers.

ING: agile teams and fluid organization

The retail banking unit within the parent company of the Dutch global banking group ING, replaces the traditional organizational structure with a fluid, “responsive” organization consisting of tribes, squads and chapters (Barton et al, 2019).

There are 13 tribes by product category, such as mortgages, securities, private banking. Each tribe consists of up to 150 people. The tribe has a leader who is responsible for formulating priorities, allocating the budget, and sharing knowledge and practices within the tribe and with other tribes. The leader directs the formation of self-managed squads of up to 9 people that seek to meet specific needs for new products and services. The squads are interdisciplinary, bringing together marketing specialists, analysts, designers, engineers, product specialists. One of the members of the squad assumes the role of “product owner”, responsible for the coordination of activities in line with the priorities. The squad exists until the goal is achieved - satisfying a specific customer need, such as improving the user experience on a mobile application or building a new functionality. Tasks have different durations - some are completed in two weeks; others – take 18 months. Sometimes squads break up and their members join other teams. However, often teams that work well continue together on other tasks.

Teamwork, with colleagues from different professional fields, prevents fragmentation of the work process and its “handover” from department to department. Information and knowledge sharing is encouraged through daily team meetings. Understanding the project throughout its life cycle creates a sense of ownership of the goals and connection with the customer.

Institutional stability is ensured through clear rules and safeguards. For example, each squad includes “speed and responsiveness coaches”. They help squads and their individual members collaborate and, accordingly, tackle emerging tasks on the spot rather than shifting the problem to someone else. Contrary to expectations, it turns out that longtime employees adapt faster and better than their younger counterparts. Probably because in this work format, the influence of the expertise of more experienced colleagues prevails over the formal hierarchical authority.

Chapters are the third type of organizational unit under the new work format. They perform coordination functions for the representatives of the various professional areas scattered among the squads. Chapter leaders are responsible for tracking and sharing good practice, as well as for the professional development and evaluation of the staff.

The system includes regular evaluation. Squads review their work every two weeks. They decide how to improve the product for the customer or whether to „fail fast“ as learning from failure is part of the organizational culture. In addition, squads conduct a full self-evaluation after the completion of each project. Tribes conduct a performance review every three months – aiming to identify successes, failures, lessons learned, and goals for the next quarter.

These safeguards help address two major challenges of the team-based organizational structure. The first threat is the likelihood that empowered squads will be “blinded” by customer requirements and make changes that do not align with company-wide strategy. Quarterly tribal meetings minimize this risk. The second threat is the likelihood that squads will become complacent about the intermediate results they achieve every two weeks. Quarterly tribal meetings again reduce this risk because senior management uses them to articulate and encourage the pursuit of higher order goals.

Two years after the change the results are in. Customer satisfaction and employee engagement are improved; ING increases speed to market of new products. The bank transfers its experience to its overseas branches (Barton et al, 2019).

Discussion

Contingency theory emphasizes the relationship between the environment and the “inner life” of the firm (Forsgren, 2008). Changes in the environment should be reflected into a change in the company’s strategy, while the latter should lead to changes in the company’s organizational characteristics, that is, in the organizational structure, in the way decisions are made and in the control systems. The application of the contingency theory to digital transformation process, prescribes organizational and managerial changes in the company. ‘The environment – organizational design’ relation is the focus of a type of contingency theory known as “information processing view “ (Egelhoff, 1988, 1993). It postulates that an effective decision-making process must be fed with the necessary information. That is why the activities of collecting, processing and analyzing information about customers, competitors and products are at the core of the organization. However, there is always a mismatch between the need to collect and process information, on the one hand, and the available capacity for this in the company, on the other hand. The amount of information required is a function of the context, which includes the environment and the corporate strategy. The capacity to process information depends on the organizational and managerial characteristics of the company. The dynamics in the digital environment and the

unpredictability of the behavior of stakeholders require convergence of the locus of decision-making with the locus of information generation. In such a context, decentralization of the decision-making process should lead to better solutions to market problems.

The information perspective reproduces the central postulate in the contingency theory about fit between the environment and firm strategy, on the one hand, and the way the firm is run, on the other hand. However, this perspective emphasizes the information needs of the firm and its capacity to satisfy them, incorporating this relation as an intermediate stage in achieving compliance of firm's organizational design with the environment. The degree to which the company manages to reduce the discrepancy between required and available information processing capacity determines the possibilities for effective functioning of the company (Egelhoff, 1988). According to the contingency theory, in a long-term period the company cannot survive if its organizational and managerial characteristics - its organizational structure and formal control systems - do not meet the requirements of the environment. Supporters of the so-called "structural contingency theory" posit that there is a single best fit between environment and organizational design (Egelhoff, 1988). Proponents of the less deterministic "strategic contingency theory" believe that the firm has some freedom in designing its organizational structure and control system in response to the demands of the environment (Larsson, 1985). That is, more than one organizational structure could produce the necessary information for effective decision-making. There is some choice but within certain limits. These limits are set by the specifics of the competitive environment within which other firms will seek to achieve optimal fit.

Both cases confirm the propositions of the contingency theory and a variation of it known as the information processing view. The digital transformation strategy should be based on organizational and managerial development of the company. A mechanical implementation of digital technologies and channels for communicating with customers cannot solve the problems of the digital transition. The success of modern digital marketing towards customers is a function of a continuous process of internal marketing towards employees, which takes care of the correspondence between the requirements of the firm environment and the way things are done in the company.

Conclusion

The high intensity of environmental change requires that the decision-making process to take place at the level that is in the possession of the knowledge for making effective decisions. Static organizational structures with a high degree of centralization are giving way to dynamic organizational solutions. The success of the digital marketing strategy depends on the alignment of environmental and organizational characteristics.

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