



# Dealing with Privatization towards Internal Marketing Perspective

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## Abstract

The aim of this research is to understand the applicability of the concept of internal marketing (IM) for managing the particularities of a privatization process within a Thai state-owned enterprise (SOE), Provincial Electricity Authority (PEA). To address the research objective the following question was posed. In what forms the concept of internal marketing (IM) be applied towards a Thai SOE to create a positive attitude to transformational change during the privatization of the organization? This study was based on a subjective ontology and interpretivist epistemology. This research applied the case study approach to the PEA. A qualitative method for data collection was used. Semi-structured interviews were conducted with people from four different levels of the organization's hierarchy, these are from the operational, management, senior management, and top management level. The results showed that during the PEA's privatization there were informed sources and factors that positively affected the process and lacks of techniques applied in the process, for instance, in information, communication, and coordination. Moreover, the process of privatization here showed less evidence of a professionally applied concept of IM. Therefore, the results from this research can be seen as a kind of a guideline for the implementation of IM to motivate the employees in the organization to get a better understanding of their contribution to the achievement of the organizational goals

**Key words :** Privatization, Internal marketing

**Type of Paper :** Research Paper



## บทคัดย่อ

งานวิจัยนี้มีจุดมุ่งหมายเพื่อทำความเข้าใจแนวความคิดการตลาดภายในสำหรับจัดการด้านกระบวนการแปรรูปธุรกิจของประเทศไทย ดังเช่น การไฟฟ้าส่วนภูมิภาค โดยมีวัตถุประสงค์เพื่อศึกษารูปแบบแนวความคิดของการตลาดภายในที่เหมาะสมกับการแปรรูปธุรกิจในประเทศไทย ที่มุ่งเน้นการสร้างทัศนคติที่ดีต่อการเปลี่ยนแปลงซึ่งใช้วิธีการวิจัยเชิงคุณภาพในการเก็บรวบรวมข้อมูล และได้มีการออกแบบคำถามเพื่อนำไปสัมภาษณ์ในลักษณะกึ่งโครงสร้าง สำหรับนำไปสัมภาษณ์บุคลากรในระดับชั้นต่ำของโครงสร้างองค์กร คือ ระดับปฏิบัติการระดับบริหาร ระดับบริหารอาชีวะ และระดับบริหารสูงสุด โดยผลการศึกษาพบว่าช่วงระหว่างการแปรรูปธุรกิจของการไฟฟ้าส่วนภูมิภาค ผลกระทบส่วนใหญ่เกิดมาจากการแปรรูปที่ถูกต้องและการใช้เทคนิคการสื่อสาร/ ประสานงานที่เหมาะสม รวมถึงการนำเสนอแนวความคิดการตลาดภายในมาประยุกต์ใช้ก็ยังพบเห็นได้น้อย ด้วยเหตุนี้ผลลัพธ์ที่ได้จากการวิจัยครั้งนี้สามารถเป็นแนวทางเพื่อให้เห็นถึงการปฏิบัติใช้การตลาดภายในเพื่อกระตุ้นให้บุคลากรในองค์กรเกิดความเข้าใจและสามารถช่วยผลักดันให้การแปรรูปธุรกิจประสบความสำเร็จตามความมุ่งหมายที่ได้วางไว้

### 1. Introduction and the research question

Since 1980, a privatization program has been implemented in several state-owned enterprises (SOEs) in Thailand (Smith, 2003). The government decided to privatize some “wealthy” SOEs to improve their productivities, capabilities and enable them to provide a better service to the Thai population. For example, the Provincial Electricity Authority (PEA) has had to administer a change process to achieve privatization program’s goals of privatization (PEA, 2003).

Within this process of privatization, it is proposed that the concept of IM can support organizations’ transformational changes in SOEs. In response the aim of this research is to examine the applicability of the concept of IM for managing the particularities of a privatization process within the PEA. There is little evidence in IM and management literature on privatization research in SOEs.



## 2. Research question

The central question within this research is “*In what forms the concept of the internal marketing (IM) be applied in a Thai SOE to stimulate the development of a positive attitude to transformational change during the privatization of the organization?*” It is assumed that in the Thai culture, particular individuals’ beliefs, attitudes and behaviors influence the corporate government towards privatization in SOEs.

## 3. Literature review

For this study four main theoretical foci were taken into consideration: transformational change approaches, the concept of internal marketing and privatization approaches in general as well as electricity utility privatization in Thailand in particular.

### 3.1 Transformational change approach

A transformational approach to organizational change involves a general change in attitudes, beliefs, and cultural values in an organization to restructure them in an appropriate way (Doyle, 1995; Chapman, 2002). Everybody in an organization, the managers and the employees, are affected by the change and no matter their position, they need to generate new attitudes and mind-sets to reduce potential conflicts towards the change process and the related consequences (Limerick, Passfield & Cunningham, 1994).

### 3.2 Privatization

The idea of privatization was first initiated in Britain in the Thatcher government in the early 1980s (Clutterbuck, Kernaghan & Snow, 1991). It was based on the premise that privatization is a mean for the government to improve overall performance of SOEs, to make them comparable with the private sector. Especially, the delivery of a good quality of services to the population is important for a privatization process and is highly related with the marketing thinking of managers and employees. Another aim of privatization is to significantly improve an organization’s productivity and to reduce investment costs (Clutterbuck, Kernaghan & Snow, 1991).



### 3.3 Electricity utility privatization in Thailand

In Thailand, many adverse problems reflect the electricity utility privatization program. In addition, there has been considerable resistance to the program since it started. One reason for this situation is that, the government and other change agents have not had any true insight into each organization nor have they been individually analyzed. As a result there has been little understanding of each electricity utility in terms of the particular culture, attitudes, and behaviors at play within them. Because of this the transforming process has internally failed. This will have a negative impact on the long-term results for each organization that will be reflected through the whole system and function of each organization. Potentially this could lead to an organization crisis. Another reason is about resources that the electricity utilities use to produce products to supply the whole country. Thai people more and more realize that the organizations take the resources from the nature where they belong to. It is not just one special group of capitalists who wants to take huge advantages and benefits from these natural resources. Thai people believe that the natural resources must be important for supporting Thai population and Thailand's inhabitants and for subsidizing poor people who live in a long distance from the centers of population.

### 3.4 The internal marketing (IM) concept

The internal marketing (IM) concept is an inside-out strategy (Ahmed & Rafiq, 1995, Davis, 2001). The basic idea is to treat employees as a special "customer group" within in the organization. That is, the usually predominantly outside-oriented marketing activities have to be also concentrated on the internal target groups of managers and employees.<sup>1</sup> The concept aims to deal with employees by applying a marketing strategy combined with other kinds of business strategies such as organizational development strategy, organizational behavior strategy, human resources management strategy, strategic management, financial management strategy and strategic in change management, and getting all levels in the organization to be participants (Collins, 1991, Davis, 2001, Harrell & Fors, 1992). Employees should get any information they need to have a clear understanding of the organization's philosophy, purpose and goals as well as their personal contribution to the goals' achievement. The communication processes within the organization should support the flow of information and convince employees that their needs, wants and



desires are appropriately fulfilled and the amount of information is sufficient to deliver high quality services to the organization's outside customers.

#### 4. The case study of Provincial Electricity Authority (PEA)

The Provincial Electricity Authority (PEA)<sup>2</sup> was established in 1960 as a small operation in the electrical industry sector. After that, the company has been supplying electricity utility to Thailand's population and its performance has been growing and very important for the country's development. The PEA aims to generate electricity, distribute electricity, and sell electricity to households, businesses, public sectors, and industrial sectors in the provinces of Thailand (PEA, 2003). The PEA also intends to improve productivity to meet the international qualification's demand and wants to enhance its performance to become competitive with the players in the field as well as to provide a higher service quality to the customers (PEA, 2003). Furthermore, a new organizational structure has been implemented during the last year. The company has tried to restructure, to establish spans of control, which are comparable to those in the commercial sector. Although restructuring the organization seems simple, it is associated with change in the organizational culture - that is one of the hardest issues to address.

#### 5. Methodology

As there is little evidence about privatization processes in SOEs in the management literature as well as in the internal marketing literature, a case study approach has been chosen. This approach allows to discuss the privatization process combined with internal marketing issues and change issues from the point of view of the PEA. That is, the organization's particularities can be extensively considered. Due to the fact that the research aims to identify managers' and employees' perception of the change process and the issues affecting the managers and employees of the organization during the privatization process

<sup>1</sup> See also Kotler 1972 ("employee directed marketing), Sasser/Arbeit 1976 ("personnel is the first market of a company"), George 1977, 1984, 1990 ("to have satisfied customers, the firm must also have satisfied employees"), Grnroos 1981 (interactive marketing"), Berry 1984 ("employees should be seen as internal customers").

<sup>2</sup> Ministry of Interior under 1960 Act by the Royal Decree (PEA, 2003).



(Gilmore & Carson, 1996), it was appropriate to methodologically base the study on the interpretive paradigm (Neuman, 2000). There were 20 interviewees were carried out. The managers and employees in the sample were picked out consciously due to their functions to gather information differently towards their attitudes about the privatization of the PEA.

### **5.1 Philosophic stance**

This study was based on a subjective ontology and interpretivist epistemology. It sought to capture, investigate and understand particular definitions, descriptions and purpose of a particular event, the privatization process.

### **5.2 Ontological stance**

By looking at the expression of ontology, generally, it can refer to the subject of existence. Typically, people use the word ontology to mean a specification of a conceptualization: a way to view the world, which refers to the description of pieces of knowledge and their relations that thinks about existence as individually of their creation (Walsham, 1995). Moreover, ontology can be a classification of the concepts and relationships that can exist for an agent or a community of agents (Neuman, 2000).

### **5.3 Epistemological stance**

In the epistemology stance two approaches can be distinguished: a positivist approach and an interpretivist approach (Neuman, 2000). However, the interpretivist approach is more appropriate with this study in order to analyze socially significant action through the straight detailed observation of people in natural setting (Walsham, 1995; Neuman, 2000).

### **5.4 The interpretivist approach**

Interpretivism is more appropriate with this study because it involves participant observation and analyzing of text gathered in the interviews to discover its embedded meaning, which can be related to hermeneutics (Neuman, 2000). It is important to interact with a group of participants and study meaningful social action to acquire knowledge. It is based on subjective, detailed comprehension of the text to understand its meaning, viewpoint and structure (Neuman, 2000).



### 5.5 The qualitative approach

Qualitative interviews were conducted to collect data. The study examined the concerns of employees and observed their attitudes towards change and the privatization process in the PEA.

20 semi-structured, qualitative interviews were conducted with people at four levels in the organization's hierarchy. These are the operational, management, senior management, and top management levels from all area regional offices of the PEA, including the headquarter office. The interviews lasted from 30 to 60 minutes and took place in appropriate rooms (in the headquarter office and in selected area regions' offices. The latter allowed the interviewees to feel relaxed while telling their stories and experiences about the privatization process.

The interviewer wanted to gain insight into what the interviewees feel and think about the privatization process. The questions were asked in an open-ended format. The interviewer paid attention to ask the questions in a polite, open-minded and very interested manner. The data were analyzed by using thematic coding (Mayring, 2007).

## 6. Findings and Discussion

The PEA's privatization process has been implemented using an incremental step by step approach. A big variety of influencing factors, positive and negative, was identified. Sometimes, during each step informed sources that positively had an impact on the employees of the PEA.

During the privatization process, the PEA organizational structure and flow of communication have been changed little by little. Basically, the change occurred at the management level. Recently, the organization has implemented an early retirement program. The results of the program did not meet the organization's objectives, as the measure also caused a particular and unexpected problem, namely the loss of many well performing employees.



The process has been progressing slowly and stakeholders were unclear about many issues. The latter could lead to ineffectiveness and stakeholders could become unsure about the process itself and the organization's goals of the change process. Sometimes, they thought that there was nothing has improved and perceive many change-related issues ambiguously. The details of the process were hard to be confirmed and predicted as there were many factors related to the decisions in both inside and outside the organization. Some employees were anxious, and it was difficult for them to deal with this kind of change, they experienced the change process as complicated and non-transparent. Even though there were many groups of committees and consultants to look after the process, the relevancy of the information given was not always of use to the stakeholders, particularly the employees.

Therefore, data analysis focused on four areas of interest:

- Information,
- Communication,
- Information mediums,
- Coordination,

### 6.1 Information

In the PEA's privatization process during the years 2004 to 2006, most kinds of information were documented in written format, for instance in information leaflets. However, the details in the leaflets were difficult to understand and often unclear to the recipients. Most of the information was irrelevant to the employees and there was no appropriate explanation to them either. Sometimes, information was kept within one group and so did not flow and expand through all levels and all regional areas of the organization. For example, employees who were working in the higher levels of the organization had more chance to receive relevant information and to get in touch with information that they wanted to know more than employees who were working in lower levels. This means that those in the high level of the organization had a better and clearer understanding of how the change was going on, compared with employees who were working in the lower levels. Therefore, the latter often felt confused, unable to believe, uncertain, misunderstood and completely unsure about the process – its aims, timing and different stages.



Therefore, from the point of view of the employees during the years 2004 to 2006, the privatization process was characterized by a lack of the sort of information and the appropriateness. Furthermore, there was nobody responsible to personally provide the employees with the relevant and exact information. In a long term perspective, issues such as these could lead to the change process' failure. They could cause big problems insofar as the employees could not comprehend how to deal with the new model of the organization.

Regarding the aims of the internal marketing (IM) approach the employees should be treated as internal customers, they should know about the goals of the privatization process in general and the aims of the organization's strategy to deal with the privatization in particular. In addition, employees should have the relevant information at their disposal, to have the basis to be able to meet their goals.

## 6.2 Communication

Communication is an important component in any change process. It helps stakeholders to properly understand the situation. At most of the stages of the PEA's change process employees perceived mistakes and missed appropriate communication techniques and resources during the years 2004 to 2006. However, Figure 1 gives an overview of the areas communication lacks.

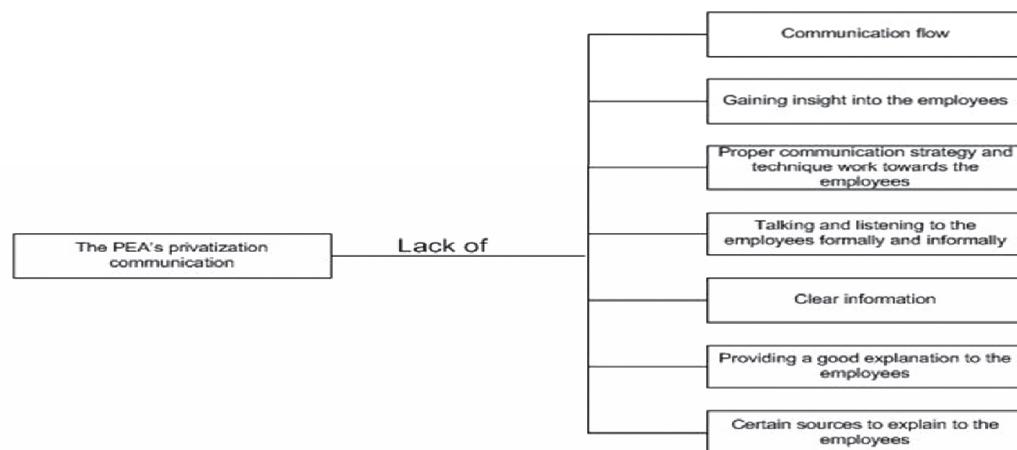


Figure 1. Areas of deficient communication.



(1) Referring to Figure 1, the seven areas of deficient communication are:

Flow of communication: the communication of the PEA's privatization did not flow properly and there were mistakes, interruptions and errors all the time.

(2) Gaining insight into the employees: less people gained insight into the employees' experiences of the privatization process, tried to understand them and to learn about both their emotions and their knowledge.

(3) Communication strategy and technique: there was no proper communication strategy and technique applied to the PEA's privatization.

(4) Talking and listening to the employees formally and informally: nobody talked and listened to the employees; in fact, the change process happened like an assignment; the employees had to agree and followed the plan.

(5) Clear information: the information given was unclear; the employees could not understand properly and they always misunderstood the process.

(6) Providing a good explanation to the employees: nobody provided a good and appropriate explanation of the PEA's privatization/change process to the employees; the employees could not develop a clear picture about it.

(7) Certain sources to explain to the employees: there was not a certain source where the employees could receive information and developed trust on the PEA's privatization/change process.

One major reason for the above mentioned experiences could be grounded in the size of the organization. It is too big, the organizational structure is too deep and it has many branches, which are called the area regions, around the country. This makes it more difficult for the change managers to provide appropriate, good communication to all branches. Moreover, the change managers do not apply appropriate communication techniques to address their messages to the all employees round the country. Another problem is that particularly the members of the change management team stick with the (former) bureaucratic system of the organization. That is, they often order employees and other managers to do something without telling them any exact reason of how, when and why they should carry out. Additionally, one major influence factor from outside the



organization has to be mentioned. Particularly the government's influence and political power have to be very well considered. These are possible reasons why the organization, the change managers are not able to reasonably communicate the aims of the change.

Regarding the communication lacks, it has to be demanded that the employees cannot work well if they do not exactly know about the goals, the strategy and so on. Employees as internal customers should be treated different to the described perceptions at PEA.

### 6.3 Information mediums

There have been many information mediums where the employees could receive information concerning the privatization process. For instance, newspapers, memoriams, the Intranet, internal radio, internal news, colleagues, internal newsletters, consultants, the PEA's labor union, formal meetings, and informal sources.

During the years 2004 to 2006, however, each of the different media had limitations because the distribution of the information did not include all the levels of the organization. Those at higher levels had a bigger chance to obtain information from a wider variety of sources. Conversely, there was no guarantee that what they received, was also going to happen. Particularly, very often the influence from outside the organization, from the Thai Government was strong. It was very often that the Thai Government decided for the organization. On the other hand, the employees in lower levels of the organization definitely had less chance to be addressed with the appropriate communication technique and they received the information from very limited channels. It can be said that this kind of situation often happens in a bureaucratic system, like the PEA.

Looking at the information mediums from the consultants of the PEA's privatization, they rarely communicated with the employees. As a consequence they did not gain insight into their needs and wants as well as their perceptions and did not know the organization's cultural and environmental particularities. They often came to talk in general about the change and then they left the organization. This can burden the change process, as consultants do usually not try to get involved in-depth with the stakeholders and their knowledge needs, wants, emotions, and possibly barriers.



Formal meetings have been provided by the president, the deputy governors and the change management team to communicate about the situation to the employees. However, it happened rarely that employees were given an opportunity to give feedback about the ideas and attitudes to the change as well as the obstacles and questions arising from the bottom of the organization.

Employees in the different regions often received information about the change from their directors. Via this communication channel, it happened that the sort of the given information was different from the objectives of PEA's privatization process. Hence, the employees in the regions of the PEA possibly think and believe differently. This situation is quite similar to the situation the employees in the lower level in the headquarter office are facing.

#### 6.4 Coordination

Coordination in the PEA's privatization process rarely happened during the years 2004 to 2006. The whole process should be called a top-down process. There was less coordination in a bottom-up approach to the change. There were some goods reasons that could potentially explain this. There was less assistance from the Human Resource Department to support the employees. The assistance from the consultants happened more in the form of general advice that rarely took place.

To become a private sector enterprise, it is very important to have the appropriate organizational structure and coordination concept to consequently support managers and employees during the change process. Particularly, regarding the internal marketing (IM) concept, it is necessary to clearly install a Marketing Department that firstly, provides employees and managers with the appropriate information, resources and schedule to convince them about the adequacy of the organization's new structure and the new strategy and positioning (make the employees marketing-minded), and secondly, works out a marketing strategy and an appropriate marketing program to inform the customer groups about the new orientation of the organization.

However, the Marketing Department is no longer exists in the PEA. It was cut out from the organizational structure as the governor and the consultants of the PEA's



privatization believe that it was not important anymore. The employees often felt like they have been kept away from the real situation, so that sometimes they refused to talk about it.

## 7. Conclusion and Recommendation

It can be concluded that in the move to privatization the PEA has adopted a transformational approach, even though the process has been happening step by step from time to time. The internal marketing (IM) concept can structure the privatization process to develop an appropriate program and guarantees that the managers and the employees are included and targeted as separate and important customer groups. According to the findings and discussions, it can be said that there are many opponents to the change process, who have appeared from time to time. The opponents can cause unsuccessful parts of the process and their perceptions and experiences evidently show that the management team has not deeply understood the employees' needs.

It is very difficult to convince managers and employees to speak out what they are concerned about. This would allow the change managers to learn about different attitudes, behavior, beliefs and perspectives and to focus the internal marketing strategy on these variables. Astonishingly, most organizational change managers often miss out the internal consumer's voice and that leads to misunderstandings, barriers, resistance and other behavioral aspects that hinder the consequent goal-oriented change procedure.

It can be said that there are many deficiencies within the change process. These include a lack of information, communication and coordination. To deal with these problems, the internal marketing (IM) concept can contribute and be appropriately applied to achieve a successful privatization process. The organization needs to have more concern for its managers and employees as they are internal customers. The change managers should try to apply marketing strategies and techniques to deal with their internal customers. The Marketing Department in cooperation with the Human Resource Department should try to integrate their particular strategies to deal with the change process. Therefore, to apply the appropriate internal marketing (IM) strategy and technique to the privatization process can help the organization to create positive attitudes towards the process and can motivate the managers and employees to help the organization privatize effectively.



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