

# IMPLEMENTING RELATIONSHIP MARKETING AND THE ROLE OF INTERNAL AND EXTERNAL CUSTOMERS: THE CASE OF SMALL TEXTILE RETAILERS IN NORTHWEST PROVINCE-SOUTH AFRICA

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## ABSTRACT

*Developing an internal and external customer orientation will facilitate the implementation of relationship marketing principles by businesses. Relationship marketing highlights the need for an external customer orientation, which in turn raises the need for customer-oriented employees. Employees will only be customer-oriented if an internal customer orientation is evident in the business.*

*Four constructs pertaining to the internal customer orientation of small- to medium-sized textile retailers in the North-West Province were identified. After checking for internal consistency, effect sizes were determined for these constructs, analysing the practical significance of employees' as opposed to management's opinion on the underlying constructs. Similarly, four constructs referring to the external customer orientation of the same businesses were identified. The four identified constructs underpinning an external customer orientation were also checked for internal consistency and the practical significance of customers' as opposed to management's opinion on the underlying constructs was determined through effect sizes. It was found that the identified businesses lacked both an internal and external customer orientation.*

*Recommendations are made to improve internal customer orientation for the sake of an improved external customer orientation. An improved external customer orientation will facilitate the implementation of relationship marketing principles in these businesses.*

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## INTRODUCTION

### Small to medium-sized businesses

A small business is an independently owned and operated profit-seeking enterprise that has less than 500 employees (Robins & De Cenzo, 1998:16).

According to the South African National Small Business Act, 102 of 1996, "A small business means a separate and distinct entity, including cooperative enterprises and non governmental organisations, managed by one owner or

more, which include its branches or its subsidiaries, if any, predominantly carried on in any sector or sub sector of the economy ... whether or not incorporated or registered under any law...."

According to this Act, businesses with 10 to 50 employees, from R188, 000 - R3. 76 million total asset value and total sales turnover of R125, 000 - R 626,000 are regarded as small businesses. These figures have been adjusted in relation to the inflation rate from when the Act was enacted in 1996 to date; using the South African Reserve Bank indices as shown in the adjusted CPI in table 1.1.

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**Table 1.1 Adjusted CPI**

	<b>Value as per Small Business Act</b>	<b>Adjusted values</b>
Total asset value	R 100,000 – 3 Million	R 188,000 – R3.76 Million
Total sales turnover	R 115,000 – 575, 920	R 125,000 – R 626,000

The following formula was used in this matter:

$$\frac{\text{Old value} \times 105,7}{8,4} = \text{new value}$$

### Northwest province

The Northwest province is one of the nine provinces in the Republic of South Africa. It shares its border with Botswana in the north, the Limpopo Province (previously known as the Northern Province) in the northeast, east with Gauteng, southeast with the Orange Free State, and southwest with the Northern Cape Province. Major economic activities include mining (famous for platinum mining) and agriculture. Other economic activities are also undertaken.

According to Saren and Tzokas (1998:187), researchers in relationship marketing have come to realise that there is a need for detailed empirical evidence on how this approach could be implemented in order to promote a beneficial customer-business relationship. Morris, Brunegee and Page (1998:360)

and Fornier (1998:343) argue that a lack of knowledge and consensus about relationship marketing and the activities involved in the implementation thereof has led to difficulties in operationalising the construct. This study addresses this concern by arguing that a relationship marketing orientation is facilitated by management being sufficiently orientated to the needs and expectations of employees (internal customer orientation) as well as to those of customers (external customer orientation). The internal and external customer orientations of small-to medium-sized textile retailers in the North-West Province were investigated by means of effect size analyses.

The goal and objectives of the study are subsequently explained, followed by a theoretical exposition on the interface between relationship marketing as well as

internal and external customer orientation. A description of the research methodology is followed by the empirical results on internal and external customer orientation of the businesses that participated in the study. Conclusions are drawn from these empirical findings. Finally, managerial implications are discussed basing on the conclusions.

### STUDY OBJECTIVES

The goal of this study is to explore internal and external customer orientation as elements facilitating relationship marketing implementation by small- to medium-sized textile retailers in the North-West Province. This goal will be achieved through the following objectives:

- to explore the interface between relationship marketing, and internal and external customer orientation;
- to report on empirical findings related to internal and external customer orientation of small- to medium-sized textile retailers in the North-West Province; and
- to consider the managerial implications of the above empirical findings for managing these retailers.

### FOSTERING INTERNAL AND EXTERNAL CUSTOMER ORIENTATION TO FACILITATE THE IMPLEMENTATION OF RELATIONSHIP MARKETING

Sheth and Parvatiyar (1995:261) define relationship marketing as “an orientation

that seeks to develop close interaction with selected customers, suppliers and competitors for value creation through co-operative and collaborative efforts”. This definition suggests that businesses should pursue profitable business relationships.

Morgan and Hunt (1994:22) define relationship marketing as “all marketing activities directed towards establishing, developing and maintaining successful relational exchanges”. This definition sets out the ultimate goals of relationship marketing, but does not show what relationship marketing entails. Attempts have been made to address this limitation by emphasising the dimensions and activities of relationship marketing. These dimensions and activities include (Too, Souchon and Thirkell, 2001:290):

- customer retention;
- product benefits;
- quality improvement;
- customer service;
- customer commitment by the business; and
- frequent contact with the customer.

The first four issues refer to the business customer orientation, while the last two relate to customer relationship management practices.

Kotler and Armstrong (2001:9, 667-681) indicate that relationship marketing is the process of creating, maintaining and enhancing strong value-laden relationships with customers and other stakeholders. According to this definition,

relationship marketing does not end with customers, but includes all stakeholders (i.e. employees, channel members, stockholders and others).

Relationship marketing advocates the establishment of long-term and profitable relationships between (both internal and external) partners or stakeholders (Zikmund and d’Amico, 2001:8). These relationships are not naturally sustained and should therefore not be taken for granted (Day, 2000:25). Long-term and profitable relationships are only established when trust, commitment and service are inculcated in relationship partners (Buttle, 1996:8-9).

Stakeholder relationships also have to transcend functional boundaries (Beth, Burt, Copacino, Gopal, Lee, Lynch and Morris, 2003:67-68). Relationship marketing advocates that an engineer should, for example, take time to see how he could best design the product to satisfy the customer’s needs. The same applies to the accounting department - it should develop credit and payment terms that will best suit the customer while it needs also to realise a profit for the business (Ostroff and Smith, 1992:22-23). In this respect, Day (2000:24-30) argues that the ability to create and maintain relationships depends, inter alia, on the integration of key internal processes in the business.

The implementation of relationship marketing therefore depends on a well-developed internal (employee) and external customer orientation. Taher,

Leigh and French (1996:218) argue that in order to be customer-oriented, marketers should provide exceptional performance in quality, delivery and cost competitiveness (i.e. customer orientation). The business should also understand how customers measure value and how these value expectations can be met. To win orders, a business should exhibit an external customer orientation that manifests the relative strength of the business in relation to its competitors (Koufteros, Vonderembse and Doll, 2000:526). To attain lasting customer orientation, careful attention should be given to detail, meeting promises and swift response to the requirements of customers - i.e. competitive capabilities. The same authors define competitive capabilities further as a business’ ability to meet customer expectations compared to its competitor’s ability to do the same. Day (2000:28) argues that a customer orientation should be “immediately evident” in the mindset of those who deal directly with the customer. Kennedy, Goolsby and Arnould (2003:77-79) found that the development of an external customer orientation will be facilitated by:

- leadership: Staff members must experience, “an unbroken circuit of passionate, sincere, unified and committed leadership from top levels to local managers”;
- centrality of customer requirements and performance feedback. This will also assist in achieving the

required inter-functional coordination and alignment; and collection and dissemination of external customer data. This data, however, only becomes conducive for customer orientation development when it is widely circulated in the business to become a shared organisation-wide platform from which decisions are made. Patterson and Smith (2001:438) also support this notion.

It is stressed that customer orientation should be explicit, otherwise the business risks over-serving unprofitable accounts and wasting resources might be allocated to profitable customer groups. In this respect, Reinartz and Kumar (2002) distinguished between customer groups and suggested ways of managing each group for increased profitability.

Relationship marketing raises the need for customer orientation, which in turn raises the need for customer-oriented employees. Bendapudi and Leone (2002:83) indicate that customers form relationships with employees who serve them, and that these relationships may be stronger than the customer's relationship with the business represented by the employee. Employees will not be able to develop social relationships with customers if they were not recruited and trained with this in mind (Patterson and Smith, 2001:438). Without customer oriented employees, it will be difficult to implement customer orientation because employees are the ones who have to make

it happen. If customer-orientation is lacking, the implementation of relationship marketing will suffer. This is because dissatisfied customers will never develop good relationships with the business (Engel, Blackwell and Miniard, 1995:47).

Attracting, developing and motivating employees as internal partners, foster an internal customer orientation (Conway and Willcocks, 2000:81). Day (2000:28-29) recalls the efforts made by many businesses to make employee satisfaction and retention a top priority in recognition of the damage that high employee turnover and disgruntled employees can cause to customer relationships.

Employees' performance and attitude play an important role in service delivery to external customers. Employees' satisfaction impacts on employee attitudes, which in turn influence their performance and interaction with external customers. Employees' interaction with external customers obviously plays a pivotal role in the ultimate success of the business (Lewis, 1989:41). Strauss (1995:62-77) distinguishes between internal customer satisfaction and employee satisfaction. He argues that internal customer satisfaction entails employees' satisfaction with the performance of internal suppliers (workflow satisfaction). Internal customer satisfaction should, however, not be confused with employees' satisfaction - i.e. the satisfaction of employees with their working conditions.

He argues further that internal customer satisfaction reflects in external customer satisfaction. For purposes of this study, the identified relationship between internal and external customer satisfaction is acknowledged, but the distinction between internal customer orientation and employees' satisfaction is rejected. Employees in small- to medium-sized textile retailing businesses are not dependent on intricate internal workflow processes. As they derive their workflow inputs directly from the management, a distinction between the management inputs (relating to Strauss' employee satisfaction concept) and workflow inputs will be vague. Strauss (1995:63) himself points out that if managers are prepared to take responsibility for quality and act as role models, they can expect commitment from their employees - which will eventually result in improved bottom-line results.

Sasser (2003) explains the relationship between employee and customer satisfaction in terms of the value the business creates for the employees, who in turn will be able to create value for customers. If the value created for employees and customers exceeds costs, value is being created for investors. Internal customer orientation is the result of a conscious management decision about the "organizational setting" (Strauss, 1995:68). Concerning this organisational setting, Malherbe and Pearse (2003:2-12) found significant positive relationships between job

enrichment characteristics and job satisfaction, and eventually between job satisfaction and service quality in the South African retail industry. Chaston (1995:332-349) investigated possible actions to establish a stronger internal customer orientation in UK clearing banks, and concluded, inter alia, that the management's improved understanding of internal customers' needs will be helpful in this regard.

## **METHODOLOGY**

Small- to medium-sized textile retailers from six selected towns and cities in the North-West Province were investigated to assess their internal and external customer orientation. Retailers from Brits, Klerksdorp, Lichtenburg, Mafikeng, Potchefstroom and Rustenburg were sampled. These cities and towns were chosen on the basis of their geographical representation in the province. They also represent the largest centres of economic activity in the province.

A sampling frame of 61 small- to medium-sized textile retailing businesses were constituted by using the information obtained from the Potchefstroom City Council, the Bureau of Marketing Research and Braby's databases. The sampling frame included independent textile retailing businesses (merchants and distributors). Forty-eight (N1=48) of the 61 business owners/managers were willing to participate in the study and were subsequently interviewed. One hundred and four (N2=104) employees.

as found on the 48 premises, were also interviewed. Finally, two hundred and thirty (N3=230) customer responses were gathered using availability sampling for periods of two hours at each of the 48 business premises.

Separate questionnaires, incorporating closed-ended structured items, were developed for the management, employees and customers as three separate groups of respondents. Owners/managers had to respond to 77 items. Thirty-one of these items pertaining to internal customer orientation were duplicated in the employees' questionnaire, requiring respondents to respond to them from an employee's perspective. Thirty-three of the items on external customer orientation related to owners/managers were also put to customers, requiring them to evaluate it from their perspective. Respondents had to respond to the items according to a four-measure Likert scale where: 1 = strongly disagree, 2 = disagree, 3 = agree and 4 = strongly agree.

The responses were statistically processed with the help of SAS software (SAS Institute Inc., 1999). The reliability of constructs associated with internal and external customer orientation was tested by means of Cronbach's Alpha values and average inter item correlations (Clark and Watson, 1995) as it will be reported.

The practical significant difference between specifically defined constructs for employees and owners/managers (internal customer orientation) as well as

for customers and owners/managers (external customer orientation) is indicated by using effect sizes.

Effect sizes are calculated as availability sampling was used instead of random sampling. As already explained, the six cities and towns, the businesses that participated in the study, the interviewed employees and the interviewed customers of these businesses were not randomly selected. Statistical inference is therefore not relevant. This eliminates the use of t-tests and p-values as a technique to analyse statistically significant differences between means of responses from the management and employees (or management and customers). Unlike t-tests, effect sizes are independent from sample size, as a standardised difference based on the maximum standard deviation between compared groups is calculated (Steyn, 2000).

The effect sizes (d-values) were calculated by using the following formula (Cohen, 1988:20-27):

$$d = \frac{|\bar{x}_1 - \bar{x}_2|}{s_{\max}} \quad \text{where:}$$

- d = effect size;
- $x_1 - x_2$  is the difference between means of two compared groups (e.g. management and employees or management and customers); and
- is the maximum standard deviation of

the two compared groups.

To calculate effect sizes, the maximum standard deviation is used instead of a mean standard deviation to allow for a more conservative approach to practical significance (Steyn, 2000).

Cohen (1988:20-27) gives the following guidelines for interpreting effect sizes:

- $d \approx 0.2$  indicating no practically significant effect;
- $d \approx 0.5$  indicating a moderate effect that could be significant if more data had been collected; and
- $d \approx 0.8$  or larger indicating a practically significant effect.

## **EMPIRICAL RESULTS**

Empirical results regarding both the internal and external customer orientations of small- to medium-sized textile retailers in the North-West

Province are subsequently discussed.

**Empirical results: internal customer orientation**

Four constructs associated with internal customer orientation, as well as the items comprising these constructs, are reported in table 1. The items comprising these constructs are also indicated. The four constructs exhibited Cronbach's Alpha values all greater than 0.6, indicating "good or adequate" reliability of the measurement scale (Clark and Watson, 1995:315). Average inter item correlations ( ) are also reported in table 1. Clark and Watson (1995:316) indicate that the average inter item correlation should also be used as a measure of internal consistency. They recommend that the average inter item correlation should lie between 0.15 - 0.50. It is evident from table 1 that the average inter item correlations fall within this range, indicating internal consistency of the constructs.

**Empirical results: external customer**



**Table 1: Cronbach's Alpha and Average Inter Item Correlations for Internal Customer Orientation**

Construct	Cronbach's Alpha	Average inter item correlation ( $\bar{r}$ )
<b>1. Management's involvement with employees</b> <ul style="list-style-type: none"> <li>• Applying management principles strictly</li> <li>• Seeking people who can think of new strategies</li> <li>• Culture of supporting staff</li> <li>• Treating staff the same as external customers</li> <li>• Creating an enabling culture for staff creativity</li> <li>• Exercising staff achievement recognition and reward</li> <li>• Following fair disciplinary action</li> <li>• Development and training of staff</li> <li>• Appreciation of staff contribution to business success</li> <li>• Conducting formal performance appraisals</li> <li>• Making staff a part of solutions</li> <li>• Aggressively competing for talented staff</li> </ul>	0.752	0.21
<b>2. Employee development through communication and participative management</b> <ul style="list-style-type: none"> <li>• Promoting staff learning</li> <li>• Encouraging a learning culture</li> <li>• Practising participative management</li> <li>• Marketing the business' vision to staff</li> <li>• Creating messages to inspire staff action</li> <li>• Understanding the reality staff experiences</li> <li>• Consulting staff with regard to leadership style</li> <li>• Maintaining a two-way channel of communication in the business</li> </ul>	0.713	0.24
<b>3. Acknowledgement of employees' expertise and potential</b> <ul style="list-style-type: none"> <li>• Incorporating knowledgeable staff inputs into business decisions and activities</li> <li>• Acknowledging that staff is the business' primary asset</li> <li>• Involving current staff in the process of appointing new staff</li> <li>• Giving responsibility and accountability to staff for their respective performance areas</li> <li>• Collaborating with staff to draw up strategies, plans and objectives</li> <li>• Arranging for staff to visit customers</li> </ul>	0.659	0.25
<b>4. Satisfaction of customer needs is realised through an integrated effort by all involved in the business</b> <ul style="list-style-type: none"> <li>• All departments working in collaboration with customer focus in mind</li> <li>• Successfully satisfying customers' needs and wants</li> </ul>	0.623	0.45

To indicate the practically significant differences between employees' and owners'/managers' view on internal customer orientation, effect sizes were calculated on the respective constructs. These effect sizes are reported in Table 2. Practically significant effects on constructs 1, 2 and 3 are revealed. Construct 4 only revealed a small effect.

**Table 2: Effect Sizes for Internal Customer Orientation**

Construct description	Business owners		Employees		Effect size
	Mean	Standard deviation	Mean	Standard deviation	
1. Management's involvement with employees	3.103	0.447	2.787	0.445	0.707
2. Employee development through communication and participative management	3.137	0.504	2.767	0.504	0.734
3. Acknowledgement of employees' expertise and potential	3.086	0.557	2.674	0.554	0.740
4. Satisfaction of customers' needs is realised through an integrated effort by all involved in the business	3.489	0.695	3.327	0.750	0.216

Source: *Research Data 2006*

**Empirical results: external orientation**

Four constructs relating to external customer orientation, as well as the items associated with these constructs, are

reported in table 3. The correspondent Cronbach's Alpha values for the four constructs are all above 0.6, indicating

“good or adequate” reliability of the measurement scale (Clark and Watson, 1995:315). Average inter item correlations (r) are once again reported in table 3. These correlations fall within the range of 0.15 - 0.50 indicating internal consistency of the constructs (Clark and Watson, 1995:316).

**Table 3: Cronbach’s Alpha and Average Inter Item Correlations for External Customer Orientation**

Construct	Cronbach’s Alpha	Average inter item correlation (r)
<ul style="list-style-type: none"> <li>• Building customer relationships through the efforts of employees is important</li> <li>• Attracting, maintaining and enhancing relationships with customers</li> <li>• Establishing and maintaining profitable customer relationships</li> <li>• Maintaining a mutually committed long-term oriented relationship with customers</li> <li>• Moving customers from one level of the relationship to the next</li> <li>• Extending priority treatment to regular customers over irregular ones</li> <li>• Interacting with regular customers</li> <li>• Forging long-term committed relationships with customers</li> <li>• Employees developing business relationships with customers</li> <li>• Fostering an intimate understanding between customers and staff</li> </ul>	0.762	0.27
<p><b>1. The business’ offer to customers is geared towards satisfying customer needs</b></p> <ul style="list-style-type: none"> <li>• Delivering an offer exactly as required</li> <li>• Extending quality and durability as the business’ core offer</li> <li>• Delivering superior offers not available from competitors</li> <li>• Continue improving the total offer to customers</li> <li>• Delivering a tailor-made offer to customers</li> <li>• Viewing delivery of the offer from customers’ perspective</li> </ul>	0.665	0.26
<p><b>3. Delivering customer satisfaction</b></p> <ul style="list-style-type: none"> <li>• Offering high levels of customer service</li> <li>• Managing and maintaining the delivery of customer satisfaction</li> <li>• Successfully satisfying customers’ needs and wants</li> <li>• Custom fitting service to customers’ particular requirements</li> <li>• Delivering services to the satisfaction of customer desires</li> </ul>	0.642	0.26
<p><b>4. Customer orientation of employees</b></p> <ul style="list-style-type: none"> <li>• Instilling customer orientation among staff</li> <li>• Formulating and realising a customer orientated mission statement</li> </ul>	0.619	0.46

The effect sizes on the respective constructs for the practically significant difference between customers' and owners'/managers' view on external customer orientation are reported in table 4. Practically, significant effects are revealed on constructs 2 and 3, while construct 4 exhibits a moderate effect size. Construct 1 revealed a small effect size.

**Table 4: Effect Sizes for External Customer Orientation**

Construct description	Business owners		Employees		Effect size
	Mean	Standard deviation	Mean	Standard deviation	
1. Building customer relationships through the efforts of employees is important	3.303	0.557	3.100	0.442	0.364
2. The business' offer to customers is geared towards satisfying customer needs	3.408	0.423	2.928	0.465	1.032
3. Delivering customer satisfaction	3.528	0.445	3.202	0.399	0.733
4. Customer orientation of employees	3.360	0.591	2.991	0.635	0.581

Source: *Research Data 2006*

## CONCLUSION

From the foregoing empirical results, the following conclusions regarding the internal and external customer orientation of small- to medium-sized textile retailers included in this study can be drawn.

### Internal customer orientation

From the effect sizes reported in table 2, it is evident that management and employees differ significantly (practically significant effect sizes) on the following issues:

- Management's involvement with employees (construct 1). Management feels more involved with employees than employees experience it to be the case ( $x_1 - x_2 > 0$ );
- Employee development through communication and participative management (construct 2). Management is of the opinion that employee development takes place through communication and participative management, while employees do not experience the same ( $x_1 - x_2 > 0$ ); and
- Acknowledgement of employees expertise and potential (construct 3). Management feels that employees expertise' and potential is acknowledged, while employees do not feel the same ( $x_1 - x_2 > 0$ ).

A small effect size was calculated for construct 4. Management and employees therefore agree that satisfying customer needs is realised through an integrated effort by all involved in the business (construct 4, Table 2,  $x_1$  and  $x_2$  both  $> 3.0$ , indicating agreement on the Likert-type scale).

### External customer orientation

As far as external customer orientation, as reported in Table 4, is concerned, owners/managers and customers differ significantly (practically significant effect sizes) on:

- Whether the businesses' offer to customers is geared towards satisfying customers' needs (construct 2). Management feels it to be the case, while customers differ significantly ( $x_1 - x_2 > 0$ ); and
- Delivery of customer satisfaction (construct 3). Customers feel significantly less satisfied than management thought them to be ( $x_1 - x_2 > 0$ ).

As far as customer orientation of employees is concerned, a moderate effect size was determined (table 4, construct 4). Owners/managers are of the opinion that employees are customer-oriented ( $x_1 > 3.0$ ), while customers do not experience it to the same degree ( $x_2 < 3.0$ ).

Table 4 also indicates an insignificant effect size on construct 1. Management and customers therefore agree that it is important to build customer relationships through the efforts of employees

(construct 1,  $x_1$  and  $x_2$  both  $> 3.0$ ).

### **EMPIRICAL IMPLICATIONS**

When considering the internal customer orientation of small- to medium-sized textile retailers participating in this study, it is evident that employees do not feel appreciated by the management. Employees indicated that the management is not involved with them and that their expertise and potential is subsequently ignored. They also do not feel empowered through communication or participative management initiatives (or rather the lack thereof) from the management's side.

Management and employees agree on a basic principle of the marketing concept (Barnes, 2001:7), namely that customer satisfaction is dependent on an integrated effort of all involved in the business.

From the foregoing, it is clear that a certain amount of goodwill is evident among employees. Employees recognise the importance of an integrated effort of all involved in the business to satisfy customer needs. It is recommended that management of these businesses capitalise on this aptitude of employees. Communication with employees on matters relating to management of the business will encourage employee participation, paving the way for the implementation of participative

management techniques. This will draw on the latent expertise and potential of employees and will ultimately contribute to employee development and a sense of management involvement.

As indicated by the empirical results, small- to medium-sized textile retailers participating in this study lack a pronounced external customer orientation. Customers do not regard the businesses as being geared towards satisfying their needs. They are also of the opinion that employees of small- to medium-sized textile businesses are not sufficiently customer-oriented. By improving their internal customer orientation as already suggested, the external customer orientation of businesses may take a turn for the better. This may contribute to greater customer satisfaction as the interaction between customers and better satisfied and employees improve. After all, management and customers both agreed that the efforts of employees are important to build customer relationships. This is consistent with Sasser's (2003) exposition that an improved internal customer orientation will contribute towards a better external customer orientation that will result in more satisfied customers.

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