

Internal Market Orientation and Market Oriented Behaviours

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Abstract

Purpose - This empirical paper investigates internal marketing from a behavioural perspective. The impact of internal marketing behaviours, operationalised as an internal market orientation (IMO), on employees' marketing and other in-role behaviours were examined.

Design methodology/approach - Survey data measuring IMO, market orientation and a range of constructs relevant to the nomological network in which they are embedded were collected from UK retail managers. These were tested to establish their psychometric properties and the conceptual model was analysed using structural equations modelling, employing a partial least squares methodology.

Findings - IMO has positive consequences for employees' market oriented and other in-role behaviours. These, in turn, influence marketing success.

Research limitations/implications - We provide empirical support for the long-held assumption that internal and external marketing are related and that organisations should balance their external focus with some attention to employees. Future research could measure the attitudes and behaviours of managers, employees and customers directly and explore the relationships between them.

Practical implications – Firm must ensure that they do not put the needs of their employees second to those of managers and shareholders; managers must develop their listening skills and organisations must become more responsive to the needs of their employees.

Originality/value - The paper contributes to the scarce body of empirical support for the role of internal marketing in services organisations. For researchers, this study legitimises the study of internal marketing as a route to external market success; for managers, the study provides quantifiable evidence that focusing on employees' wants and needs impacts their behaviours towards the market.

Keywords: market orientation, internal marketing, internal market orientation, services marketing, survey research, structural equations modelling

Paper type: Research paper

1. Introduction

After considerable attention within the academic literature, services managers are increasingly appreciating the importance of marketing internally. Service organisations wishing to develop a stronger market orientation are increasingly adopting an internal marketing philosophy and developing an internal market orientation to archive this. Internal market orientation is an ongoing marketing focus within a company that is directed at employees. It aligns and motivates employees with a company's market objectives and encourages employees to perform better and to offer superb service, which ultimately improves customer retention and enhances the success of the company. Within the academic discourse, the key role of employees in developing a market orientation, and consequently customer- centric practices, is well recognised (Lings 1999; Lings and Greenley, 2005; Gounaris, 2008).

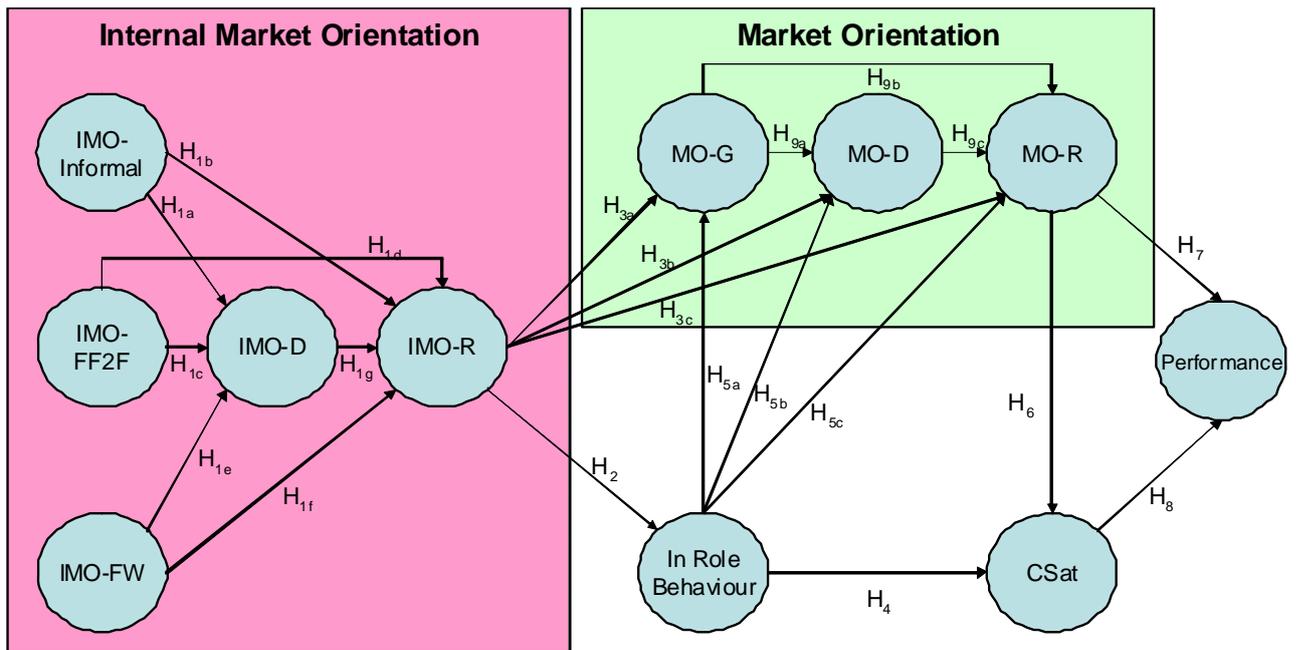
Internal marketing has been discussed in the marketing literature for over three decades, since Berry et al. (1976) first introduced the notion. Since its introduction, the term has been used to describe the use of marketing techniques to align the service operations of an organisation with the needs of customers. A prevalent view amongst internal marketing scholars is that satisfying service employees is integral to delivering quality services; consequently, employees are a legitimate focus of internal marketing activities.

Internal marketing has been operationalised in several ways. Lings and Greenley (2005) focus on exchanges between the organisation and its employees and report a measure of internal market orientation that reflects the external market orientation of the organisation (Jaworski and Kohli, 1993). They later tested this measure and reported its impact on market orientation (Lings and Greenly, 2009). Dabholkar and Abston (2008) examine the role of internal marketing as a tool for encouraging customer contact employees to engage with the firm as external customers. They conceptualise internal marketing as a multidimensional construct

with dimensions of organisational, financial and non-financial internal marketing. More recently, Gounaris (2008) reconceptualised internal market orientation as a multidimensional hierarchical construct. Gounaris' empirical analysis confirms Lings and Greenley's internal information generation, internal information dissemination and response to intelligence dimensions, and adds to these with a comprehensive array of sub-dimensions.

A common view among scholars is that IMO encourages employees to adopt and enact strategic directives, including those related to the organisations' marketing strategy (i.e. to display market orientated behaviour) (Grönroos, 1985; Gummesson, 1987; Piercy and Morgan, 1990; Harris and Piercy, 1999). In general, adopting strategic directions and incorporating them into their day-to-day work behaviour represents an adherence of employees to, and completion of, formal job duties. This is described as in-role behaviour (Katz, 1964). More specifically, IMO is suggested to have positive consequences for employees' adherence to, and completion of, specific market oriented directives (see for example Harris and Piercy, 1999; Harris, 2002; Lings and Greenley, 2005). To date, however, empirical evidence to support these assertions (i.e. that IMO impacts general in-role behaviours and specific market oriented behaviours) is lacking and the consequences of IMO for the organisation continue to be signalled as important areas of study (see for example Gounaris, 2006).

Our study addresses this limitation of current literature and contributes to marketing theory by providing insights into the role of IMO in developing specific market oriented behaviours and more general in-role behaviours associated with enacting organisational strategies. We seek empirical evidence of the impact of internal market orientation on employees' in-role and market oriented behaviours within an established nomological network (see Figure 1).



IMO-informal = internal market informal information generation; IMO-FF2F = internal market formal face to face information generation; IMO-FW = internal market formal written information generation; IMO-D = internal market information dissemination; IMO-R = response to internal market information; MO-G = external market information generation, MO-D = external market information dissemination; MO-R = response to external market needs; CSat = customers satisfaction; Performance = Subjective evaluations of financial performance.

Figure 1 Internal market orientation, market orientation and the nomological network in which they are embedded

2. Antecedents to Market Orientation

Tuominen and Möller (1996) emphasise the role of management in developing appropriate systems and structures to create employee behaviours consistent with organisational strategies, including those associated with adopting and enacting market orientation. They suggest that inward directed organisational activities, such as rewards systems, impact the marketing behaviours of employees (see also Ruekert, 1992; Hartline and Ferrell, 1996). Following this reasoning, Harris (2002) argues that inwardly focussed managerial activities (such as IMO) are a major determinant of market orientation success (see also Harris and Piercy, 1999) and also suggest that organisational and managerial activities can encourage employees to behave in the organisation's best interests by providing their best performance

in their roles, including adopting market oriented behaviours.

Understanding these inwardly focussed managerial activities is a major consideration for organisations wishing to implement the internal marketing philosophy and encourage in-role and market oriented behaviours within the workforce (Jaworski and Kohli, 1993; Heskett et al., 1994). Adopting an internal marketing philosophy has long been discussed as a means of ensuring that employees perform their in-role (usually customer focused) tasks and also adopt market oriented behaviours (see for example Gummesson, 1987; George, 1990; Harari, 1991; Mohr-Jackson, 1991; Piercy and Morgan, 1991; Harrell and Fors, 1992; Azzolini and Shillaber, 1993; Harari, 1993; Piercy, 1995). However, there is a lack of empirical evidence to support this assertion (Conduit and Mavondo, 2001).

This paucity of systematic research into the role of internal marketing and its impact on external marketing success, both directly and by ensuring that employees adopt in-role and market oriented behaviours, suggests the need for information concerning the internal marketing/external marketing link.

3. The Internal Marketing Philosophy and Internal Market Orientated Behaviours

Internal marketing is a philosophy of valuing and treating employees as an intermediate set of customers inside the firm and enhancing the value provided to employees with the aim of encouraging them to enact the organisations' marketing objectives and thus strengthen the competitive position of the firm in the external market (see for example Sasser and Arbeit, 1976; Grönroos, 1983; Berry and Parasuraman, 1991; Greene et al., 1994; Ahmed et al., 2003). Recent advances in the field of internal marketing have led to the identification of specific managerial behaviours associated with enacting this philosophy, their conceptualisation as an *internal market orientation* (IMO), and the development and

validation of instruments to measure this (Lings and Greenley, 2005; Gounaris, 2006).

IMO encourages organisations to build effective relationships with its employees, based on a commitment to providing superior value for employees (i.e. the internal market) by understanding and meeting their expressed and latent needs in much the same way as commitment is required to produce value for the company's customers (Gounaris, 2006).

Lings and Greenley (2005) report five managerial activities associated with IMO: three relate to generating information about the internal market (i.e. employees wants and needs, using informal methods, formal face to face methods and formal written methods), one relates to disseminating information, and one to implementing responses to this information (i.e. the development of job products to satisfy the wants and needs of employees). This conceptualisation of IMO as internal market sensing and responding activities was later confirmed by Gounaris (2006). Following the logic of Jaworski and Kohli (1993), it appears probable that these internal market sensing and responding dimensions are causally related. Generating information about the internal market (no matter which mechanism is utilised to obtain it) is likely to precede dissemination of this information. Both information generation and dissemination are likely to precede value creating responses to the internal market. This makes both logical and intuitive sense; information is required to be collected prior to any dissemination effort and consequently the collection of information must precede its dissemination in the process of internal market orientation.

Organisations that have developed an internal market orientation are, by definition, interested in the views of their employees. Consequently, one would anticipate that the more information that is generated about employees wants and needs, the more likely the organisation is to communicate this information to appropriate decision makers and to respond to at least some of the wants and needs that have been identified. Indeed, it is unlikely

that attempts to enhance the employee-employer exchange will be successful if they are not informed by internal market information (Arnolds and Boshoff, 2002). In order to examine the causal relationships between internal information generation, dissemination and responses to the internal market, we offer the following hypotheses:

H_{1a-b}: The more effective the informal internal market information generation capabilities of the organisation (IMO-informal), (a) the higher the levels of internal information that will be disseminated through the organisation (IMO-D), and (b) the more effective the firm's response to internal market needs (IMO-R) will be.

H_{1c-d}: The more effective the formal face-to-face internal market information generation capabilities of the organisation (IMO-FF2F), (c) the higher the levels of internal information that will be disseminated through the organisation (IMO-D), and (d) the more effective the firm's response to internal market needs (IMO-R) will be.

H_{1e-f}: The more effective the formal written internal market information generation capabilities of the organisation (IMO-FW), (e) the higher the levels of internal information that will be disseminated through the organisation (IMO-D), and (f) the more effective the firm's response to internal market needs (IMO-R) will be.

H_{1g}: The higher the levels of internal information that is disseminated through the organisation (IMO-D), the more effective the firm's response to internal market needs (IMO-R) will be.

Developing and enacting appropriate internal market responses to enhance the value of employment for employees has been reported to have several important consequences for the organisation. First, they are suggested to positively encourage in-role behaviours that are consistent with organisational strategies (Piercy and Morgan, 1990; Gounaris, 2006,

Dabholkar and Abston, 2008). Second, they are thought to foster employee identification with the organisation and reduce dysfunctional behaviours such as service sabotage or false reporting (Ramaswami, 1996). Consequently, we hypothesise:

H₂: The more effective the firm's response to internal market needs (IMO-R), the more service employees will demonstrate in-role behaviours (IRB).

The need for firms to enact IMO in order to successfully implement a market orientation has also been extensively discussed in the literature (see for example Grönroos, 1983; Piercy, 1995; Conduit and Mavondo, 2001; Ahmed et al., 2003). Successful implementation of a market orientation requires that all employees in the firm generate information about the external market, communicate this information to appropriate people and respond in an appropriate manner. Where the organisation has developed an effective response to the internal market and enhances value for employees, these employees are likely to not only enact their in-role behaviours (such as service provision) but also adopt market oriented behaviours such as seeking out customer comments and communicating these to managers. This role of employees, as an important source of market research information, is well recognised (see for example Ballantyne, 2003). Furthermore, IMO is likely to involve employees being better informed about the strategic objectives of the firm to its customers and better able to respond to customer requests appropriately (Wasmer and Brunner, 1991; Rafiq and Ahmed, 1993). Consequently IMO is expected to have a positive impact on market orientated behaviours within the firm, and we hypothesise:

H_{3a-c}: The more effective the firm's response to internal market needs (IMO-R), (a) the greater the firm's ability to generate market information (MO-G), (b) the greater the firm's ability to disseminate market information (MO-D), and (c) the more effective the firm's response to market needs (MO-R).

As a result of its impact on the in-role behaviours of employees, IMO is suggested to have important consequences for customer evaluations of their interactions with employees. Employees link the organisation to its customers (Babin and Boles, 1998) and customers make evaluative judgments of the quality of the firm based, to a large extent, on their interactions with employees (Bienstock et al., 2003). Having employees that effectively enact the firm's marketing strategy and perform their in-role behaviours appropriately is a key determinant of customer satisfaction. This relationship between the value that employees gain from employment and the value that they create for customers has been discussed for three decades (see for example George, 1977) and, although widely accepted, remains a contentious issue (Rafiq and Ahmed, 1993; Piercy, 1995; Dabholkar and Abston, 2008). Despite the lack of empirical evidence, most researchers operate under the belief that if employees perceive high value in their employment, they will better perform in-role behaviours that enact the organisation's strategy and deliver satisfaction to the marketplace. We therefore hypothesise that:

H₄: The more that employees enact their in-role behaviour (IRB), the greater the satisfaction of customers (CSat).

4. Market Orientation

Two main views dominate discussions of market orientation (Homburg and Pflesser, 2000). The first is that market orientation is a business philosophy representing the marketing concept (see for example Lichtenthal and Wilson, 1992; Webster, 1992). A second approach views market orientation as a set of behaviours representing the implementation of the marketing concept (see for example Kohli and Jaworski, 1990; Narver and Slater, 1990; Kohli, Jaworski, and Kumar, 1993; Slater and Narver, 1994). We are particularly interested in the impact of IMO behaviours on the market oriented behaviour of employees; consequently,

we adopt a behavioural perspective to market orientation and follow the main conceptual foundation in this area. Although specific nomenclature varies, within the behavioural camp of market orientation there appears to be broad consensus that market orientated behaviours involve the collection of market information, its analysis and dissemination, and implementing appropriate responses to that information (see for example Day and Wensley, 1988; Kohli and Jaworski, 1990; Narver and Slater, 1990; Deng and Dart, 1994; Hunt and Morgan, 1995; Siguaw et al., 1996; Wright et al., 1997). This is represented in an operationalisation of market orientation by Kohli and Jaworski (1990), who consider market orientation to be the organisation-wide generation, dissemination and responsiveness to market information. This conceptualisation and operationalisation of market orientation has been shown to be robust under several different research contexts (see for example Pitt et al., 1996; Siguaw et al., 1996; Martin et al., 1998; Vorhies et al., 1999).

4.1 Market Orientation and Employees

Market orientation has been shown to be related to the attitudes and behaviours of employees (see for example Ruekert, 1992; Jaworski and Kohli, 1993; Siguaw et al., 1994; Piercy, Harris, and Lane, 2002; Jones et al., 2003). There is strong evidence to suggest that employee attitudes and behaviours may influence market orientation; however, the causal direction of this relationship remains unclear. Several authors report that market orientation has positive consequences for employee attitudes and behaviours such as job satisfaction, organisational commitment and role stress (see for example Ruekert, 1992; Jaworski and Kohli, 1993; Siguaw et al., 1994; Piercy et al., 2002; Jones et al., 2003). However, others argue that effective market oriented activities require the participation of employees at all levels and in all functions of the firm (Gummesson, 1991; Kelley, 1992; Harris, 1998; Martin et al., 1998). Indeed, Schlosser and McNaughton (2007) suggest that a firm cannot develop a market

orientation without each employee's active understanding, willingness, and ability to engage in market oriented behaviour. Engaging employees in the adoption of a market orientation requires that they understand the organisation's strategic objectives, adopt these directives within their work roles, and perform in a market-oriented manner (see for example Harris, 2002). Given the organisation-wide nature of market orientation (i.e. all employees act in a marketing capacity to generate and disseminate information and respond in a customer focused manner), it is plausible that employees who adopt market orientation into their roles will 'pull in the same direction' and be more likely to undertake these positive behaviours and act in the best interest of the firm. This suggests that the more employees demonstrate in-role behaviours consistent with organisational strategic directives, the higher the level of market orientation within the firm. More formally, we hypothesise that:

H_{5a-c}: The more that front line employees display in-role behaviours (IRB), (a) the greater the firm's ability to generate market information (MO-G), (b) the greater the firm's ability to disseminate market information (MO-D), and (c) the more effective the firm's response to market needs (MO-R).

4.2 Consequences of Market Orientation

The positive role of market orientation for the firm is widely supported (see for example Jaworski and Kohli, 1993; Chang and Chen, 1998; Vorhies et al., 1999). It is reported to have both financial and non-financial consequences for the firm (see Langerak, 2003 for a comprehensive review of the business consequences of market orientation). Of particular interest here is that market orientation has been shown to have positive consequences for the profitability of the firm (see for example Avlonitisa and Gounaris, 1997; Homburg and Pflesser, 2000; Langerak, 2001; Matear et al., 2002), and for customers' attitudes and behaviours (see for example Qu and Ennew, 2003; Kaynak and Kara, 2004; Singh and

Ranchhod, 2004). Despite its extensive application across varied contexts, the profitability and customer satisfaction consequences of market orientation for retail firms has been flagged as an area requiring further research (Panigyrakis and Theodoridis, 2007).

The market sensing and responding competencies implied by high levels of market orientation result in highly market oriented firms knowing what their customers want and what the competitive market offers. Consequently, they respond with services and products that meet these needs and add more value for target customers than competing offerings. The success of a market-oriented strategy can thus be measured in terms of the customer satisfaction that it generates (see for example Caruana and Calleya, 1998; Web et al., 2000; Qu and Ennew, 2003; Kaynak and Kara, 2004; Singh and Ranchhod, 2004). As a consequence of increased customer satisfaction, it is reasonable to assume that repeat purchase and customer loyalty will be enhanced (see for example Dick and Basu, 1994; Oliver, 1999) and so too will financial performance (see for example Maydeu-Olivares and Lado, 2003; Dabholkar and Abston, 2008). These observations lead us to the following hypotheses:

H₆: The more effective the firm's response to market needs (MO-R), the higher the customers satisfaction (CSat).

H₇: The more effective the firm's response to market needs (MO-R), the better the organisation's financial performance (Performance).

H₈: The higher the level of customer satisfaction (CSat), the greater the financial performance of the firm (Performance).

4.3 Dimensionality of Market Orientation

Most studies of the consequences of market orientation have operationalised it as a

unidimensional construct with three components. However, Jaworski and Kohli (1993) suggest that research is required to examine the causal relationships between the information generation, dissemination and responsiveness dimensions of the construct. Consequently, we follow Carr and Burnthorne Lopez (2007) and operationalise market orientation as a three dimensional construct. We propose the following hypotheses to examine the relationships between the three dimensions of market orientation:

H_{9a-b}: The more effective the market information generation capabilities of the organisation (MO-G), (a) the higher the levels of information that will be disseminated through the organisation (MO-D) and (b) the more effective the firm's response to market needs (MO-R) will be.

H_{9c}: The more effective the dissemination of market information throughout the organisation (MO-D), the more effective the firm's response to market needs (MO-R) will be.

5. Method

We collected data to examine the relationship between the constructs in our study by means of a survey. A total of 3,500 retail managers from a wide range of retail organisations, all providing multiple product lines, were surveyed. These included supermarkets, department stores, clothing retailers and retailers of health and beauty products. Retailers were chosen on the basis that their advertising and other corporate communications make explicit statements about high levels of customer service and emphasised service personnel as a factor differentiating them from competitors. Store managers were chosen as respondents because of their unique influence on the achievement of organisational objectives.

At the local level, store managers act simultaneously as a merchandiser, salesperson, financial

officer, marketer, researcher, strategist and supervisor of other employees (Lusch and Serpkenci, 1990). This range of activities makes store managers knowledgeable respondents for financial performance measures. Additionally, it is the behaviours of the store manager that constitute IMO. The majority of previous studies examining market orientation have been conducted using data collected at the strategic business unit (SBU) level (Uncles, 2000). Using store managers to report on levels of market orientation is consistent with this approach as, in this instance, the retail store can be thought of as an SBU equivalent.

All respondents received a package containing a letter explaining the purpose of the study, a questionnaire, and a return envelope. Reminder notices were posted two weeks after the initial mailing. A response rate of 22 percent was achieved (i.e. 828 completed questionnaires, of which 766 were usable). Respondents were roughly equally split between male and female managers (males= 57.4 percent, females= 42.6 percent), with a mean age of 36.6 years ($\sigma = 8.6$) and a mean length of service with the company of 13.8 years ($\sigma = 7.6$).

5.1 Measures

IMO was measured using the scale reported by Lings and Greenley (2005). This scale consists of 16 items measuring the five behavioural components of IMO (i.e. four items measuring informal information generation, three items measuring formal face-to-face information generation, three items measuring formal written information generation, three items measuring information dissemination, and three items measuring responsiveness). Market orientation was measured using an adaptation of the MARKOR scale (Kohli et al., 1993). Employees' in-role behaviours associated with enacting strategic directives were measured using a sub set of the 'in role behaviour' items reported by Williams and Anderson (1991) and adapted to the specific context of this study.

Financial data for each of the stores was not available and preliminary investigations suggested that this would be treated as commercially sensitive information. Although objective financial data would have been, in many ways, preferable to subjective data, we measured performance following the logic of Venkatraman and Ramanujam (1986). Managers' subjective evaluations of the financial performance of their store compared to its competitors were measured (Hooley et al., 1992; Greenley, 1995; Liu and Davies, 1997). Subjective evaluations of financial performance do have an advantage over objective measure in that managers' day-to-day behaviour is likely to be driven by their beliefs about the financial performance of their store rather than an objective evaluation of their financial performance, which is not always immediately available to managers.

Customer satisfaction was measured by asking respondents to rate five items based on Oliver's (1997) definition of satisfaction, which tap customers' global evaluations or feelings towards the service that they received.

6. Results

Prior to analysing the relationships between IMO, market orientation, employee in-role behaviours, customer satisfaction and store performance, it is important to establish the suitability of the data for the analysis to be conducted. To establish this, several tests were performed. First, tests for non-response bias were undertaken. A comparison of the mean values for key items of interest revealed no significant differences between early (i.e. those who responded within the first three days) and late (i.e. those who responded after the follow up) respondents. In addition, 50 randomly selected non-respondents were contacted by telephone and asked why they had not responded. The main reasons given were that they did not receive the questionnaire and that time pressure prevented participation in the survey.

None of these reasons suggests that non-response bias was an inhibiting factor in the analysis

and interpretation of the data (Leslie, 1972; Armstrong and Overton, 1977).

Second, as all of the data for this research was collected using a single instrument, it is important to establish the absence of common method bias in the data. Harman's (1967) one-factor test was performed following the approach described by Podsakoff et al. (1984) and Schriesheim (1979). Whilst this test does not rule out the presence of common method bias, combined with the measures taken in the questionnaire design to minimise acquiescence bias it does provide support for the absence of such a general bias in the findings (Mattila and Enz, 2002).

A second more stringent test of common method bias based on Podsakoff et al. (2003) was undertaken. PLS analysis does not accommodate random errors and to date the statistical approach to estimating common method bias suggested by Podsakoff et al. (2003) has seldom been applied to PLS. To the best of our knowledge, Liang et al. (2007) present the only analysis utilising PLS to assess common method bias and we followed their approach. This required each indicator to be converted into a single-indicator construct and each major construct of interest to be modelled as a second order construct reflecting each of the first order constructs. A common method factor was included in the model such that each indicator was specified to be determined by its substantive construct, the method factor and measurement error. For a detailed explanation of this approach see Liang et al (2007).

According to this approach, if the method factor loadings are insignificant and the indicators' substantive variances are substantially greater than their common method variance, then common method bias is unlikely to be a problem. Analysis of the common method model reveals that for 43 of 44 indicator items the variance caused by the substantive construct greatly exceeds that caused by the common method factor. We conclude that common method bias is unlikely to be an issue in these data.

Next, the psychometric properties of the scales used in the study were tested. Cronbach's Alpha for each of the scales was in the range 0.74-0.85 and composite reliabilities ranged from 0.84-0.89, exceeding the recommended minima suggested by Churchill (1999), Gerbing and Anderson (1988), and Hair et al. (1998).

Finally, two tests were undertaken to establish the discriminant validity of the scales used to measure the constructs in this study. Anderson and Gerbing (1988) suggest that evidence of discriminant validity is provided by a low to moderate correlation among measures that are designed to measure conceptually different but related constructs. The inter-factor correlations for all constructs in this study are reported in Table 1 below and suggest that the scales discriminate between the constructs that they represent.

| | | | | | | | | | | | |
|---------------------|-------------|-----------------|---------------|-------------|--------------|---------------------|--------------|-------------|--------------------|-------------|------------|
| MO-D | 1.00 | | | | | | | | | | |
| IMO-FF2F | 0.49 | 1.00 | | | | | | | | | |
| IMO-FW | 0.48 | 0.55 | 1.00 | | | | | | | | |
| MO-G | 0.57 | 0.43 | 0.56 | 1.00 | | | | | | | |
| IMO-D | 0.47 | 0.56 | 0.44 | 0.39 | 1.00 | | | | | | |
| IMO Informal | 0.44 | 0.46 | 0.39 | 0.28 | 0.51 | 1.00 | | | | | |
| IMO-R | 0.46 | 0.44 | 0.39 | 0.37 | 0.40 | 0.47 | 1.00 | | | | |
| CSat | 0.43 | 0.35 | 0.39 | 0.31 | 0.35 | 0.38 | 0.33 | 1.00 | | | |
| Performance | 0.29 | 0.20 | 0.25 | 0.30 | 0.20 | 0.21 | 0.24 | 0.34 | 1.00 | | |
| MO-R | 0.46 | 0.35 | 0.48 | 0.54 | 0.31 | 0.30 | 0.38 | 0.43 | 0.41 | 1.00 | |
| IRB | 0.38 | 0.37 | 0.25 | 0.23 | 0.41 | 0.40 | 0.30 | 0.58 | 0.30 | 0.32 | 1.00 |
| | MO-D | IMO-FF2F | IMO-FW | MO-G | IMO-D | IMO-Informal | IMO-R | CSat | Performance | MO-R | IRB |

Table 1: Inter Factor correlations

Additional evidence of discriminant validity is provided if the average variance explained by a construct's items is greater than the construct's shared variance with every other construct in the data [i.e. the square of the inter-factor correlations between any two constructs (ϕ^2) (Fornell and Larcker, 1981)]. Analysis of the data provides strong evidence of discriminant validity as the average variance extracted for each scale item exceeded its shared variance

with any other dimension. It is therefore reasonable to assume that all of the first order scales used in the study discriminate between the constructs of interest. The squares of the inter-factor correlations (ϕ^2), and average variances extracted are reported in Table 2 below.

| | AVE | | | | | | | | | | |
|---------------------|------|------|------|------|------|------|------|------|------|------|------|
| MO-D | 0.59 | | | | | | | | | | |
| IMO-FF2F | 0.56 | 0.24 | | | | | | | | | |
| IMO-FW | 0.53 | 0.23 | 0.30 | | | | | | | | |
| MO-G | 0.73 | 0.33 | 0.18 | 0.32 | | | | | | | |
| IMO-D | 0.66 | 0.22 | 0.31 | 0.20 | 0.15 | | | | | | |
| IMO-informal | 0.65 | 0.19 | 0.21 | 0.15 | 0.08 | 0.26 | | | | | |
| IMO-R | 0.68 | 0.21 | 0.20 | 0.16 | 0.14 | 0.16 | 0.22 | | | | |
| CSat | 0.70 | 0.18 | 0.12 | 0.15 | 0.10 | 0.12 | 0.14 | 0.11 | | | |
| Performance | 0.69 | 0.09 | 0.04 | 0.06 | 0.09 | 0.04 | 0.04 | 0.06 | 0.12 | | |
| MO-R | 0.61 | 0.21 | 0.12 | 0.23 | 0.29 | 0.09 | 0.09 | 0.15 | 0.19 | 0.17 | |
| IRB | 0.57 | 0.15 | 0.14 | 0.06 | 0.05 | 0.17 | 0.16 | 0.09 | 0.34 | 0.09 | 0.10 |

Table 2: Average variance extracted and shared variance between constructs

Having confirmed that the psychometric properties of the measures used are appropriate, the next stage of the analysis was to examine the structural model in order to assess the model's explanatory power and the significance of the hypothesised paths shown in Figure 1. The structural model was estimated using structural equation modelling employing partial least squares (PLS) estimation in SmartPLS Release: 2.0 (beta) (Ringle et al., 2005). PLS is well suited for predictive models using small samples (Chin, 1998) and is the preferred approach when assumptions of normality are not satisfied (Chin and Newstead, 1999). PLS was chosen in this instance as the number of observations per path to be estimated is relatively small and the data were not normally distributed (14 items showed Kurtosis > +/- 1.0 and six items showed Skewness > +/- 1.0; Shapiro-Wilk test reveals $0.70 < W < 0.94$; $p < 0.05$;

Kolmogorov-Smirnov test reveals $0.13 < \alpha < 0.31$; $p < 0.05$ for all items). Hypotheses testing

consisted of examining the size, sign, and significance of path coefficients in the structural model. Bootstrapping was utilised to produce parameter estimates, standard errors, and t-values (Efron and Gong, 1983).

PLS is a predictive causal modelling tool and as such, the variance explained in the endogenous constructs provides important information about the power of a model. All of the constructs showed strong explanatory power, especially *internal market orientation dissemination of information* (41%) and *market orientation – dissemination of information* (44%). *Internal market orientation –responsiveness* and *market orientation- responsiveness* each represented 31% and 37% of the variance explained in the model respectively. The R^2 for market orientation generation of information was somewhat lower at 15%, whilst for in-role behaviour the R^2 was approximately 9%. The data explained 41% of *customer satisfaction* and 20% of *performance*. Overall, the constructs' R^2 are very encouraging given the early stage of empirical research into the internal/external market orientation relationship.

The t-values, derived from the bootstrapping, were used to evaluate the statistical significance of each path coefficient. All of the hypothesised paths were statistically significant at the 5% level; therefore, all of the hypothesised relationships were supported by the data. The PLS path coefficients and t-values are reported in Table 3 below.

| Hypothesis | Structural Path | Path Coefficient | T Statistics |
|-------------------|------------------------|-------------------------|---------------------|
| H _{1a} | IMO-Informal -> IMO-D | 0.299 | 6.692 |
| H _{1b} | IMO-Informal -> IMO-R | 0.284 | 6.269 |
| H _{1c} | IMO-FF2F -> IMO-D | 0.345 | 6.262 |
| H _{1d} | IMO-FF2F -> IMO-R | 0.184 | 3.453 |
| H _{1e} | IMO-FW -> IMO-D | 0.138 | 2.687 |
| H _{1f} | IMO-FW -> IMO-R | 0.144 | 2.957 |
| H _{1g} | IMO-D -> IMO-R | 0.092 | 1.974 |
| H ₂ | IMO-R -> IRB | 0.303 | 7.179 |

| | | | |
|-----------------|---------------------|-------|--------|
| H _{3a} | IMO-R-> MO-G | 0.327 | 7.356 |
| H _{3b} | IMO-R -> MO-D | 0.232 | 5.967 |
| H _{3c} | IMO-R -> MO-R | 0.145 | 3.554 |
| H ₄ | IRB -> CSat | 0.493 | 13.405 |
| H _{5a} | IRB -> MO-G | 0.138 | 2.817 |
| H _{5b} | IRB -> MO-D | 0.220 | 5.763 |
| H _{5c} | IRB -> MO-R | 0.141 | 3.677 |
| H ₆ | MO-R -> CSat | 0.279 | 7.528 |
| H ₇ | MO-R -> Performance | 0.319 | 6.299 |
| H ₈ | CSat -> Performance | 0.202 | 3.960 |
| H _{9a} | MO-G -> MO-D | 0.431 | 12.126 |
| H _{9c} | MO-D -> MO-R | 0.102 | 2.266 |
| H _{9b} | MO-G -> MO-R | 0.395 | 10.270 |

Table 3: Model path coefficients and t-values

7. Discussion

This study makes several contributions to our knowledge of internal and external marketing and the relationships between them. These contributions are detailed below.

7.1 IMO Fosters Specific Market Oriented Behaviours

We infer from our results that responding to the identified needs of retail employees enhances the market sensing and responding capabilities of retailing organisations. This suggests that firms wishing to successfully implement a market orientation must adopt a complementary internal focus on employees, an internal market orientation, ensuring that employees' wants and needs are also satisfied, as suggested by Ruekert (1992). Furthermore, we assert that adopting an internal market orientation goes beyond the instrumental conditioning implied by Ruekert's (1992) suggestion that employees should be rewarded for their market-oriented behaviours. Internal market orientation is more than providing rewards for desirable behaviours; it also involves the generation of information about employees' feelings towards

their work, the benefits that they seek and their met and unmet needs in their roles, and communications between and amongst managers and employees of these. Such information generation and communication in itself may foster a culture in which employees perceive that the firm views their needs on an equal basis as those of other stakeholders. Internal market orientation may help to develop a work climate of psychological support, helpfulness, friendliness, and mutual trust and respect (Johnston et al., 1990). It may be this 'climate' that encourages employees to adopt market-oriented and in-role behaviours consistent with organisational objectives.

We also examine the causal ordering among the various components of IMO and find that the three dimensions of information generation, representing different modes of collecting information from employees, are antecedent to information dissemination and response to the internal market. Information dissemination in the internal market is also antecedent to internal market responses. Perhaps unsurprisingly, informal methods of collecting information from employees, hall talk and casual conversations had the most impact on information dissemination and response. This reflects the increased opportunities to garner information about the wants and needs of employees, both in terms of frequency and depth, afforded by such interaction. This notwithstanding, our findings highlight the importance of utilising formal and informal, written and face-to-face interactions between managers and front line staff to collect information about the wants and needs of these staff. This information must also be communicated freely amongst managers and between managers and the workforce if effective responses to the internal market are to be implemented and value created for employees.

7.2 The Structure of Market Orientation and Support for its Role

Our research provides evidence of the intuitive relationships between information generation,

dissemination and response to markets, in both internal and external market contexts. Unlike many other studies (for example Baker and Sinkula, 2005) that have operationalised market orientation as a unidimensional construct, we adopt a multidimensional operationalisation of market orientation. We confirm the findings of Carr and Burnthorne Lopez (2007) that the three dimensions of market orientation are related. This follows both intuitive logic that organisations need to generate information before it can be disseminated or responses implemented, and also addresses one of the suggestions of Kohli et al. (1993) that a potential causal ordering among the various components of market orientation be examined. By establishing the causal ordering amongst the dimensions of market orientation, we provide support for the role that intelligence generation and dissemination play in the firm's ability to be responsive to its markets.

Our results provide additional quantifiable evidence of the impact of market orientation on the financial performance of retail stores in their local environment, addressing a relatively understudied area and supporting the findings of Panigyrakis and Theodoridis (2007). These findings contribute to the body of literature examining the impact of market orientation on performance in other contexts (see for example McCullough et al., 1986; Narver and Slater, 1990; Ruekert, 1992; Day and Nedungadi, 1994; Pelham and Wilson, 1996; Vorhies et al., 1999). We also provide additional support for the findings of Jaworski and Kohli (1993, 1996), Brady and Cronin (2001) and Slater and Narver (1994) and show that market orientation has positive consequences for customer satisfaction (H_6), suggesting that consumers do notice organisations' efforts to identify and meet their needs. We provide additional evidence to support the relationship between customer satisfaction and financial performance (H_8), and support previous studies in this area (see for example Maydeu-Olivares and Lado, 2003). This finding is particularly important as enacting internal and external market orientations requires the firm to invest both financial and non-financial resources and

most organisations will seek a return on this investment.

7.3 Helping Employees to ‘Pull in the Same Direction’

For many years marketing scholars have focused on the role of contact employees in creating customer satisfaction, and have asserted the need to focus on exchanges between the firm and its employees in order to facilitate the enactment of externally-focused marketing strategies (see for example Piercy, 1995). Despite this attention and the acceptance within the services marketing literature that employees are the key to successful strategy implementation, too often strategic imperatives result in the interests of managers and shareholders overriding those of employees. Mattsson et al. (2006) suggest that in order to achieve a firm’s strategic objectives, employees may be made redundant, have their work roles and tasks changed, have their workloads increased, or need to develop new competencies. They conclude that typically employees receive few benefits apart from perhaps keeping their job. Internal market orientation may provide the basis for organisations to achieve at least some of their strategic marketing objectives while creating a ‘win-win’ scenario.

We provide quantifiable evidence that the creation of value for employees (through internal market orientation) has a positive direct impact on the adoption of the firms’ marketing strategy, its market orientation (H_{3a-c}), and influences the workforce to enact in-role behaviours consistent with other strategic directives (H_2). In-role behaviours are also demonstrated to have a direct impact on the firms’ market orientation, suggesting that the adoption of internal market orientation may not only encourage employees to enact firms’ marketing strategies but also to incorporate this into their normal in-role behaviours in their day to day work (H_{5a-c}). Through its influence on employees’ market oriented and in-role behaviours, internal market orientation is also shown to have a positive indirect impact on the creation of value for customers (in the form of customer satisfaction) and value for

shareholders and managers (in the form of organisational performance). Although it is not possible for us to unambiguously infer the causality in these relationships using structural equations models, our results, in conjunction with theoretical arguments, suggest that internal market orientation plays an important role in ensuring that all employees ‘pull in the same direction’, implementing strategic directives in a system where, as much as is possible, all stakeholders win and employees don’t perceive that they ‘get few benefits, apart from perhaps keeping their job’. This is particularly important in the case of service employees, who represent the firm to its customers and, given the significance of service employees to customers' experiences, have the ‘power’ to void the management's marketing objectives (Harris and Ogbonna, 2000; Conduit and Mavondo, 2001). In addition to its obvious importance for the management of front-line service employees, IMO is also likely to have positive consequences for all employees, regardless of their level of contact with customers.

7.4 Support for a Balanced Internal and External Focus

At the most general level we support the view that organisations, particularly those in the service sector, should balance their external focus of satisfying customers’ needs better than competitors with an internal focus of satisfying employees’ needs. Cautionary voices calling for such balance are not new (see in the marketing literature for example Grönroos, 1985; Gummesson, 1987; George, 1990; Piercy and Morgan, 1990, 1991; Harrell and Fors, 1992; Foreman and Money, 1995; Piercy, 1995; and in the strategic management literature Hall, 1992; Bharadwaj, Varadarajan, and Fahy, 1993; Pfeffer, 1994; Foss, 1997; Andrews, 1997). Gummesson (1994) suggested that the tendency of firms to have an exclusive external focus on their customers and competitors has the potential to be equally damaging and is just as myopic as the internal focus of the firm identified by Levitt (1960) as the original ‘marketing myopia’. Despite these concerns, empirical evidence to support the market benefits of an

internal focus on employees' wants and needs has been lacking. Our findings provide such empirical support and suggest that adopting an internal market orientation does not lead to 'internal euphoria' (Hooley et al., 2004) or appear to foster a narrow vision or divorce employees from intimate knowledge of the external customers (Harari, 1991, 1993). On the contrary, our results suggest that adopting an internal market orientation improves the connection between the firm and its markets by stimulating the collection and dissemination of information about the market and facilitating responses to the market; ultimately, it creates value for employees, customers and the firm.

7.5 Implications for Practice

Our findings also make a significant contribution to marketing practice. IMO aligns the company's internal environment with their objectives for the external market. Our results suggest that, in addition to understanding and responding to the external market, marketing managers may also contribute to the marketing success of their organisations by developing a better understanding of the internal market. To enact an internal market orientation requires a committed effort by the organisation to identify the wants and needs of employees, the competitive conditions within the labour market, and to use this information to create roles with appropriate attributes that will, as far as is practicable, add value for employees.

Adopting an internal market orientation represents a challenge to the functional organisation. Job design and working conditions have traditionally fallen within the remit of the human resources department; successfully implementing internal market orientation challenges this functional division of responsibility and essentially calls for collaboration between, and a synthesis of, the marketing and human resources functions in the organisation.

In addition to the functional and/or structural challenges that implementing IMO poses for the organisation, enacting IMO presents several challenges to individuals. Within the IMO

framework, the main determinant of developing successful responses to the internal market is the information generated by informal interactions between managers and their subordinates. These interactions require that supervisors and managers talk to, and listen to, the problems that their employees face on a day-to-day basis, identify their wants and needs within their roles and from their employment, and communicate this information throughout the organisational hierarchy in order for appropriate responses to be designed and implemented. Managers need to make the time to talk to their staff in an open and non-judgemental manner and to develop their listening skills. The organisation needs to ensure that managers are able to communicate employees' wants and needs freely to those who can influence work conditions and job specifications, and that these messages are received and acted upon.

Internal market orientation represents a move away from the traditional approach identified by Mattsson et al. (2006). Firms must ensure that they do not put the needs of their employees second to those of managers and shareholders to create an environment where employees feel that they may be made redundant, have their work roles changed, have their workloads increased or have to develop new competencies for few benefits other than perhaps keeping their job. Such environments create a workforce that at are at least ambivalent to the firm's strategies and, at worst, may void the firm's marketing objectives or become service terrorists.

7.6 Limitations and Directions for Further Research

This study is not free of limitations. However, without decreasing its contribution, future research may address them. The major limitations of this work arise from the use of retail managers as the sole respondents. Despite being knowledgeable respondents, managers can only report their opinions of how customers think and so deduce how satisfied they are. If possible, any replications of this work should collect data directly from customers in a matched dyadic study. Although obtaining such matched data would be challenging, and

would come with its own set of limitations (such as obtaining responses from customers that relate to specific employees and not to their overall evaluations of the service), such data would better represent the actual attitudes of customers.

In the same vein, managers were used in this study to report their subjective views of the financial performance of their store. As discussed earlier, subjective views do have the advantage of linking directly with managers' behaviours. However, more objective measures of financial performance may provide additional insights into the impact of both internal and external market orientations. A further limitation arises from our response rate.

Notwithstanding, our checks for non-response bias, and response rate of 22 percent which is comparable to other studies of this nature, the possibility of respondents having significant attitudinal or behavioural differences to non-respondents cannot be completely ruled out, and our results should be interpreted in this light. Finally, all data in this study were collected from a retailing environment. Further replications need to examine other service contexts to provide additional support for the generalisability of the findings reported here.

In addition to addressing some of the limitations of our research, future work may also focus on examining the associations between internal market orientation and other external orientations of the organisation. This may elucidate further mechanisms by which internal market orientation may influence the external market. Additionally, a longitudinal study examining the impact of internal market orientation initiatives undertaken by an organisation would provide further evidence of the causality between in the internal and external orientations and the direct consequences of such an initiative on service employees.

Our study provides evidence that, despite their conceptual similarities, internal and external market orientations are distinct constructs, both representing capabilities in information generation, dissemination and responsiveness of the organisation. Given the prevalence of

alternative conceptualisations of market orientation (see for example Narver and Slater, 1990), it may be beneficial to replicate this study using an alternative operationalisation of market orientation to provide additional support for the beneficial association between the internal and external foci of the organisation.

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