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**DECISION SCIENCES INSTITUTE**  
**The Effects of Internal Marketing on Market Orientation and Its Antecedents: A Hierarchical Linear Model**

**(Full Paper Submission)**

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**ABSTRACT**

Internal marketing has been applied to organizational employees to foster their shared understanding. This study proposes a multilevel model to depict the causal relationships of market orientation behavior (MOB) with internal marketing, knowledge integration, relationship quality, relational bond (RB), and organizational citizenship behavior (OCB). A total of 471 valid responses from employees of 47 banks were collected. The Hierarchical Linear Model software was used for analysis in which internal marketing mechanism (IMM) is treated as a variable at the organizational level. The results showed that all variables have significant direct effects on MOB. The moderating effects on MOB only happen significantly when IMM is interacting with OCB and RB.

**KEYWORDS:** Internal marketing, Knowledge integration, Relationship and bond, Organizational citizenship behavior, Market orientation behavior, Multilevel model.

**INTRODUCTION**

In the past three decades, marketers have employed market trend and market orientation to formulate marketing strategies for business firms; these have been regarded as major sources of competitive advantages (Porter, 1990; Narver & Slater, 1990). Marketing scholars reveal that firms having market orientation usually have three behavioral components: customer orientation, competitor orientation, and inter-functional coordination, and two decision criteria: long-term focus and profitability (Narver & Slater, 1990). Market orientation should have a more pronounced effect on a firm's profit than sales because it focuses efforts on customer retention rather than acquisition. Prior study indicates that market orientation has increased profitability in both the short and the long runs, and that firms who are early adopters of market orientation gain more sustained advantages in business performance than those who are later ones (Narver & Slater, 1990; Morgan, Vorhies, & Maso, 2009; Kumar, Jones, Venkatesan, & Leone, 2011). A scrutiny of the three market-orientation behavioral components reveals that the first two

components are externally oriented and the last one is internally oriented. That is, the success of market orientation relies on not only external but also internal strategies. One plausible internal strategy that facilitates inter-functional coordination is internal marketing.

## BACKGROUND

Kotler (1972) introduced internal marketing in the early 1970s and suggested that a business needs not only to market to its customers, but also to its employees. Soon after the emergence of this concept, firms began to view their employees as internal customers (Sasser & Arbeit, 1976). To be successful, a business must be able to retain talented and competent employees; and internal marketing can help businesses resolve this issue. Internal marketing was considered as a model component of service marketing management by Tansuhaj, Randall, and McCullough (1988). This component was further developed and has since become a measurable scale for empirical research (Foreman & Money, 1995). Some researchers have examined the relationship between internal marketing and customer satisfaction in the past (Greene, Walls, & Schrest, 1994; Piercy, 1995). Others have also studied the issue regarding the relationship between internal employees and customer promise, as well as customer-oriented behavior in internal marketing (Bansal, Mendelson, & Sharma, 2001). Most empirical studies showed that internal marketing may engender employee's customer-oriented behavior and this behavior may also influence market orientation (Conduit & Mavondo, 2001). However, no study has empirically verified whether internal marketing can directly influence market orientation. Kohli and Jaworski (1990) interview 62 managers of 42 organizations in four U.S. cities and identify senior management factors, interdepartmental dynamics, and organizational systems as the antecedents of market orientation. They identify customer responses, employee responses, and business performance as the consequences. In this study, we focus on employee's behavior in market orientation (i.e., customer orientation, competitor orientation, and inter-functional coordination) as it is the enabler of these consequences.

According to Blumberg and Pringle (1982), for employee's job performance to occur three elements must be present in some degree: opportunity, capacity, and willingness. Consistent with this concept, Wright and McMahan (1992) state that a successful organization depends primarily on its strategy and resources, as well as employees' abilities and behaviors. Each of these factors plays a critical role to accomplish organization's outcomes. Likewise, Fulmer, Gerhart, and Scott (2003) also confirm that employee attitude positively influences firms' accounting measures and stock returns. We adapt the conceptual model of Blumberg and Pringle and define in Table 1 the enablers of job performance with three dimensions: capacity, willingness, and opportunity. While the first two dimensions relate to personal characteristics, the last dimension refers to both personal and organizational characteristics. A scrutiny of the factors identified by Wright and McMahan reveals that they overlooked the interaction factor suggested by Blumberg and Pringle. Therefore, we further include "interaction" in the opportunity dimension as the resources provided by the organization for employees to build relationship and bond with their peers at the personal level.

DIMENSION	VARIABLES
Capacity to perform	Ability, age, health, knowledge, skills, intelligence, level of education, endurance, stamina, energy level, motor skills.
Willingness to perform	Motivation, job satisfaction, job status, anxiety, legitimacy of participation, attitude, perceived task characteristics, job involvement, ego involvement, self-image, personality, norms,

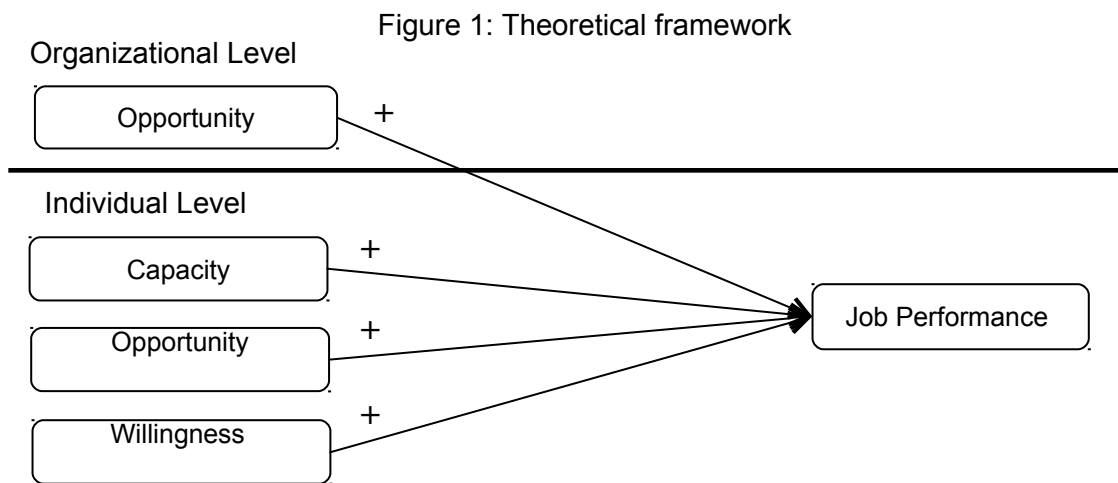
	values, perceived role expectations, feelings of equity.
Opportunity to perform	Tools, equipment, materials, and supplies; working conditions; actions of coworkers; leader behavior; mentorism; organizational policies, rules, and procedures; information; time; pay, interaction-relationship and bond.

Source: Adapted from Blumberg and Pringle (1982).

**THEORETICAL FRAMEWORK**

Following the above theoretical discourse, we develop the theoretical framework examined in this study as exhibited in Figure 1.

Now



adays, business workers are no longer considered to be undereducated. On the contrary, knowledgeable workers have dramatically increased in workforce and many businesses have to create, manage and keep up with new information in order to compete and attain key competitive advantages (Bettis & Hitt, 1995; Grant, 1996). Recent research involving knowledge management has become very popular. Knowledge is a key factor in creating business advantages; yet related literature has shown that sharing knowledge among employees remains the most challenging issue to knowledge management in an organization (Hendrik, 1999; Pangil & Chan, 2014). There are many factors in an organization that hinder knowledge exchange activities. These include inappropriate organizational structure, knowledge-hoarding culture, and political factions (Davenport & Prusak, 1998). In internal marketing research, very few studies have probed into the interaction between internal marketing and knowledge exchange (Ballantyne, 2000; Conduit & Mavondo, 2001). Furthermore, exchange itself is unable to maximize the utility of knowledge. Therefore, some research studies suggested that one must not only exchange but also integrate knowledge in order to improve one's knowledge, and that one's knowledge integration (KI) relies heavily on one's capability (Argote, McEvily, & Reagans, 2003; Nahapiet & Ghoshal, 1998). In this study, we strive to close this gap and better understand the interplay of internal marketing and KI and their impact on employees' market-orientation behaviors.

From the relationship marketing perspective, Chaston (2004) regards internal marketing as “internal customer management.” Even though internal and external customers are not identical in some aspects and conditions (Rafiq & Ahmed, 1993), business strives for building a good relationship with external customers as well as with internal customers. Relationship marketing effectiveness relies heavily on trust and commitment (Morgan & Hunt, 1994; Wu, Tsai & Fu, 2013). Externally, the main purpose is to build a strong bond with customers and maintain a good long-lasting relationship. It is also necessary to build a quality relationship and bond with internal employees by promoting internal marketing. Having quality internal relationship and bond may improve employees’ market-orientation behaviors. This relation remains to be examined in this study.

Based on annual performance evaluation results, corporate management should reward those employees who provide excellent service to customers. By doing so, employees would be more inclined to show motivation and perform more quality services for customers (Kohli & Jaworski, 1990). In order to achieve high performance, an employee needs not only the capacity but also the willingness to complete required duties. Although the formal evaluation of individual performance mandates an employee to comply with the job description, it may not necessarily entice the employee to consistently meet organizational goals. The former refers to in-role activities while the latter requires extra-role behavior, known as organizational citizenship behavior (Organ, 1988). Those exerting high organizational citizenship behavior (OCB) tend to perform beyond expectations in providing excellent service to customers. They demonstrate high willingness to go extra miles for the organizations. Hence, giving employees recognition and rewards based on a positive job performance evaluation is a must. In return, they will have a higher desire to perform well with their OCBs and more inclined to meet organization’s market-orientation goals (Morrison, 1994). In this study, we shall examine the influence of OCB on job performance.

## **METHOD**

Based on the above discussion, our final research framework includes KI as the capacity, OCB as the willingness, relationship quality (RQ) and relational bond (RB) as the opportunities at the individual level, and internal marketing mechanism (IMM) as the opportunity at the organizational level. For the consequence, we replace job performance with market orientation behavior (MOB) as it is the enabler of job performance, according to Kohli & Jaworski (1990). In the remaining sections, we first review the literature related to internal marketing, KI, RQ, RB, OCB, and market orientation. Then, we postulate and justify hypotheses and develop a multilevel research model based on the theoretical framework. Next, we conduct an empirical study with the subjects from more than 40 financial companies and validate the research model. Finally, we test the hypotheses and discuss the results and findings of the study along with their theoretical and practical implications.

## **CONCLUSIONS**

The results of this study confirm that all the individual factors (KI, RQ, RB, and OCB) have direct and positive influence on MOB. The finding of KI having impact on MOB is consistent with Hansen’s (2002) research discovery in which the success of knowledge sharing relies on employees’ willingness to proactively exchange with and combine knowledge across employees within the firm, in order to improve competitive advantage and maximize corporate performance. In order to improve MOB, market knowledge should be disseminated within one’s own department and between other various departments to ensure all employees get the adequate

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information to respond to and create actions to deal with current customer needs and competitive environments (Webster, 1988; Kohli & Jaworski, 1990).

Moreover, RQ having positive influence on MOB is consistent with that of Bansal et al. (2001). If we view internal marketing from the relationship marketing perspective, then when businesses implement IMM, it brings up an employee's job satisfaction, trust and commitment in management as well as excellent quality in internal customer relationship which, in turn, improve MOB. Likewise, RB is expected to affect MOB according to Berry et al., (1991). The series of interaction activities among employees that are produced by RB (e.g., structural, social and financial bonds) affect the behaviors of one another. In these activities we can convey and promote the firm's customer-orientation concept. Therefore, RB is an important factor that engenders internal customers' willingness to display MOB.

As for the finding that OCB has a positive effect directly on MOB, it is in line with Bansal et al. (2001) who indicate that rewarding employees for their provisions of excellent customer services enhances these desirable extra-role behaviors and entices employees to meet the requirements of organizational performance. Employees would expect rewards from delivering better quality services and creating more customer satisfaction. Therefore, OCB has a significant positive influence on MOB.

In contrast to individual factors, a firm's IMM directly and positively affects the MOB of individual employees. This finding is in line with the market orientation model of Kohli and Jaworski (1990). In their model, the antecedent factors of market orientation are affected by IMM such as communication, motivation, reward, and support that positively affect customer orientation and inter-functional coordination in MOB.

Finally, a firm's IMM can interfere positively with the relationship of RB with MOB, but negatively with the relationship of OCB with MOB. Based on Figure 3 and the path coefficients on Model 3 in Table 4, IMM seems to overpower RB in the effect it exerts on MOB, because its direct effect (0.673) and interaction effect (0.271) are both much higher than RB (0.16) alone. Moreover, when IMM is high, its interaction effect on MOB with RB is much higher than that of low IMM, according to Figure 3.

As for the negative moderation effect of IMM, it is contrary to the findings of previous studies (Bansal et al., 2001; Eisenberger et al., 2001) in which rewards, training, empowerment, trust and commitment could enhance in-role performance, proactive behavior, customer satisfaction, and service quality. The finding that the interaction effect of IMM and OCB on MOB is negative offers a caveat to corporate management that OCB should not be overemphasized in a firm when IMM is institutionalized. According to Figure 4, when IMM is high, OCB should remain low in order to maintain higher MOB. With all the findings above, we conclude that IMM really matters to employee's performance of market orientation behavior.

## REFERENCES

References available upon request.