TITLE
Internal Market Orientation:
Initiating and Enhancing Relationships within the Firm

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Abstract

Market orientation has been validated as a way of improving business performance, however, the lack of internal focus limits the applicability of market orientation to business settings in the 21st century, where services and products co-exist as one offering. An internal focus requires consideration of internal market orientation. This allows for identification of intra-organisational exchanges in working relationships between employees as well as between the organisation’s employees and its customers (Harrell and Fors, 1992). This may be enabled by an understanding of the interpersonal relationships between employees. Relational competence is introduced as a facilitator of relational behaviour, intra-firm performance, and firm performance. It is suggested that the interpersonal capability of individual employees and managers is an important antecedent influence on performance both within and beyond the firm. Thus, relational competence is suggested as an enabler in the pursuit of business success, as it sets the landscape in which the firm’s employees and customers operate.

Keywords Market Orientation, Internal Market Orientation, Relational Competence.

Introduction

This paper argues that market orientation, as an operationalisation of the marketing concept, does not have the internal focus on employees that is necessary for business settings in the 21st century. From an external perspective, market orientation puts the focus on the customers, competitors and organisational issues (Narver and Slater, 1990; Slater and Narver, 1994). Although it has been validated as a way of improving business performance, (despite the arguments against this phenomena), the lack of internal focus limits the applicability of market orientation to business settings where services and products co-exist as one offering (Jaworski and Kohli, 1993; Pelham and Wilson, 1996; Vohsies et al., 1999; Chang and Chen, 1998; Lings, 2004).

If an internal market orientation is to be considered, then there must be identification of intra-organisational exchanges in working relationships between employees as well as between the organisation’s employees and its customers (Harrell and Fors, 1992). This cannot be done without an understanding of the relational competence of the employees. Relational competence can be considered as a facilitator of relational behaviour, intra-firm performance, and inter-organisation performance. Ultimately, this will achieve a competitive advantage. This paper will argue that the interpersonal capability of individual employees and managers is an important influence on performance both within and beyond the firm (Phan et al. 2005). Thus, relational competence is offered as an enabling role in the pursuit of business success as it sets the
culture and behaviours that are required for the firm’s employees and customers to interact.

From Market Orientation to Internal Market Orientation

Market orientation from an external perspective has received notable attention since the 1990’s. Academics and practitioners perceive market orientation to be the implementation of the marketing concept (Kohli and Jaworski, 1990), which in turn provides the philosophical basis for successful business strategy. Market orientation can also provide a solid foundation for a sustainable competitive advantage for a company, which in turn will enhance a company’s performance (Narver and Slater, 1990; Slater and Narver, 1994; Hunt and Morgan, 1995). The often postulated relationship between market orientation and business performance has also received considerable attention.

Market orientation is the “organization culture that most effectively and efficiently creates the necessary behaviours for the creation of superior value for buyers and, thus continuous superior performance for the business” (Narver and Slater 1990, p21). It is a culture in which all employees are committed to the continuous creation of superior value for customers” (Narver et al. 1998, p242). Higher levels of market orientation are linked with above average levels of financial performance and customer satisfaction in both consumer and industrial markets under most conditions (e.g. Ruekert 1992; Pitt et al. 1996; Kumar et al. 1998; Chang and Chen 1998; Oczkowski and Farrell 1998; Deshpande 1999; Pelham 2000 for small and medium sized enterprises; Agarwal et al. 2003 for international hotels; Caruana et al. 2003 for service industries). However, the overall predictive power of market orientation on business performance is still an open question (Langerak, 2003a).

With market orientation literature having an external focus on customers and competitors, attention to internal stakeholders such as employees, has been lacking (Greenley and Foxall, 1998). Some authors consider employee issues such as organisational commitment (Kohli and Jaworski, 1990; Kirca et al, 2005), team spirit (Kohli and Jaworski, 1990; Kirca et al, 2005), oriention of staff (Kohli and Jaworski, 1990; Kirca et al, 2005), role conflict (Siguaw, Brown and Widing, 1994) and job satisfaction (Kirca et al, 2005; Kohli and Jaworski, 1990; Piercy and Morgan, 1990; Rafiq and Ahmed, 2000; Ozment and Keller, 1999; Taylor and Cosenza, 1998), as consequences of a market orientation. Other authors have addressed the need to consider employees, if a successful market orientation is to be developed (Kelly, 1992; Miller and Lewis, 1991; Masiello, 1988; Shapiro, 1988; Day, 1994). As such, the marketing mix has physical evidence and process added to the traditional four P’s of product, price, place and promotion. This gives cause to consider managing the internal factors, such as people and processes, as well as the external factors represented by the traditional marketing mix (Lings, 1999).

Balancing the focus between the internal elements with the external elements of market orientation has been extensively discussed in the services marketing literature (Azzolini and Shillabeer, 1993; Bak, et al., 1994; Harari, 1991 and 1993; Harrell and Fols, 1992; Piercy and Morgan, 1990 and 1991; Piercy, 1995). It has also been considered in the strategic management literature (Pfeffer, 1994; Hall, 1992; Foss, 1997). Carlzon (1987) of Scandinavian Airlines was one of the first to refer to employees as the “moments of truth” for the organisation.
Internal marketing is a process that operates across the functional departments and between staff and management (Varey, 1995). Ballantyne (1991) has highlighted the need for marketers to influence and motivate staff to change the internal process as required, collaboratively, for effective external market orientation. The outcome of interaction between employees is seen as a contributing factor to the end product the customer receives particularly in a service setting (Zeithaml et al., 2001). Wheatley (1987) claims that internal marketing is continuous training to enhance an organisation's knowledge of their services, capabilities, awareness of market opportunities and marketing skills. This is in line with Vandermerwe and Rada (1988) who emphasise corporate knowledge as a distinctive competency of the firm that creates value for customers. Internal marketing can affect a change in behaviours and attitudes to market responsiveness, and thus improve the market orientation of the firm (Wheatley, 1987; Gummesson, 1991). Gounaris (2006) suggests that internal marketing is a behavioural-instrumental approach, an internally directed marketing strategy, that focuses on jobs (internal products) that satisfy needs of employees (internal customers) with the aim of achieving the company's service objectives and thus market orientation objectives. It is thus, internal market orientation which enables the development of market capability throughout the organisation.

Internal staff as internal customers is an approach to internal marketing that has evolved from TQM philosophy. If the TQM philosophy is followed, then satisfying internal customers will lead to a quality offering to the external customer. This approach also focuses on the interactions between groups within the company and the quality of the service delivery internally (Rafiq and Ahmed, 1993; Gronroos, 1981; Gummesson, 1991). Gronroos (1982) provides a perspective of internal marketing that suggests the application of marketing-like activities to internal employees. In this way each person in a department is a customer of, and a supplier to, other people and departments in the organisation (Denton, 1991; Lukas and Maignan, 1996).

**Dimensions of Internal Market Orientation**

Internal market orientation is facilitated by an internal marketing approach where staff in different departments and functions see other staff and departments as their customer (Fishel et al., 1997). This can be achieved through rewards systems for employees, job design to meet the needs of employees and the like, so that employees will be more motivated to behave with a customer focus.

An internal market orientation can be applied to cross-functional and inter-departmental interactions. These include dealing with staff in other job functions and departments as well as with staff and management at different levels of the organisational hierarchy. Jaworski and Kohli (1993) identify inter-functional factors as antecedents to market orientation and indicate that conflict between departments reduces market orientation through hindering the dissemination of intelligence between them and the responsiveness of the organization to market conditions. In addition, connectedness between departments is considered as a facilitator of market orientation by dissemination of intelligence between them, yet this is still needs confirmation (Jaworski and Kohli, 1993).
It appears that internal market orientation as such, brings together two disciplines: marketing and human resource management. It is a way of finding a balance for employees in terms of their inputs to their jobs and the outputs in terms of job satisfaction (Lings and Greenley, 2005). The behavioural dimensions of an internal market orientation are discussed below and include informal and formal information generation, information dissemination and internal responsiveness.

**Internal Information Generation**

The need to generate information about the internal market has been identified by several researchers (Briscoe 1980; Berry, 1981; Cobb, Samuels and Sexton, 1998; Gomez-Mejia, 1988; Stauss and Schultze, 1998; Huseman and Hatfield, 1990; Jehlke and Duhan, 2000; Lings and Greenley, 2005). The need for managers to generate information about the things of value that are exchanged in the internal market is well recognized in the literature (Ewing and Caruana, 1999; McDonald, de Chenon and Harris, 2001). Information generation relates to employees’ perceptions of the inputs to their jobs, the outputs (what they receive) and the equity of this exchange (Lings and Greenley, 2005).

Lings and Greenley (2005) have identified three modes of information generation. Formal information generation uses formal written media (e.g. questionnaires and job satisfaction surveys), formal face-to-face interactions, e.g. interviews, performance appraisals and meetings (Cobb, Samuels and Sexton, 1998). Informal information generation is about the needs and wants of staff in day to day, face-to-face interactions between managers and employees.

**Internal Communication and Information Dissemination**

Communication is the means by which people within and between organisations transfer and disseminate information (Jehlke et al., 2000). Gronroos (1990) suggests that internal communications are central to the alignment of employee’s attitudes with organisational goals (1990). As staff and management contact increases, the opportunities for communication sharing about the needs and wants of employees will also increase. This leads to the ability to disseminate information. In addition, two-way communication between managers and employees have been shown to improve employee outcomes and performance, especially front-line service staff (Jehlke and Duhan, 2001). In the internal market orientation context, information dissemination is particularly important.

**Internal Responsiveness**

Another dimension of internal market orientation involves the response to the information generated about the wants and needs of individual employees. Sasser and Arbeit (1976) suggest that employees exchange time, energy and values for the organisation’s money. Some even suggest that the less tangible social benefits such as status, recognition for good work and sense of accomplishment are more important than the tangible benefits (Huseman and Hatfield, 1990). Therefore, management need to consider both the financial and social wants and needs of their employees.

The human resource management literature identifies several responses to market research information. Briscoe (1980) suggested organisations can adopt change as a
response to the research in activities such as developing individual reward systems, changing hours of work, provide flexible physical settings and training.

Equity theory brings a highly relevant insight to responsiveness in that the consideration must be given to the way employees evaluate their jobs in terms of inputs and outputs (Huseman and Hatfield, 1990). Internal market research can identify how satisfied employees are with their jobs and managers can respond by redesigning jobs to improve these outputs or change perceptions about them (Lings and Greenley, 2005).

Proposition 1: The greater the internal market orientation of the firm, the higher the employee performance.

Market orientation can thus be modified to the context of employee-employer exchanges in the internal market and develop an internal market orientation (Lings and Greenley, 2005). It would be expected that this will lead to positive consequences for employees and the firm. The managerial activities and behaviours that are associated with operationalising the internal market orientation are the dimensions of interest in this study.

One of the underlying ideas of internal market orientation is the concept of exchange between the employees and the organisation. Internal exchange is examined in the human resources literature, in terms of equity theory. This was first identified by Adams (1963) and proposes that employees evaluate their jobs by comparing their inputs and outputs (what they get out of work). Huseman and Hatfield (1990) suggested that inputs include effort, loyalty to the organisation, and compliance to organisational politics. Outputs include pay, fringe benefits, and the intangible rewards such as status, recognition for good work and a sense of accomplishment. Within both the human resource management and marketing literature, several authors suggest that managers need to carefully balance the perceptions of these inputs and outputs (Freedman and Montanari, 1980; Guest and Conway, 2002; Berry, 1981; Stauss and Schulze 1990). Thus, behaviours of managers in decisions on remuneration and other rewards, directly impact on employee behaviour and attitudes, and potentially organisational effectiveness in the long run.

Internal market orientation represents a convergence of separate management tools such as human resource development, employment relations, strategic management, total quality management, corporate communications and macro-marketing (Varey and Lewis, 1999). Often, employees and managers can be at odds in terms of their needs and wants, and of course, organizational goals and employee goals are in conflict. Jobs and the conditions of employment are the products to be marketed to employees, but in this employment contract, the employer is both the buyer and the consumer in the relationship, making management difficult (Hales 1994). The employee then is forced to adapt their individual goals through organisational policies and training so that they are in-line with those of the organisation.

Therefore, it is the employees who must change their needs or have empathy with the position of the employer as they respond to the other employees internally and the external market (Rafiq and Ahmed, 1993; Maitland, 1990). If internal marketing is an approach to achieving an internal market orientation, there are some contradictions.
between the employees and the organization in terms of commitment to the organisation versus responsibility and flexibility; and individualism versus teamwork (Hales, 1994; Varey and Lewis, 1999).

An internal market orientation crosses marketing and human resource management functional boundaries. The role of the manager is to influence employee behaviours in ways that will affect customers’ perceptions of the levels of service they receive (Hartline and Ferrell, 1996). Managerial activities are thus operationalised as an internal market orientation. As such, these managerial behaviours can be viewed as the equivalent of an external market orientation within the firm. The behavioural dimensions of internal market orientation as adapted from Kohli and Jaworski (1990), involving the generation of information, dissemination of intelligence pertaining to the needs and wants of employees, and the design and implementation of appropriate responses to meet these needs and wants. Within the context of internal market orientation, it is the behaviours of these elements as displayed by employees that will lead to their improved performance (Lings and Greenley, 2005). However, the competencies of individual employees must also be a consideration.

**Individual Employee Performance**

Internal market orientation as a means of improving individual employee performance (e.g. employee satisfaction, retention and motivation) suggests that a competitive advantage can be created as customers in turn will be more satisfied and loyal, and thus increased market share or profits (Lings and Greenley, 2005).

Whilst intuitively appealing, there is limited literature exploring the relationship between employee satisfaction and customer satisfaction. Likewise, linkages between internal market orientation and individual performance of employees are not addressed in the extant literature. Previous literature has identified market orientation as providing psychological and social benefits to employees. Three measures of employee responses are identified by Kohli and Jaworski (1990) which include esprit de corps, job satisfaction and organisational commitment of employees.

Staff attitudes and satisfaction (Tansuhaj, Randall, and McCullough, 1988; Money and Foreman, 1995; Berry and Parasuraman, 1991), are considered as consequences of internal market orientation. These studies included items relating to development of employees, rewarding employees and the vision of the organisation including goals and objectives.

Staff retention as a measure of employee performance, and thus a consequence of internal market orientation has been considered by Ozment and Keller (1999) and Taylor and Cosenza, (1998). Whilst money is an important motivator in retaining employees, research has shown that employees are also seeking more interaction with management, more responsibility and control over the decisions affecting them (Taylor and Cosenza, 1998). Open channels of communication that are operationalised in internal market orientation are also enablers to staff retention.

Carruna and Calleja (1998) considered organisational commitment and found a positive relationship with internal marketing. However, it only had a significant effect on the affective dimension of organisational commitment (i.e. the strength of identification and involvement with the organisation) but not the continuance and normative
dimensions (Rafiq and Ahmed, 2000) Allen and Meyer (1990) confirm this in their study, however, they did not make any discovery as to the employee or organisational consequences of commitment such as employee performance. Internal market orientation therefore requires further elaboration to uncover consequences that can distinguish it from the human resource constructs, to be more relevant in a marketing context. In its current context it cannot be reliable as a measure of performance.

Staff compliance may be considered as an alternative construct to commitment, as an employee consequence of internal market orientation. Spitzmuller and Stanton (2006) examined employee compliance identifying that a workplace culture of open communication, clear explanation about the reasons for rules and procedures, and supportive training will lead to increasing employee compliance. These requirements are in line with internal market orientation. Zacharatos et al. (2005) shows evidence of employee compliance resulting from trust in management. Staff compliance is therefore an outcome of behaviours consistent with an internal market orientation (O’Reilly and Chatman; 1986).

Proposition 2: The greater the internal market orientation of the organisation, the higher the performance of employees as demonstrated by compliance, retention and satisfaction.

Relational Competence

Internal market orientation changes over time by way of the relational interaction process that occurs between organisations’ customers, and internal organisational staff (Gray, 2006). Given it is the individual employees who interact with other staff and customers in the implementation of marketing strategies, there is a strong reliance on interpersonal relationships that will either help or hinder their day to day activities.

It can be argued that it is the competencies of each employee, and in particular, the interpersonal skills that must be understood before they can be efficiently and effectively allocated to tasks. Given the link between market orientation and firm performance which has previously been demonstrated, internal market orientation is identified as a key enabling competency for market orientation and improved performance that must be given further consideration (Ahmed and Rafiq, 2003; Gilmore, 2000; Gilmore and Carson, 1996).

An understanding of each individual employee’s personality and interpersonal skills may assist in identifying any barriers within the organization that will inhibit the development of an internal market orientation (Piercy, 1995). In this way, employees will be motivated and empowered to follow a set of behaviours and culture that is in line with an internal (and external) market orientation.

There must be identification of intra-organisational exchanges in working relationships as well as between the organisation and its customers (Harrell and Fors, 1992). Relationships between employees and managers must be built through shared values and mutually beneficial strategies. This cannot be done without first understanding the relational competence of the employees. Relational competence is a facilitator of relational behaviour, intra-firm performance, and inter-organisation performance (Gray 2006). Ultimately, this will assist in the achievement of a competitive advantage. In a
business setting, it can be argued that the interpersonal capability of individual employees and managers is an important influence on performance both within and beyond the firm (Phan et al. 2005).

**Personality traits and Relational Competence**

Personality is a broad term and is usually defined in terms of ‘traits’ which are predispositions to respond or behave in a particular way (Carpenter, 1993). A personality trait implies a bipolar discrimination between traits (e.g. either dominant or submissive) and regularity of trait behaviour throughout one’s life (Pervin, 1996). On the other hand, a capability perspective, recognises that an individual is capable of adapting their trait behaviour depending on the context (Bond 1997). Therefore, as Wallace (1966) recognised, abilities are at least to some degree, acquired, maintained and modified.

The relational competence perspective has significant implications for the business employees, managers and other actors as they face a wide range of interpersonal situations as they interact with other internal staff and managers either within their department, or across functional areas, as well as their inter-firm relationships (e.g. customers).

It can be argued that employees who possess a wider range of resource capabilities (i.e. interpersonal, technical, financial, sales and marketing, etc.) should be in a better position to more effectively deal with the range of interpersonal situations that arise in the business setting. However, having capabilities does not mean that they will be applied in an appropriate manner. Thus, the selection of situationally appropriate responses may be facilitated by the ability of the individual employee to respond to and adapt to the behaviour of others with whom they come into contact.

To enable employees to perform at their best, managers need to place increased emphasis on interpersonal skills and the negotiation and mediation skills for dealing with the inevitable conflicts that arise in such relationships (Webster 1992). Such relational competence (Carpenter 1993) and leadership (Goleman 1998, 2000) skills have been able to contribute to the explanation of the performance of both inter-firm relationships and intra-firm cross-functional working relationships (Bond 1997, Bond et al. 2004; Phan 2003, Phan et al. 2005)

**Measurement of Relational Competence**

Many attempts have been made to define and clarify the skills that underlie relational competence, (Hansson et al. 1984; Carpenter 1993; Phan 2003, Phan et al. 2005). For example, relational competence has been defined as “the characteristics of the individual that facilitate the acquisition, development, and maintenance of mutually satisfying relationships” (Hansson et al. 1984, p 273).

The construct of relational competence allows measurement from a number of strategies, although all should focus on attributes of the individual which promote positive relationships. Hansson, for example (1986), adopted an individual differences approach, using common personality traits such as instrumentality and sensitivity. Hogg and Heller (1990) criticised the trait approach, placing focus on particular demands of specific tasks and specific skills.

Carpenter (1985) assessed the traditional personality traits as relatively representative of relational competence. With continual research, and refining of the definition of relational competence Carpenter (1993) developed a new scale, the
Relational Competence Scale (RCS). This uses a self report approach, although can be adapted to a report by others or to a rating schedule (Carpenter, 1993).

The attributes that comprise the RCS include initiation and maintenance. Initiation in the relational competence context includes “initiating, controlling, and making demands upon relationships” (Hansson and Carpenter 1994, p77). Relevant sub-dimensions of initiation include assertiveness, dominance, instrumental competence, shyness and social anxiety. Maintenance on the other hand includes dimensions “for enhancing and maintaining relationships, thereby making them more accessible, useful, satisfying, and enduring” (Hansson and Carpenter 1994, p77). Relevant sub-dimensions of maintenance include intimacy, trusting ability, interpersonal sensitivity, altruism and perspective taking.

Relational competence has an emphasis on the skills and attitudes relevant to effective social functioning which enables us to better understand interpersonal dynamics. In a workplace setting, it is the various relationships between staff and management that are an important influence on the performance of all individuals within the firm. Thus, it can be proposed that it is the relational competence factors enable (or inhibit) the internal market orientation of individual employees.

Proposition 3: The greater the relational competence of the employees, the higher the internal market orientation within the firm.

Conclusions and Future Research

The synthesis of the literature in this review has led to an integrated understanding of a number of different considerations of internal market orientation as depicted in Figure 1. The principal concern is how individual employee performance of staff and management can be analysed using an internal market orientation framework. In addition, further work is needed to uncover why some employees are more successful than others within this framework using relational competence. The relationship between internal market orientation, relational competence and employee performance are thus considered. In this way, organisations’ human resource management and internal, (and by implication, external) market orientation, may be enhanced, as a means to improving both employee and firm performance.

However, a market orientation requires a longer term investment in employees and managers. This requires a change in thinking when short term profits tend to be a focus in today’s business measures so companies are looking for marketing activities that will be achieved in the short run. Employees are a key resource to businesses and can be a firm’s sustainable competitive advantage. A focus on understanding employee needs through relational competence can be combined with an internal market orientation to improve employee performance. An internal market orientation will then achieve a set of behaviours and a culture that facilitates both the shorter term goals of profitability as well as an external market orientation leading to long run business success.

It is within this context that research is required to examine the nature and role of the individual employees’ performance and relational competence as an antecedent to the internal market orientation.
Figure 1
A CONCEPTUAL MODEL OF RELATIONAL COMPETENCE, INTERNAL MARKET ORIENTATION AND EMPLOYEE PERFORMANCE


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