

Internal-market orientation and its measurement

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Abstract

The 1970s introduced internal marketing (IM) as a solution for the companies that sought to offer superior customer service. After 30 years though, IM practice remains limited, probably because their majority lack the proper underlying philosophy. An “internal-market orientation” (IMO), the equivalent to market orientation that is known to precede the effective implementation of marketing strategies. Such an internal-market orientation, if developed, may increase the effectiveness of market-oriented company’s response to (external) market conditions because it allows the company’s management to better align (external) market objectives with internal capabilities. However, before this symmetry is achievable, companies need to be able to assess their orientation towards their internal (employee) market and take, where necessary, corrective actions. This article, while discussing the notion and the importance of IMO, reports the results of a study aimed to develop and empirically validate an instrument for assessing the company’s degree of IMO adoption.

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1. Introduction

This article empirically investigates an instrument for assessing the company’s degree of internal-market orientation (IMO) adoption. That is, the extent to which the company commits to produce value for its employees through effectively managing the relations between employees, supervisors and management. Increasing the company’s degree of IMO does not hamper its external orientation or its focus on its customers (Bansal et al., 2001). Quite the contrary, it allows deriving a symmetric orientation (Piercy, 1995) and, thus, enhancing the effectiveness of a company’s strategic response and, eventually, its ability to satisfy customers consistently so that sales and profits can grow.

Many scholars investigate the major antecedents of customer satisfaction. Particularly in the service industries, various authors suggest different antecedents, such as the quality and the value offered by the company (Cronin et al., 2000), the perceived quality (Grönroos, 1983; Parasuraman et al., 1988; Cronin and Taylor, 1992; Anderson and Sullivan, 1993) or complain handling (Homburg and Rudolph, 2001). However, a parallel stream of research, also in services, investigates the

impact of the encounter with service personnel, demonstrating that customer’s experience with the service providing personnel heavily influences customer satisfaction (e.g., Tornow and Wiley, 1991; Mohr and Henson, 1996; Foster and Cadogan, 2000; Donavan and Hocutt, 2001). These findings explain marketing scholars’ emphasis on service personnel as part of the company’s marketing mix (Booms and Bitner, 1981; Berry, 1981; Conduit and Mavondo, 2001) and, consequently, their interest on internal marketing (IM).

However, although the body of knowledge on IM is constantly increasing since the 1970s, this is mainly through normative work as the proportion of empirical studies remains rather slim. Moreover, marketing scholars have not yet derived a single, unanimous, definition of IM. During this period though, IM content has evolved from the company’s effort to satisfy the needs of the “customer-affecting” personnel (Berry et al., 1976; Sasser and Arbeit, 1976; Berry, 1981), to managing the service-value chain and the internal relationships between co-workers more effectively (Gummesson, 1987) and developing a customer priority throughout the entire company (Grönroos, 1983; George, 1990; Ahmed and Rafiq, 1993; Varey and Lewis, 1999).

Nonetheless, the application of IM focuses only on a small number of companies (Rafiq and Ahmed, 2000), despite the increasing interest of scholars on IM and its profound

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Table 1

Previous work on internal marketing and key points

Author(s), date	Key points	Type
Berry et al., 1976	<ul style="list-style-type: none"> •Internal marketing (IM) results to jobs (internal products) that satisfy the needs of employees (internal market) while satisfying the objectives of the organization •Targeted to front-line personnel •A behavioral–instrumental approach •IM is a strategy. A marketing program based on communication with employees. The development of their potential and motivating—remunerating those who offer excellent service 	Normative
Sasser and Arbeit, 1976	<ul style="list-style-type: none"> •IM results into job satisfaction •Targeted to front-line personnel •A behavioral–instrumental approach •IM is implemented through internal market research and job re-engineering aimed at developing jobs that attract and retain excellent service providers 	Normative
William, 1977	<ul style="list-style-type: none"> •IM results to greater job satisfaction •Targeted to front-line personnel •A behavioral–instrumental approach •IM is a strategy to deal with status and pay concerns of front-line personnel in order to improve customer service 	Normative
Berry, 1981, 1987	<ul style="list-style-type: none"> •IM results in job satisfaction •Targeted to front-line personnel •A behavioral–instrumental approach •IM is a strategy for job re-engineering and internal communication aimed at deriving customer-minded front-line personnel 	Normative
Grönroos, 1983	<ul style="list-style-type: none"> •IM results in customer consciousness •Targeted to the entire organization and all employees •A behavioral–instrumental approach •IM is a strategy for developing the required “state of mind” that will allow customer service effectiveness under a broader relationship management paradigm 	Normative
Tansuhaj et al., 1987	<ul style="list-style-type: none"> •IM results to increased levels of job satisfaction and commitment to the organization •Targeted to front-line employees •A behavioral–instrumental approach •Responsibility of the company’s marketing specialists (marketing and sales departments) •IM is implemented through communication with employees 	Empirical
Gummesson, 1987	<ul style="list-style-type: none"> •IM results to increased levels of productivity and efficiency •Targeted to all employees involved in the service value-creation chain •A mechanic approach •IM is implemented through communication with employees and culture change mechanisms 	Case Study

Table 1 (continued)

Author(s), date	Key points	Type
Tansuhaj et al., 1988	<ul style="list-style-type: none"> •IM results to increased levels of job satisfaction and commitment to the company •Targeted to front-line employees •A behavioral–instrumental approach •Responsibility of the company’s marketing specialists (marketing and sales departments) •IM is implemented through communication with employees 	Normative
George, 1990	<ul style="list-style-type: none"> •IM in effective internal exchanges •Targeted to all employees •An holistic approach •IM is implemented through coordinating human resource and marketing departments to improve the company’s service orientation 	Normative
Ahmed and Rafiq, 1993	<ul style="list-style-type: none"> •IM results to increased marketing strategy effectiveness by aligning, motivating and integrating the employees towards the implementation of company strategies •Targeted to all employees •A holistic approach •IM is implemented through the application of marketing techniques along with human resource management practices to facilitate the implementation of the company’s market objectives 	Normative
Foreman and Money, 1995	<ul style="list-style-type: none"> •IM may have various objectives depending on who is targeted (specific groups of employees or the entire organization) •Can be targeted to specific departments or to the entire organization •A behavioral–instrumental approach •IM is implemented through communication, development and participative management and motivation and rewards. 	Empirical
Varey, 1995	<ul style="list-style-type: none"> •IM results to satisfaction of employees’ needs, both as individuals and service providers •Targeted to front-line personnel •A holistic approach •IM is implemented through internal communication aiming to “sell” the importance of customer service 	Normative
Piercy, 1995	<ul style="list-style-type: none"> •IM results to strategic alignment •Targeted to those who can influence the implementation of the marketing strategy •A behavioral–instrumental approach •IM allows the removal of interdepartmental barriers for developing and implementing the company’s market objectives 	Normative
Grönroos, 1997	<ul style="list-style-type: none"> •IM results to sales- and service-minded personnel •Targeted to all employees, regardless of job description and hierarchy •A behavioral–instrumental approach 	Normative

(continued on next page)

Table 1 (continued)

Author(s), date	Key points	Type
Grönroos, 1997	<ul style="list-style-type: none"> •IM should be integrated with the marketing function because marketing is the responsibility of every employee who influences customer's value 	
Wasmer and Brunner, 1999	<ul style="list-style-type: none"> •IM results to individual employee's objectives alignment with company objectives •Targeted to all employees •A behavioral–instrumental approach •IM is implemented through formal and informal internal market research and communication to “sell” the company's objectives internally 	Normative
Varey and Lewis, 1999	<ul style="list-style-type: none"> •IM results to change management •Targeted to all employees •An holistic approach •IM is the philosophy and the behavior that allows rapid organizational change in response to the company's macro and micro environments 	Normative
Rafiq and Ahmed, 2000	<ul style="list-style-type: none"> •IM results to increased productivity and job improvements •Targeted to all employees •A holistic approach •IM is the planned effort to achieve employee satisfaction, customer satisfaction and interfunctional coordination through employee empowerment 	Normative
Ahmed and Rafiq, 2003	<ul style="list-style-type: none"> •IM results to increased productivity and job improvements •Targeted to all employees •A holistic approach •IM is a cultural framework and an instrument to achieve strategic alignment while building customer service competence by managing internal relations through internal communication 	Normative
Naude, Desai, and Murphy, 2003	<ul style="list-style-type: none"> •IM results to increased job satisfaction and market orientation adoption •Targeted to all employees involved in the service value-creation chain •A mechanic approach •IM perceived implementation is influenced by individual and organization characteristics 	Empirical
Ballantyne, 2003	<ul style="list-style-type: none"> •IM results to knowledge renewal •Targeted to all employees •A mechanic approach •IM influences service procedures and operations facilitating their re-engineering using input from both the external and internal environment 	Normative
Lings, 2004	<ul style="list-style-type: none"> •Internal-market orientation (IMO) represents a company philosophy •IMO results to increased levels of job satisfaction •Targeted to front-line personnel •A cultural approach •Three major facets of IMO, namely internal market research, communications, response 	Normative

Table 1 (continued)

Author(s), date	Key points	Type
Lings and Greenley, 2005	<ul style="list-style-type: none"> •Internal marketing interchangeably used with internal-market orientation to describe the effort to improve internal climate •Results to increased levels of job satisfaction •Targeted to front-line personnel •A behavioral–instrumental approach 	Empirical

importance for service industries. This constrained focus occurs because companies lack the underlying philosophy that can facilitate the implementation of IM strategies. A company philosophy analogous to that of “market orientation” (e.g., Kohli and Jaworski, 1990; Narver and Slater, 1990) which precedes the company's ability to develop effective marketing strategies. Moreover, the fact that existing literature on IMO remains thin and sporadic while its measurement lacks empirical validation, may further explain why the implementation of IM remains limited. To this end, the contribution of this manuscript is that it provides an instrument that future researchers may employ in order to investigate further how IMO adoption influences the application of IM practices and the effectiveness of the company's strategic response. The structure of the manuscript is as follows: The first section of the manuscript presents the existing literature in order to clarify and establish the concept of IMO. The Next section presents the method and the analysis of the data. The discussion and the limitations and future research sections follow.

2. Alternative approaches in conceiving internal marketing

During some stage of the service delivery process, customers actively interact with contact, or “first-line”, employees. The outcome of this interaction accounts for a great deal of the end-product customers receive (Zeithaml et al., 2001). Consequently, first-line personnel ought to be responsive to customers' needs and become customer oriented and sales-minded (Grönroos, 1995). This realization brought about the need for marketing customers internally, and the concept of internal marketing (IM). Table 1 offers an indicative list of the work from various authors and researchers on IM.

From Table 1, is clear that the origins of IM go back to the 1970s in the work of Berry et al. (1976) when they suggest that employing IM for enhancing organizational capability for effective consumerism response. Their rationale laid on the realization of the importance of satisfying the needs of the “customer-affecting” personnel prior the latter are able and willing to offer the kind of service that would satisfy the company's customers. To this end, service organizations ought to develop active internal communication in order to understand the difficulties associated with serving the company's customers while, also, strive to develop the potential of their employees in delivering superior service. Diffusion of decision-making authority, frequent supervisory feedback, training and extra bonuses for those excelling in serving the customers are some of the many activities towards this direction (Berry et

al., 1976). Hence, IM was introduced as a behavioral-instrumental approach, an internally directed marketing strategy focusing on jobs (internal products) that satisfy the needs of employees (internal customers), increase employee's satisfaction with their job, so that, eventually, the company's service objectives can be met. Within this framework, the company's IM program builds on specific "pillars" that one could refer to as the "internal-marketing mix components".

This approach in conceptualizing IM appears to prevail among marketing scholars. For instance Berry (1981, 1987) suggests that IM is a strategy for dealing with job re-engineering while Tansuhaj et al. (1988) suggest that the implementation of the company's IM is the responsibility of the company's marketing "specialists", that is the sales and marketing departments within the organization.

Rafiq and Ahmed (1993) demonstrate the problems arising from this early conceptualization. In summary, they argue that, due to the contractual nature of employment, "internal-market" conditions do not always resemble those of the external market. The terms of employment may have negative utility for the employees and even be unwanted though employees remain abide to their contract and job description. Also, an important issue arises when the needs of employees are not in congruence with those of the company's customers: think of the case of a teller having to serve a customer who entered the bank just before closing time. These conditions depart vastly from the "classic" external market situations. Finally, a third important issue is the responsibility for the implementation of the company's IM program and, particularly, the potential conflicts that may arise between the marketing and the human resource departments (Rafiq and Ahmed, 1993).

Grönroos (1983) offers a variation from this approach. Building further on his earlier work (Grönroos, 1981), he suggests that IM is about "developing motivated and customer conscious employees" at all levels, regardless of hierarchies and departmental constraints. IM becomes thus the mechanism integrating the various functions and, hence, improves the company's coordination towards achieving its external market objectives (Grönroos, 1983). Within this framework, IM is applicable to all employees under a broadened, relationship marketing paradigm (Ravald and Grönroos, 1996; Grönroos, 1997).

A more diverse conception of IM is the "mechanic approach", also quite popular among marketing scholars. Gummesson (1987) first uses the term "internal customer" within the company's service-value chain: Employees involved in the value-creation chain relate to each other in an "internal supplier–customer" relationship. Thus, under this approach, IM reflects the effort to communicate this interdependence towards all employees in order to achieve increased levels of productivity and customer satisfaction. Naude, Desai, and Murphy (2003) as well as Ballantyne (1997, 2003) would also seem to follow this approach.

Although this is an interesting direction, this conception can potentially lead to the development of highly standardized procedures for service delivery, both internally among employees

and externally with the customers. Increased procedural standardization results to decreased employee discretion which carries the hidden cost of less satisfied employees (Sasser and Arbeit, 1976) since the greater the levels of job discretion the higher the employee's job-satisfaction (Kelley, 1993). This is a negative development, particularly in the service industries, since employee's job satisfaction relates with customer's satisfaction (cf. George, 1977; Berry, 1981; Piercy, 1995; Schneider and Bowen, 1999). Moreover, under conditions of increased procedural standardization, employees may veil behind procedures to avoid the extra effort to service customers or colleagues.

Ahmed and Rafiq (1993, 2003), Rafiq and Ahmed (2000), Varey (1995) and Varey and Lewis (1999) suggest yet another approach towards the conceptualization of IM that combines the previous two. According to this "holistic approach," IM strategies impact both jobs and procedures in order to improve the company's effectiveness with its customers through interdepartmental integration (George, 1990). However, the fundamental conception of IM remains behavioral, capturing the strategies and programs that the company implements internally in order to attain its external market objectives.

3. Internal-market orientation and its measurement

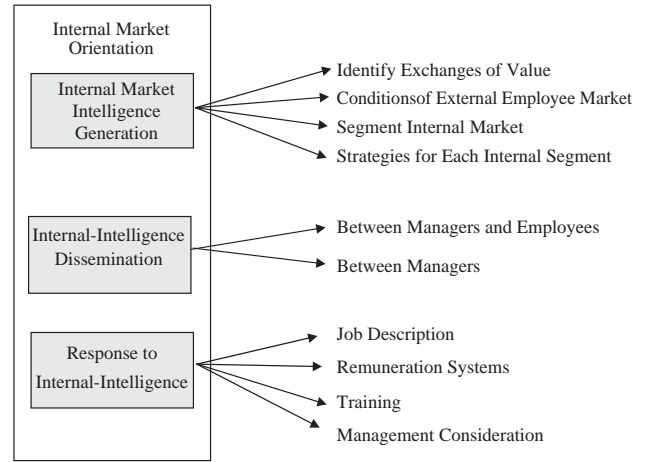
Clearly, existing scholar work in IM is significant. However very few organizations use IM in practice (Rafiq and Ahmed, 2000). The absence of a single, unified, concept of what IM is and can do for the company may be one reason for the limited use of IM. However, a different and intriguing direction to understand why IM is still not widely adopted is along the same reasons that marketing, overall, remains for many companies a "confusing" concept (Gounaris et al., 2004). Day (1998) ascertains that everything emanates from the right culture, one that Houston (1986) describes as the dedication to generating value for the company's customers while deriving yields for the company. During the 1990s, the research stream on "market orientation" paradigm (cf. Narver and Slater, 1990; Kohli and Jaworski, 1990; Dalgic, 1998; Gray et al., 1998; Day, 1999), allows to systematize and clarify these values. The results from this research stream show that in the absence of the proper culture, marketing programs alone are insufficient to align the company with its market.

Berry (1987) ascertains that everything we know about the external application of marketing has a counterpart application internally. Hence, by drawing the analogy, it may be possible that IM is still not widely adopted because a similar cultural "infrastructure" is missing. Interestingly enough, as Table 1 shows, only one reference to a cultural aspect of the company's effort to produce value for its internal market (Lings, 2004) exists, however, it has not received empirical examination. Rather, in a later study, the original conception changed and ultimately, the empirical examination focused on an instrument for assessing the company's IM effort (Lings and Greenley, 2005). Thus, a promising direction for advancing further our understanding regarding facilitating

IM is the notion of internal-market orientation (IMO). The notion grounds on the company’s need to develop a strong internal-market orientation prior successfully adopting an external (market) orientation (Piercy, 1995; Conduit and Mavondo, 2001). IMO represents the synthesis of specific beliefs with specific “marketing-like” behaviors. The values pertain to the understanding that employees, regardless of their organizational position and hierarchical power, influence the value that the company’s customers receive (Berry, 1981; Flipo, 1986; George, 1990; Piercy, 1995). IMO promotes thus the need to plan and build effective relationships between the company’s employees and management (Rafiq and Ahmed, 1993). The basis for these relationships is the company’s commitment to produce value for its internal market by understanding their expressed and latent needs, much in the same way as commitment is required to produce value for the company’s customers, (Narver and Slater, 1999). As a result, the company’s strategic response becomes more effective in comparison to companies that are only externally focused (Lings, 1999; Bansal et al., 2001). This allows for a symmetric orientation (see Fig. 1) that maintains a balance between the firm’s degree of internal and external orientation (Pitt and Foreman, 1999). Through IMO adoption, IM strategies become more effective and this strengthens its competitive position in the external market (Grönroos, 1983; Ahmed et al., 2003).

Having put forward the notion of IMO, measurement is the next issue. Again, the analogy draws from the market orientation paradigm, and more specifically from the work of Kohli and Jaworski (1990). IMO has three main pillars: collecting relevant internal-market intelligence, disseminating this intelligence between employees and supervisors, and responding to this intelligence with appropriate IM strategies.

Lings (2004) normatively describes these three pillars in detail. Internal-market intelligence collection relates with activities pertaining to collecting intelligence regarding the employee market, i.e. the identification of exchanges of value for the employees, the comprehension of the labor market conditions, the recognition of specific internal segments of employees with different characteristics and needs, and the designing of strategies for internal customers. Dissemination of this intelligence relates to the communication between, on one hand, managers and employees and, on the other, between managers from different departments and hierarchical levels. The purpose of this communication is two-fold: The first objective is to communicate new marketing strategies and company strategic objectives to employees. This type of communication flows through



Adapted from Lings (2004)

Fig. 2. A proposed conceptualization of internal-market orientation.

internal mass media (e.g. newsletters or memos). The second objective is to build an understanding of the employees’ needs between the company’s managers. Finally, responsiveness to this intelligence pertains to designing jobs that meet the needs of the employees, adjusting the remuneration schemes accordingly, making the company’s management more considering with regard to the employees’ needs and offering them the necessary training in order to develop the skills and capabilities that their job description requires (see Fig. 2).

4. An alternative model for assessing the adoption of IMO and research propositions

Although Ling (2004) establishes his approach on a very relative notion, two issues are of concern. The first relates to the structure of the proposed conceptualization. For instance, Ling recommends that *segmenting the internal market* is a dimension of the company’s effort to collect intelligence regarding the employees’ market. However, internal-intelligence is a precondition for segmentation which follows. The same is also true for the dimension of *developing strategies for specific segments*. Again, targeting is a subsequent behavior following the effort to generate intelligence, not part of the intelligence generation effort (Weinstein, 2004).

The second concern has to do with the simplistic nature of the original conception. Marketing scholars would seem to concede that many constructs, such as for instance satisfaction, or service quality, have a multifaceted nature (e.g. Flynn et al., 1993; Brady and Cronin, 2001) and are comprised by distinct subcomponents (sub-constructs) which, however, contain a significant amount of shared variance attributed to their common relation with the higher order global construct (Bagozzi and Heatherton, 1994). The same is also true for the notion of market orientation as by Kohli and Jaworski (1990) develop. Therefore, treating IMO as a multifaceted construct would seem more appropriate. Fig. 3 portrays the suggested conceptualization of IMO.

In order to empirically examine the suggested measure, criterion validity is an important psychometric attribute.



Fig. 1. Developing a symmetric orientation.

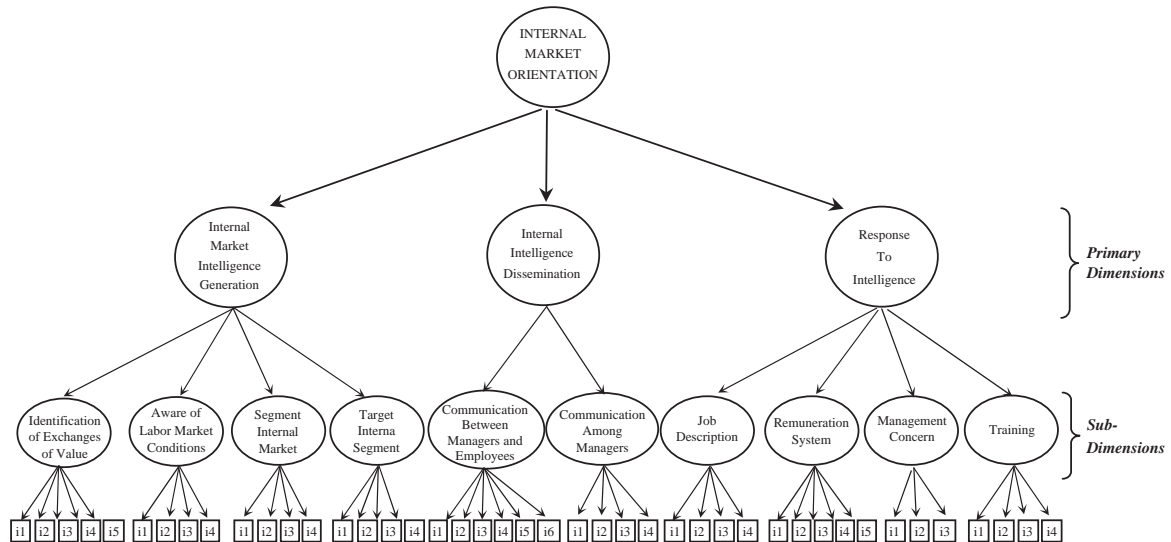


Fig. 3. A suggested conceptualization of internal-market orientation—a hierarchical approach.

However, in lack of previous empirical studies regarding the construct of IMO, the assessment of the notion's criterion validity requires to use as a frame of reference different aspects of a company's IM program.

The literature records two important aspects of the company's IM: participation in decision making (e.g., Grönroos, 1983) and empowerment (e.g. Rafiq and Ahmed, 2000). The 1980s grounds participative management although several authors raise the issue earlier (e.g., March and Simon, 1958; Likert, 1967). The literature in the 1980s relates participation in decision making with the sharing of authority and control between managers and employees, who normally would lack such prerogatives (Tjosvold, 1987; Cotton et al., 1988). Participative management stimulates employee enthusiasm and willingness to carry out decisions in which they have participated since employees derive psychological value by being part of the decision making process (Sashkin, 1984), particularly for those decisions that impact their own jobs. Moreover, participating in taking decisions helps employees to reap the psychological value of contributing and being part of the team (Dewar and Werbel, 1979; Kim, 2002; Eskildsen and Nussler, 2000). It also results quality improvements and enhancement of the organization's adaptive capacity through group problem consideration and solving (e.g. Hill, 1982), since IM practically implies a certain amount of employee input into service delivery decisions (Wasmer and Brunner, 1991). In summary, participative decision delivers psychological value to the employee while also helping to improve the nature and the realism of the tasks the management expects him/her to perform. Also, participative management facilitates the alignment between the company's internal capabilities and external objectives.

Hence, it appears that as the degree of IMO adoption increases, so will the use of participative management, since an internal-market oriented company will be more committed to the design and implementation of IM programs. On these

grounds, in order to assess the criterion validity of the IMO scale, the following research proposition is investigated:

RP 1. *The higher the company's degree of IMO, the more employees participate in decision making.*

As far as empowerment is concerned, various authors indicate that it IM programs entail a significant amount of employee empowerment (cf. Berry et al., 1976; Grönroos, 1983; Varey and Lewis, 1999; Rafiq and Ahmed, 2000). Employees derive value from their employment when allowed to deal with customer problems. Kelley (1993) calls this "creative discretion" and, when restrained, the result is most probably employees' disappointment and discontentment, particularly when the management attempts to increase the value for the company's external market (Harris and Ogbonna, 2000). Moreover, according to the study of Hartline and Ferrell (1996), empowering employees helps to develop their own abilities and self-efficacy (Conger and Kanungo, 1988). As employees gain more discretion, self-efficacy levels increase because they themselves decide the best way to perform a task (Gist and Mitchell, 1992). To this end, many authors agree that empowerment is a structural component of IM programs (Varey and Lewis, 1999) and, thus, increased levels of IMO adoption likely leads to heavier use of IM strategies and, consequently, to more empowered employees. Hence, in order to derive additional evidence of criterion validity for the IMO measure, the following research proposition is investigated:

RP 2. *The higher the company's degree of IMO, the more empowered the employees.*

Finally, to derive further evidence of criterion validity requires examining the impact of the company's IMO on employee job satisfaction. As previously noted, employee job satisfaction is an important prerequisite for effectively meeting the company's customer's needs (Sasser and Arbeit, 1976; Berry, 1981; Varey, 1995; Piercy, 1995; Schneider et al., 2003, 1994). Hence, job satisfaction is an important objective of IM

programs and, thus, a key performance indicator regarding the company's performance in the internal market. Consequently, in much the same manner that the company's degree of market orientation directly influences its performance in the (external) market (Narver and Slater, 1990; Kohli and Jaworski, 1990; Slater and Narver, 2000), increasing the company's degree of IMO adoption should lead to higher levels of employees' job satisfaction. On these grounds, the following research proposition is investigated:

RP 3. *The higher the company's degree of IMO, the greater their satisfaction with their job.*

5. Method

Given the scope of the study, a major issue regards the development of the instrument to assess respondents' degree of IMO. In the absence of relevant measures, a new scale was developed. To do this, one can follow Churchill's (1979, p.66) advice. In short, after the establishment of the construct's domain through literature review, the researcher first develops an initial pool of items, on the basis of literature review, experts' opinion and so on. Next, the researcher uses this original pool of items to develop an initial questionnaire which and conduct a pilot study for measurement purification purposes prior the finalization of the questionnaire and the execution of the main study.

In compliance with this process, first the construct's domain was specified through relevant literature review (e.g. Kohli and Jaworski, 1990; Lings, 2004). Then, for each of the three major dimensions, relevant sub-dimensions were added and, for each sub-dimension, individual items were specified. This initial pool of individual items was sent to 12 colleagues from Marketing and/or Business Administration Departments in Greece along with a cover letter detailing the scope of the study, what each scale attempted to measure and a request to evaluate each item according to their expert opinion as to whether each item was measuring what intended to measure (content validity).

This process results in a slightly modified pool of items: Nine items were dropped, of which two were replaced according to the experts' suggestions, while another four items were rephrased. This modified pool was then sent to the Human Resource Director of four hotels and the same process was repeated. The revision of the instrument from the Human Resource directors resulted to the addition of seven new items and rephrasing eight of the original ones (two from the first version and six already rephrased during the previous phase). This process resulted in a preliminary survey questionnaire.

The pilot study of the preliminary questionnaire took place in Rhodes with two hotels that agreed to provide assistance. The profile of the respondents of the pilot study, in terms of age (ranging from 22 to 55 years) gender and position, resembles close to the profile of the targeted population from which the data would be collected. This pilot study revealed the need to make only some minor rewording on some of the items.

Next, the major study followed. The study involved personal interviews with front-line personnel employed in

various positions (e.g. reception, restaurant, and bar) at 29 five and four stars hotels located at one of the major Greek tourist locations, the island of Rhodes. Given the fact that the study focuses on tourism, two reasons justified the decision to collect data from Rhodes. First, all major hotel chains of Greece have facilities on this island. Second, a significant number of large independent hotels are also present. Hotels with three or fewer stars are usually smaller, in terms of employees. This led to the decision to exclude such hotels from the population because of the possibility that such hotels would not have organized personnel function and policies. Also, due to the relatively smaller size of such hotels, employees are more likely to receive employment as a result of personal relation or acquaintance with some middle or senior manager.

The study took place during the month September. The timing is appropriate because during this time of the summer season, although the hotels are fully operational, vacancies and consequently workload drop. In total, 583 personal interviews were conducted by three research assistants. The data comes from about 20 interviews from each of the 29 hotels. To collect the data, the management of the hotel was contacted through telephone and informed of the purpose of the study. Next, research assistants gathered individual groups of first-line personnel at each hotel. Employees with less than 12 months of work experience with the hotel did not participate while participants were provided with sufficient assurance regarding the confidentiality of their responses and the nature of the study.

As far as the remaining variables is concerned the degree of employees participation in decision making is gauged using the scale employed by Oliver and Anderson (1994) while empowerment is assessed based on the measure suggested by Hartline and Ferrell (1996), reworded in order to capture the perception of the employee regarding his/her supervisor. Finally, job satisfaction is also measured according to the scale employed by Hartline and Ferrell (1996). For all measures, a 7-point scale, anchored 1="I totally disagree" to 7="I totally agree" was employed. Confirmatory Factor Analysis (CFA) is used to assess the psychometric properties of these measures (empowerment, participative management and job satisfaction) while their reliability is assessed using the Cronbach's alpha coefficient.

6. Data analysis

The analysis of the data involved two phases. In phase one, the psychometric attributes of the IMO scale are investigated whereas in phase two the scale's predictive validity is assessed.

In order to investigate the convergent validity of each sub-dimension, the structure was assessed by means of Confirmatory Factor Analysis. The results (presented in the Appendix) show that, in all occasions, the items employed in order to measure the ten sub-dimensions of IMO fit well with the sub-dimension for which each items was originally designed to fit (Jöreskog and Sörbom, 1989). Evidence of convergent validity is thus manifested since individual items load significantly on each latent variable (Bollen, 1989) and have a loading of 0.60 or better (Bagozzi and Yi, 1988).

Table 2
Testing the structure of IMO's sub-dimensions

Internal market intelligence generation (a)			Internal market intelligence generation (b)			Disseminate intelligence			Response to intelligence (a)			Response to intelligence (b)		
GFI 0.83	AVE	(Corr) ²	GFI 0.97	AVE	(Corr) ²	GFI 0.95	AVE	(Corr) ²	GFI 0.91	AVE	(Corr) ²	GFI 0.92	AVE	(Corr) ²
AGFI 0.75			AGFI 0.93			AGFI 0.92			AGFI 0.88			AGFI 0.90		
CFI 0.88			CFI 0.98			CFI 0.97			CFI 0.92			CFI 0.96		
RMSEA 0.13			RMSEA 0.07			RMSEA 0.07			RMSEA 0.06			RMSEA 0.06		
			Alpha 0.80			Alpha 0.78						Alpha 0.85		
Identification of exchanges of value	0.65	0.59	Identification of exchanges of value	0.65	0.59	Communication between managers and employees	0.58	0.26	Job description	0.60	0.58	Segment internal market	0.85	0.36
	Cnrg	Dscm		Cnrg	Dscm		Cnrg	Dscm		Cnrg	Dscm		Cnrg	Dscm
Aware of labor market conditions	0.58	0.59	Aware of labor market conditions	0.62	0.59	Communication between managers	0.73	0.26	Remuneration system	0.60	0.23	Target internal segments	0.59	0.36
	Cnrg	–		Cnrg	Dscm		Cnrg	Dscm		Cnrg	Dscm		Cnrg	Dscm
Segment internal market	0.80	0.50							Training	0.57	0.55	Job description	0.61	0.58
	Cnrg	Dscm								Cnrg	Dscm		Cnrg	Dscm
Target internal segments	0.43	0.38							Management concern	0.63	0.58	Remuneration system	0.68	0.23
	–	–								Cnrg	Dscm		Cnrg	Dscm
												Training	0.59	0.55
													Cnrg	Dscm
												Management concern	0.63	0.46
													Cnrg	Dscm

AVE=average variance extracted= $\Sigma(\text{standard loadings})^2 / \Sigma(\text{standard loadings})^2 + \Sigma\epsilon_{ij}$; Cnrg=convergent validity (AVE>0.50); Dscm=discriminant validity=AVE/(Corr)²>1; (Corr)²=highest (Corr)² between factor of interest and remaining factors; alpha=Cronbach's alpha coefficient for internal consistency.

After this initial test, ten new variables (additive scales) were developed in order to capture each of the ten sub-dimension. These new variables are employed in the subsequent analysis. The first stage of the subsequent analysis involves the calculation of the correlation coefficients between the ten sub-dimensions, their covariance, and their internal consistency as indicated by Cronbach's alpha coefficient

(Cronbach, 1951). Although several measures of reliability can be ascertained in order to establish the internal consistency of an instrument, this method is the most common and accepted form of reliability estimation (Nunnally, 1988). In this method reliability is operationalized as internal consistency, which is the degree of intercorrelations among the items that constitute a scale (Nunnally, 1988). The table in the Appendix also shows

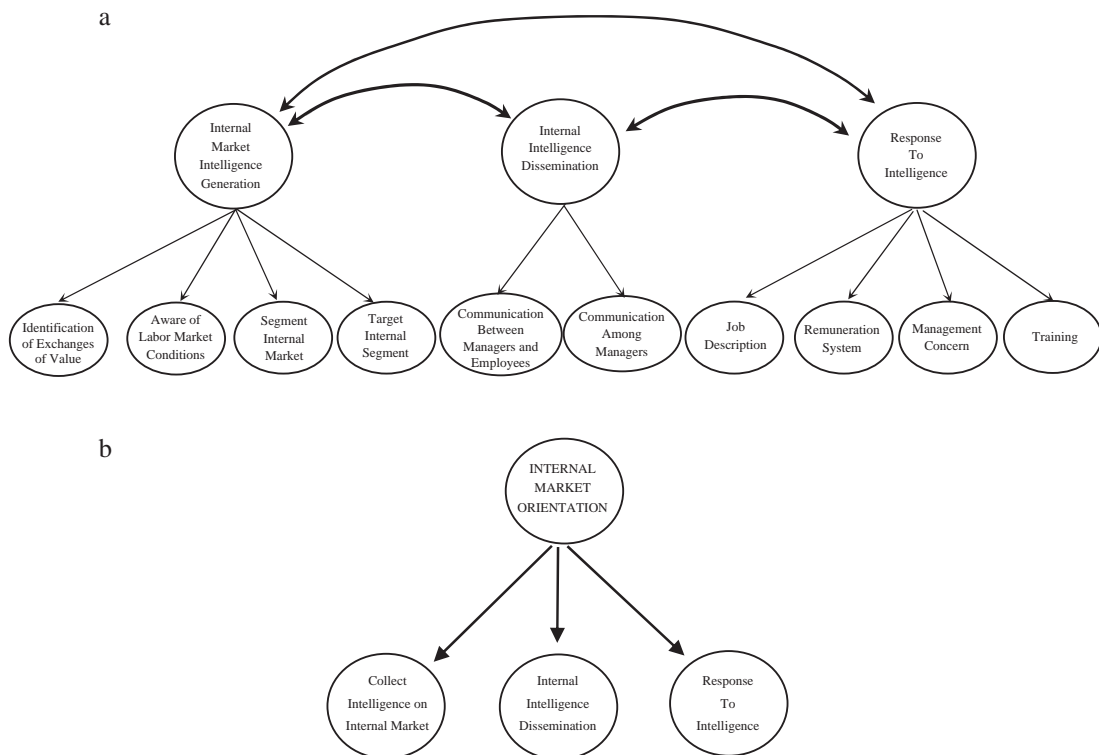


Fig. 4. Test of sub-dimensions and the second-order conceptualization of internal-market orientation.

Table 3
Structural equation results

Alternative models	GFI	AGFI	CFI	RMSEA
Model 1: test of the major dimension	0.95	0.90	0.95	0.07
Model 2: test of the sub-dimensions	0.94	0.91	0.93	0.06
Model 3: test of the entire model	0.95	0.91	0.93	0.06

the results of this analysis. In brief, given the structure of the model in Fig. 2, all correlations are significant and, in almost every case, each sub-dimension is stronger correlated with those sub-dimensions intended to correlate according to the original development of the items. Two exceptions are the *Internal Segmentation* and *Internal Targeting*. Both sub-dimensions are strong correlates of those that comprise the major dimension of *Response to Intelligence*.

The next stage of the analysis involves the examination of each of the three major dimensions for convergent and discriminant validity. The results of this analysis are depicted in Table 2.

As Table 2 shows, one of the three major dimensions, that of “*Internal Market Intelligence Generation*”, fails to prove evidence of both convergent and discriminant validity, despite that its original formation follows the normative conception of IMO of Lings (2004). The problem with this dimension relates to the *Internal Segmentation* and *Internal Targeting* sub-dimensions. One way to deal with this issue is to split the sample randomly in two halves. The first half of the sample is then used to re-form the major dimensions. The appropriate technique for this is Principal Components Factor Analysis (PCFA). The results of this analysis indicate that both sub-dimensions in question load significantly in the *Response to Intelligence* dimension along with job description, training, remuneration and management concern. Next, the second half of the sample is used to check, through Confirmatory Factor Analysis, the psychometric properties of the major dimensions that the PCFA reveals. Table 2 shows the results of this analysis

too. This modified structure proves more robust. As Table 2 reveals, while the remaining two sub-dimension (“*identification of exchanges of value*”, and “*aware of labor market conditions*”), share convergent and discriminant validity in forming the major dimension of *Internal Market Intelligence Generation*, the psychometric attributes of the major dimension *Response to Intelligence* are also improved when *Internal Segmentation* and *Internal Targeting* become part of it. Finally, Table 2 also presents the results of the test regarding the internal consistency as indicated by Cronbach’s alpha coefficient for the reconstructed major dimensions.

Because the conceptualization depicted in Fig. 3 suggests that IMO is a multidimensional, hierarchical construct, it can therefore be described as a third-order factor model suitable for testing through traditional structural equation modeling techniques (Brady and Cronin, 2001). Given that the goal of this study is to assess both the measure instrument and the proposed conceptualization, testing the model in its entirety is a priority. Following the same approach as Brady and Cronin (2001), the testing of the proposed conceptualization requires the construction of a single structural model.

To assess further the model’s structure, (see Fig. 4a and b) two supplementary tests are also required. First the primary dimensions are examined and then the investigation of the sub-dimensions follows. The fit of the models determines the degree to which the items measure the same hierarchical factor as well as whether the variables depicted in Fig. 3 are well supported as sub-dimensions of IMO. The first stage of this process is to test the second-order factor model (see Fig. 4b), in order to determine whether the three major dimensions are appropriate indicators of IMO. The results of this stage, presented in Table 3, indicate that the model fits the data well (GFI=0.94; AGFI=0.91; CFI=0.95 RMSEA=0.7).

Table 3 also portrays the test regarding the sub-dimensions of IMO (see Fig. 4a). Again, the model fits adequately the data.

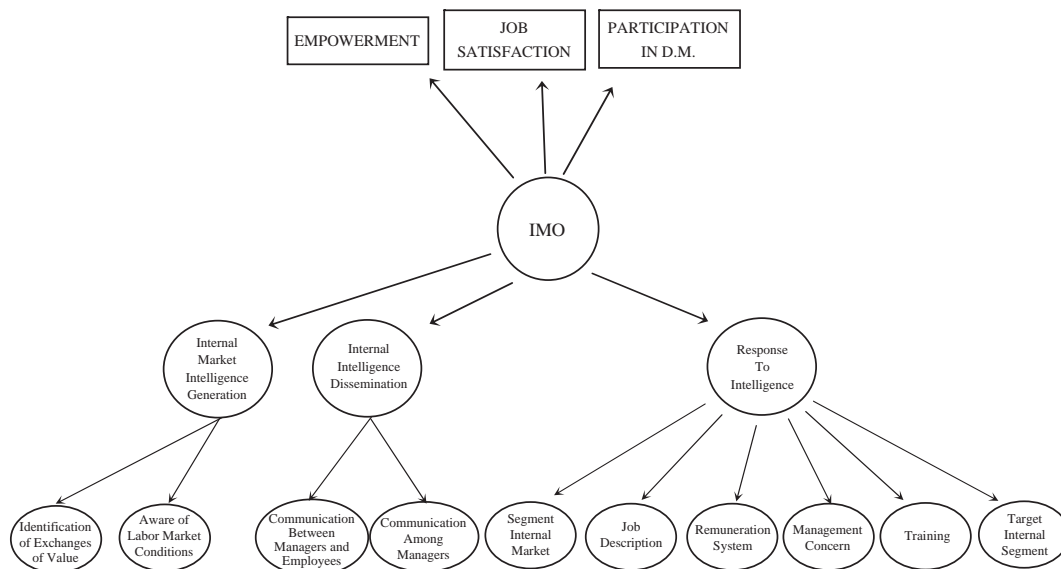


Fig. 5. Path model for assessing discriminant validity.

Table 4
Assessing the instrument for predictive validity

Standardized path coefficients				
Fit measures	IMO →			Squared multiple correlations
GFI	0.92	Job satisfaction	0.71	0.53
AGFI	0.90	Empowerment	0.38	0.23
CFI	0.93	Participation in decision making	0.48	0.25
RMSEA	0.05			

Finally, when the model is considered in its entity, the results again indicate a good fit of the data. Also, it is worth noting that in all tests, the paths have a critical ratio significant at $p < 0.05$ or better, which adds support to the suggested conceptualization. Having checked both the conceptualization of IMO and its internal consistency, its convergent and discriminant validity, next the focus of the analysis turns on its predictive validity. This is done again through structural equation modeling. More specifically, in order to test the three research propositions, the three observed variables used to measure employee job satisfaction, empowerment, and participation in decision making are included in the analysis (see Fig. 5). The results confirm all three research propositions: the fit measures showed a good fit of the model (GFI=0.92; AGFI=0.90; CFI=0.93; RMSEA=0.05), whereas the critical ratios for the standardized path coefficient of job satisfaction (0.71), empowerment (0.38), and participation in decision making (0.48), are all significant at $p < 0.05$ or better (see Table 4). More importantly, the model explains a significant amount of the variance that is accounted by the IMO measure for job satisfaction (0.53), empowerment (0.23) and participation in decision making (0.25), as indicated by the squared multiple correlation. Hence, all three research propositions are accepted, providing thus evidence of discriminant validity for the instrument.

7. Discussion and implications

The contribution of this study is manifold. A major contribution is the strengthening, with empirical evidence, of the notion of internal-market orientation (IMO). In the 1980s, companies became more apprehensive of the need to align their market objectives with their internal capabilities and the skills of their employees. Consequently, the application of marketing strategies and programs internally seemed a necessity. This development led marketing scholars to focus on service contact employees as an antecedent to customer satisfaction. However, despite the significant evolution regarding the notion and content of IM, until today, only a limited number of companies implement IM in practice.

This manuscript argues that it may be possible that companies do not employ IM because they lack the underlying culture, an internal-market orientation. In pursuing this direction, this manuscript attempts to draw on relevant previous research and explicate the notion of IMO. The concept grounds on the market orientation concept, as articulated by Kohli and Jaworski (1990) and pivots around three major dimensions:

Internal-market Intelligence Generation, Internal-Intelligence Dissemination and Response to Internal-Intelligence.

In addition, this manuscript discusses the method of development and the results of an empirical validation procedure for an instrument to assess a company's degree of IMO adoption. The assessment of the instrument's internal consistency, its discriminant and convergent validity were particularly satisfactory for both the construct's major and sub-dimensions. These tests indicate that, IMO represents the company's philosophy to create and offer value for its internal market within a broader, relationship-marketing paradigm (Grönroos, 1983, 1997; Gummenson, 1999), and in fact regardless of employee's degree of direct customer contact.

Thus, on the basis of the results from this study, IMO appears to be a hierarchical construct, comprised of three major and ten sub-dimensions. The major dimensions reflect the company's commitment to collect internal-market intelligence, disseminate this intelligence to various levels and departments of the company and design employee-related policies in response to this intelligence. This conception of IMO draws heavily on the "market orientation" paradigm (Kohli and Jaworski, 1990). As such, IMO seems quite relevant, particularly for companies in services where employees, front-line and back-office alike, influence the company's output to its customers. Because of this, service companies, in comparison to good manufacturers, have a greater need to develop a symmetric orientation (Piercy, 1995).

Equally importantly, the instrument, and consequently the IMO notion, was tested for criterion validity, despite the lack of previous empirical studies on IMO. To overcome this difficulty, the instrument's criterion validity was tested against two elements of the company's IM strategy (empowerment and participative decision making), as well as against one important performance index of the company's IM strategy effectiveness (job satisfaction). The rationale behind this was detailed earlier in the manuscript (Berry, 1987) and, basically, draws from the research stream on market orientation. The results of this test were also satisfactory.

These findings suggest that IMO is a company philosophy that underlies its IM efforts, while also bearing a direct influence on the effectiveness of these efforts. Two consequences arise from this finding. First, adopting IMO influences the degree to which companies implement IM strategies, as well as the effectiveness of such efforts. Consequently, IMO adoption appears to be a prerequisite for the symmetry between (external) market objectives and internal-market conditions that service companies require (Piercy, 1995), where employees have the "power" to void the management's attempt to focus on their customers (Conduit and Mavondo, 2001; Harris and Ogbonna, 2000).

Having said this, one should not arrive to the conclusion that adopting an IMO signals an introverted organization, neither that the aim of IMO is solely to produce employees' job satisfaction. Such misconception would leave little scope for differentiating IM practices and IMO adoption from strategic human resource management (Rafiq and Ahmed, 1993), and consequently, the role of the marketing function in

this effort would, at least, become questionable. Rather, the marketing function aims to facilitate the achievement of the company's market (financial and non-financial) objectives and, within this framework, becomes the champion of the company's effort to stay aligned with its market. Within this framework, given the significance of service employees regarding customers' experience with the service they are offered, IMO is an important prerequisite that justifies the involvement of the marketing function. Consequently, the adoption of IMO complements the company's market orientation. Thus, adopting an IMO manifests an extrospective company and, according to the broader market-orientation research paradigm, should, directly or indirectly, influence the company's market performance.

Finally, the clarification of a structural issue regarding the conception of IMO is also of interest. Lings (2004) proposes that two sub-dimensions, namely, internal-segmentation and internal-targeting, reflect the company's effort to collect Internal-Intelligence. The empirical findings from this study seem to support that, actually, they both reflect the company's degree of responsiveness to Internal-Intelligence, that is, the third major dimension of IMO.

The study has significant contribution for practitioners, too. IM strategies are required in order to align the company's internal environment with their (external) market objectives. However, designing and effectively implementing IM strategies presuppose increasing the company's degree of orientation towards its internal market. Practically, this calls for a committed effort to understand the dimensions of value the employees expect from their employment and also to grasp the conditions of the labor market. Knowledge of employment rates, new job opportunities that could attract the company's employees and how direct competitors handle their workforce, is important for understanding the system of employees' needs and interpreting their value expectations.

Moreover, commitment to and motivation of interactive internal communication is also a prerequisite. One facet of this communication pertains to the willingness of the supervisor to listen to the problems subordinates face in day-to-day activities and tasks. Another facet involves the information employees receive from their supervisor regarding the company's objectives, new policies and so on. The third facet of this interactive communication involves the sharing of the problems employees face at higher levels of seniority. This allows a wider comprehension of employees' values and of the obstacles in producing the value employees expect. As a result, solutions to employees' problems can transcend departmental borders and managers other than an employee's direct supervisor may contribute in developing this value.

Finally, the company has to develop specific personnel related behaviors with the aim to exploit internal-market intelligence in order to deliver value for the employees. These behaviors include internal-market segmentation, internal-market segments targeting, adjusting job descriptions, training, adjusting remuneration and bonuses, and showing the management's concern for the company's employees.

Thus, company's competitiveness increases since, becoming more internal-market oriented, facilitates the implementation of IM strategies, which, in turn, results in more productive and satisfactory service-encounters for its customers.

As to the conditions and actions that precede the development of IMO development, although this was beyond the scope of this study, practitioners can draw significant insights from the market orientation development studies. Narver et al. (1998) suggest a two-stage development process: The "programmatic approach", representing the educational learning process to develop MO and the "market-back approach", representing an experiential learning process involving experimentation with specific actions which, eventually, modify the way a company competes in the market. By drawing the analogy between market orientation and IMO, then managers seeking to increase their company's degree of IMO adoption can follow the two approaches Narver et al. (1998) suggest.

8. Limitations and future research

Alas, the study is not free of limitations. However, without decreasing its contribution, future research may easily address them. One first limitation is the national context of the study. This manuscript suggests that IMO is a company philosophy, analogous to the market orientation concept. This implies that it represents a reflection of certain attitudes and values. As such, the national context of the study may influence what practitioners, in particular, perceive as elements of IMO and, consequently, its measurement. While research on market orientation is well established and spread over various national contexts, this is not the case with IMO. Within this framework, despite the fact that the method of this study adheres with a classic methodology for developing new constructs (cf. Churchill, 1979), it ought to be noted that caution is needed before the instrument presented in this study can be safely adopted as an universal measure of the company's degree of IMO adoption. Thus, repetition of the study in other national contexts has to precede its wider adoption.

A second limitation pertains to the structure of the sample. This study focuses on a single industry. Although this approach allows for a deeper understanding of the relations under investigation, due to the homogeneity of the respondents, the structure of the sample deters the researcher from generalizing the results. Thus, a possible direction for future research, which would be particularly welcomed, is to examine the relationships that this study identified along a wider sample comprised of companies from different industries.

Another limitation is the synthesis of the sample. The focus of this study was restrained to first-line personnel from a single service industry. Again, its application and examination with back-office personnel and, also, in a non-service context should precede its adoption and, clearly future research towards this direction is also necessary. A fourth direction for future research is to examine the hierarchy of the

relationships that the results this study suggests. The findings presented in this manuscript focus exclusively on employees since, in measuring the degree of IMO adoption, the latter appear to be the most appropriate unit of investigation. However, supervisors and higher levels of management are responsible for diffusing and implementing the IMO in practice. Taking future research efforts towards this direction would also be very interesting.

In addition to the future research directions that arise from the need to tap the limitations of this study, some additional directions also open. For instance, another direction is the investigation of an integrated model that would encompass the notions of IMO, employees' perceived job satisfaction and customers' perceived satisfaction. The discussion around the significance of developing an IMO is a predicate of IM strategies effectiveness, employee satisfaction and, consequently, customer satisfaction. Future research towards this direction would be particularly interesting in order to investigate this normative assumption.

Examining how adopting IMO and market orientation relate in firms is also an interesting issue. Based on existing literature, this manuscript a-priori conceives IMO as a characteristic of an extrospective company. However, future research needs to examine this assumption and empirically investigate the relation between market orientation and IMO adoption. Also, future research should address the combined impact of IMO and market-orientation on the company's performance. The company's market performance is a multidimensional concept that includes both financial (e.g. profitability, market-share) and non-financial (e.g. customer satisfaction and loyalty) dimensions that ought to be considered.

Finally, exploring the company and market conditions that foster the development of an IMO is valuable for future research in this field. Future researchers, for instance, may wish to examine the relationship between the company's cultural archetype, its strategic profile and priorities or the managers' managerial style and the extent to which the company adopts an IMO.

Communication between managers and employees	Mean = 5.05, std. dev. = 1.39	1.32	1.17	1.45	0.86	0.86	0.61	0.44	0.26	0.41	0.49
GFI: 0.98	Before any policy change. my supervisor informs me phase-to-phase in advance.					0.74					
AGFI: 0.95	My supervisor is sincerely listening about the problems I have doing my job.					0.92					
RMSEA: 0.07	My supervisor is sincerely concerned about personal problems I have that may affect my performance.					0.69					
	My supervisor is never too busy to talk with me when I need him.					0.65					
	My supervisor spends time informing me about my tasks. my objectives and to reach an agreement with me.					0.74					
Communication among managers	Mean = 4.54, std. dev. = 2.02	1.81	1.55	1.42	1.10	1.4	0.91	0.38	0.18	0.36	0.43
GFI: 0.99	The supervisors in this company meet regularly to discuss subordinates' problems and listen to what the other supervisors have to say.						0.88				
AGFI: 0.98	If an employee in this company is faced with a serious problem. the supervisors from other departments will become aware of it in no-time.						0.97				
RMSEA: 0.04	This company encourages our supervisors to meet and discuss among them issues concerning their subordinates.						0.66				
	In many occasions. the solution to a problem I had came from a supervisor from a different department. not from my direct supervisor.						0.81				
Job description	Mean = 4.41, std. dev. = 1.71	1.8	1.54	1.79	1.13	1.28	1.66	0.81	0.74	0.61	0.62
GFI: 0.99	My job description allows me to satisfy my personal needs and goals through my work.							0.80			
AGFI: 0.99	Nothing has ever been assigned to me unless my supervisor and I had agreed that I could really do it.							0.70			
RMSEA: 0.01	The tasks I am assigned with help me to advance my career with this company.							0.70			
	My supervisor is expected to justify my job description and the tasks I am assigned with to more senior levels of management.							0.68			
Remuneration system	Mean = 2.74, std. dev. = 1.68	1.33	0.84	1.20	0.93	0.61	0.61	1.24	0.85	0.57	0.68
GFI: 0.98	When I do something extraordinary I know that I will receive some financial bonus/reward.								0.55		
AGFI: 0.93	My income and the annual increases are dependent only to the Union's bargaining with the employers side (r).								0.97		
RMSEA: 0.08	My income and the annual increases are very closely tied to my qualifications and my performance.								0.99		

(continued on next page)

Appendix A (continued)

		Everyone gets an annual bonus regardless of their performance (r).									0.47	
		My income and the annual increases are much related to those of people with similar qualifications working in this or any other industry.									0.52	
Management concern		Mean = 3.67, std. dev. = 1.86	1.924	1.66	1.96	1.32	1.05	1.36	1.93	1.49	0.83	0.56
GFI:	0.98	The Senior Management of this company is really indifferent for our problems (r).									0.71	
AGFI:	0.94										0.79	
RMSEA:	0.06	Nothing is too expensive for our Senior Management if this would satisfy specific needs of specific groups of employees.									0.88	
		The Senior Management is really considering about our individual needs and makes policies that reflect it.									0.90	
		The Senior Management is resolved to solving our problems and giving us all required support necessary for our job.										
Training		Mean = 4.15, std. dev. = 1.66	1.77	1.30	1.61	1.01	1.15	1.44	1.66	1.35	1.74	0.77
GFI:	0.99	In this company, training is closely related to the individual needs of each employee. Massive training seminars are avoided when possible.										0.54
AGFI:	0.97											0.85
RMSEA:	0.07	A newly hired employee will have to find his own answers to the requirements of the job. (r)										0.72
		Before the implementation of a major change in service rules, we always get significant training regarding its impact on our daily activities and job description.										0.60
		If one is moved from one department to another, the new supervisor will personally train him/her for a pre-specified period of time.										

Scale statistics and results from the Confirmatory Factor Analysis. Correlations, covariances and Chronbach's alpha coefficient are presented in the shaded cell and in bold. Correlations are above the diagonal, covariances below and Cronbach's alpha on the diagonal. Correlations are significant at $p < 0.010$. Standardized regression weights from the Confirmatory Factor Analysis are presented in italics for each single sub-dimension. All regression weights have a critical ratio significant at $p < 0.050$ or better.

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