

**THE IMPACT OF INTERNAL MARKETING ON THE IMPLEMENTATION
OF STRATEGIC ORIENTATIONS AND PRODUCT INNOVATION
IN MANUFACTURING INDUSTRY**

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ABSTRAK

Kajian terkini menunjukkan kesan pemasaran dalaman pada orientasi pasaran dan juga orientasi strategik membawa keberkesanan kepada inovasi organisasi. Walaubagaimanapun, sejauh mana yang diketahui, tiada sebarang kajian dibuat terhadap kesan pemasaran dalaman kepada orientasi strategik serta inovasi produk. Lantaran itu, projek ini dibuat untuk mengkaji model integrasi pemasaran dalaman demi memperbaiki orientasi strategik dan mengkaji kesannya terhadap inovasi produk. Populasi kajian terdiri daripada semua syarikat pengeluaran yang terletak di utara Semenanjung Malaysia. Data dikumpul melalui pendekatan tinjauan dan analisis adalah berdasarkan 92 maklumbalas. Dalam kajian ini, dua komponen pemasaran dalaman terlibat ialah sokongan pengurusan atasan (pemimpinan, ganjaran, latihan dan pembangunan) dan koordinasi antara fungsi (koordinasi antara jabatan dan komunikasi dalaman). Hasil kajian menunjukkan pemasaran dalaman mengubah orientasi strategik secara positif. Orientasi strategik dan inovasi produk juga menunjukkan hubungan positif. Bukti menunjukkan komponen orientasi pasaran (i.e. pengumpulan informasi dan maklumbalas) dan komponen orientasi pembelajaran (i.e. perkongsian visi) merupakan pembolehubah atau separuh pembolehubah variasi ke atas hubungan antara pimpinan serta inovasi produk. Hasil kajian juga menunjukkan maklumbalas dan perkongsian visi pembolehubah pengantara kepada hubungan di antara koordinasi antara fungsi dan inovasi produk. Implikasinya ialah, pengurus perlu mengenalpasti kepentingan pemasaran dalaman terhadap pelaksanaan strategi dan membuat sebarang pengubahsuaian organisasi secara strategik demi mencapai prestasi produk inovasi yang terulung.

ABSTRACT

Recent studies have demonstrated the effects of internal marketing on market orientation and strategic orientations on organizational innovation performance. However, to the best of our knowledge no attempt has yet to be made to empirically test internal marketing framework that formally interrelates internal marketing, strategic orientations and product innovation. Hence, this paper is to investigate the integration model of internal marketing in enhancing strategic orientations and their effects on product innovation. The population of interest in this study consists of manufacturing firms in the Northern Region of Malaysia. Data were collected using survey approach and the analysis was based on 92 returns. The two internal marketing components identified in this research are top management support (senior leadership, rewards and training and development) and cross-functional co-ordination (inter-departmental co-ordination and internal communication). The results indicate that internal marketing positively affect strategic orientations. There are also positive relationships between strategic orientations and product innovation. The evidence implies that market orientation components (i.e. intelligence generation and responsiveness) and learning orientation component (i.e. shared vision) appear to be the pure or partial mediators in the relationship with top management support and product innovation. The findings also show that responsiveness and shared vision mediate the relationship between cross-functional co-ordination. The implication is that, managers should consider the importance of internal marketing in the strategy implementation and make the necessary organization strategic changes to achieve superior product innovation performance.

Chapter 1

INTRODUCTION

1.1 Introduction

As we approach the twenty-first century, manufacturing firms are facing both increasing competitiveness and technology innovations from domestic and international markets. Firms are required to engage in continuous innovation and re-orientation due to the dynamic nature of most markets (Hurley & Hult, 1998). Thus, a key component of success in manufacturing firms depends on the extent of the organizational innovation. Innovation refers to the capacity of firms to engage in the introduction of new processes, products or ideas in organization. This capacity to innovate is among the most important factors that impact on business performance (Hult, Hurley & Knight, 2004).

Based on extensive literature review and theoretical concept studied, many marketing researchers (e.g., Baker & Sinkula, 1999; Farrell, 2000; Hult & Hurley, 2004) have argued that the key antecedents to innovation are two important strategic orientations, namely market orientation and learning orientation. The management of a strategic oriented business approach represents the ability to understand and satisfy customers and react to competitors through a defined contribution of all employees across departments to obtain, disseminate data and design response modes as well as sharing and development of new knowledge (Kohli & Jaworski, 1990 and Hult *et al.*, 2004). To date, there is lack of research conducted to study the characteristics of successful programs for building these orientations inside organizations. This research fill in this gap by studying the very concept of internal marketing that may enhance both market and learning orientations, which lead to superior organizational innovation performance.

It is important to note that Kotler (1991, p. 23) defines internal marketing as “the task of hiring, training and motivating able employees to serve the customer well”. This recent proposition by Kotler emphasize the notion that internal marketing must precede external marketing as it makes no sense to promise excellent services before the company’s staff is ready to provide it.

In other words, internal marketing is an integral part of overall marketing orientation, involving the use of marketing techniques within the organization to create and communicate corporate values (Naude, Desai & Murphy, 2003). In an internal marketing perspective, marketers are urged to see employees as a variable of the marketing environment that must be taken into account if a totally integrated market-driven business marketing strategy is to be developed. A customer-oriented behavior, and thus good interactive marketing performance, cannot be expected unless the firm has something to offer to its employees (Gronroos, 1985). Today, as a strategic oriented organization, most of the companies have not used even the most modest of the marketing and research techniques to understand the internal customers. There is little done to understand why the employees failed to deliver, why there is lack of motivation among front-line folks, why the new product cannot be introduced in timely fashion and so forth.

Within this context, companies have been urged to strive for improving the market orientation of the businesses in their efforts to attain higher business performance (Jaworski & Kohli, 1993). Based on empirical studies by Hult et al. (2004), it shows that market orientation is related positively to new product success. However, Slater and Narver (1995) claimed that the firm should aim to become learning-oriented if they are to compete successfully in the long run given the limitations of the market-oriented firm. Slater and Narver (1995) noted that marketing

orientation is an aspect of organizational culture and inherently a learning organization. Market-driven business is well positioned to anticipate the developing needs of customers to respond to them through the addition of innovative products and services (Hurley & Hult, 1998).

Baker and Sinkula (2002) further assert that market orientation is necessary but not always sufficient to facilitate the type of innovation required that breeds long-term competitive advantage. The coupling of a strong market orientation with a strong learning orientation are key to successful innovation-driven performance, which affect organizational performance indirectly through their effect on product innovation (Baker & Sinkula, 1999). In the same manner as pointed out by Slater and Narver (1995) and Farrell (2000) the development of clear understanding of the management practices that facilitate or hinder organizational learning and market orientation for research agenda should be a high priority for future research undertakings.

1.2 Research Problem

New products are essential for the long-term growth and prosperity of any firm. Success in product innovation is a critical management issues for the modern firms especially those in technology driven industries. New products account for over 30 to 40 percent of firms' profits and the number of new products introduced by firms has been increasing significantly (Ramaseshan *et al.*, 2002). However, managers of new products have little guidance on how to improve or redirect their organizations' business orientations towards their product target markets. Due to stiff competition in various industries, firms must evaluate the fundamental premises underlying their business strategies as a means of gaining and sustaining competitive advantage. Building a deeper and clearer understanding of the inside of the organization is a key

capability to respond to the challenges of a hyper-competitive world. Market orientation holds performance implications and internal marketing is a key enabling competence toward market orientation and hence performance (Ahmad & Rafiq, 2003).

Recent studies have demonstrated effects of market orientation (Langerak, 2001; Matsuno, Mentzer & Ozsomer, 2002) and learning orientation (Calantone, Cavusgil & Zhao, 2002) individually on innovation driven organizational performance. While these studies have enhanced the understanding of innovation process in the firm, the relative contribution of market orientation together with learning orientation towards innovation have yet to be determined (Baker & Sinkula, 1999). There is lack of studies as well to integrate the constructs of organizational learning, market orientation and innovation (Slater & Narver, 1995; Hurley & Hult, 1998). Little is known about the drivers of innovation and how those drivers operate via innovation to collectively influence performance.

So far, existing research on internal marketing has never linked strategic orientations to innovation suggesting that there is still lack of empirical studies regarding impact of internal marketing towards market orientation and learning orientation. There are number of studies that have empirically proved the positive relationship of market orientation and learning orientation towards new product success. However, the effect of internal marketing on product innovation is still a matter under debate. Little is known on how internal marketing affects product innovation if any. Is market orientation or/and learning orientation the missing link between internal marketing and product innovation? To answer the question, it is imperative to extend the results of this and other separate studies into an integrative

model of internal marketing, strategic orientations and product innovation. Therefore our research problem is formulated as:

“ Is internal marketing necessary to enhance both market orientation and learning orientation and how does these strategic orientations lead to superior product innovation in manufacturing industry? “

1.3 Research Objectives

The purpose of this study is to investigate the linkages between internal marketing, strategic orientations as the mediating role that consists of market orientation and learning orientation towards product innovation. This research sheds light on the relative importance of internal marketing that are posited to help or hinder market orientation and learning orientation, as well as the importance of the orientations towards innovation capability.

The objectives of this research are:

1. To assess the relationship between internal marketing and firm market orientation.
2. To assess the relationship between internal marketing and firm learning orientation
3. To investigate the relationship between firm market orientation and product innovation.
4. To investigate the relationship between firm learning orientation and product innovation.
5. To explore the mediating effect of market orientation in the relationship between internal marketing and product innovation.

6. To explore the mediating effect of learning orientation in the relationship between internal marketing and product innovation.

1.4 Research Questions

Guided by the above objectives, the research seeks to answer the following questions:

1. Does internal marketing enhance market orientation?
2. Does internal marketing facilitate learning orientation?
3. Is market orientation associated with superior product innovation performance?
4. Is learning orientation associated with superior product innovation performance?
5. Does market orientation mediate the relationship between internal marketing and product innovation?
6. Does learning orientation mediate the relationship between internal marketing and product innovation?

1.5 Scope of Research

This research will cover a cross section of all the manufacturing industries in the northern region of Malaysia, which includes electronic/electrical, fabricated metal products, plastic and plastic based products, computer products and so forth. Targeted companies could be either independent firms or business units of large multinational firms that having R&D department and/or product development divisions.

Primarily the study is concerned with the impact of internal marketing on strategic orientations and product innovation performance. Internal marketing as an

independent variable; strategic orientations as mediating variable and product innovation as a dependent variable.

1.6 Significance of Study

Due to increased competition and technology innovation from both domestic and international markets, a growing number of companies are discovering the importance of being business oriented in order to enhance the organizational innovation capability for long run growth and survival. Every business must acquire capabilities that enable it to carry out the activities necessary to move its products through the value chain. Building special organizational innovation capability has been cited as one of the competitive advantage in the manufacturer's improvement path, which provide the basis for the survival and success of the firm well into the future (Hult, Hurley & Knight, 2004).

While there are many factors that could affect product innovation, this research focuses on various types of strategic orientations and firm internal marketing practices as the predictor variable of this study. While previous research has considered various antecedents to market orientation and learning orientation as well as both orientations impact on innovation, they are typically considered in isolated fashion. To bridge these gaps, this research will make the contribution by integrating internal marketing practices, strategic orientations and product innovation into a conceptual model. Thus, the findings will contribute to theoretical as well as managerial practice. The managers and strategist will be in a better position to leverage organizational resources to the development of these strategic orientations and achieve superior product innovation performance. This enable managers to set

clear priorities in investing and developing necessary innovation capability in order to lead the company towards long-term success.

1.7 Definition of Terms

The following definitions are provided to clarify this study's use of key terms.

- i) Internal marketing is a planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies (Rafiq & Ahmed, 1993 p. 222).
- ii) Market orientation is the organization wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organization wide *responsiveness* to it (Kohli & Jaworski, 1990).
- iii) Learning orientation refers to organization-wide activity of creating and using knowledge to enhance competitive advantage. This includes obtaining and sharing information about market changes, customer needs, competitors actions and development of new technologies to create new products that are superior to competitors (Calantone, Cavusgil & Zhao, 2002).
- iv) Innovation is defined as the generation, acceptance and implementation of new ideas, processes, products or services within an organization (Calantone, Cavusgil & Zhao, 2002).

1.8 Organization of the Dissertations

This chapter introduces the problem and objective of this research. Then the extent of related literature review is given, which focus on internal marketing, market orientation, learning orientation and product innovation. Discussion on theoretical framework, hypotheses development will be incorporated into chapter two. It is followed by discussion of design of the research and methodology procedures in chapter three. The data analysis, findings and also hypotheses testing are illustrated in

chapter four. Finally, the conclusion and managerial implications are presented in chapter five.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

An attempt is made to classify the vast literature regarding internal marketing, market orientation and learning orientation. This chapter reviews the findings from previous studies that are deemed most relevant to the present study. Firstly, it reviews the internal marketing or internal organizational antecedents required for achieving market orientation and learning orientation. It is followed by how market orientation and learning orientation creates competitive advantage especially organizational innovation and thus performance is discussed. Finally the summary of literature review will be drawn as well as the theoretical framework and hypotheses that seek to answer the research questions stated in section 1.4 are discussed.

2.2 Internal Marketing

Internal marketing has been described as a philosophy for managing the organization's human resources based on a marketing perspective (George, 1990; Berry & Parasuraman, 1991). It operates as an holistic management process to integrate multiple functions of the organization into two ways: 1) to ensure that all employees understand and experience the business and its various activities in an environment that supports customer consciousness and 2) to ensure that all employees are prepared and motivated to act in a service-oriented manner (George, 1990). The marketing literatures recognize that the performance and attitudes of staff have the direct impact on the customer's perception of service quality and thus the enduring image of the service. Internal marketing focuses on achieving effective internal

exchanges of symbols and value between the organization and its employees as a prerequisite for successful exchanges with external markets (George, 1990; Varey, 1995). Rafiq and Ahmad (2000) asserted that there are three phases in the evolution and development of internal marketing namely: 1) employee satisfaction, 2) customer orientation and 3) strategy implementation and change management.

Numerous researchers have examined the concept of internal marketing in the past two decades but there is yet no single unified definition that exists (Quster & Kelly, 1999). In the mid 70's, internal marketing starts from a notion that a service firm in order to be successful must first sell the job to its employees in order to be able to sell its services to customers (Sasser & Arbeit, 1976) as cited in Gronroos (1985). Berry (1981) advocated treating employees as internal customers this has become the central guiding principle for internal marketing in services marketing and in other context. Later, Berry and Parasuraman (1991, p. 151) defined internal marketing as "attracting, developing, motivating and retaining qualified employees through job-products that satisfy their needs. Internal marketing is the philosophy of treating employees as customers – indeed, wooing employees.... and is the strategy of shaping job-products to fit human needs".

On the other hand, Gronroos (1981) emphasizes that to get more motivated and customer conscious staff at all levels of the firm by improving open two-way communications and coordinating tasks between front line and support staff. The approach to internal marketing focuses more on the internal work effort to staff, in order to meet the needs of external customers. Then, Rafiq and Ahmad (1993 p. 222) state that internal marketing is a "planned effort to overcome organizational resistance to change and to align, motivate and integrate employees towards the effective implementation of corporate and functional strategies". This definition provides a

broader concept and focuses more on the application of internal marketing in organizations, which respects the strategic importance and the need to motivate staff. For the purpose of this research, Rafiq and Ahmed's (1993) definition of internal marketing is adopted.

Cahill (1995) states that internal action program is a prerequisite for successful external marketing. This is true whether it is a professional-service firm, bank or fast food chain, manufacturer or even non-profit organization. This is echoed by Pitt *et al.* (1999), in order for the concept to be truly useful to marketers, internal marketing should find applications beyond the borders of services industry, and thus into manufacturing industry as well. In summary, in order to achieve external objectives effectively, internal marketing should be undertaken by management to motivate the employees to adopt customer-consciousness by using marketing-like approach and techniques.

Varey (1995, p.23) asserts, "The functional distinctions of marketing, personnel, and quality management are no longer helpful in understanding the complexity of strategic management of adaptive organizations. Internal marketing is not the property of a single functional specialism, but includes organizational behavior, organizational development, strategic management, and other areas". He concludes that internal marketing as such can no longer be understood as a specialist functional approach but as a holistic model for market-oriented management that permits a variety of internal changes in management approaches to enhance the operation of the model. Therefore internal marketing really represents the convergence of a number of previously separate management technologies, such as human resource development, employee relations, strategic management, quality management, corporate communications and macro-marketing. He stresses the rising

recognition that managing a business effectively requires the close integration of several functional specializations, and that management is a continual and complex process and cannot be seen as a sequence of discrete steps or a set of discrete functions.

A number of key elements of internal marketing identified from literatures include communication, educating or training of employees, motivating and developing employees, reward system, inter-functional factors and top management support/senior leadership and even attracting, hiring and retaining employees (Ahmed, Rafiq & Saad, 2003; Berry & Parasuraman 1991; Foreman & Money, 1995; Cahill, 1995; Gronroos, 1985) .

2.3 Market Orientation

Market orientation has been discussed by researchers for more than two decades and has more recently been identified as having a positive effect on business performance (Narver & Slater, 1990; Jaworski & Kohli, 1993; Baker & Sinkula, 1999). Market orientation concept has been considered by numerous authors using different approaches and various dimensions and it is still an issue under debate. The two most significant studies, which have sought to define and operate market orientation are Kohli and Jaworski (1990) and Narver and Slater (1990). Basically, there are two different approaches that seemed to prevail, one treating market orientation as behaviors and activities in an organization (Kohli & Jaworski, 1990) while the other regards it as organizational culture (Narver & Slater, 1990). Kohli and Jaworski (1990) defined market orientation as the organization-wide generation of market intelligence regarding to current and future customer needs, dissemination of the intelligence across departments as well as organization-wide responsiveness to it.

Whereas, Narver and Slater (1990, p.21) defined market orientation as “the organization culture that most effectively and efficiently creates necessary behaviors for the creation of superior value for buyers and thus continuous superior performance for the business”. Therefore, they conceived such culture as a causal antecedent to market-oriented behavior (Matsuno, Mentzer & Rentz, 2005). Narver and Slater (1990) further asserted that one could not have three market orientation behavioral components, namely customer orientation, competitor orientation and inter-functional coordination without effective information acquisition and distribution programs.

Day’s (1994, p. 43) stated that “a market-driven culture supports the value of thorough market intelligence and the necessity of functionally coordinated action directed at gaining competitive advantage”. This conceptualization is similar to Narver and Slater (1990) findings that market orientation combined with organizational capabilities enhances firm’s performance. While there are numerous interpretations of market orientation, all have an operational focus on market information processing activities pertaining to information acquisition and dissemination about customers, competitors, channel members and strategic members (Baker & Sinkula, 2002).

In Jaworski and Kohli (1993) study, top management, interdepartmental dynamics and organizational systems are identified as antecedents of market orientations. It is empirically showed that market orientation appears to be significantly related to business performance. Likewise, it is observed that the business having the highest degree of market orientation is associated with the highest profitability (Narver & Slater, 1990).

In summary, scholars designate being market-oriented is an imperative factor that creates a setting conducive for behaviors by employees throughout the

organization. Market orientation is reflected knowledge producing behaviors (Baker & Sinkula, 1999). The belief is that a higher degree of tracking and response to customer needs and wants, creates a drive towards customer satisfaction. There is evidence that market orientation may promote the innovativeness of an organization (Han, Kim & Srivastava, 1998). It can be viewed as resources that a firm might employ to attain competitive advantage that leads to superior business performance.

2.4 Learning Orientation

Learning orientation has to do with the development of new knowledge in the organization, it occurs primarily at the culture level of the firm. A variety of definitions exist concerning learning orientation. There are two different conceptualization of learning orientation that can be set forth. Huber (1991) defines learning orientation as the development of new knowledge or insights that have the potential to influence behavior through its values and beliefs within the culture of the organization that leads to improved performance as cited in Hult *et al.* (2004). Likewise, this definition is adopted by Slater and Narver (1995) as well. Another definition of learning orientation requires that learning result in new behaviors (Hult *et al.*, 2004).

To Baker and Sinkula (1999), learning orientation is “a set of values that influence the degree to which an organization is satisfied with its theories in use”. Therefore, it is the learning orientation that directly affects the ability to challenge old assertion about the market and how company should be organized to deal with them that promoting innovation based on new paradigm (Day, 1994; Hurley & Hult, 1998; Baker & Sinkula, 1999). Whilst market orientation is an organizational characteristics that directs and prioritizes market information processing activity, learning orientation

is an organizational characteristics that affects firm's propensity to value generated and double loop learning. Learning orientation is reflected a set of knowledge questioning values (Baker & Sinkula, 1999).

A learning orientation is characteristic of a firm associated with higher-order learning for example generative, proactive and double-loop learning. This type of learning results in changes to a firm's deeper norms that ultimately guide its behavior (Celuch *et al.*, 2002). Such learning will better enable firms to not only accomplish within paradigm improvements but to achieve paradigm shift i.e. breakthrough innovation (Baker & Sinkula, 1999). In contrast, most organization learning is single loop, adaptive learning that response reactively to environmental events with no corresponding shift in an organization's fundamental business (Celuch *et al.*, 2002). Learning orientation is said to encourage organization to think beyond a marketplace focus and to question organizational norms and values.

Based on Sinkula, Baker and Noordewier (1997), a learning orientation associated with three organizational values: 1) commitment to learning, 2) open-mindedness and 3) shared vision. Likewise, Calantone *et al.* (2002) use the same components for leaning orientation measurement and add another component of intra-organizational knowledge sharing in the empirical study.

In general, learning orientation can be described as organization-wide activity of creating and using knowledge to enhance competitive advantage. This activity includes obtaining and sharing information regarding customer needs, market changes, competitor actions as well as development of new technologies that are superior to those of competitors (Calantone *et al.*, 2002). With market orientation alone, it will not lead the firms to generative and double learning unless it is accompanied by strong learning orientation. It is the combination of both market

orientation and learning orientation that has been cited as the true source of sustained competitive advantage in the dynamic markets (Baker & Sinkula, 1999).

2.5 Organizational Innovation

In the content of innovation-based competitive strategy, the role of technological innovation especially product innovation has always been stressed (Calantone *et al.*, 2002). Organizational innovation is defined as the application of ideas that are new to the firm to create added value either directly for the organization or indirectly to its customers. This is regardless of whether the new idea and added value are embodied in processes, products or administration system (Weerawardena & Cass, 2004). Likewise, Hurley and Hult (1998) define firm innovation as openness to new ideas an aspect of a firm's culture.

Furthermore, firm innovation can be conceptualized from two perspectives. Firstly, it is viewed as a behavioral variable, which is the rate of adoption of innovations by the firm. Secondly, innovation viewed as an organization's willingness to change (Calantone *et al.*, 2002). The rationale behind organizational innovation showing a strong and positive influence on performance is ascribed to innovations that serve to accommodate the uncertainties firms encounter in their entrepreneurial environment. It is posited that organizations can cope with environmental changes and uncertainties by integrating technical or administrative changes into their organizational structure successfully (Han, Kim & Srivastava, 1998). Technical innovation specifically product innovation will be the focus of this study and further discussed in section 2.8 and 2.9.

2.6 Internal Marketing and Market Orientation

The internal marketing concept holds that an organization's internal market of employees can be influenced most effectively and hence motivated to customer-consciousness, market orientation and sales-mindedness by a marketing like internal approach and by applying marketing like activities internally (Gronroos, 1981). He proposes the implementation and use of active marketing-like techniques for the internal customers with the aim to educate employees towards customer-consciousness and sales-mindedness. Taking into account the basic notion of Gronroos (1981) that employees have to be motivated in order to deliver best performance for their customers. Parasuraman *et al.* (1988) expresses that failures in customer satisfaction are reduced by a company wide exchange of information on customer perceptions and that it might improve the integration of work activities between all members of the organizations. Therefore, the objective of internal marketing function is to get motivated and customer conscious personnel (Gronroos, 1990). Whether employees respond favorably to management's demand for customer orientation depends on the management methods, the personnel policy, internal training policy and procedures for planning, implementing and following up of the firm (Gronroos, 1981).

It cannot be overly emphasized that the top manager must be personally involved and supports the process hundred percent for it to be successfully implemented. If internal marketing is not accepted as a management philosophy at top management level, the strategic direction of the organization, including decisions concerning budgets and investments, may easily make tactical implementation of internal marketing difficult and perhaps impossible (Gronroos, 1981). If managers and supervisors on every level, starting with top management, are not customer-conscious

and sales-minded, the rest of the organization cannot be expected to be that either. In order to become market-oriented, the top management style should support customer-consciousness and not counteract (Gronroos, 1981). Also, departments and persons representing key positions in the organization can be involved in planning and implementing internal marketing. Likewise, George (1990) asserts internal marketing as a holistic management process to integrate the multiple functions of the organization to achieve customer-consciousness.

According to Gronroos (1981) based on two case studies, major categories of tactical internal marketing activities identified are internal training, internal interactive communication, internal mass communication, personnel administration tools (i.e. wage and bonus system, incentive program etc.) and as well as market research to find out what customers and employees think of the firm's performance on the market. Moreover, in order to create internal environment, which supports customer-consciousness, Richardson and Robinson (1986) identify four factors in banking industry as following:

- 1) Management support – Supportive management methods are required to ensure that employees are recognized for good performance on the functional dimensions.
- 2) Personnel policy support – Involve selection policies, placement of staff in the appropriate job and career path progression.
- 3) Internal training policy – Emphasis should be placed on customer relations and ongoing attitudinal training.
- 4) Planning and control – To increase motivation and customer consciousness among personnel by involving employees in objectives setting to ensure commitment.

Consistently, it has been found out by market orientation scholars, Jaworski and Kohli (1993) that top management, interdepartmental dynamics and organizational systems (i.e. formalization, centralization, departmentalization and reward systems) as antecedents to market orientation. Market orientation appears to be facilitated by top management emphasize through continual reminders to employees to be sensitive and responsive to market development. Market-based reward systems and decentralization are strong impact on market orientation. It suggests that the employees should be rewarded for the achievement of customer satisfaction and building customer relationships.

In the empirical study of Ahmed, Rafiq and Saad (2003), the internal marketing mix consisting of management support mix, inter-functional co-ordination mix and business process support mix are identified. These three factors comprising of ten measurable variables namely: strategic rewards, internal communications, training and development, senior leadership, physical environment, staffing, selection and succession, inter-functional coordination, incentive systems, empowerment and operational/process changes are strongly related to business performance through market orientation, which is one of the mediating variable of organizational competencies. A positive and significant relationship between top management support on market-oriented behavior and business performance is consistent with the findings of previous market orientation study of Jaworski and Kohli (1993).

2.7 Internal Marketing and Learning Orientation

Learning processes are playing prominent role in new theories on competitive advantage; it is included as one of a host of complex resources that can yield marketplace position of competitive advantage (Baker & Sinkula, 1999). A learning

orientation is likely to increase the rate of internal and external change in company but it takes time to establish the process of learning orientation. As Garvin (1993, p. 91) stated, changes in a firm learning orientation are “the product of carefully cultivated attitudes, commitments and management processes that have accrued slowly and steadily over time”. Organizational learning occurs with an organization skilled at creating, acquiring and transferring knowledge, modify its behavior to reflect new knowledge and insights (Garvin, 1993).

Despite the growing interest in organizational learning by researchers (i.e Day, 1991; Garvin, 1993), an ambiguity remains about the interrelationships among the factors that breed a desire to learn versus information related behaviors that facilitate learning versus the changes in organizational system, procedures, market behaviors that reflect organizational learning (Sinkula *et al.*, 1997). Following the organizational learning approach, internal marketing is deployed here as a means of creating learning culture in the organization. The focus of internal marketing is on how to get and retain customer-conscious employees as well as developing and maintaining a service culture (Gronroos, 1990). Rafiq and Ahmed (1993) contend that any change in strategy is likely to require internal marketing effort to overcome organizational inertia and to motivate employees towards inner requisite behavior.

Cahill (1995) focuses the discussion on internal marketing on learning organization concept. He develops the concept of the learning organization as starting from the point of organizational learning and going forward in terms of systems theory to create a new kind of organization. Later, Varey (1999) contributes that a broader concept of internal marketing requires that a process, or meta-structure, perspective be taken for organizational development through learning in a consciously

created interactive communication system, for example a social system that is not solely concerned with economic transactions.

More recently, Ballantyne (2000) concludes that while the focus of internal marketing is the internal customer, the common purpose in all internal marketing perspectives is knowledge renewal. He defines the common denominator in all internal marketing perspectives as knowledge renewal then differentiating it in two forms. The first is knowledge generation, meaning the creation or discovery of new knowledge for use within the organization, with external market intelligence as inputs. The second is knowledge circulation, representing the diffusion of knowledge to all that can benefit, through the chain of internal customers to external customers.

Besides, a growing body of scholarly researches also identify that antecedents to a learning orientation are the organizational factors that facilitate its implementation. Farrell (2000) identified organizational change strategies, top management behavior, organizational structure and leadership style as antecedents for learning orientation. It is stated that organizations should adopt an emergent approach (bottom up) to organizational change if they are to become more learning-oriented. The emergent approach is grounded in a learning oriented style of change management, with its emphasis on information gathering, communication and learning (Farrell, 1999). However, Day (1994) contrasts the two strategies arguing that bottom up initiatives will not succeed on their own and must be guided by top down direction (planned approach). Furthermore, senior management leaderships are required to reshape the culture.

In becoming learning-oriented, the most important determinant of a learning orientation is the emphasis placed by top managers (Farrell, 2000). Sinkula *et al.* (1997) found that creating a conducive learning environment cannot be done without

commitment from the top management is echoed by Farrell. Slater and Narver (1995) noted that the leader must communicate a well crafted, motivating vision or the organization. Such leaders have a personal, high commitment to learning and view learning as a key ingredient in achieving competitive advantage (Sinkula, *et al.* 1997). Moreover, senior manager will get personally involve in facilitating a learning organization (Slater & Narver, 1995; Sinkula *et al.*, 1997; Farrell, 2000). Besides, it is asserted that organizational structures that are informal and decentralized are being designed to be more learning-oriented. If this is achieved, organizations will be able to develop better information flows, thus enhancing learning (Farrell, 1999).

Despite emphasizing the importance of a learning orientation, it shows that top managers should be prepared to take more risk in their decision-making. Senior managers will have to be skilled at articulating the vision by which to shape cultures and values, communicate effectively and play a major role in task of unlearning detrimental but traditional practices (Farrell, 2000). Furthermore, senior managers need to adopt a style of leadership that further promotes the concept of a learning orientation. Slater and Narver (1995) argued that complex environment calls for a complex style of leadership and a transformational or facilitative leader. In short, the challenge is for senior managers to develop a learning orientation through the skillful use of transformative leadership, who encourage individuals to breakthrough learning boundaries and motivate people to learn.

2.8 Market Orientation and Product Innovation

Market orientation is conceptualized as the degree and speed that organizations acquire, disseminate and act upon market intelligence (Kohli & Jaworski, 1990; Baker & Sinkula, 1999). Manufacturing firms with a market orientation are likely to devise

and adapt products, services and processes that continue to meet the needs of the evolving market. It is likely that innovative processes naturally flow out of a focus on being market oriented (Hult, Hurley & Knight, 2004).

Cast in the context of product innovation, market orientation represents the degree to which firms acquire, distribute, use and ultimately depend on customer, supplier and competitor market information as inputs into the innovation process (Baker & Sinkula, 1999). Work on the development of a market orientation process suggests that a need to focus on customer and competitor information to create market intelligence (Perks, 2000). It is argued that those firms that are market-oriented and track and response to customer needs and preferences can better satisfy customers (Ramaseshan, Caruana & Loo, 2002). Hence, product innovation is a critical management issue especially for those in technology driven industries.

As cited in Ramaseshan *et al.* (2002), an early study of Rothwell *et al.* (1974) in product success and failure concluded that product success was primarily related to five factors: 1) understanding of customer needs, 2) attention to marketing and publicity, 3) efficiency of development 4) effective use of outside technology and external scientific communication and 5) seniority and authority of the managers responsible for the development of the product. Later, numerous literature has explored the effect of market orientation on new product success (Slater & Narver, 1994; Baker & Sinkula, 1999; Hult *et al.*, 2004). Key studies that address the relationship between market orientation and business performance includes product innovation or new product success as one of the measurement construct is summarized in Table 2.1.

Slater and Narver (1994) found that there is a significant positive effect of market orientation on new product success, ROA and sales growth. Innovation is